
Impartial investigation of Danske Bank A/S's debt collection

Report no. 5 concerning the Danish FSA's decisions of 26 November 2020 and 3 December 2021

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1. INTRODUCTION AND BACKGROUND

1.1 Introduction

In 2019, Danske Bank A/S (“the bank”) discovered a number of errors in its debt collection systems. As a result of these errors, the bank’s customers had been subject to overcollection for a number of years. In addition, the errors led to a number of derived consequences, including incorrect reporting to the Danish tax authorities and incorrect reporting of customers to a credit information agency.

Against this background, the Danish Financial Supervisory Authority (the Danish FSA) issued a number of orders to the bank, see section 1.2. By its decision of 26 November 2020, the Danish FSA issued an order to the bank to arrange for an impartial investigation, and the bank was ordered to extend and broaden the investigation by the Danish FSA’s decision of 3 December 2021.

KPMG and Poul Schmith (“we” or “us”) were appointed impartial reviewers and, since March 2021, we have been conducting an investigation into the bank’s efforts to resume debt collection, including the bank’s work to compensate customers for the errors occurred.

In the course of analysing the errors occurred, the bank identified a large number of additional issues. As a result, the bank decided in August 2022 to change its debt collection approach. Until then, the bank’s approach to calculating compensation for the affected customers had been based on a “one-error-at-a-time” strategy. The new approach implied that, in its Olympia project, which involves making a single model-calculated compensation payment, the bank would compensate a large number of customers for a number of errors that were affecting or could be affecting the customers. In addition, the bank decided to cancel customers’ debt subject to collection and set customer accounts to zero in a large number of customer cases.

In our report no. 4 of 4 June 2023, we dealt with compensation paid to a number of customers whose debt collection cases had been processed by the bank in the DCS debt collection system. We also dealt with the bank’s plan for cancellation of debt and zero-setting of accounts for a number of the bank’s customers.

This report no. 5 provides an update about the bank’s execution of the plans for making compensation payments and for the cancellation of debt and zero-setting of accounts, which we dealt with in our report no.4 of 4 June 2023.

Furthermore, this report no. 5 deals with the bank’s plan for and provides an update as of 31 December 2023 on the execution of compensation payments to an additional number of customers whose cases have been processed by the bank in the DCS debt collection system. Furthermore, the report deals with the bank’s plan for and provides an update on the execution of compensation payments for a number of mortgage finance customers whose cases the bank processed in the PF debt collection system.

Lastly, this report no. 5 provides an update about the bank's efforts to identify remaining errors or potential errors in the debt collection process which were not covered by the compensation scheduled to be paid as a part of the Olympia programme, either because the compensation is calculated and paid separately or because, according to the bank's analyses, the errors have not resulted in losses for the bank's customers. An update about the bank's overall work to calculate and pay compensation is provided in section 3 below.

1.2 Background

By its decision of 21 September 2020, the Danish FSA ordered the bank to stop collecting debt from customers who could potentially be affected by the errors in the debt collection process unless the risk of overcollection was insignificant. In addition, the bank was required to inform all customers who could potentially be affected by the errors that their debt collection cases may have been subject to errors.

By its decision of 26 November 2020, the Danish FSA ordered the bank to arrange for an impartial investigation.

By its decision of 3 December 2021, the Danish FSA issued an order to the bank to extend and broaden the impartial investigation. The purpose of the investigation was then to:

- monitor and assess the measures taken or to be taken by the bank in relation to the four root causes as well as the bank's analyses and measures in relation to the additional issues;
- monitor and assess the bank's measures to identify and communicate to customers affected by the four root causes and all additional issues identified as well as the bank's ongoing progress in these processes; and
- monitor and assess the implementation of future systems support in respect of the bank's debt collection systems, including assessing whether new systems and/or updates to existing systems would ensure that the bank will be able to conduct correct debt collection on the basis of accurate data in future.

By its decision of 25 April 2022, the Danish FSA issued an order to the bank to take the necessary measures to ensure that reporting to the Danish tax authorities in relation to debt collection cases involving customers who had received compensation in respect of the four root causes would be subject to correction. This also included customers who would receive compensation in the future and who therefore did not have outstanding debt to the bank.

In addition, the bank was to communicate individually to those customers and to other customers who expectedly had an incorrect amount of debt reported to the Danish tax authorities in 2022.

Moreover, the bank was ordered to take measures to ensure that it would be able to provide an estimate of a customer's outstanding debt within a reasonable timeframe if a customer so requested. Lastly, the bank was to clarify the information presented on the bank's website regarding a status of its efforts to pay compensation in respect of root causes 1–4.

By its letter of 4 October 2022, the Danish FSA requested that we and the bank prepared a joint memorandum of understanding on future reporting on the debt collection case. The joint memorandum of understanding of 26 October 2022 states, among other things, that the following areas are included as part of our investigation:

- The bank's overall organisation of its work in the debt collection case, including controls and risk management.
- The extent to which the bank's approach to compensating customers covers the errors identified.
- The bank's approach to the calculation and payment of compensation, including the use of the general compensation model, which, according to the bank, is expected to cover most of the errors identified.
- The bank's approach to correcting data in customer cases affected by the errors identified (the so-called "write back"). In this connection, the impartial investigation will cover the new approach, which, according to the bank, includes the zero-setting of a large part of debt payable by existing debt collection customers.
- The bank's reporting of information to the Danish tax authorities, including reporting of corrections etc.
- The bank's communication to its customers, including whether the bank communicates clearly so that customers can assess their position in relation to the bank.
- The bank's handling of customer requests for manual reviews and processing of customer enquiries and complaints, if any.

At the request of the bank, prior to preparing this report no. 5, we have drawn up a memorandum of understanding that describes the extent of the work by the bank which we report on in this report no. 5. This memorandum of understanding was sent to the Danish FSA on Tuesday, 28 November 2023.

Our previous reports:

Prior to this report, we have submitted a total of four reports.

Our report no. 1 of 31 October 2021 describes the bank's measures to stop the collection of debt with a not insignificant risk of overcollection, payment of compensation to the bank's customers and correction of other errors in relation to customer cases. The report was a snapshot of the bank's efforts in the debt collection case, the extent of which was still being developed at the time.

Our report no. 2 of 31 May 2022 describes our investigations of the bank's efforts to correct errors and resume debt collection in the period from October 2021 to May 2022. At the time of submission of the report, the bank had calculated and paid compensation to customers affected by the four root causes where such compensation payments were possible. At that time, the bank had identified and "created" a total of 40 additional issues, for which the bank had only initiated or paid compensation for a small number of those cases. Like report no. 1 of 31 October 2021, the report was a snapshot of the bank's efforts in the debt collection case.

Our report no. 3 of 30 April 2023 covers the bank's measures to establish future systems support in respect of the bank's debt collection process and the design and implementation of new business processes, procedures and related controls.

Our report no. 4 of 4 June 2023 covers the bank's plan to compensate its customers for a number of errors by making a single compensation payment and the bank's plan to cancel debt and zero-set accounts for a number of customers. The report covers only parts of the bank's plan, as there was still no final plan for certain types of customers or cases. Furthermore, report no. 4 of 4 June 2023 had been submitted before the bank started to execute payments and communications to customers in the Olympia programme, and the report therefore did not comprise the actual execution, but only the bank's plan for such execution, including scheduled processes and controls etc.

1.3 Contents of this report no. 5

Our report no. 4 of 4 June 2023 covered the bank's plan to compensate a proportion of its customers for a number of errors in the bank's system for collection of bank debt (DCS) by making a single compensation payment and the bank's plan to cancel debt and zero-set accounts for a number of customers.

In this report no. 5, we provide an update on the bank's execution of compensation payments and cancellation of debt and zero-setting of accounts for customers comprised by our investigation in report no. 4 of 4 June 2023, and our investigation in this report no. 5 concerning these customers will cover a number of additional errors.

In addition, we describe the bank's plan for calculation and payment of a single compensation payment to a number of customers concerning accounts in the DCS system which were not dealt with by report no. 4 of 4 June 2023. For these customers, the compensation also covers a number of errors in the bank's debt collection process that may have resulted in overcollection.

We also describe the bank's plan for the calculation and payment of a single compensation payment for a number of the mortgage finance customers affected by a number of errors concerning claims handled in the PF debt collection system. The PF system is used to handle outstanding claims after a mortgaged property has been sold in connection with the collection of defaulted mortgage loans in Realkredit Danmark A/S (Realkredit Danmark). As the bank is responsible for the overall handling of errors in Realkredit Danmark's collection systems, we will in our description of the bank's plan for customers and claims in the PF system in most contexts refer to the "bank" as a collective term for the bank and Realkredit Danmark.

Finally, our investigation in this report no. 5 covers a number of errors not handled in the model-based solution for the calculation and payment of compensation. These are errors which are or will be handled by way of a separate compensation payment or issues in respect of which the bank's analyses have shown that they are not actual errors or that the customers have not suffered a loss as a result of the errors.

Section 3 below contains an overview of the bank's debt collection case, including a description of the errors and cases we have covered in previous reports and errors and cases we will cover in this report no. 5.

Section 3 also describes the errors and cases for which the bank has still not presented us with a complete model for the calculation and payment of compensation to its customers. Lastly, section 3 includes information about the bank's work to cancel debt and zero-set accounts and an update on the handling of debt in cases where the debt is not expected to be cancelled, and for which the bank must therefore later resume its collection on the basis of a correctly calculated claim.

In this report no. 5, the description of the bank's compensation models and objective thereof builds on the information provided in report no. 4 of 4 June 2023, including with respect to the underlying principles for calculating compensation for losses resulting from overcollection and time and tax compensation in this connection. We will not be addressing these basic questions again in this report no. 5, and reference is therefore made to section 5.3 of report no. 4 of 4 June 2023 for a more detailed description hereof.

1.4 Method and observations about the bank's work processes

With respect to choice of method in relation to our investigation, reference is made to our previous reports, especially section 1.3.2 of our report no. 1 of 31 October 2021.

In connection with this report no. 5, we have agreed with the bank to apply the same method as the one we applied in connection with previous reports, including with respect to exchange of information etc.

Especially with respect to claims in the PF system, we have agreed with the bank to try to plan our investigation such that, instead of building on a complete validation of all of the bank's work processes, it is to a greater extent based on the bank's own checks and quality assurance in connection with planning the calculation and payment of compensation to customers. See section 1.4.2 below.

1.4.1 *Form of collaboration between the impartial reviewer and the bank*

In order to ensure documentation of the information on which we build our investigation, a data room has been set up for the documents the bank shares with us about the various parts of the Olympia programme.

The vast majority of the documents refer to questions we have asked the bank in connection with our investigation. Often, the documents – either before or after they were put in the data room – were the subject of one or more meetings with the bank, among other things to ensure that we have understood the information contained therein. The bank has also prepared and facilitated a number of presentation meetings to describe and explain the bank's analyses and work processes. In this connection, we were able to ask questions in order to ensure that we have received adequate information about the bank's work processes etc. A number of the documents were prepared by the bank at our request, among other things because, during meetings with the bank, we requested specific information, a comparison of data or the performance of separate analyses and documentation hereof.

The data room also contains documentation in the form of preparatory material and minutes of meetings from the bank's main decision-making forums which make decisions about the handling of the debt collection case etc.

1.4.2 *Special information about our investigation of claims in the PF system*

Based on our experience from the previous investigation of the bank's processes, we agreed with the bank that, with respect to the review of the compensation model for the PF system, we would focus more on using the bank's own controls to validate design, calculation and payment of compensation. Our efforts were therefore planned so that we would have more focus on understanding how the bank had planned its own quality assurance with respect to measuring whether, via its compensation model, the bank would be able to identify the customers affected and calculate their compensation. However, to be convinced that the bank's efforts have been adequate, it has been necessary to understand the entire system and pertaining processes for us to assess the control environment in relation to the inherent risks of the processes.

Only to a limited extent have we been able to base our investigation on the bank's own control and validation, which was what the bank originally wanted. The reason is that, in connection with our investigation, we found that a number of controls had not been implemented in such a manner that they left a written trail and result. For a number of processes, we also found that, at the time of execution, there was no complete specification of requirements, case processing guidelines or plans for performing quality controls. For example, a number of legal assumptions or decisions that were decisive for the processes were undocumented, or we were not presented with the basis for the decisions. However, the bank has informed us that its legal department has regularly participated in developing and determining the system requirements and work processes applied.

As a result of the above, it has only to a relatively small extent been possible to base our investigation on the bank's own controls, and we have often had to make our own investigations and identifications, legal clarifications and analyses etc. In this connection, reference is made in particular to section 5 below, which covers claims handled in the PF system that were not covered by our report no. 4 of 4 June 2023.

2. SUMMARY AND CONCLUSION

In our report no. 4 of 4 June 2023, we described the bank's new approach to the debt collection case, including the fact that the bank had decided to set accounts to zero and cancel the debt for a number of customers and the fact that the bank – rather than correcting each error by means of a separate compensation calculation – had developed a model for calculating and paying compensation for a number of the errors identified in one single calculation and payment of compensation.

The overall status of the debt collection case is described below in section 3, which explains, among other things, the bank's work on the calculation and payment of customer compensation regarding the accounts on which we gave our opinion in report no. 4 of 4 June 2023. Section 3 also provides an overview of the accounts or claims we comment on in this report no. 5 and what remains to be done before the bank has calculated and attempted to pay compensation to the customers for all errors identified in connection with the debt collection case.

2.1 Compensation regarding accounts in the DCS system

2.1.1 *The bank's calculation of compensation*

In our report no. 4 of 4 June 2023, we described the bank's new approach to the debt collection case, and we dealt with the bank's plan for calculation and payment of compensation to a number of customers whose accounts have been handled in the DCS debt collection system.

In section 4 below, we describe the bank's plan for the calculation and payment of compensation payment to a number of customers in the DCS system. The section is structured so that it, to a wide extent, is based on the description of the bank's models and compensation approach described in section 5 of our report no. 4 of 4 June 2023. As described below in section 3, we still have to consider a final plan for the calculation and payment of compensation to a number of customers related to accounts in the DCS system after this report no. 5, and payment of compensation to a number of customers whose accounts have already been addressed in our report is still outstanding.

In this report no. 5, we consider the bank's compensation calculation for the following three main segments of accounts in the DCS system:

- About 80,400 personal accounts in the DCS system at complexity levels 5 and 6 (see section 4.1). The compensation covers potential overcollection due to root causes 1-4 (if the bank has not already calculated it and tried to pay it) and a total of 30 additional issues that have or may have affected the accounts in question.
- About 16,500 business accounts in the DCS system (see section 4.2). The compensation covers potential overcollection due to root causes 1-4 (if compensation has not already been paid) and a total of 29 additional issues that have or may have affected the accounts in question.
- A small number of accounts in the DCS system compensated through the so-called individual review (see section 4.3).

Our observations and conclusions on these three segments are described in section 2.1.2 below.

2.1.2 *Our observations and conclusions*

2.1.2.1 *Personal accounts in the DCS system at complexity levels 5 and 6*

We believe that with, regards to the specific customer segments at the DCS system's complexity levels 5 and 6, which are covered by this report no. 5, the bank has identified, with a high degree of probability, the customers who are entitled to compensation due to overcollection. We also believe that the compensation model in most cases will lead to payment of compensation equal to or exceeding the loss incurred by the customers.

The bank has stated that the *observed extrapolated risk of undercompensation* for DCS personal accounts as a whole amounts to about 1.1%, while the total rate for the 3,998 migrated accounts is about 3.4% and for the 7,280 non-migrated accounts about 0.5%.

We note that the bank has not observed populations in its analyses for which the observed extrapolated risk of undercompensation is higher than 4.8%.

We note in this respect that the bank has incorporated a number of customer-friendly assumptions in the account recalculation used for the sample review, which means that the *actual risk* of undercompensation may be lower than the *observed extrapolated risk*.

We note, however, that the *observed extrapolated risk* of undercompensation is based on the bank's insight gained on the basis of the sample checks, with the number of accounts in some sub-segments being so small that, as described below in section 4.1.4.2.1, we cannot with any certainty make a statement as to whether the samples are representative. As a result, there is some uncertainty as to whether the *observed extrapolated risk* reflects the *actual risk* of undercompensation for the underlying population in these sub-segments.

As described above, we believe some uncertainty attaches to the bank's calculation of the risk of undercompensation for customers whose accounts are covered by sub-segment 6.2 (manually created cases in the DCS system) and where the customers' compensation is calibrated, even though the statistical model in these cases is used for migrated accounts. For these customers, it may therefore be particularly relevant to consider accepting the bank's offer of making an individual review of the case if the customers themselves have information about the size and composition of the original debt that would indicate that the debt was smaller than what is indicated in the compensation letter.

As described below in section 4.1.3.1.2, the bank's approach to handling manually created cases in sub-segment 6.2 – where the debt on the manually created accounts stems from a migrated case (1,864 accounts) – relies on the assumption that the statistical model for calculating the starting balance is applicable. In this connection, we believe that uncertainty still exists in relation to the calculation of the risk of undercompensation specifically related to the use of the statistical model, and this uncertainty is difficult to quantify. The uncertainty is not "included" in the bank's calculations of the risk of

undercompensation because the statistical model for the migrated accounts is used for correcting the starting balance for root causes 1 and 2 in both the compensation model and the account recalculation that form the basis for the sample used to calculate the risk of undercompensation.

The importance of our observation above should also be viewed in light of the fact that the bank intends to calibrate the preliminary model-calculated result for these accounts in sub-segment 6.2 by 40%. This decision means that some of the “originally” migrated accounts will, on the basis of the bank’s information about a business practice at the bank (undocumented for us) about recurring manual adjustment of the cases in connection with resumed creation in the DCS system, and on the basis of a very small sample (14 out of a total of 1,864 cases) be subject to calibration, even though the bank has decided not to calibrate the compensation amount in connection with the calculation and payment of compensation to migrated complexity level 1-4 accounts because of the risk of undercompensation (see section 5.4.5 of our report no. 4 of 4 June 2023).

Finally, we note that, in our opinion, the bank’s customers may, in some cases, be entitled to repayment of compensation from the bank if the chosen distribution of the compensation amount between multiple debtors who have made payments on the account does not accurately reflect who is actually entitled to compensation. However, the bank has informed us that it gives customers access to information about the total compensation amount in respect of the account and the allocation thereof, which in our view makes the bank’s approach acceptable (see section 4.1.7 below).

Lastly, we believe that the bank, through its communication to customers, provides customers with accurate and suitably detailed information about the basis of the compensation calculated, and the letters we have seen and the texts on the bank’s website to which the letters refer provide complete and, to the extent that we can determine, reasonable and accurate information and guidance.

2.1.2.2 DCS business accounts

On the basis of our investigations, we are of the opinion that the bank, with a high degree of certainty, has identified the customers with business accounts in the DCS system who are covered by this report and who are entitled to compensation due to overcollection by the bank. We also believe that the compensation model in most cases will lead to payment of compensation equal to or exceeding the loss incurred by the customers.

As regards the migrated business accounts, it should be noted that our overall assessment of the bank’s handling of these accounts in the individual review depends on the bank’s analyses of whether the observed error rate, in connection with the reviews, shows that the bank makes mistakes in too many cases leading to undercompensation (see section 4.2.5 below). As stated below, we will follow up on this.

As regards non-migrated business accounts, we assess, as stated in 4.2.3.3 below, that the risk of undercompensation cannot be assessed solely on the basis of the sample for the non-migrated business accounts. However, the risk should be assessed on the basis of the overall sample for the non-migrated

DCS complexity level 1-5 accounts (aggregated for business and personal accounts). Against this background, we believe that *the observed extrapolated risk of undercompensation* for the overall sample of the non-migrated DCS accounts is acceptably low at all five levels of complexity.

Finally, we note that, in our opinion, the bank's customers may, in some cases, be entitled to repayment of compensation from the bank if the chosen distribution of the compensation amount between debtors does not accurately reflect who is actually entitled to compensation. However, the bank has informed us that customers receive information in the compensation letters about the total compensation amount in respect of the account and the allocation thereof, which in our view makes the bank's approach acceptable (see section 4.1.7 below).

Lastly, we believe that the bank, through its communication to customers, provides customers with accurate and suitably detailed information about the basis of the compensation calculated, and the letters we have seen and the texts on the bank's website to which the letters refer provide complete and, to the extent that we can determine, reasonable and accurate information and guidance.

2.1.2.3 *The individual review for DCS personal accounts*

As described in section 5.6.3 of our report no. 4 of 4 June 2023, the bank's plans included the calculation of customer compensation for a number of accounts covered by the report as part of an individual review. This applied to a number of customers for whom the model-calculated compensation was particularly high or to customers who, having received the model-calculated compensation, requested an individual review of their case.

Overall, we are of the opinion that the use of the bank's method for the individual review as a basis for calculating compensation for losses incurred by certain customers in connection with the bank's debt collection case ensures that the customers will receive compensation that, as a minimum, corresponds to the customers' actual losses in case of overcollection as a result of the identified errors that are covered by this report no 5. We also believe that the risk of undercompensation in connection with the individual review is at an acceptably low level.

However, we stress that our overall assessment of the bank's handling of customers' accounts during the individual review depends on the bank's continuing ongoing analyses confirming that, for the remaining levels of complexity with an observed high error rate in the reviews (above 10%), there is no unacceptable high risk of undercompensation (see section 4.3.4 below). As stated below, we will follow up on this.

Finally, we note that the bank should generally inform its customers in the compensation letters that the individual review involves a risk of undercompensation, and the customers are therefore given the option of requesting that the bank conduct a fully manual review of their case (the so-called manual review). The bank has stated that this will be included in the letters and it is reflected in the drafts we have seen.

As regards the distribution of the compensation, we have noted that, as described in section 4.3.3 below, the distribution will generally follow the same principles as are applied to compensation calculated using the compensation model. Our comments on this are set out in section 4.1.7 below.

2.2 Compensation regarding PF claims

2.2.1 *The bank's calculation of compensation*

The bank's PF debt collection system (abbreviation of Personlig Fordring) contains about 62,000 claims. The term "claim" is used to describe Realkredit Danmark's total receivable in respect of non-performing loans. The PF system has been designed to ensure Realkredit Danmark's receivable has been registered as an aggregated claim. A PF "claim" thus expresses the total receivable from the customer, comprising principal amount, interest and costs.

This report no. 5 concerns the bank's handling of about 39,100 of the 62,000 claims in the PF system since the analysis of about 22,900 claims is yet to be completed by the bank. Out of the about 39,100 claims, payments have not been made on about 30,300 claims in the PF system, while the vast majority of the about 22,900 deferred claims are claims for which the bank has registered with one or more payments. This report no. 5 thus covers about one third of the PF claims for which the bank has registered payments.

The bank generally considers whether compensation regarding PF claims should be paid using the following two methods:

- ii) A model for compensation calculation. The bank expects that, for about 8,100 claims registered in the PF system and covered by this report no. 5, the customers will have their compensation calculated using the compensation calculation method developed by the bank (see section 5.3).

ii) A so-called individual recalculation which is a model-based recalculation of the customer's case (see section 5.6). The calculation includes fewer customer-friendly assumptions than the model for compensation calculation, and it is therefore expected to calculate a more precise amount of compensation without the same degree of overcompensation. At present, the bank expects that, for about 700 claims registered in the PF system and covered by this report no. 5, the customers will have their compensation calculated using this method. The final number of claims will depend on the threshold for individual recalculation set by the bank.

Our observations and conclusions on claims without payments (about 30,300 claims), claims handled via the model-based compensation calculation (about 8,100 claims) and claims handled via the individual recalculation (about 700 claims), respectively, are described in section 2.2.2 below.

2.2.2 Our observations and conclusions

2.2.2.1 Claims without payments (about 30,300 claims)

We agree with the bank that, in cases where no debt has been repaid during the period in which the debt was registered in the PF system, overcollection cannot have taken place, and the customers are therefore not entitled to compensation as a result of overcollection during this period.

The documentation we have received in connection with our investigation shows that the bank is able to identify the claims of the PF system in respect of which debt repayments have been made, and we are therefore confident that the bank has correctly identified the claims in the PF system in respect of which no debt repayments have been made during the period after the claim was registered in the PF system.

For the sake of completeness, it should be noted that customers who have had a claim registered in the PF system may be entitled to compensation for other reasons, even if no debt repayments were made during the period after the claim was registered in the PF system. In this connection, we note that that the bank has identified a small number of claims without payment in the PF system which may be affected by sub-issue 40.d (see section 5.3.2), which may, under the circumstances, in itself give rise to a claim for compensation for overcollection. We also note that some of the investigations described in section 6 on the estate case segment also concern the question of compensation, which does not assume that overcollection has taken place.

2.2.2.2 Claims handled on the basis of the model-based compensation calculation (approximately 8,100 claims)

As regards claims handled through the model-based compensation calculation and covered by this report no. 5 (about 8,100 claims) (see section 5.1.1), it is our assessment that the bank has identified customers, with a high degree of probability, who are entitled to compensation as a result of overcollection in relation to the errors described in section 5.2.1.3.

It is also our assessment that the bank, with a high degree of probability, via the model-calculated compensation offer the customers compensation that at least corresponds to, and in many cases exceeds, their actual losses resulting from overcollection in relation to the errors described in section 5.2.1.3.

It is our overall assessment that the risk of undercompensation for the claims handled by the model-based compensation calculation and covered by this report no. 5 (about 8,100 claims) (see section 5.1.1) must generally be considered to be low. We cannot point to circumstances or contexts that, in our opinion, should have been subject to further analysis, and which could significantly change the basis for this conclusion.

As described below (see sections 5.3 and 5.4), we have identified uncertainties related to the bank's validation and work processes. These matters are, however, not considered to have had a decisive influence on the results obtained by the bank in the sample review confirming that the risk of undercompensation for the population of claims in the PF system covered by this report no. 5 is at an acceptable low level.

In this connection, we stress that the bank has applied a number of customer-friendly principles in its objective for compensation, including in particular that the bank will not invoke time-barring in relation to customers' claims against the bank and that the bank will provide time-based compensation to customers for many years of potential overcollection at the late-payment interest rate pursuant to section 5 of the Danish Interest Act.

2.2.2.3 Claims handled through the individual review (about 700 claims)

It is our assessment that the bank, on the basis of the individual recalculation, calculates compensation that, with a sufficient degree of probability, ensures that customers receive full compensation for the errors described in section 5.2.1.3.

The individual recalculation is based on the use of the deterministic model and the PF claims recalculation, respectively, however, to the effect that the starting balance is calculated manually for a number of customers (see section 5.6.2).

As stated below in section 5.3.1, it is our assessment that the bank, with a reasonably degree of certainty, has demonstrated that the deterministic model calculates a starting balance that is suitable as a basis for calculating compensation in the individual review. However, this assessment is subject to the uncertainties as described in section 5.3 below.

Moreover, as stated below in relation to sections 5.4.3 and 5.4.4, we find that the PF claims recalculation tool is likely suitable to recalculate the bank's claims and thus form the basis for assessing whether overcollection has taken place. However, the weaknesses in the validation carried out by the bank itself imply a not easily quantifiable risk that the tool will produce incomplete or inconsistent results in segments of cases.

On the basis of the information available, we are, however, of the opinion that this uncertainty does not by itself give rise to such doubt as to the results of the individual recalculation that these results cannot be used as a basis for assessing whether compensation should be paid to the bank's customers and at what amounts. In this connection, we also find it important that customers who disagree with the outcome of the individual recalculation have the option to request a full manual recalculation of their case. Our assessment of the PF claims recalculation tool is subject to the same uncertainties as described in section 5.4.3 below.

Finally, we note that the bank also has applied a number of customer-friendly principles in its objective for compensation via the individual recalculation, including in particular that the bank will not invoke time-barring in relation to customers' claims against the bank and that the bank will pay time compensation to customers for many years of potential overcollection at the late-payment interest rate pursuant to section 5 of the Danish Interest Act and that these principles, particularly in old cases, must be assumed to entail that the bank's compensation calculation will overall be to the advantage of the customers.

2.3 Estate cases

Danske Bank has decided to process cases concerning customers and former customers who are or have been subject to estate administration etc. separately so that, with respect to each relevant case type, it is determined whether compensation is to be paid for errors in the debt collection process and – if so – who will receive compensation and how the compensation is to be calculated.

As at 31 December 2023, the segment of estate cases etc. awaiting a decision about compensation included 16,900 cases in the DCS system, 9,900 cases in the PF system and 4,300 cases handled by the bank's Insolvency department, which handles business cases, see section 4.4.2.2 of our report no. 2 of 31 May 2022 (collectively the "estate case segment").

Section 6 below describes the status of the bank's work with the estate case segment. In this connection, a number of general decisions made by the bank are described that are relevant to the calculation of and the addition to the compensation calculation. In this connection, we find particular cause for highlighting the following important decisions:

- Following external legal advice on debt relief cases, the bank has decided to calculate and pay compensation on the basis of overcollection to persons who have been subject to debt relief. We agree with this decision, which means that the bank will compensate customers who may have suffered a loss as a result of the bank's filing of too high a claim in a debt relief case. See section 6.2.2 below.
- In respect of bankruptcy estates, the bank has decided not to pay compensation for claims that arose before June 2010. The decision involves derogation from the principle of not invoking time-barring, according to which the bank has otherwise planned its compensation work, and which is described in section 7.2 of our report no. 1 of 31 October 2021. As described in section 6.4.1 below, it is our assessment that the decision to disallow certain claims due to time-barring may be well-founded and in accordance with general process and resource considerations as regards bankruptcy estates and insolvent estates of deceased persons, for which the administration was completed many years ago, and where the bank's acknowledgement of disregarding time-barring (see section 7.2 of our report no. 1 of 31 October 2021), cannot have come to the attention of the relevant persons. As the bank has yet to make a decision about the concrete implementation of the decision to invoke time-barring of claims arising before June 2010, it has not been possible for us on the basis of the information available to identify which bankruptcy estates and estates of deceased persons would be affected by the bank's decision, and whether the bank with its decision disallows claims for compensation from administration estates or persons who may have been made aware of the bank's acknowledgement of disregarding time-barring. We will follow up on this in a future report.
- The bank has decided not to compensate for dividend payments from insolvent estates of deceased persons and bankruptcy estates. The reason for the bank's decision is that a final examination of claims has been made of the bank's claims (see section 133(2) of the Danish Bankruptcy Act and section 56(5) of the Danish Administration of Estates of Deceased Persons Act).
The bank's decision means that no compensation will be paid in the event where the bank has received dividend based on too high a claim calculated for the estate. Reference is made to section 6.2.3, in which we state that we cannot, on the basis of the information available, find reason to criticise the bank's decision in this regard.

2.4 Additional issues considered in this report no. 5

As described in our report no. 4 of 4 June 2023, in connection with the start of the debt collection case, the bank identified four root causes of error in its debt collection process.

At the time of our report no. 4 dated 4 June 2023, the bank had also identified 104 additional issues that could potentially constitute potential errors in the collection process, including errors that could potentially have led to overcollection from the bank's customers.

As at 31 December 2023, the bank had (in addition to the four root causes) identified a total of 110 issues – i.e. potential errors in the collection process that may have resulted in customers being overcollected.

An overall overview of the errors identified and a status of the bank's work with the errors and our investigation of the bank's approach are provided below in section 3.6.

In this report no. 5, we address a total of 16 additional issues/errors that are not covered by the compensation models and for which the bank has completed its analysis work. An overview of these errors is provided in section 7.2 below.

As described in section 7.2 below, the 16 additional issues/errors concern both **1)** additional issues/errors for which the bank has developed separate compensation models, **2)** additional issues/errors for which the bank has concluded that these issues/error cannot have resulted in customers being overcollected and **3)** additional issues/errors for which the bank has completed its analyses with a conclusion that no actual errors have been made in relation to the bank's customers.

As shown in section 7 below, our investigation has not given rise to material observations, and we therefore fundamentally agree with the bank's approach, including in relation to the calculation and payment of compensation in relation to five of the 16 additional issues/errors covered by this report no. 5, where relevant. We also agree with the bank's conclusion that the other errors do not give rise to payment of compensation to the bank's customers.

As shown in section 7 below, in the main we consider our investigation of these 16 issues to be closed. However, as also shown, there are a few matters that we will continue to follow up on. This includes the following:

- Final payment of compensation to customers who are affected by additional issue no. 10 (Home), where we will follow up on the final calculation of any claims for compensation that customers may have, and on whether this takes into account that the bank, in connection with the payment of compensation regarding additional issue no. 10 (Home), has set off the compensation in the outstanding debt registered in the bank's debt collection system at the time.
- Additional issue no. 21, as a result of which data of the customers affected were not from the start of the project included on the lists applied as a basis for providing communication to the bank's customers. The bank has provided documentation that the customers are now included in the work on the additional issues and the Olympia programme, which means the customers receive information about the errors and their claims for compensation, when they are either handled by the model or on the basis of an individual recalculation or in another compensation track. We will follow up on this when we have received documentation that the bank has complied with the Danish FSA's order on communications to the effect that such communication has been submitted to all customers affected, or attempts have been made to do so.

3. STATUS AND OVERVIEW OF THE DEBT COLLECTION CASE

Since the beginning of our impartial investigation, the bank's handling of the debt collection case has followed two main tracks:

One track concerns the identification and correction of errors made by the bank in connection with its debt collection from customers, including the calculation and payment of compensation to customers, as well as the calculation of the customers' outstanding debt or the cancellation and zero-setting of such debt.

The other track concerns the establishment of a future debt collection process at the bank that is not affected by the historical errors in the debt collection, including the establishment of new IT support and data that make it possible to collect debt correctly from the individual customer.

This report no. 5 deals with the first of the two main tracks, describing the bank's work to identify and correct errors, including the bank's approach to calculating and paying compensation to customers and the calculation of the customers' outstanding debt or the cancellation and zero-setting of such debt.

3.1 Total scope of the debt collection case

As regards the bank's work on correcting historical errors in its debt collection process, as at 31 December 2023, this work as a whole comprises some 355,000 cases (accounts or claims) in the DCS system and the PF1 system, of which some cases were closed when we initiated our investigation, while other cases concerned an ongoing debt collection process. Of these cases, about 7,500 are accounts or claims² that were set up in the debt collection systems after September 2020, when the bank implemented the Pause logic mentioned in our previous reports. In 2023, the latter group of cases grew by an average of about 375 cases per month³. This is likely to continue, but the number of new cases created in the DCS and PF systems will gradually decrease as the bank during 2024 and 2025 attaches more types of claims to its new debt collection system which the bank commissioned in December 2023.

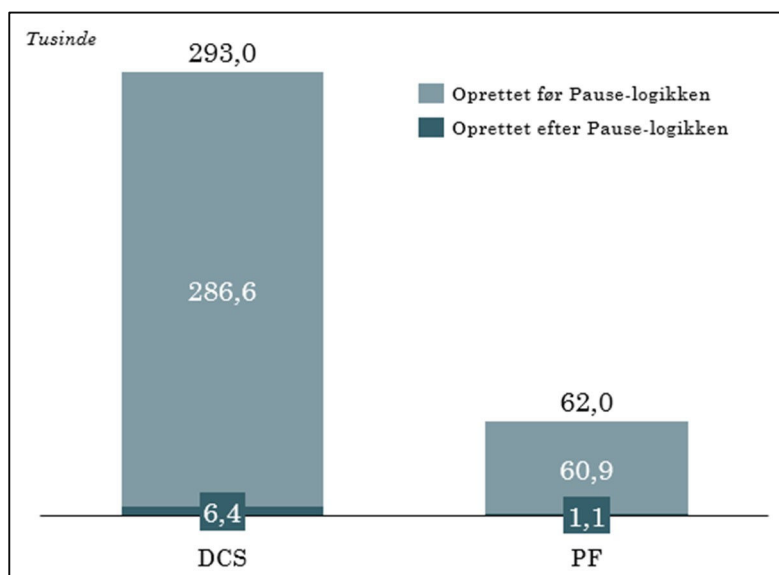
¹ The calculation of these some 355,000 cases and all other calculations of accounts/claims in this section are, unless otherwise stated, based on a static copy of data from June 2022

² The actual number of accounts and claims which, at the time of our submission of this report no. 5, are registered after the Pause logic, is about 10,600 accounts or claims according to the bank's latest calculations

³ Calculated by the bank as at 22 December 2023

The total number of cases comprised by the bank's work with correcting errors or potential errors in the debt collection process may be illustrated as follows as at 31 December 2023:

Figure 1 – Overview of accounts or claims entering the bank's debt collection before and after, respectively, the Pause logic was implemented on 30 September 2020. The Pause logic is described in section 6.4 of our report no. 1 of 31 October 2021.



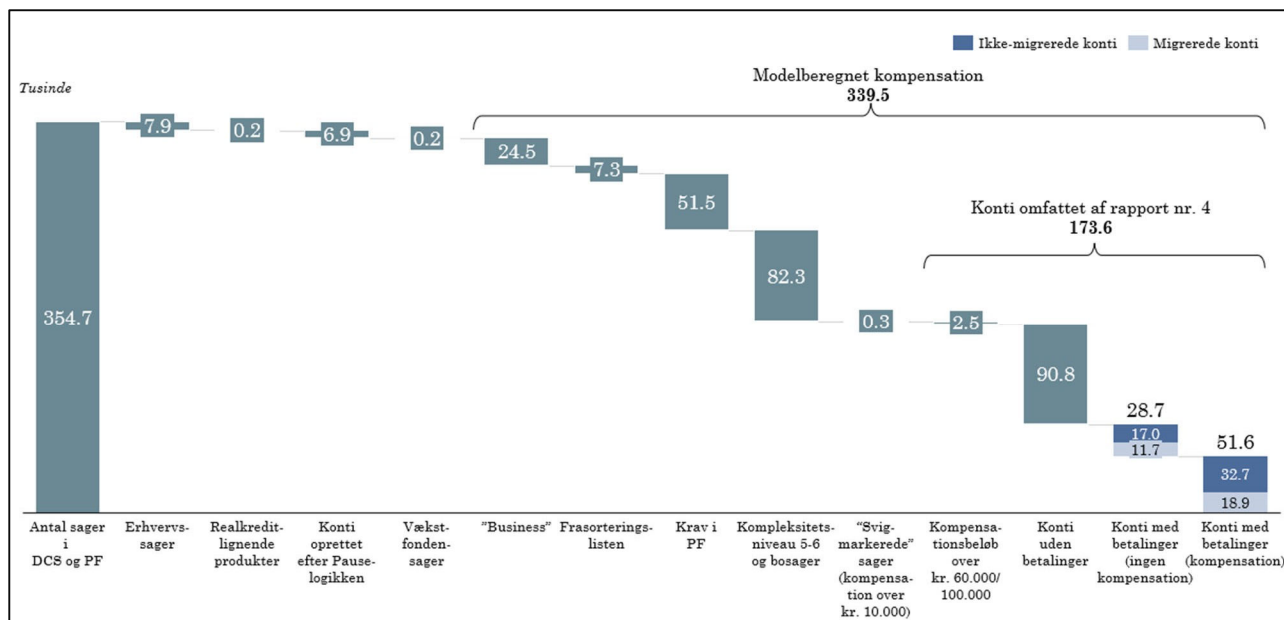
3.2 Accounts and claims that we dealt with in our report no. 4 of 4 June 2023

In our report no. 4 of 4 June 2023, we described the bank's plan for calculation and payment of compensation to a number of the bank's customers concerning cases processed in the DCS debt collection system.

We also considered the bank's plan for cancellation of debt and zero-setting of accounts with respect to a number of the bank's customers, including the majority of the customers in the DCS and PF systems who had their cases set up in the debt collection systems before the bank initiated the Pause logic in September 2020.

As regards the bank's plan for calculating and paying compensation to its customers, the scope of cases that we dealt with in our report no. 4 of 4 June 2023 is illustrated as follows:

Figure 2 – Accounts covered by the compensation model and by report no. 4 of 4 June 2023 (inserted from our report no. 4 of 4 June 2023). The data are calculated as at 30 April 2023.



For a detailed description of the individual discarded accounts, see appendix 1 to our report no. 4 of 4 June 2023. It is noted that the figures in the above figure do not always correspond to appendix 1 because the bank's search for accounts may vary.

As can be seen, report no. 4 of 4 June 2023 only covered accounts in the DCS system at complexity levels 1-4 as defined by the bank.

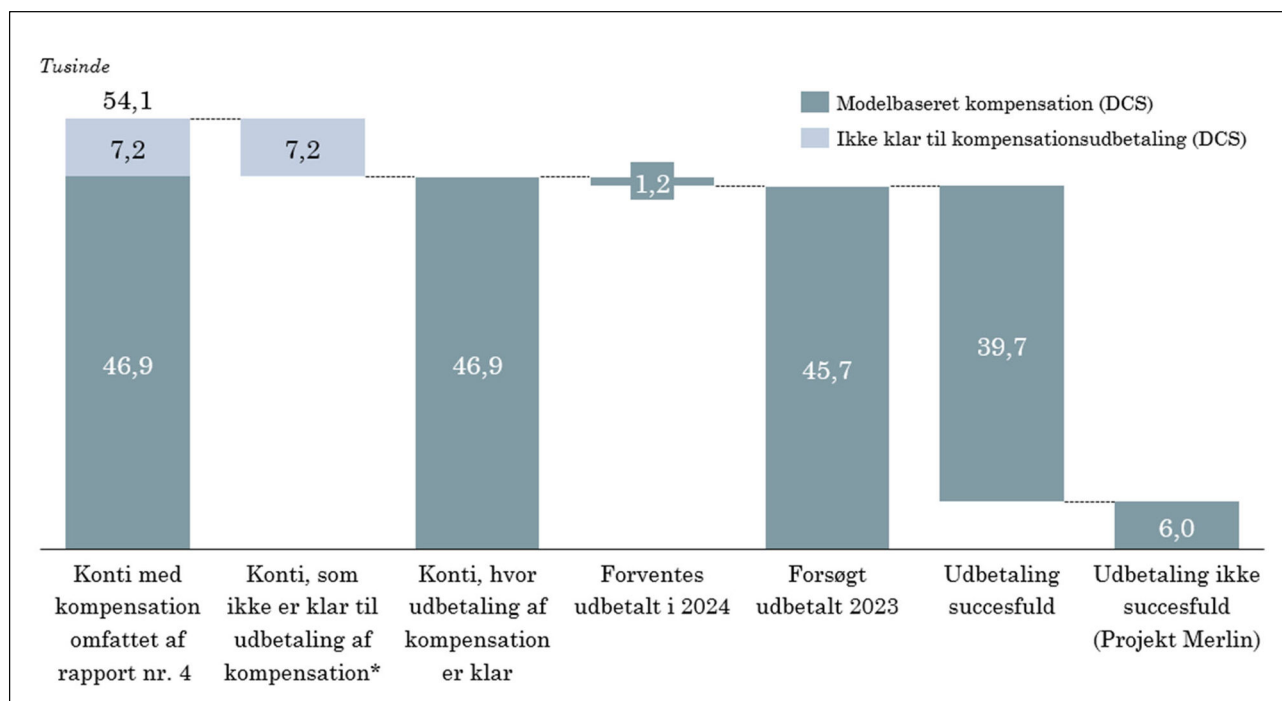
In our report, we concluded that the bank's plan for calculating and paying compensation to the customers for overcollection in respect of these accounts would, with a high degree of certainty, provide the customers with compensation that would at least be equal to their loss, including time compensation and tax compensation.

It was also our assessment that the bank's method of calculating compensation would ensure that the risk of undercompensation in relation to the accounts comprised by report no. 4 of 4 June 2023 would be low.

As at 31 December 2023, the bank has, on the basis of the plan that we commented on in our report no. 4 of 4 June 2023, calculated and paid compensation to a large number of the customers covered by our investigation.

The status of the bank's work in this respect is illustrated as follows:

Figure 3 – Overview of the bank's payment of compensation with respect to accounts covered by our report no. 4 of 4 June 2023

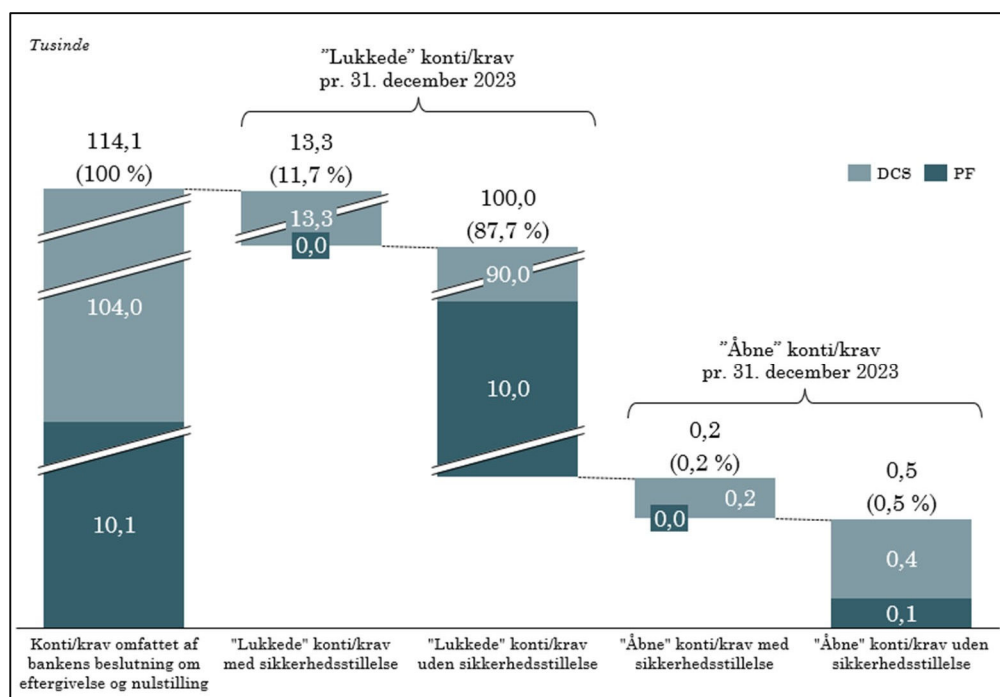


"Accounts not ready for payment of compensation" comprise accounts which, after an individual review, turn out not to have been subject to overcollection, accounts which, after submission of our report no. 4 of 4 June 2023, have been categorised as estate cases (estates of deceased persons, bankruptcy estates and debt relief cases), and accounts with no contact information on the customer.

As stated, at 31 December 2023, the bank had calculated and tried to pay compensation to customers for a total of about 45,700 accounts covered by our report no. 4 of 4 June 2023. In about 39,700 cases, payment to the customers was successful, whereas it was not possible for the bank to pay compensation in the remaining 6,000 cases, for example because the bank was unable to get in contact with the customer and/or because the bank did not have the necessary information. These cases are handled in the bank's Project Merlin, which is described in section 3.2.5 of our report no. 3 of 30 April 2023. The handling of another 1,200 accounts covered by our report no. 4 of 4 June 2023 remains outstanding and is expected to be completed in 2024.

As regards the bank's plan for the cancellation of debt and the zero-setting of accounts for a number of the bank's customers, including the majority of customers in the DCS and PF systems whose cases were set up in the debt collection systems before the bank initiated its Pause logic in September 2020, the status of the bank's work can be illustrated as follows:

Figure 4 – Overview of the bank's cancellation of debt and zero-setting of accounts and claims



Section 2.1 of our report no. 4 of 4 June 2023 states that about 115,000 accounts and claims are covered by the bank's decision to cancel debts and zero-set accounts. The bank states that about 1,000 accounts have been deferred for later handling, and this overview therefore only concerns the other about 114,100 accounts and claims.

As can be seen from the above, the bank has cancelled debt and zero-set accounts in relation to about 113,300 of the total of about 114,100 accounts covered by the bank's decision.

As at 31 December 2023, for only a total of about 700 accounts covered by the bank's decision in 2023, the debt had not been cancelled and the account set to zero.

Many of the accounts in cases where the customer has provided security to the bank were set to zero in the second and third quarters of 2023, including because the bank concurrently with the debt cancellation and zero-setting process has had to consider and effect the release of security in full or in part provided by the customers to the bank.

The bank has informed us that the process for some customers takes time, for example because the release of security requires correspondence with the customers or because the security is shared with other creditors for whom the bank must not/cannot release the security.

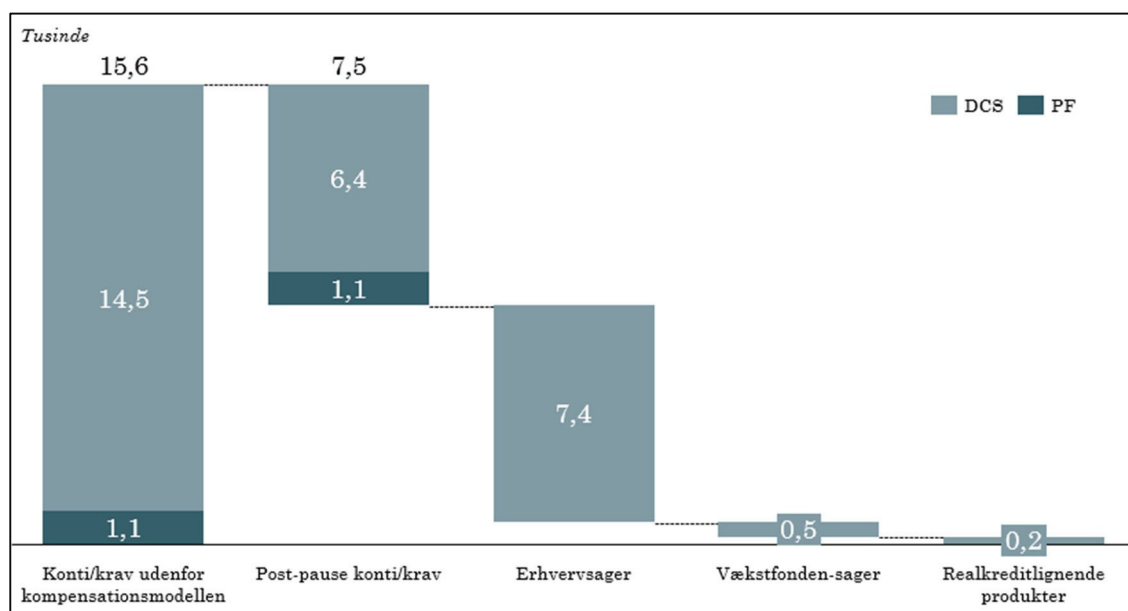
The bank has informed us that as at 31 December 2023, it has sent correction letters to about 84,400 of about 86,600 customers who in connection with the bank's previous notification of debt cancellation and

zero-setting of accounts received a letter that may have contained incorrect information about the tax consequences of the debt cancellation.

The remaining approximately 2,200 customers for whom the bank has not been able to send correction letters have been transferred to the bank's Merlin project (see section 3.2.5 of our report no. 3 of 30 April 2023).

Some 14,500 accounts in the DCS system and 1,100 claims in the PF system were not covered by the bank's decision to cancel debt and zero-set accounts as at 31 December 2023. These accounts and claims can be broken down as illustrated below:

Figure 5 – Overview of accounts and claims not covered by the bank's decision to cancel debt and zero-set accounts/claims as at 31 December 2023



For accounts or claims set up in the bank's debt collection systems after September 2020, the bank plans to resume debt collection when the bank's new debt collection system can process this.

On 7 December 2023, the bank approved a timetable according to which about 2,900 of the relevant customers' claims are expected to have been corrected and entered in the new debt collection system by June 2024.

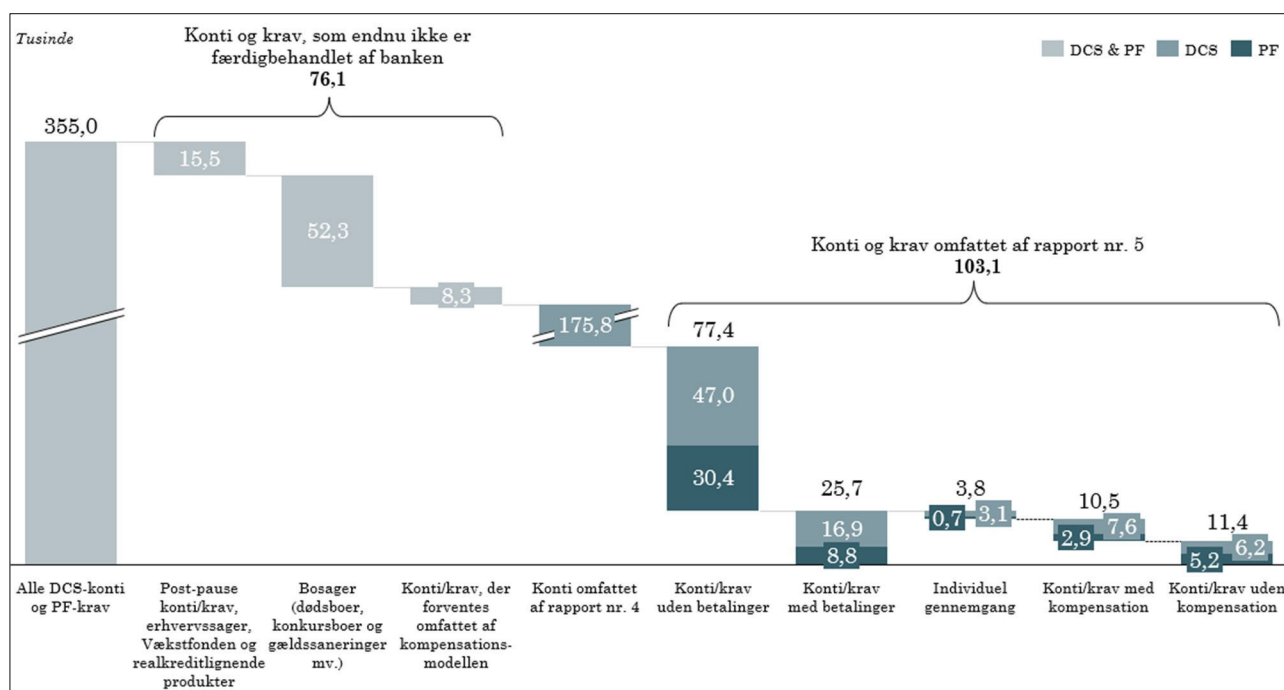
The bank expects that the remaining accounts will eventually be transferred to the new debt collection system, which will replace the bank's DCS and PF systems. Such transfer will require that it is ensured that the cases are not affected by systemic errors and that the quality of the data in these cases is high enough to form the basis for the future debt collection.

3.3 Accounts and claims we deal with in this report no. 5

In this report no. 5, we will – in addition to the description in this section of the status in relation to the accounts and cases that we discussed in report no. 4 of 4 June 2023 – deal with the bank's plan for calculating and paying compensation to additional customers regarding accounts in the DCS debt collection system, including certain corporate cases at complexity levels 1-5 as defined by the bank and certain other accounts at complexity levels 5-6 as defined by the bank.

The scope of cases dealt with in this report no. 5 can be illustrated as follow:

Figure 6 – Overview of accounts or claims covered by this report no.5



Our report no. 4 of 4 June 2023 stated that about 173,600 accounts were covered by the report. The reason why it is now stated that about 175,800 accounts are covered by our report no. 4 of 4 June 2023 is that the bank's subsequent work has shown that about 2,200 additional accounts fall within the scope of our report no. 4 of 4 June 2023. The bank has provided us with an account in this respect, and we agree that assessments in report no. 4 of 4 June 2023 also cover these accounts.

As the figure shows, report no. 5 covers accounts in the DCS system as well as claims in the PF system.

As regards accounts in the DCS system, reference is made to section 4 below, which describes the precise scope of the accounts that are the subject of our investigation in this report no. 5. Please also see section 3.4 below, which provides a detailed description of the accounts that are still not covered by our investigation, and why these accounts are not yet covered by the bank's plans for calculating and paying compensation.

As regards claims in the PF system, reference is made to section 5 below, which describes the precise scope of the claims that are the subject of our investigation in this report no. 5.

Please also see section 3.4 below, which provides a detailed description of the claims that are still not covered by our investigation, and why these claims are not yet covered by the bank's plans for calculating and paying compensation.

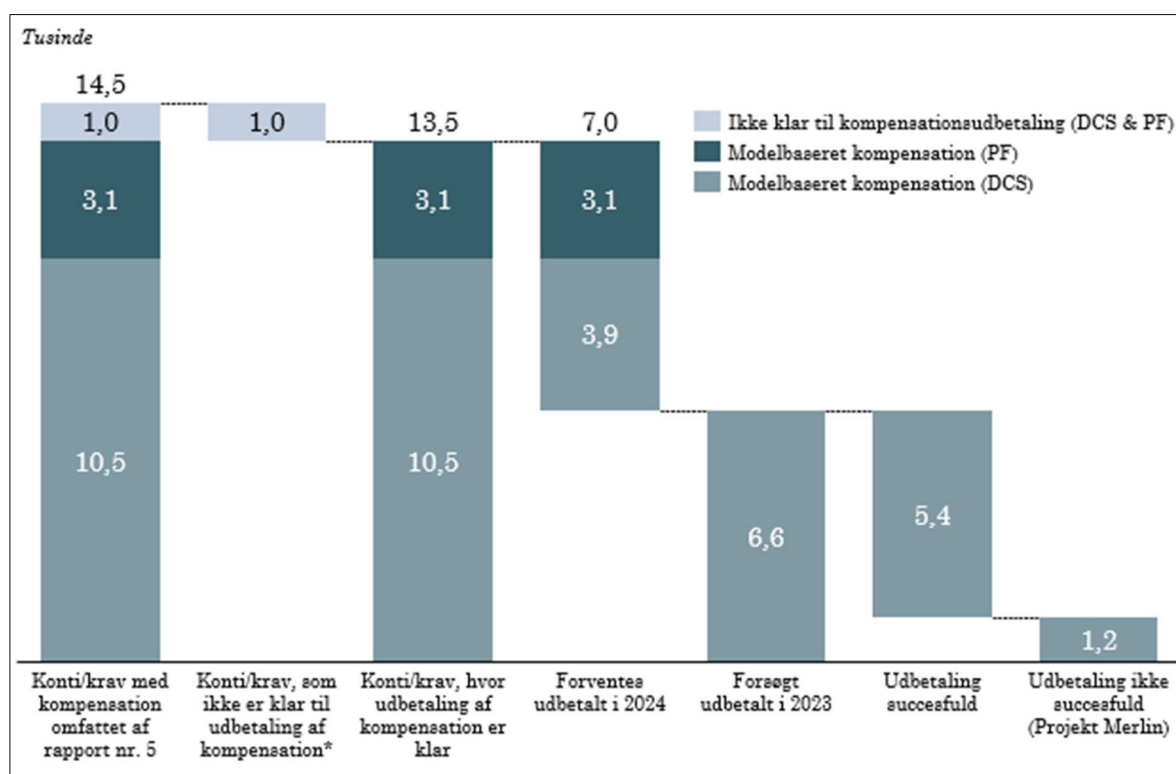
Following completion of this report, our investigation will have covered the bank's plans for calculating and paying compensation to customers for a total of about 279,000 accounts and claims. We have also ascertained that, at 31 December 2023, the bank had calculated and paid compensation to its customers in respect of about 45,100 accounts or claims and tried to make payments to its customers concerning an additional about 7,200 accounts or claims that are handled in the bank's Project Merlin, which is described in section 3.2.5 of our report no. 3 of 30 April 2023.

As is stated below, we have not yet examined the bank's plan for calculating and paying compensation to customers regarding an additional about 60,000 accounts or claims that are expected to be covered by the bank's compensation models. The bank expects that only a small proportion of its customers regarding these accounts or claims will be entitled to compensation.

As at 31 December 2023, the bank had, on the basis of the plan we comment on in this report no. 5, calculated and paid compensation to a large part of the customers covered by the report.

The status of the bank's work in this respect is illustrated as follows:

Figure 7 – Status of calculation and payment of compensation as at 31 December 2023 concerning cases covered by this report no. 5



“Accounts not ready for payment of compensation” comprise accounts which, after an individual review, turn out not to have been subject to overcollection and accounts with no contact information for the customer.

As appears, as at 31 December 2023, the bank had calculated and tried to pay compensation for about 6,600 accounts covered by this report no. 5. The bank has paid compensation for about 5,400 accounts concerning a total of about 6,900 customers. The remaining about 1,200 accounts concern about 1,300 customers for which the bank has not been able to pay compensation, for example because the bank has not been able to reach the customer and because it did not have information that enabled it to pay compensation. These cases are handled in the bank’s Project Merlin, which is described in section 3.2.5 of our report no. 3 of 30 April 2023.

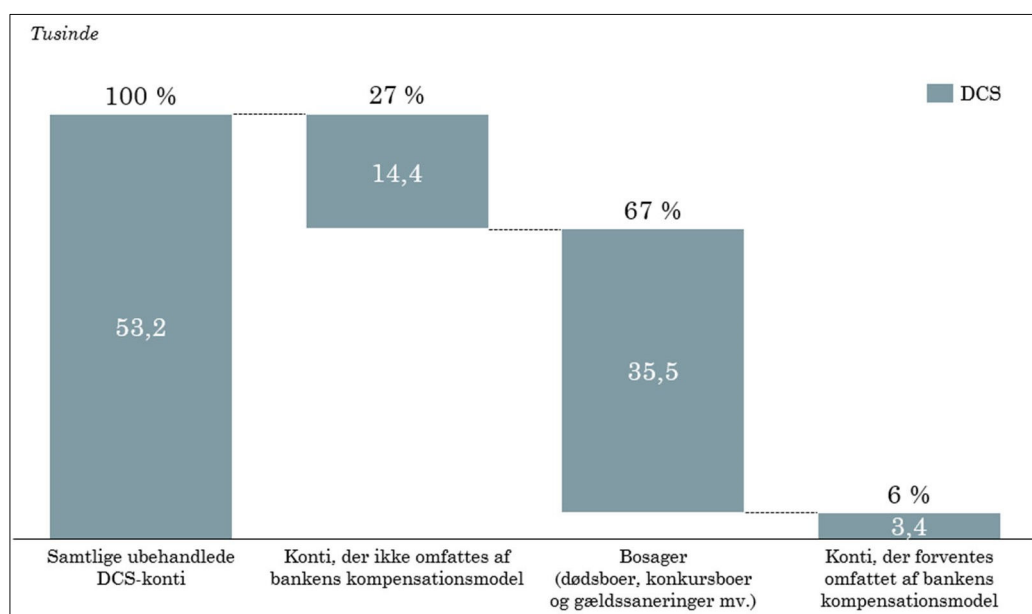
The bank has informed us that it expects to calculate and pay compensation to customers for the remaining 7,000 accounts and claims in 2024. These accounts and claims concern a total of about 10,100 customers.

3.4 Accounts and claims not yet dealt with by us

As described in section 3.3 above, after completion of this report no. 5, the bank's plan for calculating and paying compensation to customers in respect of approximately 38,900 accounts in the DCS system and approximately 21,800 claims in the PF system remains outstanding.

The accounts in the DCS system that are not yet covered by the plans presented by the bank can be illustrated as follows as at 31 December 2023:

Figure 8 – Overview of DCS accounts not processed as at 31 December 2023

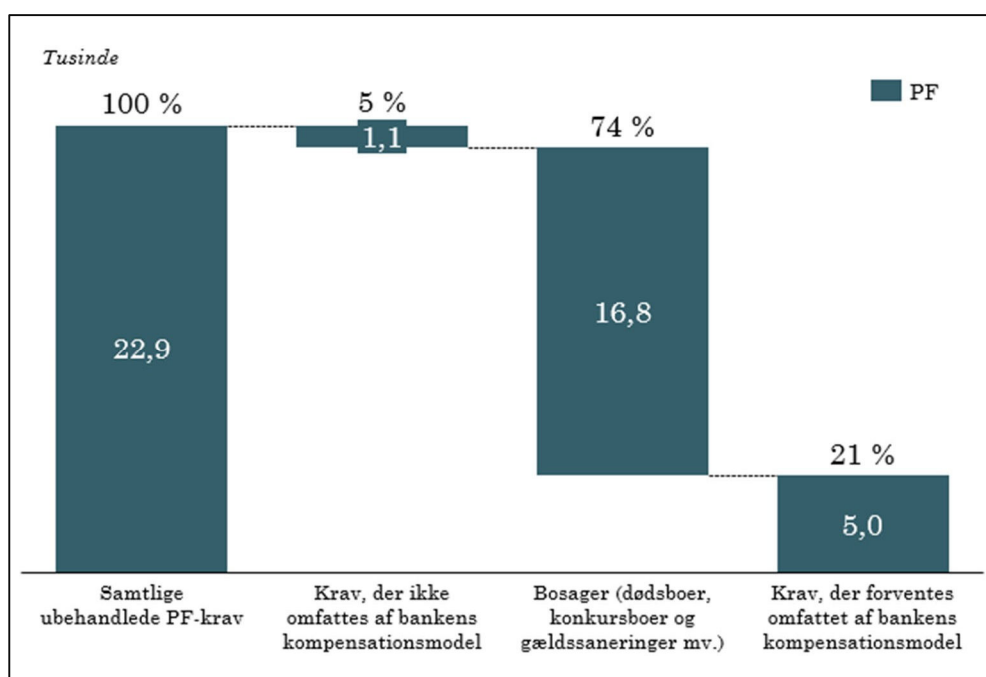


There are a number of reasons why the accounts in question are not yet covered by the bank's plans. A number of accounts are subject to special circumstances which give rise to uncertainty as to whether the bank's compensation models in their current form can be used to calculate compensation that with a high degree of certainty will cover the full losses of the customers. These are for example accounts that the bank assesses are affected by additional issues that are not yet fully analysed (about 3,400 accounts) or cases for which the bank is still working on completing a compensation calculation model, see section 3.6 below on status of additional issues that are not (yet) handled by the bank's models (about 14,400 accounts).

In particular, accounts in the DCS system are subject to various types of estate administration (some 35,500 accounts) which are not yet covered by the bank's plans and for which the status of the bank's work is described in section 6 below.

The claims in the PF system that are not yet covered by the plans presented by the bank can be illustrated as follows as at 31 December 2023:

Figure 9 – Overview of PF claims not processed as at 31 December 2023



There are a number of reasons why the claims in question are not yet covered by the bank's plans. A number of claims are subject to special circumstances which give rise to uncertainty as to whether the bank's compensation models in their current form can be used to calculate compensation that with a high degree of certainty will cover the full losses of the customers. These are for example claims that the bank assesses are affected by additional issues that are not yet fully analysed (about 5,000 claims) or for which the compensation models do not provide adequate certainty about compensation, see section 3.6 below on status of additional issues that are not (yet) handled by the bank's models (about 1,100 claims).

In particular, claims in the PF system are subject to various types of estate administration which are not yet covered by the bank's plans and for which the status of the bank's work is described in section 6 below.

Overall, as regards the DCS and PF systems, our investigation of the bank's plan for calculating and paying compensation to customers in respect of 76,100 accounts and claims and our investigation of the bank's execution of payments remain outstanding.

3.5 Assessment of the bank's objective of and status for paying compensation as at 31 December 2023

The memorandum of understanding dated 28 November 2023 prepared by us and the bank states that this report must include the following assessment of the progress of the bank's work on compensating its customers:

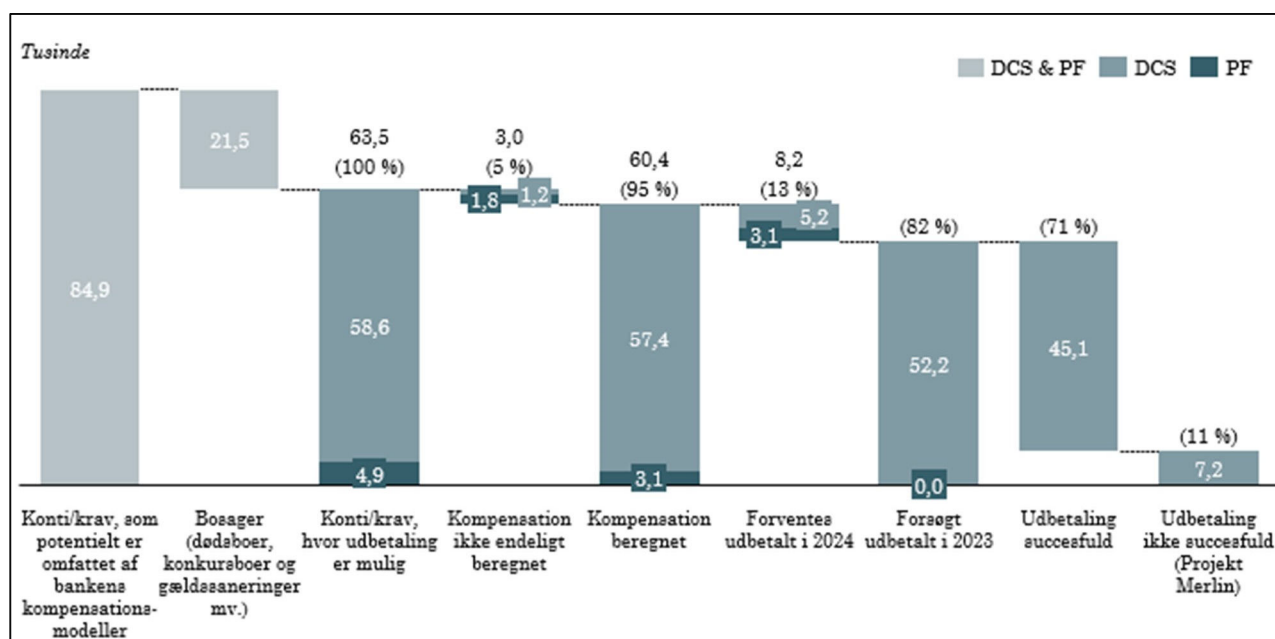
"In this connection, the Danish FSA has specifically requested that the impartial reviewers, in report no. 5, consider the objective stated by the bank at a meeting with the Danish FSA on 31 October 2023 that 85% of all cases in which the customers are (or may be) entitled to compensation must be completed by the end of 2023. In this connection, "completed" means that compensation has been calculated for these customer cases which takes into account all known errors and issues and that the bank must have tried to pay compensation to the customers. The bank notes that the objective stated at the meeting comprises all cases currently covered by the Olympia model, except for estate cases. Due to continuing work with the PF model and continuing work with potential related issues, the bank specifies that it expects to reach 80-85% of the above-mentioned cases. The impartial reviewers must "validate", in report no. 5, whether the objective has been met."

As regards the above, we refer to the description above, sections 3.3 and 3.4, and have the following comments:

As stated by the bank in the memorandum of understanding, the objective is to cover only cases which are expected to be covered by the compensation model, and estate cases are also not included in the bank's percentage calculation. As illustrated in figure 9, section 3.4, above, a number of cases are not expected to be handled by the model. This applies to certain large corporate cases, cases involving certain customers registered by the bank as related to fraud (a so-called fraud marking, for instance because the customer has committed fraud against the bank), certain cases concerning accounts for which the Danish Growth Fund has provided a guarantee and cases concerning certain mortgage-like products. Disregarding these cases, the bank expects that, in about 63,500 of the remaining cases, the customer will or may be entitled to compensation.

The bank's overview can be illustrated as follows:

Figure 10 – Overview of status of cases in which the customer is or may be entitled to compensation as at 31 December 2023



Please note that the bank's figures build on its "expectations" as to whether customers will actually be entitled to compensation in the cases in question. In this connection, the bank relies on the calculation result from the use of the compensation model in its current form for all accounts and claims in the DCS and PF systems that are expected to be covered by the model. The "gross population" to which the bank's percentage calculation relates thus includes all accounts and claims in the DCS and PF systems that are expected to be covered by the model, also those that are not currently covered because they have been selected for processing at a later time. However, estate cases and cases that are not to be covered by a model-calculated compensation are disregarded, as they are not covered by the stated objective as set out in the memorandum of understanding.

This leaves about 63,500 accounts or claims in respect of which the bank expects to pay compensation. Of these, the bank had calculated a compensation amount for 60,400 accounts or claims as at 31 December 2023. The bank states that, as at 31 December 2023, it had attempted to pay compensation to customers in respect of a total of about 52,200 accounts or claims of the expected population of about 63,500 accounts or claims that are entitled to compensation. The bank therefore states that it has paid or tried to pay to its customers in respect of a total of 82% of the accounts or claims that are expected to be entitled to compensation.

We agree with the bank's numbers, but note that the figures are subject to some degree of uncertainty and that the figures do not, as stated in the memorandum of understanding, concern customers who "*may be entitled to*" compensation, but only concern accounts or claims in respect of which the bank expects customers will be entitled to compensation on the basis of a calculation based on its current models. Consequently, the accounts or claims that are currently disregarded by the model calculations (in the figure above described as accounts or claims for which "compensation is not yet finally calculated") total a number of only 3,034 accounts or claims.

It may be argued that the bank's calculation in respect of the above is subject to uncertainty because the estimate according to which only 3,034 of the selected about 8,400 cases (of which about 3,400 accounts in the DCS system and about 5,000 in the PF system, see section 3.4 above) are expected to be entitled to compensation is based on the use of the latest version of the bank's compensation model for these accounts or the claims, although the selected about 8,400 cases have in fact been "put on hold" until further notice because it is still uncertain whether the current version of the compensation model will adequately ensure full compensation to customers in respect of these accounts or claims. In other words, there is no guarantee that the bank's estimates are precise since they are based on the use of the current compensation models for accounts or claims which may not be compatible with the models in their current form.

Despite this uncertainty, we are of the opinion that the bank's overview may show a qualified estimate on the basis of the information currently available to the bank. According to the bank's overview as at 31 December 2023, it has paid or attempted to pay compensation in respect of (and thereby "completed") 82% of the about 63,500 cases expected to trigger claims for compensation. It follows from this that 18% of these cases remain to be "completed", corresponding to about 11,400 cases, according to the bank's objective for cases in which a customer is expected to be entitled to compensation.

Further, we note that the bank also still has to consider the matter of compensation in respect of about 52,300 estate cases (of which about 35,000 accounts in the DCS system and about 16,800 in the PF system, see section 3.4). To this should be added about 15,500 cases (of which about 14,400 accounts in the DCS system and about 1,100 in the PF system, see section 3.4), which are not covered by model-calculated compensation, including large corporate cases, cases involving the Danish Growth Fund, cases concerning mortgage-like products and cases related to fraud (a so-called fraud marking, for example because the customer has committed fraud against the bank). Of these approximately 69,000 cases, the bank expects that a substantial share will not be entitled to compensation, for example because they have not been subject to overcollection. For example, the bank expects that only about 21,500 estate cases of the total of about 53,500 estate cases will be entitled to compensation in connection with potential overcollection (see figure 10 above).

3.6 Additional issues

As described in our report no. 4 of 4 June 2023, in connection with the start of the debt collection case, the bank identified four root causes of error in its debt collection process.

At the time of our report no. 4 dated 4 June 2023, the bank had also identified 104 additional issues that could constitute potential errors in the collection process, including errors that could potentially have led to overcollection from the bank's customers.

As at 31 December 2023, the bank had (in addition to the four root causes) identified a total of 110 issues – i.e. potential errors in the collection process that may have resulted in customers being overcollected.

In our report no. 4 of 4 June 2023, we assessed the use of the bank's compensation model for certain accounts in the DCS system, as the compensation included a total of 25 of the additional issues identified by the bank. In this report no. 5, we assess five additional errors. This means that we assess the use of the bank's compensation model for certain accounts in the DCS system, as the compensation now includes a total of 30 of the issues identified by the bank (see section 4.1.1.2 below for additional information). In addition, in this report no. 5, we assess the use of the bank's compensation model for certain claims in the PF system, as the compensation covers a total of 10 of the issues identified by the bank (see section 5.2.1.3 below for additional information).

Customers receiving compensation in accordance with the plan we investigated in our report no. 4 of 4 June 2023 and customers receiving compensation in accordance with the plan for calculation and payment of compensation that we are investigating in this report no. 5 are generally not expected to be entitled to further compensation. The bank thus does not expect these customers to be affected by additional issues for which they should be compensated, but the bank cannot rule out that this will nevertheless be the case.

Our investigation of the bank's compensation models is customer-centric and is based on the individual account/claim as the bank generally does not set off amounts across accounts and claims. As emphasised in section 1.4 of our report no. 4 of 4 June 2023, we only state whether the bank's plan for calculating and paying compensation to an acceptable extent covers the customers' losses in relation to the errors which, according to the bank's information, are currently covered by the models.

We therefore also assess the issues identified by the bank one by one – both the ones covered by the models and the ones not included – in order to confirm the bank's conclusions as to whether the individual issue would entitle the customer to compensation and how compensation is to be calculated.

In relation to the above, it is noted that, in connection with the payment of the model-calculated compensation to the bank's customers, the bank has made a reservation to the effect that the compensation paid may also cover additional losses that the bank subsequently identifies because the payment amount exceeds the customers' actual losses resulting from overcollection (see section 5.7 of our report no. 4 of 4 June 2023).

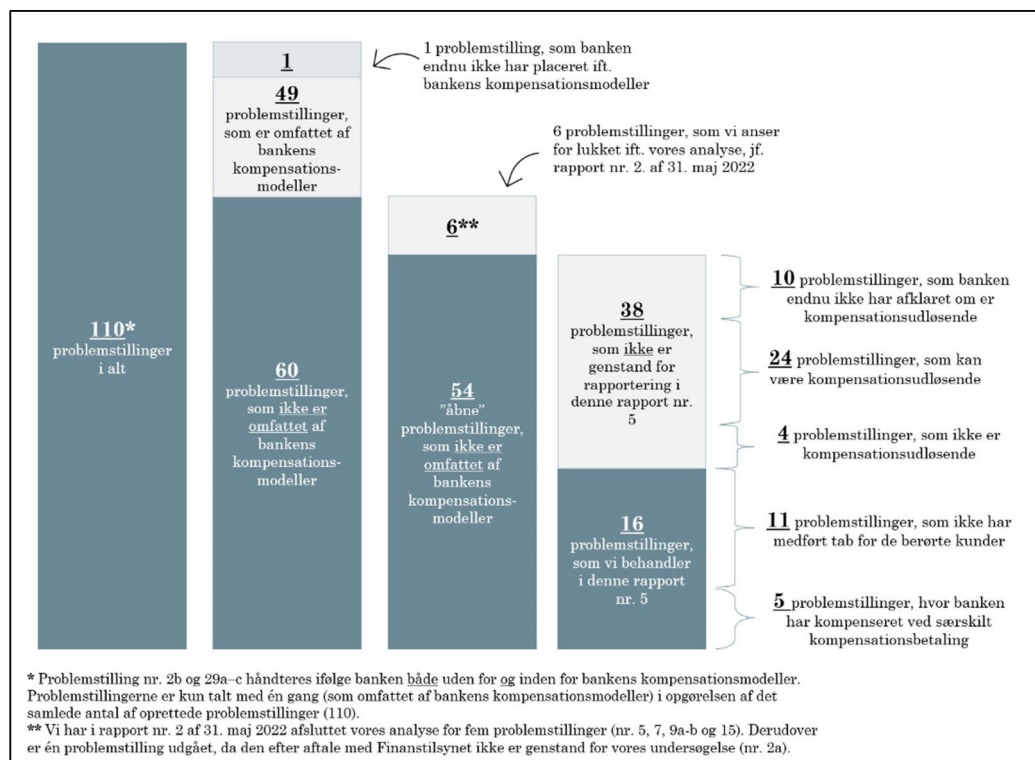
For that reason, the bank has undertaken to sending a conclusion letter to all customers when the debt collection case is closed and when it has been clarified that the customers are not affected by additional issues for which they are entitled to compensation.

As stated above, a number of the additional issues identified by the bank are not covered by the bank's compensation models. This may be due to the following factors:

- In its analyses, the bank concluded that the additional issue did not lead to errors
- In its analyses, the bank found that errors did not lead to overcollection
- The bank wishes to expand the compensation models for the DCS system and the PF system to include these errors, but the work in this respect has not been completed, and the affected accounts are therefore not yet covered by the models (see sections 3.3 and 3.4 above)
- The bank lacks the necessary information to be able to use the compensation models for the errors in question, and the bank will therefore perform full or partial manual handling of the cases or contact affected customers in order for the customer to provide the relevant information
- The bank has paid, or wishes to pay, compensation to the customers for any overcollection by paying separate compensation in addition to the model-calculated compensation

The extent and distribution of the errors identified on the above categories can be illustrated as follows:

Figure 11 – Overview of the errors identified in relation to whether they are covered by the bank's compensation models and whether we address them in this report if they are not covered by the bank's compensation models



An overview of the individual errors and a description of why they are not currently covered by the bank's compensation models as well as the status of the bank's work on identifying the errors are provided in appendix 1 to this report no. 5.

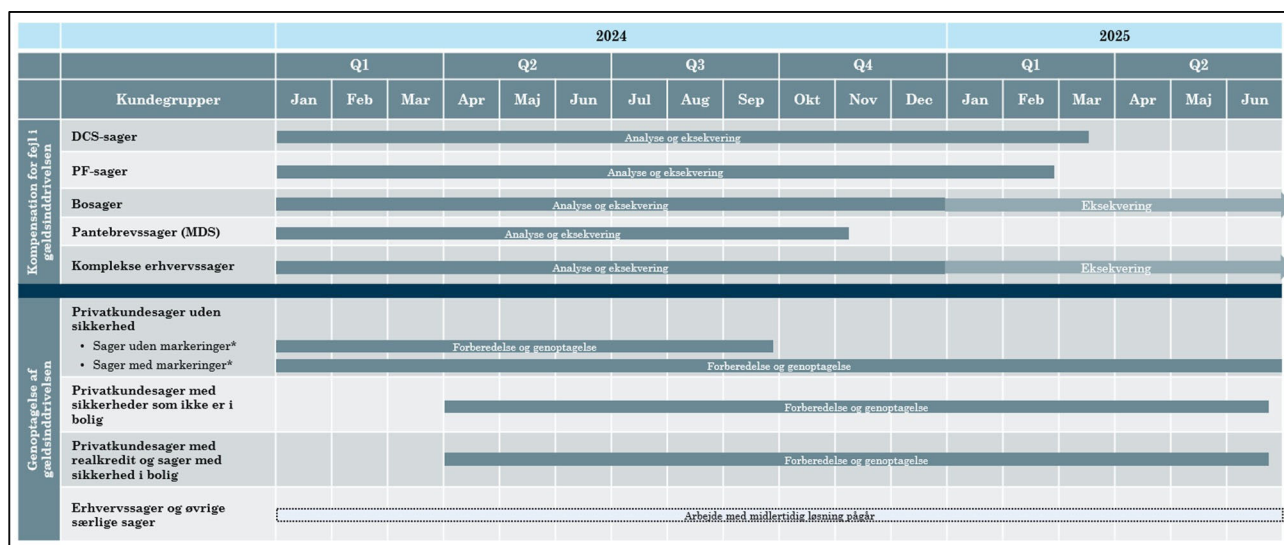
In this report no. 5, we address a total of 16 additional issues/errors that are not covered by the compensation models and for which the bank has completed its analysis work. The individual errors are described in section 7 below.

3.7 The bank's plan for the continued work on the debt collection case

As described in sections 3.3 and 3.4 above, we have still not assessed a plan prepared by the bank for calculating and paying compensation to a number of customers in respect of claims or accounts in the PF and DCS systems.

The bank's overall timetable for work on the outstanding accounts can be illustrated as follows:

Figure 12 – The bank's timetable as at 31 December 2023 for the continued work on the debt collection case



*Cases flagged/not flagged refer to cases with multiple debtors, cases "flagged for fraud", estate cases and VIP/PEP cases.

As the figure shows, the bank's handling and our investigation of a number of accounts/claims and potential errors that have not yet been covered by the compensation models remain outstanding.

Disregarding cases created at the bank after September 2020 when the Pause logic was implemented and disregarding estate cases, the bank expects that it will have calculated and attempted to pay compensation to all customers in respect of all cases in the DCS system and the PF system by the end of 2025 at the latest.

As regards the bank's timetable for handling estate cases, see section 6 below, which describes the status of the bank's work and the processes the bank expects to perform before the debt collection part of these cases can be considered closed.

With respect to the cases set up in the DCS and PF systems after September 2020, the bank's plan for the future handling of these cases is closely related to the work carried out by the bank in Programme Delphi, which concerns the development and implementation of a new IT system to support the bank's debt collection, including the collaboration with an external supplier. The bank plans to ensure that data in these cases are quality-assured in such a way that the cases or a significant portion of them can be transferred to the new debt collection system in the period until mid-2025 as functionality for handling all types of claims is gradually included. The first version of the net debt collection system was commissioned by the bank on 5 December 2023. The bank has informed us that, as at 31 December 2023, it had sent claims for collection regarding seven customers to the external debt collection agency via the new system.

Finally, we note that for a number of customers, compensation can be calculated but not paid because the bank is unable to locate the customers in question or because the bank is not in possession of such information as is necessary for being able to pay the compensation. As described above, these cases are covered by Project Merlin, which covered some 6,500 claims for compensation as at 31 December 2023. We have not yet examined the bank's processing of cases in Project Merlin, including what the bank is doing to identify the matters that prevent the payment of compensation and how it intends to handle cases where compensation after several attempts has not been possible for a long period of time.

We still believe that the bank prioritises the work on the debt collection case, including that it has sufficient human resources to handle the outstanding tasks. The main reason that the bank's work is not progressing faster is that, in a number of key areas, the bank is very dependent on having key people with crucial knowledge of the bank's current and historical work processes take part in the work. In relation to cases in the estate administration project, it must also be noted that the bank to a large extent depends on clarification involving external parties, including probate courts and estate handlers, etc., and that this implies that the work is progressing slower than expected and as desired by the bank. See section 6 below.

4. COMPENSATION RELATING TO ADDITIONAL ACCOUNTS IN THE DCS SYSTEM

As regards this section on the bank's handling of accounts in the DCS system, it should initially be noted that the section is based on the contents of our report no. 4 of 4 June 2023 and the description contained therein. Among other things, this applies to the description of the approach selected by the bank to the debt collection case where a compensation model developed by the bank is used to calculate a combined compensation amount for a number of the bank's customers covering a number of the errors identified in the debt collection process. The following section describes only the changes in the bank's approach that were made to enable the model-based approach to handle a number of customer segments whose claims were not addressed by us in our report no. 4 of 4 June 2023.

In this section, we use the same terminology and definitions as used in report no. 4 of 4 June 2023, including the elements in the bank's compensation models and in relation to the components included in the compensation calculated and paid to customers.

4.1 Personal accounts in the DCS system at complexity levels 5 and 6

4.1.1 Customers, case types and issues covered by the compensation model

4.1.1.1 Accounts covered by the compensation calculation

In our report no. 4 of 4 June 2023, we considered the bank's plan for the calculation and potential payment of compensation for a total of about 173,600 complexity level 1-4 DCS personal accounts. We refer to section 5.1.1 of our report no. 4 of 4 June 2023 for a description and our assessment of the planned approach.

In this report no. 5, we consider the bank's plan for the calculation and potential payment of compensation for an additional total about 80,400 DCS personal accounts at complexity levels 5 and 6. The plan provides for compensation for the four root causes (if compensation has not already been calculated and payment thereof attempted) and for a total of 30 additional issues that the accounts in question have or may have been affected by (see section 4.1.1.2 below for further details). This report on DCS personal accounts covers the bank's plan for the calculation and potential payment of compensation within the following sub-segments:

Figure 13 – Overview of DCS personal accounts broken down by sub-segment with and without payments, respectively, as at 19 December 2023

Complexity level		Accounts <u>with</u> payments (covered)	Accounts <u>with</u> payments (not covered)	Accounts <u>without</u> payments (covered)	Accounts <u>without</u> payments (not covered)	Total number of accounts
Complexity level 5: Guarantors and co-debtors						
5.1	Guarantors	500	500	800	<100	1,900
5.2	Co-debtors	8,400	3,300	11,000	200	22,900
Complexity level 6: Complex cases						
6.1	20% guarantee cases	0	2,000	3,300	100	5,400
6.2	Manually created cases	2,100	2,400	8,500	100	13,100
6.3	Debt relief cases	0	6,000	3,100	100	9,200
6.4	Estates of deceased persons	0	8,400	14,000	<100	22,500
6.5	MDS cases	300	200	600	100	1,200
6.6	Bankruptcy cases	0	1,100	1,100	100	2,300
6.7	Products similar to mortgage products	0	1,300	500	<100	1,900
Total for complexity levels 5 and 6		11,300	25,200	42,900	1,000	80,400
	Of which covered by report no. 5	11,300	-	42,900	-	54,200

Grey fields show the number of accounts not covered by this report no. 5. Numbers in the table are rounded to the nearest hundred.

For a more detailed description of the individual sub-segments, see Appendix 3.

This report no. 5 generally covers the bank's plan for execution and payment of compensation for accounts with registered complexity level 5 debt repayments ("Guarantors and co-debtors"), accounts in sub-segment 6.2 ("Manually created cases") and accounts in sub-segment 6.5 ("MDS cases").

Of the about 36,500 accounts with complexity level 5 and 6 payments, on the basis of the above the bank currently plans to calculate and potentially pay compensation for a total of about 11,300 accounts – in the following these accounts are referred to as "DCS personal accounts".

We note that accounts in sub-segment 5.1 ("Guarantors") for which a *guarantor* has made debt repayments are currently not covered because these may potentially be affected by sub-issue 26.c ("incorrect registration of limited guarantees"), which is still being analysed by the bank. The accounts in question make up the subset of accounts in sub-segment 5.1 in which only the *debtor(s)* but not the *guarantors* have made payments.

For accounts in sub-segment 6.2, it is also noted that manually created estate cases involving registered payments that account for a considerable proportion of this sub-segment are still included in the bank's unfinished analyses, and this sub-segment is therefore only covered in part in this section of the report.

Furthermore, DCS personal accounts without registered debt repayments are also included in the debt collection process for all complexity level 5 and 6 sub-segments because they are also included in the bank's current plans for calculating and paying compensation. This also includes personal accounts in sub-segment 6.1 ("20% guarantees"), 6.3 ("Debt relief cases"), 6.4 ("Estates of deceased persons"), 6.6 ("Bankruptcy cases") and 6.7 ("Mortgage-like products"). It is the bank's assessment that, for these accounts without any registered debt repayments in the DCS system, there is no basis for calculating and paying compensation since overcollection assumes that the customer has repaid the debt in full or in part. In this connection, the bank has stated that there is no information indicating that, for the accounts in question, the customers have actually made payments that were not registered.

It follows from the above that, in this report no. 5, we do not comment on the bank's plan for the calculation and potential payment of compensation for personal accounts in sub-segment 6.1 ("20% guarantee cases") and sub-segment 6.7 ("Mortgage-like products") with registered payments because the bank has not completed its analysis of the identified issues that are specifically assumed to affect accounts in these sub-segments. The segments thus comprise a total of about 3,300 accounts.

We do not comment otherwise on the bank's plan for the calculation and potential payment of compensation for personal customers in sub-segment 6.3 ("Debt relief cases"), 6.4 ("Estates of deceased persons") and 6.6 ("Bankruptcy estates") (below referred to as "estate cases") when debt repayments have been registered. These accounts are covered by the bank's separate project for handling estate cases (see section 6). This includes a total of about 15,500 accounts.

4.1.1.2 Which issues are being compensated

In section 7.1.1 of our report no. 4 of 4 June 2023, we stated that at the time of our reporting the bank had concluded that it was possible to document for 40 of the 104 issues identified in the bank's debt collection systems that a large number of the customers whose accounts were handled in the DCS system through the compensation model would receive full compensation for any overcollection on the basis of the work undertaken by the bank at the time. We reported on 25 of these issues, while the remaining 15 issues were expected to be addressed in subsequent reports. Reference is made to the overview above (section 3.6) for an overview and status of the additional issues.

The calculation of compensation for DCS personal accounts covers all 25 issues included in our report no. 4 of 4 June 2023. In addition, the compensation calculation for customers whose accounts are mentioned in this report no. 5 covers a number of additional issues that may have affected complexity level 5 and 6 DCS personal accounts. This relates to the following five issues, as shown in the figure below.

Figure 14 – Overview of additional issues included in the compensation calculation for DCS personal accounts at complexity levels 5 and 6

Issue	Description
2.b	"Interest on reminder fees"
16.b	"Flawed merger of debt items in connection with transfer of loans from the MDS system to the DCS system"
33	"Failure to write down co-debtors' debt"
ORIS 166446.a	"Incorrectly calculated debt collection costs"
ORIS 165154	"Errors in settlement agreements"

For three of the five issues mentioned above, the bank will make a separate individual adjustment through the compensation model. This applies to the accounts affected by issues 2.b, 16.b and 33. The bank has decided not to make any adjustments to the compensation calculation for the other two issues. The bank is therefore of the opinion that these two issues will be "handled" by the existing compensation model since the bank's individual partly manual review (made by means of the account recalculation described in section 5.5.1 of our report no. 4 of 4 June 2023) has shown that the calculated compensation amount through the compensation model is sufficient to compensate the customers. A more detailed description of the bank's validation of the compensation model is provided in section 4.1.4 below.

Please note that this report no. 5 does not confirm the bank's assumption that customers currently being compensated may not be entitled to additional compensation for other identified issues at a later date (see section 3 above).

4.1.2 *General information about the compensation model, its purpose and objective*

As described in section 5.3 of our report no. 4 of 4 June 2023, the purpose of the bank's use of the compensation model is to ensure that a large number of the affected customers receive full and final compensation for any overcollection. This is ensured by using an adapted model calculation, which often results in substantial overcompensation. The bank's approach should be seen in the light of its original approach, under which the bank planned to provide compensation on an issue-by-issue basis with more precise calculations but over a much longer period of time and with many small payments to customers.

The objective of the compensation model in relation to DCS personal accounts is unchanged relative to the objective described in section 5.3 of our report no. 4 of 4 June 2023. The bank's compensation model thus implies that the bank – with one single model-calculated compensation – seeks to fully compensate a large number of customers for a number of the issues that affect or may affect the customers in the DCS system.

Reviewing the bank's documentation for the compensation model and the bank's sample checks, including insights into the results of and the analyses of the samples, we have checked whether the model-based calculation of compensation matches the bank's objective of the calculation of compensation amounts. Finally, during an inspection we observed how the bank was working with the sample checks. The bank's objective is for the model to ensure:

- i. that all customers eligible to receive compensation are identified with a required level of certainty;
- ii. that these customers receive compensation that at least fully compensates them for their losses as a result of any overcollection by the bank;
- iii. the bank will pay compensation to its customers, irrespective of whether the customers' claims are time-barred under property law; and
- iv. the bank provides time compensation and tax compensation.

Since the submission of our report no. 4 of 4 June 2023, the purpose of the bank's validation work on DCS personal accounts at complexity levels 5 and 6 through the individual partly manual review of accounts by means of the account recalculator has been to demonstrate that the compensation model for the relevant customers works as specified in the objective (see above) and to prove that there is generally a low risk of undercompensation (see section 4.1.6).

A significant part of the issues identified by the bank in the DCS system relates to the calculation and accrual of interest, fees and costs as well as the handling of time-barring. The basic idea behind the compensation model is that the bank, to a large extent, will not demand payment of interest, fees and costs incurred after the customers' debts were transferred to the DCS system. If the customers' payments exceed the debt originally transferred to the DCS system, the customers are entitled, according to the compensation model, to compensation equivalent to such "overcollection". For a number of the issues handled by the compensation model, the bank will thus generally pay full compensation because the model ensures this by not including the erroneous amounts of interest, fees and costs in the calculation. However, reference is made to section 4.1.5 below on calibration (downward adjustment) of the calculated compensation for a number of the affected customers.

4.1.3 *Individual elements of the compensation model*

The compensation model relating to the accounts dealt with in this report no. 5 corresponds to the model described in section 5.4. of our report no. 4 of 4 June 2023. The compensation model includes a number of components, including the determination of the starting balance, the preliminary model-calculated result (consisting of a preliminary nominal amount of compensation, time compensation and tax compensation), corrections and any calibration. As a result of these components, the bank calculates a total compensation amount that the bank pays to its customers, if possible.

The bank has made a number of adjustments to complexity level 5 and 6 accounts, owing to special characteristics for these accounts. These adjustments concern both the DCS system's starting balance of the debt and corrections of the preliminary model-calculated result (see sections 4.1.3.1, 4.1.3.2 and 4.1.3.3 below).

The bank's compensation model uses data from the DCS system, and reference is made to section 5.4.1 of our report no. 4 of 4 June 2023 for a more detailed description of the key source data. As described in section 5.4.3 of our report no. 4 of 4 June 2023, the bank's registration of the original debt transferred to the DCS system is subject to a number of issues and inaccuracies that require the bank to make a number of adjustments to the original debt *registered* for some accounts (see below).

4.1.3.1 *Determination of a corrected starting balance*

As described in section 5.4.2 of our report no. 4 of 4 June 2023, the original debt registered when the debt was entered into the DCS system is a crucial component of the compensation model because the basis of the compensation calculation is that this original debt, which was transferred for debt collection in each individual case, constitutes a starting balance that is compared against the customer's total payments in the same case. The original debt comprises the principal amount transferred to the debt collection system plus interest, fees and costs accrued before the debt was transferred for collection.

However, the bank's registration of the original debt transferred to the debt collection system is subject to a number of errors and inaccuracies that require a number of adjustments to be made by the bank to the original debt *registered* for some accounts.

On the basis of information provided by the bank, we have generally assessed that the bank's analyses of and compensation approach to the 25 issues included in our report no. 4 of 4 June 2023 are still satisfactory and adequate for DCS personal accounts covered by this report because the bank's analyses take into account the different complexity of the cases.

In addition to the 25 issues covered in our report no. 4 of 4 June 2023, the bank has assessed that an additional five issues can be handled through its compensation model. One of these issues relates to interest rate and fee errors in the DCS system, while the four other issues relate to the starting balance (see section 4.1.3.2).

4.1.3.1.1 *Complexity level 5 and 6 accounts **not** migrated to the DCS system in 2004*

The compensation model has implemented a set of rules that result in DCS personal accounts being handled and possibly corrected for root causes 1 and 2 on the basis of one of three different approaches. This corresponds to the approach described in section 5.4.2.1 of our report no. 4 of 4 June 2023. The three approaches can be described as follows:

Re 1.) "Early exit" logic

The first of the three approaches is based on a basic assumption that, if certain criteria are met, the principal of an account cannot, in the bank's opinion, include time-barred interest or fees, which is why the balance is not adjusted separately for issues resulting from root causes 1 and 2. The bank has stated that this approach has been applied to 7,443 non-migrated DCS personal accounts covered by this report no. 5.

It is noted that the bank has decided that 219 accounts in sub-segment 6.2 (“Manually created cases”) related to the “Mastercard” accounts will not be covered by this approach. The bank is of the opinion that these accounts generally involve a risk that part of the claim may be time-barred even though the early exit criteria set out in the approach have been met. These accounts will therefore either have the starting balance determined through the DCS model or through the statistical model (see above).

The criteria for eliminating accounts in this approach are described in section 5.4.2.1 of our report no. 4 of 4 June 2023.

Re 2.) DCS model

The bank has stated that about 1,600 DCS personal accounts covered by this report no. 5 are adjusted through the DCS model because the bank has the necessary data for these accounts to calculate the distribution of the starting balance through the DCS model.

It is our assessment that the DCS model for these approximately 1,600 DCS personal accounts can be used to establish a starting balance for the compensation calculation that sufficiently takes into account root causes 1 and 2, and reference is made to our section 7.3.1 of report no. 1 of 31 October 2021 for a description of the basis for this conclusion.

Re 3.) Statistical model

For accounts for which the bank does not apply approach 1 above and for which the bank has assessed that it is not possible to adjust the accounts for root causes 1 and 2 via the DCS model because of data shortcomings, the starting balance will instead be adjusted through the bank’s statistical model. The bank has stated that, for 14,921 of the non-migrated DCS personal accounts covered by this report no. 5, it will determine the starting balance through the statistical model.

Moreover, the bank has stated that the specific use of the statistical model does not deviate from the use described for accounts covered by our report no. 4 of 4 June 2023, even though there may be multiple debtors associated with each individual account.

In this relation, the bank has stated that the applicability of the statistical model for complexity level 5 and 6 DCS personal accounts with multiple debtors associated with the account does not affect the applicability of the statistical model since the compensation calculation is made at account level. According to our information, this is because the bank has not observed situations in which the addition of interest to accounts for which multiple persons are registered as debtors in the ordinary banking system (before transfer to the DCS system) should be different from the addition of interest to accounts registered with one debtor.

In this connection, the bank has also stated that reminder fees and various other fees have been charged at account level, which also means that the statistical model can still be used for these accounts without any changes.

It is our understanding that the bank has not made specific analyses of the correlation between added reminder fees and the number of registered debtors for the account. Apparently, it is the bank's overall assessment that, in relation to the debt collection process in the ordinary banking system prior to debt collection in the DCS system, no matters relating to the existence of multiple debtors for an account have been identified as affecting the applicability of the statistical model. The bank's assessment appears to be based on the bank's qualitative insight into the processes of the cases rather than documented analyses of a number of cases, and we cannot assess, on the basis of the information available, whether the bank's conclusion is accurate. However, we have no evidence to substantiate that the conclusion is not accurate, and we consider the risk of undercompensation resulting from this situation to be very limited.

The bank has also stated that, as part of a sample check, it has made a completely manual recalculation of the starting balance for a small number (5) of migrated accounts in sub-segment 5.2 ("Co-debtors"), and, according to the bank, this check showed, among other things, that the statistical model for these accounts was sufficiently "customer-friendly" in determining the starting balance.

In relation to the applicability of the statistical model to accounts with multiple liable debtors, we believe that the bank has made reasonable efforts to verify the model's applicability (see above). We note, however, that the bank's assumption is based on a sample check consisting of a very small number of accounts (consequently with limited representativity and explanatory power) and that we have not been able to review specific cases with a view to verifying the basis of the bank's conclusions.

Specific information regarding the statistical model for accounts in sub-segment 6.2 ("Manually created cases")

Sub-segment 6.2 covers accounts set up manually in the DCS system where the customer's debt to the bank may arise from a number of different underlying factors. According to our information, the sub-segment consists of a total of about 13,100 accounts, of which 10,600 are covered by this report no. 5. One reason for the elimination of accounts is that estate cases are included in the sub-segment. Of the approximately 10,600 accounts, debt repayments were registered on about 2,100.

The bank's guidelines for the sample review of accounts in the sub-segment state that the challenge in recalculating accounts primarily lies in investigating the origin of the debt in the manually created account and its components. It also appears that the documentation of the cases can be "difficult to understand" and that the cases are very different in nature.

In handling these accounts, the bank distinguishes between the following debt accounts:

- i. Accounts not handled in a process involving another account in the DCS system prior to the manual creation of the account. The number of such accounts with registered payments totals 246. These accounts were manually set up due to a lack of system support for the transfer of debt to the DCS system (including accounts with unauthorised overdrafts resulting from a Mastercard account defaulted on or accounts with a customer fraud flagging in the bank's systems or accounts created on the basis of a court ruling on fraud or other criminal claims); and
- ii. Accounts handled in a process involving another account in the DCS system prior to the manual creation of the account in the DCS system (including the fact that the debt originates from old (migrated) debt subject to collection that has either been split or aggregated into a new manual account in the DCS system). The number of such accounts with registered payments totals 1,864.

In relation to the validation and verification of the applicability of the statistical model to accounts in sub-segment 6.2 ("Manually created cases"), for 28 accounts the bank has performed a check consisting of a full manual recalculation of the starting balance based on a full search for documentation of the case process prior to transfer to the DCS system. The bank's documentation states that 14 of the 28 accounts, for which the starting balance was determined manually, concern Mastercard accounts defaulted on (category (i) above). The remaining 14 accounts concern migrated cases where the original migrated debt has either been split or aggregated into a new manual account in the DCS system (category (ii) above).

The bank's check of the 28 accounts showed that the statistical model adjusted the starting balance sufficiently in all 28 cases (see below for further details). This means the bank's check has not shown cases in which the starting balance, based on a full manual recalculation, should have been fixed at a lower amount than the starting balance determined by the statistical model. Our assessment of the bank's approach depends on the specific circumstances prevailing before the manual creation of the case in the DCS system (corresponding to the bank's categories (i) and (ii) above). For our comments on this, see below.

Re (i) Manually created cases without an original account in the DCS system

For accounts in sub-segment 6.2 that have not been involved in a process in the DCS system before being manually created in the DCS system (category (i) above), the bank's manual review has shown that there is *no* risk that the cases may be affected by issues related to the DCS system (e.g. root causes 1 and 2) since the cases were established directly by a case officer in the DCS system and were thus not mechanically "transferred" from the ordinary banking system.

For this reason, the bank is of the opinion that the use of the statistical model for these cases is sufficiently “customer-friendly”. This is supported by the fact that the bank – as described above – has made a full manual recalculation of the starting balance through a check of 14 accounts. The check showed that the principal calculated by means of the statistical model is lower than the principal amount determined by the bank through the sample check, which comprised a full manual recalculation of 14 accounts.

For these 246 accounts in category (i), we have no comments on the approach adopted by the bank in using the statistical model to adjust the starting balance for root causes 1 and 2 because we assume that these accounts – to a certain extent – have the same characteristics as the accounts on the statistical model was developed.

Re (ii) Manually created cases with an original account in the DCS system

As regards accounts in sub-segment 6.2 covered by item (ii) above and to which payments have been made into the original account in the DCS system, we note that there is a risk that these accounts may be affected by errors related to the starting balance. Among other things, this relates to root causes 1 and 2 in connection with the transfer of the original debt to the DCS system, and these errors may potentially have been transferred when the account was manually created in sub-segment 6.2.

These 1,864 accounts concern migrated cases for which the original migrated debt has either been split or aggregated into a new manual account in the DCS system. The bank has stated that it cannot be ruled out that there may be other case types with other characteristics among the 1,864 accounts.

For accounts where the original account and the related debt are assumed to originate from migrated cases, the bank has stated that the manual creation of the new account in the DCS system was subject to a permanent process or practice at the bank whereby case officers, when creating the case, deducted all unpaid interest, fees and costs added to the debt during the period in which the debt was registered in the ordinary banking system prior to the transfer of the original account to the DCS system. We have not received any documentation (such as case officer manuals or other written guidelines) that would enable us to assess whether this process has been followed in general at the bank.

In order to determine whether the statistical model sufficiently adjusts the principal in these cases, the bank has, as described above, checked 14 relevant accounts by way of a full manual recalculation of the starting balance. The purpose was to test whether the statistical model is applicable for these 14 accounts, all of which were involved in a process in the DCS system before the manual resumed creation of the account (category (ii) above). These accounts constitute a subset of the sample check referred to above – in this section – concerning the 28 accounts.

As described above, there are 1,864 accounts for which the bank registered debt repayments, and the bank's check of the 14 accounts thus amounts to merely about 0.8% of the total population. The bank's check of the 14 accounts has shown that a principal amount calculated through the statistical model in all cases was lower than the principal determined by the bank through the full manual recalculation of the starting balance and that the statistical model therefore sufficiently adjusted the starting balance in all 14 cases. At the same time, the check showed that five out of the 14 accounts were affected by operational errors, but that these operational errors did not affect the applicability of the statistical model in the individual cases. Against this background, the bank believes that the statistical model can also be applied in cases falling within category (ii).

Even though we recognise that the bank has carried out relevant analyses with a view to investigating the matter, we believe that the bank's checks are subject to some degree of uncertainty. The reason is that the checks cover a very small number of accounts and that the sample therefore has limited representativity. As such, the checks do not provide a statistically reliable basis for concluding that the statistical model can be applied for this group of cases.

As described section 5.5.3 of our report no. 4 of 4 June 2023, there is generally an elevated but not easily quantifiable risk of undercompensation specifically relating to the use of the statistical model for migrated cases.

We understand that the bank will also calibrate the preliminary model-calculated result for these accounts by 40% since the manually created account in the compensation calculation is categorised as a "non-migrated" account. In this context, the bank has stated that the decision about whether to calibrate the nominal compensation amount, relies on the bank's insight into the observed risk areas, and is not based exclusively on whether or not the account is a migrated or non-migrated account. In other words, the calibration is made because these accounts are subject to a low observed risk of undercompensation.

This bank's decision means that some of the "originally" migrated accounts will, on the basis of a business practice (undocumented for us) about recurring manual adjustment of the cases in connection with resumed manual creation in the DCS system, and on the basis of a very small sample be subject to calibration, even though the bank has decided not to calibrate the compensation amount in connection with the calculation and payment of compensation to migrated complexity level 1-4 accounts because of the risk of undercompensation (see section 5.4.5 of our report no. 4 of 4 June 2023). It is also noted that the risk associated with the use of the statistical model for migrated accounts has not been recognised in the bank's calculation of the risk of undercompensation (see section 5.7 of our report no. 4 of 4 June 2023), since the statistical model is used to determine the starting balance, including in the sample check. In our opinion, there is therefore generally an elevated risk that the bank's calculations of the risk of undercompensation is not accurate in these cases.

4.1.3.1.2 Complexity level 5 and 6 accounts **migrated** to the DCS system in 2004

For migrated accounts, the bank does not have access to sufficiently structured data that can be used for eliminating accounts in relation to an adjustment of the starting balance or for using the DCS model (see section 4.1.3.1.1 above). Against this background, the statistical model is used for determining the starting balance of the migrated accounts.

The bank has stated that a total of about 11,300 migrated DCS personal accounts covered by this report no. 5 are adjusted according to the statistical model. We refer to section 5.4.2.2 of our report no. 4 of 4 June 2023 for a description of our comments on the bank's use of the statistical model for migrated accounts.

When preparing this report no. 5, the bank stated that it had performed a full manual recalculation of the starting balance for five migrated accounts in sub-segment 5.2 ("Co-debtors"), for which 3,529 payment accounts have been registered. According to the bank, this sample check showed that the statistical model for these accounts was sufficiently "customer-friendly" in determining the starting balance.

The bank's sample check is based on a very small number of accounts with limited representativity. Accordingly, the sample check does not alter the fact that, in our opinion, the migrated accounts involve an elevated – but not easily quantifiable – risk of undercompensation specifically related to the use of the statistical model.

4.1.3.1.3 Adjustment for root causes 3 and 4

As described in section 5.4.2.3 of our report no. 4 of 4 June 2023, the bank is now making an adjustment of the original debt for the accounts that are or may be affected either by root cause 3 ("registration of guarantors as co-debtors") or root cause 4 ("full principal collected from several co-debtors"). The bank has stated that, as covered by this report no. 5, 628 accounts with registered payments are/or may be affected by root cause 3, and 135 accounts with registered payments are/or may be affected by root cause 4. We still have no comments on the bank's adjustment for root causes 3 and 4.

4.1.3.2 Adjustment of the starting balance for various errors

As described in section 4.1.3 above, the bank's registration of the original debt transferred to the DCS system is subject to a number of errors and inaccuracies that for some accounts generally require a number of adjustments to be made to the original debt *registered*.

For a number of the issues mentioned below, the individual adjustments to the starting balance will be made in the same way, both in the compensation model and in the sample review, by means of the account recalculation (e.g. issues 16.b and 32). In the following, we describe these adjustments for complexity level 5 and 6 DCS personal accounts.

4.1.3.2.1 Adjustment for sub-issues 8.a and 1.e

As described in section 5.4.3.1 of our report no. 4 of 4 June 2023, the bank has ascertained in its analyses that, for accounts that may be affected by sub-issue 8.a (“Overcollection of legal costs”) and sub-issue 1.e (“Incorrect court and legal fees awarded in ordinary court cases”), it is necessary to make a separate DKK 5,000 downward adjustment of the starting balance.

The bank has stated that, as covered by this report no. 5, for 3,461 migrated DCS personal accounts with registered payments the starting balance will be adjusted by DKK 5,000 through the compensation model.

In connection with this report no. 5, we asked the bank to assess whether the analysis regarding sub-issues 8.a and 1.e is still satisfactory and adequate for complexity level 5 and 6 DCS personal accounts when, for the individual account, there may be multiple debtors whose cases individually may (potentially) have been brought before the courts more than once. In this respect, the bank has stated that it is of the opinion that the DKK 5,000 downward adjustment is also sufficient for accounts with more than one debtor. The bank has previously explained that its analyses have shown that the highest amount of overcollection observed as a result of this issue was about DKK 2,700, while the average amount was much less. On the basis of this analysis, it is our conclusion that there is no unacceptable risk that overcollection occurs in cases with two debtors when the adjustment is DKK 5,000. The bank also states that, according to its calculations, in cases in which three debtors are liable for the debt there is a maximum risk of 0.06% that the total overcollection may exceed the DKK 5,000 adjustment. The bank also states that the compensation model in the majority of cases is very “customer-friendly”.

In our opinion, the bank will, with a sufficient degree of probability, calculate full compensation to customers for the migrated accounts that may be affected by sub-issues 8.a and 1.e, and which are covered by this report no. 5. The approach adopted by the bank will also result in customers in many cases being overcompensated because the adjustment will in many cases significantly exceed the actual overcollection that may have been caused by sub-issues 8.a and 1.e. Further, we believe that there is an acceptable low risk of individual customers not being sufficiently compensated.

4.1.3.2.2 Adjustment for issue no. 32

For cases affected by issue no. 32 (“Order of priority in payment agreements”), the bank’s analyses have shown that the compensation model must make a separate adjustment of the starting balance to the effect that the bank, on the basis of a number of manual reviews, will deduct a specific percentage from the debt. For the approximately 715 DCS personal accounts with registered payments covered by this report no. 5 and potentially affected by issue no. 32, we believe that the bank’s approach, with a high degree of probability, will be sufficient. For a more detailed description of the error, see section 5.4.3.2 of our report no. 4 of 4 June 2023.

4.1.3.2.3 Adjustment for sub-issue 2.b

As described in section 9.4.2.1 of our report no. 2 of 31 May 2022, sub-issue 2.b relates to interest charged by the bank on reminder fees charged pursuant to section 9b of the Danish Interest Act during the period from 1 July 2005 until 3 September 2020. The six DCS personal accounts with registered payments affected by sub-issue 2.b and covered by this report no. 5 will be compensated through the compensation model since the bank, in its HELIOS project, was unable to handle these accounts. The accounts in question are DCS personal accounts transferred from the bank’s mortgage system (MDS).

Having reviewed the bank’s documentation, we find that, for these six accounts affected by sub-issue 2.b and covered by this report no. 5, the bank will, with a sufficient degree of probability, calculate full compensation for the affected customers.

4.1.3.2.4 Adjustment for sub-issue 16.b

According to information provided to us, sub-issue 16.b identified by the bank relates to three situations arising from the transfer of debt items from the MDS system to the DCS system. These situations may be described as follows:

Sub-issue 16.b.1: “Risk of incorrect limitation date”	In connection with the transfer of debt items from the MDS system to the DCS system, the bank registered an incorrect limitation date in a number of cases.
Sub-issue 16.b.2: “Interest rate change without notice”	In connection with the bank’s transfer of interest from the MDS system to the DCS system, the bank calculated interest retrospectively in the DCS system and did not notify the customer to this effect. In addition, the interest calculation did not match in the two systems. According to the bank’s assessment, the bank was under an obligation to notify customers but failed to do so.

Sub-issue
16.b.3:
*“Risk of incorrect
transfer of interest
and fees to principal
amount”*

The individual outstanding debt items in the MDS system – i.e. interest, fees, principal amount, etc. – were added up to form an aggregate “principal” transferred for debt collection in the DCS system in cases where the bank’s mortgage has lapsed or been extinguished without the bank having obtained full recovery of the debt, for example in connection with non-forced property sales in which a loss is accepted. This may involve a risk that the bank may have collected amounts to cover time-barred debt since interest and fees may, for registration purposes, have appeared legally binding after the time-barring period began. Agreements may also have been made, legal action taken, etc. for time-barred debt.

The consequence of sub-issue 16.b is that the MDS system (and subsequently the DCS system) calculates and adds late payment interest on an incorrect calculation basis, including claims that may be time-barred in whole or in part.

A substantial part of our investigations in connection with sub-issue 16.b related to an assessment of whether the bank has made reasonable efforts to identify customers affected. We have established that potentially affected accounts have been identified on the basis of the bank’s business insights and the bank’s manual review of specific cases. The bank’s approach to identifying accounts and customers affected by sub-issue 16.b does not cause us to make any comments in this regard.

The bank has stated that 235 accounts requiring adjustment of principal were historically transferred from the MDS system to the DCS system because the bank’s mortgage had lapsed or been extinguished without the bank having fully recovered its claim. These accounts are thus potentially affected by sub-issue 16.b. Of these 235 accounts, payments have been made on 92 accounts with an incorrect starting balance as covered by this report no. 5. Consequently, customers may be entitled to compensation in relation to these accounts, according to the bank’s assessment.

The bank’s handling of sub-issue 16.b through the compensation model depends on whether the individual account is affected by sub-issues 16.b.1-2 or sub-issue 16.b.3. The bank’s analyses have shown that, for accounts affected exclusively by sub-issues 16.b.1-2, it is not necessary to make a separate adjustment of the starting balance through the compensation model.

Special information on correction of starting balances for accounts affected by sub-issue 16.b.3

For accounts affected by sub-issue 16.b.3, the bank’s analyses have shown that it is necessary to make a separate adjustment of the starting balance through the compensation model. According to our information, the adjustment consists of the determination of an individual amount for all the accounts involved (“adjustment amount”), which, in the opinion of the bank, reflects the maximum amount of

overcollection. The individually determined adjustment amount is based on the sum of all debt items subject to a 3-year limitation period (interest, fees, etc.), which may be included in the last fully or partially unpaid mortgage payment triggering the transfer of the case for debt collection.

In this connection, we note that we have not reviewed specific cases and we have not had the opportunity to independently verify the bank's calculations. We have noted, however, that the approach and the individual adjustments to the starting balance for the accounts involved are based on a review of the cases carried out by experienced staff at the bank and that the bank appears to have taken reasonable steps to verify the adjustments made. We therefore believe that the bank's approach, with a high degree of probability, will be adequate. We note that the adjustment amounts may be high and that, among other things, we have been presented with an adjustment of the starting balance of about DKK 19,500. Furthermore, we understand that the starting balance for a number of these accounts will be adjusted through the statistical model.

4.1.3.2.5 Adjustment for issue no. 33

For 273 customer accounts in the DCS system affected by issue no. 33 ("Failure to write down co-debtors' debt"), the bank decided on 12 October 2023 that these accounts must be handled by the compensation model. The bank has stated that 188 of these 273 accounts are covered by this report no. 5.

As described in section 9.4.33 of our report no. 2 of 31 May 2022, issue no. 33 concerns the bank's failure to write down co-debtors' debts in cases in which one of the debtor's debt is time-barred and where the bank assesses that it is obliged to write down the debt of one or more other debtors.

According to our information, the bank will, for the accounts of the 188 affected customers in respect of which there are several debtors assuming co-liability and for which the bank's claim against one debtor is time-barred, write down its claim against the remaining debtor(s) by the amount that should have been paid by the released debtor. This means that the starting balance for the accounts of the affected customers will be written down by an amount offsetting the issue.

Quality checks of ten of the 273 affected accounts have not shown any cases in which the customers, even after calibration of the compensation amount, did not receive full compensation for their losses. The quality checks thus cover about 3.7% of the accounts affected by the issue. The bank has stated that these ten accounts were selected randomly. We note that the number of accounts used for the bank's sample checks thus meets the bank's special target of 1% (but a minimum of ten sample checks) used in connection with the bank's analyses of specific errors. In this connection, we note that, in nominal terms, this is a very small sample that cannot in itself give a statistically certain result.

Despite the above, we believe that the bank, with an acceptable degree of certainty, compensates the customers for the loss they may have suffered as a result of issue no. 33. This is because the bank's approach to adjusting the starting balance for the affected accounts is based on a specific and manual assessment in which the starting balance is adjusted by an individually calculated adjustment amount.

4.1.3.3 Adjustment of compensation

4.1.3.3.1 Correction of accounts in respect of which the customer has previously received compensation

As regards the DCS personal accounts covered by the compensation model, but where customers previously received compensation payments for root causes 1-4, the bank sets an upper limit for the payment of compensation resulting from losses related to root causes 1-4. The bank has set the upper limit to avoid compensation being paid to customers through the compensation model more than once for the same loss. Reference is made to section 5.4.6.1 of our report no. 4 of 4 June 2023 for a detailed description of how the correction is made.

For the DCS personal accounts covered by this report no. 5, any amount already paid will be deducted from the calculated overcollection compensation related to root causes 1-4 for 62 accounts.

4.1.3.3.2 Correction regarding issue no. 19

The bank's model documentation shows that the bank deducts previously paid compensation for issue no. 19 from the nominal compensation amount, as was the case for complexity level 1-4 DCS personal accounts, as described in section 5.4.6.2 of our report no. 4 of 4 June 2023. Issue no. 19 concerns cases involving "zero-setting" and closing of accounts by the bank, but where customers paid more than the outstanding balance in connection with the redemption of the outstanding debt in the account.

For accounts with multiple debtors, however, the bank has stated that it will not make corrections for amounts already paid by the bank in relation to issue no. 19. This is because there may be a risk of undercompensation in connection with the deduction of amounts in cases where the account has multiple debtors. Therefore, the correction will be made only for accounts with one debtor.

For the DCS personal accounts covered by this report no. 5, any amount already paid will be deducted from the calculated overcollection compensation for 212 accounts.

4.1.4 Validation of compensation model in connection with sample review

For DCS personal accounts, the bank has stated that the validation, with few adjustments, is made using the same validation tool – the account recalculation – that was used for complexity level 1-4 accounts (see section 5.5.1 of our report no. 4 of 4 June 2023).

We note that the bank uses the statistical model to determine the starting balance for migrated accounts both in the sample review and in the compensation model. There are a number of uncertainties attached to the use of the statistical model for migrated cases, see section 5.5.1 of our report no. 4 of 4 June 2023. These uncertainties therefore affect both the outcome of the compensation model and the sample recalculation by means of the account recalculation.

4.1.4.1 The individual, partly manual review using the account recalculation

In section 5.5.1 of our report no. 4 of 4 June 2023, we wrote that performing process-oriented individual partly manual reviews of an account is a very time-consuming and complex exercise, since the process requires access to both physical and digital documents in the bank's archives and that the employees performing the calculation must know the bank's processes and systems, be trained in understanding and interpreting the available data, and have in-depth knowledge of and insight into the algorithms used by the account recalculation. In this context, we believe that this process has become even more difficult and complex, particularly considering the nature of DCS personal accounts for which the complexity of the cases increases due to the bank's segmentation strategy.

This also places much greater demands on the case officers in relation to the recalculation in the sample review because the case officers must consider a much larger number of different documents in the recalculation than previously. Against this background, the bank has made a number of adjustments to the account recalculation and the instructions used by the case officers at the bank for the sample review. We have examined the adjustments to the account recalculation and the updated instructions, which has not given rise to any comments.

We have noted the following changes to the account recalculation and the application process relevant to DCS personal accounts covered by this report no. 5:

Recalculation takes place at the account level

The bank's model documentation shows that the recalculation of all accounts with more than one debtor takes place at the main account level, regardless of the fact that the collection system may contain several underlying accounts on the case, among other things because the main account has multiple debtors attached to it. This means that, in order to treat debtors alike, the bank includes interest and fees that at one and the same time apply to all debtors. As a result, in some cases, the bank will not charge interest and fees that it might otherwise be entitled to charge from the individual debtor.

The most favourable terms of agreement apply

The bank's model documentation shows that, when multiple debtors are linked to the main account, different terms for repayment of the debt may have been agreed for each debtor in connection with the conclusion of a payment agreement. Against this background, the case officers are instructed to consider all available documentation, i.e. across main account/term deposit accounts, and to recalculate the case on the basis of a specific assessment of the terms of agreement that are the most advantageous according to the bank. For example, this may involve using the lowest observed interest rate across the underlying term deposit accounts.

Time-barring of accrued interest for a single debtor

The bank's model documentation states that if interest from an interest period is time-barred for one or more debtors, interest accrued during the interest period in question also become time-barred for the other debtors linked to the main account. Consequently, the recalculation includes only interest that has not become time-barred for any of the debtors registered on the main account.

Interest recognition is not included in cases where multiple debtors are registered

The bank's model documentation shows that a debtor's recognition of the debt, including interest, does not affect the calculation of interest, but only the suspension of the limitation period. Consequently, one debtor's recognition of the debt, including interest, does not imply that the bank will subsequently calculate interest on the recognised claim (including interest recognised), even if the bank is entitled to do so in relation to one of the debtors. According to the bank, the reason is that this could have a compound interest rate effect on the other debtor linked to the account because interest would otherwise accrue on (recognised) interest.

Legal costs are included only if they are identical for all debtors

The bank's model documentation shows that legal costs are included in the recalculation only if the costs are identical for all debtors registered in the account – that is, if all debtors have been subject to the same legal steps. If they are not identical, legal costs are not included in the recalculation.

Reminder fees are included only if they are identical for all debtors

It appears from the bank's model documentation that reminder fees are included in the recalculation only if all debtors registered on the main account are fully liable for the same reminder fee. Separate reminder fees for individual debtors are not included in the calculation.

Overall, we believe that the adjustments to the guidelines and the account recalculation are consistent with the bank's principle that estimates and assumptions in connection with the recalculation in the sample review carried out by means of the account recalculation must be to the benefit of the customer.

4.1.4.2 The bank's method of validating the compensation model through sample checks

The purpose of the sample review is to prove the validity of the results of the compensation model and thus to prove that the compensation model, with a high degree of probability, fully compensates the individual customer for losses resulting from overcollection on the basis of root causes 1-4 and the 30 other issues that the compensation model for accounts covered by this report no. 5 aims to cover.

We have therefore examined and assessed the bank's method of taking random samples, including performing an assessment of whether the samples were selected randomly and whether the number of samples is considered sufficient for the purpose of validating the bank's data so that they can be expected to be representative of the entire population of the DCS personal accounts covered by this report no. 5.

In particular, our investigation and assessment focused on whether we are satisfied that there is only a low risk that customers entitled to compensation are not identified or that customers/segments of customers are undercompensated.

4.1.4.2.1 Sample size at complexity levels and sub-segments

In this report no. 5, the bank has aimed in its analyses for the sample to make up at least 1% of the total population. However, the sample must have at least 30 accounts for each level of complexity because, according to the bank, a sample of this size is sufficient to ensure representativeness.

We note that the bank's target will be met at complexity levels 5 and 6 when the sample size is calculated in aggregate across migrated and non-migrated accounts.

The distribution of the total number of sample checks performed for the total of 11,280 DCS personal accounts with payments covered by this report no. 5 is shown in figure 15 below:

Figure 15 – Distribution of sample checks performed for complexity level 5 and 6 DCS personal accounts and the number of sample checks performed for purposes of calculating the risk of undercompensation

Complexity level		Non-migrated accounts			Migrated accounts		
		Accounts with payments	Sample checks performed	Sample check share	Accounts with payments	Sample checks performed	Sample check share
5: Guarantors and co-debtors		4,974	397 (316)	8.0%	3935	96 (48)	2.4%
5.1	Guarantors	304	28 (21)	9.2%	199	10 (6)	5.0%
5.2	Co-debtors	4,670	369 (295)	7.9%	3736	86 (42)	2.3%
6: Complex cases		2,306	108 (77)	4.7%	63	21 (15)	33.3%
6.2	Manually created cases	2,056	49 (37)	3.0%	54	12 (10)	22.0%
6.5	"MDS" cases	250	59 (40)	24%	9	9 (5)	100%

The numbers in brackets show the number of sample checks performed for purposes of calculating the risk of undercompensation. For purposes of this calculation, the bank disregards, for example, accounts not eligible for compensation under the compensation model, accounts handled through individual reviews and accounts affected by root causes 3 or 4.

It is noted that, for complexity level 5 and 6 DCS personal accounts, the bank has chosen to calculate risk figures at sub-segment level as opposed to what was the case for complexity level 1-4 DCS personal accounts. The bank opted for this approach because its documentation shows that there are substantial differences in system support and in the debt collection process across the sub-segments. This is stated for instance in the guidelines for the sample review of complexity level 6 DCS personal accounts ("Complex cases"). Against this background, we note that this could justify the bank setting a higher target for the number of sample checks at sub-segment level.

For the smaller populations, the sample should be relatively larger for the bank, with a satisfactory degree of probability, to be able to measure the risk for the population, particularly if there is a large variation in the population concerned. Especially for accounts in sub-segment 6.2, the population includes accounts with very different flows and characteristics, and we would therefore expect the sample for this sub-segment to be correspondingly larger (see section 4.1.4.2.2 below).

4.1.4.2.2 Specific information about sample size for sub-segment 6.2 ("Manually created accounts")

We note that sub-segment 6.2 ("Manually created accounts") in itself is made up by seven different types of cases, which have been placed in the same sub-segment exclusively because they were all manually created in the DCS system rather than set up by an automated process for transferring overdue debt from one of the bank's lending systems.

Figure 16 below shows how the sample check in sub-segment 6.2 breaks down by case type across the total number of DCS personal accounts with debt repayments in sub-segment 6.2 covered by this report no. 5:

Figure 16 – Overview of case types in sub-segment “6.2 Manually created accounts” in DCS personal accounts included in this report no.5

Case type	Description	No. of accounts with payments	No. of accounts for risk calculation*	Samples for risk calculation n*	Sample check share
“MasterCard” personal accounts	Accounts opened on the basis of overdue Mastercard debt	207	149	18	12.1%
“Reestablished” personal accounts	Collection account reestablished after migrated accounts	1,864	1,132	29	2.6%
Total		2,071	1281	47	3.7%

*) The number of accounts and sample checks for purposes of calculating the risk of undercompensation. For purposes of this calculation, the bank disregards, for example, accounts not eligible for compensation under the compensation model, accounts handled through individual reviews and accounts affected by root causes 3 or 4.

We note that the nominal number of sample checks per case type is limited for the two case types, and we believe that this implies considerable uncertainty in relation to the question of whether the sample check is representative of the total population in sub-segment 6.2. The uncertainty about the representativeness of the sample check for sub-segment 6.2 relates particularly to the large variation of case types. For example, it seems uncertain and thus difficult to assess whether accounts of the “Mastercard” case type have the same characteristics as accounts of the case type “reestablished” personal accounts. The case type “reestablished” personal accounts may cover many different types of courses of events and comprise both migrated and non-migrated accounts.

The importance of the variation within sub-segment 6.2 is also underlined by the fact that, partly as a result of the sample review of these accounts, the bank has decided to implement special exceptions to the handling of accounts by the compensation model for some of these case types. It therefore applies that the “early exit” logic is not used for “Mastercard” accounts (see section 4.1.3.1.1 above).

4.1.4.2.3 Sample representativeness

In order to assess whether the sample check is representative of the population of DCS personal accounts covered by this report no. 5, the bank has tested whether there are statistically significant differences in characteristics between the sample check and the populations at complexity level. On the basis of its analyses, the bank has stated that it did not, for a complete level of complexity, identify differences indicating that the sample checks were not representative of the populations as a whole. Against this background, the bank believes that the sample check can be used for estimating the risk of

undercompensation within each sub-segment.

In our opinion, it is necessary for the bank to ensure that a sample check is representative at sub-segment level, especially for complexity level 6 accounts ("Complex cases").

On the basis of the information available, we cannot assess whether the sample checks are representative of certain of the sub-segments covered, particularly in sub-segment 6.2, and thus whether the risk observed in the sample check is an exact reflection of the risk in the overall population. This implies that there is considerable uncertainty about whether the sample review of the risk of undercompensation provides an accurate indication of the actual risk of undercompensation in this sub-segment.

4.1.5 *Calibration of the preliminary model-calculated result*

On the basis of the risk figures from the sample review compared with the preliminary model-calculated result, the bank assessed that the preliminary model-calculated result for a number of accounts can be adjusted downwards (calibrated) and that the observed risk of undercompensation remains low. Reference is made to section 5.4.5 of our report no. 4 of 4 June 2023 for a description of the bank's approach to such a calibration.

The bank's approach to calibration depends on the specific preliminary risk figures for undercompensation of specific customer groups. As regards non-migrated accounts and migrated accounts, the bank follows the approach described in section 5.4.5 our report no. 4 of 4 June 2023, according to which a 40% calibration of the preliminary compensation amount is made for non-migrated cases in the DCS system, while no calibration is made for migrated accounts.

However, on the basis of its analyses, the bank has decided to use a number of exceptions to this general rule (see immediately below).

Calibration of the preliminary compensation amounts for accounts with interest rates of 0% and MDS accounts registered in the DCS system for less than six months, respectively

For two customer groups, the bank has observed a particularly high risk of undercompensation (of more than 20%) if the preliminary model-calculated result of the compensation model for these accounts was calibrated by 40%. The following is characteristic of the two customer groups:

- i. A payment agreement was registered in the DCS system with an interest rate of 0%; and/or
- ii. The account was transferred from the bank's mortgage system (MDS) to the debt collection system, and the account has subsequently been registered in the DCS system for less than six months.

The bank has stated that category (i) contains a total of 1,120 accounts, while category (ii) contains 20 accounts in the bank's debt collection system.

The bank has decided that the preliminary model-calculated result for 957 accounts in category (i) and 14 accounts in category (ii) will not be calibrated. The remaining 169 accounts may be affected by issues for which the bank has not completed its analysis, and these accounts are therefore not included in the group of accounts that we cover in this report no. 5.

For the 957 accounts in category (i) and the 14 accounts in category (ii), the bank has found it necessary to make a separate upward adjustment of the preliminary model-calculated result to ensure that the compensation covers the tax payable by the customer.

This upward adjustment is made by an upward adjustment of the calculated nominal compensation amount of the compensation model by a factor of 1.61 to the effect that the amount includes adequate compensation for the tax (excluding top-bracket tax) of the compensation amounts.

According to the bank, this implies that the risk of undercompensation for the two customer groups will be low (observed at 0%) rather than in excess of 20%.

4.1.6 Risk of undercompensation

The bank's method of calculating the potential amount of undercompensation for DCS personal accounts is generally based on the results of the individual partly manual review of sample checks and the observed undercompensation in the sample check of DCS personal accounts.

In this connection, the bank has, by means of simple extrapolation, tried to estimate the risk of undercompensation in respect of, among other things, all accounts with repayments for each of the respective sub-segments, and this has formed the basis of the 40% calibration of the non-migrated accounts in the DCS system.

The bank has generally found that the observed extrapolated risk of undercompensation after calibration for DCS personal accounts as a whole amounts to about 1.1%, while the total rate for the migrated accounts is about 3.4% and for the non-migrated accounts about 0.5%.

Generally, the result of the bank's calculations of the risk of undercompensation broken down into sub-segments can be illustrated as follows:

Figure 17 – Risk of undercompensation after calibration, tax and correction for excess time compensation

Observed extrapolated risk of undercompensation		
Sub-segment	Non-migrated	Migrated
5.1 Guarantors	0.0%	0.0%
5.2 Co-debtors	0.7% (2)	4.8% (2)
6.2 Manually created cases	0.0%	0.0%
6.5 MDS cases	0.0%	0.0%
Total	0.5% (2)	3.4% (2)

Numbers in brackets show the number of accounts found to be at risk of undercompensation.

As mentioned above in section 4.1.4.2.1, the risk figures are subject to considerable uncertainty since, for a number of sub-segments, in particular sub-segment 6.2 (“Manually created cases”), they are based on a small sample, and it is therefore not possible to assess with certainty the representativeness of the sample for the underlying population.

We note in this context that the uncertainty about sample representativeness means that we cannot assess with certainty whether the bank’s observed risk of undercompensation reflects the *actual* risk.

We refer to section 5.5.1.3 of our report no. 4 of 4 June 2023, which provides a more detailed description of the bank’s argument that both the compensation model and the sample review include a number of “customer-friendly” estimates and assumptions, which means that the compensation calculated by the models will in most cases exceed the customer’s actual loss.

4.1.7 Allocation of compensation amount for accounts with multiple debtors

Unlike complexity level 1-4 personal accounts, complexity level 5 and 6 DCS personal accounts may have multiple debtors and/or guarantors linked to the debt. This means that several customers may have made debt repayments and must therefore share any compensation for losses resulting from overcollection. Against this background, the bank has decided on a general approach to the allocation of the compensation amount in the event that multiple debtors attached to the account have made debt repayments.

The bank has set up three scenarios based on the documentation of customer debt payments that is available for the individual account (see below for further details). It is essential to the scenarios whether the bank is able to determine the specific natural person or legal entity having made a specific debt repayment:

i. Accounts for which all the necessary documentation of payments is available:

For accounts for which the bank, in respect of all payments, can determine the party having made a specific payment, the bank will allocate the compensation on the basis of the registered proportion of payments made by the individual debtors/guarantors.

If a payment has been made by a third party on behalf of a debtor, the compensation will be paid to the relevant debtor.

ii. Accounts for which some of the documentation of payments is missing:

For accounts for which the bank can determine the identity of the payer(s) for only some of the registered payments, the bank has decided that the compensation will be allocated on the basis of the proportion of the payments received, for which the bank *has* available information.

We understand this to mean that the bank will define a distribution key for the compensation payment. The key is based only on selected payments to which a specific debtor can be linked. The compensation is thus determined on the basis of the payments for which the bank has information about the payer(s) – regardless of the fact that the distribution key may in fact be different if all information about the payments had been available. For example, if 100 payments were made to an account and information is available only in respect of one specific payment, the full amount of compensation will be paid to the person having made that payment.

iii. Accounts for which all the documentation of payments is missing:

For accounts for which the bank has no information about *who* made payments on the case, the compensation will be divided equally between the liable debtors/guarantors.

In relation to the three scenarios set out above, the bank has generally stated that there are some 6,660 DCS personal accounts with multiple debtors registered with only one paying debtor. Moreover, some 2,340 DCS personal accounts with multiple debtors are registered with more than one paying debtor. The bank has also stated that there are 24 registered accounts in which debt repayments cannot be linked to a specific debtor.

We note that the bank's legal department, compliance unit and risk management function have "approved" the above approach to allocating the compensation amount. We have the following comments on the bank's approach:

Re i) Accounts for which the bank knows the payer's identity for all payments received

For accounts with multiple debtors where the bank is able to determine the debtor(s) having made payments, the bank will allocate the compensation accordingly. We have no comments on the bank's approach to these matters.

In respect of cases in which a third party has made payments on the debt on behalf of a debtor/guarantor, the bank has stated that, historically, the bank has followed a process of manual allocation of such payments to a debtor (see more detailed description below).

Re ii) Accounts for which some of the documentation of payments is missing:

For accounts for which the bank can determine the payer's identity for only some of the registered payments, we are of the opinion that using the allocation determined by the bank may lead to random results. We do not have any comments on this method, however, as the bank has informed us that debtors on the account will receive compensation letters informing them about the allocation of the total compensation and are thus given the option to submit a complaint if they believe the compensation has been allocated incorrectly.

Re iii) Accounts for which all the documentation of payments is missing:

We have no comments on the fact that the compensation will be allocated equally between all the liable account holders if there is no information about who made the payments into an account. In this respect, the bank has informed us that all debtors are notified about of the allocation of the combined compensation amount (see above).

Specific information about the allocation of payments made by a third party on behalf of a debtor/guarantor

The bank has stated that, in cases where a third party has made payments on the debt on behalf of a debtor/guarantor, the payments have historically been allocated to one of the debtors/guarantors liable for the debt in one of the following three ways:

- If it has been clear from the payment which debtor/guarantor the payment on the debt was made on behalf of (as, according to the bank, a CPR number or customer ID is stated), the DCS system has *automatically* allocated the payment to the matching CPR number or customer ID on the account.

- If no CPR number or customer ID was provided in connection with the payment, the DCS system has *automatically* allocated the payment to the “main debtor” registered on the account. The bank has stated that the “the main debtor” is normally “selected” randomly among all debtors linked to the debt when the account is created in the bank’s systems.
- Finally, there may have been situations in which a case officer at the bank has been made aware, for example by the third party in question having made the payment, that a payment via the automatic functionality of the DCS system has been allocated to the wrong customer ID and thus the wrong debtor/guarantor. In such situations, according to the bank, the case officers have been able to allocate the payment manually to the correct customer ID and thus to the debtor/guarantor on whose behalf the payment was originally made.

It is noted that the bank has not shared documentation enabling us to assess whether and to what extent the process described above has been followed by the bank. We note that it is thus possible that the bank’s process may have led to a payment made by a third party being allocated to the wrong debtor/guarantor if no customer ID or CPR number was provided in connection with the payment. The allocation of payments that cannot be allocated correctly to a random main debtor would also seem to potentially leading to arbitrary results. Against this background, we believe that it cannot be ruled out that the customers, in some cases, may be entitled to renewed payment of compensation from the bank if the allocation chosen by the bank is not accurate in terms of who has actually made payments to the account.

Specific information about the bank’s allocation of time and tax compensation if an account has more than one paying debtor

The bank has decided that time and tax compensation should be based on the same approach to allocation of compensation as for nominal compensation, as described above. The bank’s decision is based on the fact that it is not able to determine a distribution key that would provide a basis for allocating time and tax compensation in other ways. Consequently, the bank believes that it is the total number of debt repayments that will result in overcollection for a given account, which is why individual payments *cannot* be assigned any specific value, regardless of the date during the collection period on which the specific payment was made.

This means that the payer(s) who paid relatively more at an early stage will not receive a correspondingly larger proportion of the time compensation. We have no comments on this approach.

Specific information about the bank’s communication letters

The bank has assessed that it is not necessary to communicate with customers in advance about the selected allocation of compensation, i.e. during the period prior to the final payment of compensation.

Instead, the bank has decided that the compensation letters will inform the customers about how the compensation has been allocated between the individual debtors having made debt repayments. In this connection, the bank has concluded that the letters must clearly state that if the customers disagree with the bank's overall allocation of the model-calculated compensation amount, the customers must be informed of the possibility to object by requesting an individual review of their debt collection case.

The bank has stated that the letters will include a clear and unambiguous indication of the total compensation amount for the account and the proportion thereof each customer will receive. Moreover, the customers are informed that they can file a complaint if they disagree with the allocation selected by the bank.

As mentioned above, it is our opinion that customers may in some cases be entitled to renewed payment of compensation from the bank if the selected allocation does not accurately specify the parties actually having made payments into the account.

4.1.8 *The customer journey*

As regards the bank's information to its customers, we refer to section 5.6 of our report no. 4 of 4 June 2023, and it is noted that the bank's communication strategy in relation to customers whose claims are covered by this report no. 5 does not deviate in any material respects from that report.

Since the submission of our most recent report, the bank has prepared two additional types of compensation letters: letters to customers requesting an individual compensation calculation by means of the account recalculation and letters to customers requesting a full manual review and recalculation of their individual cases.

We are of the general opinion that the letters together with the website information referred to by the bank contain clear and adequate communication to the bank's customers about the compensation payments made by the bank. The letters contain the information necessary for the customers to understand the bank's calculation of the compensation amount and the related uncertainty, and information that enables customers to understand which errors are covered by the compensation.

As described in section 3 above, we note that, in connection with the payment of the total model-calculated compensation to the bank's customers, the bank makes a reservation to the effect that the compensation paid may also cover additional losses that the bank subsequently identifies because the payment amount exceeds the customers' actual losses resulting from overcollection (see section 5.6.1.3 of our report no. 4 of 4 June 2023). For that reason, the bank has undertaken to sending a conclusion letter to all customers when the debt collection case is closed and when it has been clarified that the customers are not affected by additional issues for which they are entitled to compensation.

4.1.9 *Our overall observations in relation to the bank's calculation of compensation and the payment plan*

We believe that, with regard to the specific customer segments at the DCS system's complexity levels 5 and 6, which are covered by this report no. 5, the bank has identified, with a high degree of probability, the customers who are entitled to compensation due to overcollection. We also believe that the compensation model in most cases will lead to payment of compensation equal to or exceeding the loss incurred by the customers.

The bank has stated that the *observed extrapolated risk of undercompensation* for DCS personal accounts as a whole amounts to about 1.1%, while the total rate for the 3,998 migrated accounts is about 3.4% and for the 7,280 non-migrated accounts about 0.5%.

We note that the bank has not observed populations in its analyses for which the observed extrapolated risk of undercompensation is higher than 4.8%.

We note in this respect that the bank has incorporated a number of customer-friendly assumptions in the account recalculation used for the sample checks, which means that the *actual risk* of undercompensation may be lower than the *observed extrapolated risk*.

We note, however, that the *observed extrapolated risk* of undercompensation is based on the bank's insight gained on the basis of the sample checks, with the number of accounts in some sub-segments being so small that, as described above in section 4.1.4.2.1, we cannot with any certainty make a statement as to whether the samples are representative. As a result, there is some uncertainty as to whether the *observed extrapolated risk* reflects the *actual risk* of undercompensation for the underlying population in these sub-segments.

As described above, we believe some uncertainty attaches to the bank's calculation of the risk of undercompensation for customers whose accounts are covered by sub-segment 6.2 (resumed cases in the DCS system) and where the customers' compensation is calibrated, even though the statistical model in these cases is used for migrated accounts. For these customers, it may therefore be particularly relevant to consider accepting the bank's offer of making an individual review of the case if the customers themselves have information about the size and composition of the original debt that would indicate that the debt was smaller than what is indicated in the compensation letter.

As described above in section 4.1.3.1, the bank's approach to handling manually created cases in sub-segment 6.2 – where the debt on the manually created accounts stems from a migrated case (1,864 accounts) – relies on the assumption that the statistical model for calculating the starting balance is applicable. In this connection, we believe that uncertainty still exists in relation to the calculation of the risk of undercompensation specifically related to the use of the statistical model, and this uncertainty is difficult to quantify. The uncertainty is not "included" in the bank's calculations of the risk of undercompensation because the statistical model for the migrated accounts is used for correcting the

starting balance for root causes 1 and 2 in both the compensation model and the account recalculation that form the basis for the sample used to calculate the risk of undercompensation.

The importance of our observation above should also be viewed in light of the fact that the bank intends to calibrate the preliminary model-calculated result for these accounts in sub-segment 6.2 by 40%. This decision means that some of the “originally” migrated accounts will, on the basis of the bank’s information about a business practice at the bank (undocumented for us) about recurring manual adjustment of the cases in connection with resumed creation in the DCS system, and on the basis of a very small sample (14 out of a total of 1,864 cases) be subject to calibration, even though the bank has decided not to calibrate the compensation amount in connection with the calculation and payment of compensation to migrated complexity level 1-4 accounts because of the risk of undercompensation (see section 5.4.5 of our report no. 4 of 4 June 2023).

Finally, we note that, in our opinion, the bank’s customers may, in some cases, be entitled to repayment of compensation from the bank if the chosen distribution of the compensation amount between multiple debtors who have made payments on the account does not accurately reflect who is actually entitled to compensation. However, the bank has informed us that it gives customers access to information about the total compensation amount in respect of the account and the allocation thereof, which in our view makes the bank’s approach acceptable (see section 4.1.7 above).

Lastly, we believe that the bank, through its communication to customers, provides customers with accurate and suitably detailed information about the basis of the compensation calculated, and the letters we have seen and the texts on the bank’s website to which the letters refer provide complete and, to the extent that we can determine, reasonable and accurate information and guidance.

4.2 DCS business accounts

4.2.1 Customers, case types and issues covered by the compensation model

In our report no. 4 of 4 June 2023, we discussed the claims for compensation raised by a number of personal customers in respect of complexity level 1-4 accounts as defined by the bank, and in section 4.1 above, we discuss the bank’s plan for calculating and paying compensation to a number of personal customers in respect of segments of accounts in parts of complexity levels 5 and 6 as defined by the bank.

This section deals with the bank's plan for the calculation and potential payment of compensation in respect of a total of 3,621 accounts registered in the DCS system as complexity level 1-5 business accounts with registered debt repayments as well as 7,878 complexity level 1-6 business accounts without registered payments. To this should be added some 7,900 complex business cases which are being handled manually by the bank's insolvency department and therefore processed as part of the bank's Project Corporate, which falls outside the scope of this report no. 5 (see section 3.4). The bank's plan covers compensation in respect of the four root causes (provided such compensation has not already been paid) and in respect of a total of 29 other errors (see section 4.2.1.1).

The bank has stated that it has identified some 24,400 accounts in respect of which at least one debtor is registered with a CVR number as the customer number in the DCS system or in respect of which the file comments refer to a CVR number. These are the accounts which the bank categorises as business accounts, even if the registered debtor may be a natural person who does not carry on business activities. The accounts may pertain to the debts of both legal persons and natural persons, owed in connection with an existing or liquidated personal business or a guarantee for the debts of a liquidated limited liability company, etc.

According to the bank, the bank has, as mentioned, categorised about 7,900 of the 24,400 accounts as complex business cases, which are being handled by the bank's insolvency department under Project Corporate. The bank has applied a set of criteria as the basis for categorising complex business cases. These criteria are as follows: (i) the case was originally handled by the bank's insolvency department; (ii) the business case generally comprises multiple accounts; and (iii) in the majority of cases, collateral, for example in the form of a floating charge, has been provided for the debt. As the bank's insolvency department intends to review the cases manually with a view to calculating the potential overcollection on these business loans individually, these cases have been eliminated for purposes of this report no. 5. Consequently, only the remaining approximately 16,500 business accounts have been processed by the bank's debt collection department and are expected to be covered by the model-calculated compensation.

In this report no. 5, we discuss the bank's plan for calculating and potentially paying compensation in respect of a total of 3,623 business accounts with registered debt repayments and about 7,900 business accounts without registered repayments. The bank's plan covers compensation in respect of the four root causes (provided such compensation has not already been paid) and in respect of a total of 29 other errors (see section 4.2.1.1). The bank has stated that the remaining approximately 4,900 business accounts are registered as complexity level 6 cases or are affected by errors that have not yet been fully analysed and are therefore expected to be addressed in a later report.

It is noted that the bank's classification of business accounts into complexity levels is the same as for DCS personal accounts (see section 4.1 above).

The table below shows the bank's plan for calculating and potentially paying compensation in respect of DCS business accounts broken down by complexity levels:

Figure 18 – Overview of DCS business accounts with and without payments

Complexity level		Accounts with payments (covered)	Accounts with payments (not covered)	Accounts without payments (covered)	Accounts without payments (not covered)	Total number of accounts
Complexity levels 1-5						
1	Simple cases	1,103	288	0	2,655	4,046
2	Agreements	738	102	0	24	864
3	Court cases	836	183	0	836	1,855
4	Debt collection agency cases	208	25	0	107	340
5	Guarantors and co-debtors	738	527	757	3	2,025
Complexity level 6						
6	Complex cases	0	3,847	3,548	18	7,413
Total number of DCS business accounts		3,623	4,972	4,305	3,643	16,543
Of which covered by report no. 5		3,623		4,305		7,928
	Of which migrated accounts	236		307		543
	Of which non-migrated accounts	3,387		3,998		7,385

Grey fields show the number of accounts not covered by this report no. 5.

In relation to the bank's plan for calculating and potentially paying compensation, this section 4.2, as mentioned above, exclusively deals with 3,623 complexity level 1-5 DCS business accounts with registered debt payments. Of these accounts, 3,387 are non-migrated business accounts, while 236 are migrated business accounts – i.e. accounts that were previously handled by the bank outside the DCS system and were transferred to the DCS system when the bank began using this system in 2004.

At the time of release of this report no. 5, the bank had not finalised its plan for calculating and paying compensation in respect of complexity level 6 DCS business accounts. The bank has stated that the plans for calculating and paying compensation to these customers are expected to be finalised in the course of the first six months of 2024.

From the 3,623 DCS business accounts with registered debt repayments, the bank has decided to perform individual reviews of 308 accounts before paying compensation, if relevant. This is because the compensation model calculates total compensation for the customers of more than DKK 60,000 or if the compensation model for the migrated DCS business accounts calculates compensation for the customers of more than DKK 1.

In deciding to perform individual recalculations for all migrated DCS business accounts eligible for compensation of more than DKK 1 according to the model calculation, the bank has taken the small number of accounts in this customer segment (236) into account.

The bank has stated that, out of the remaining 3,315 accounts, about 1,900 complexity level 1-5 business accounts must be granted compensation based on the compensation model's calculations because the customer's payments into the account exceed the starting balance determined and the customer – based on the compensation model – is therefore entitled to compensation for potential overcollection. This also means that the holders of about 1,400 of the total number of 3,623 complexity level 1-5 business accounts are not entitled to compensation based on the compensation model's calculations, because the customer's payments into the account do not exceed the adjusted starting balance.

To this should be added some 7,900 complexity level 1-6 DCS business accounts whose holders, in the bank's assessment, are not entitled to compensation because the bank's investigations show that the customers have not made any debt repayments to the bank in respect of the debt in the account (see section 5.4.1.2 of our report no. 4 of 4 June 2023).

4.2.1.1 Which errors are being compensated now

The calculation of compensation for complexity level 1-5 DCS business accounts covers all 25 errors that were also included in our report no. 4 of 4 June 2023. In addition, as for DCS personal accounts, the compensation calculation for DCS business accounts covers four additional errors that may have affected the accounts (see section 4.1.1.2). These are error 2.b ("Interest on reminder fees"), error no. 33 ("Failure to write down co-debtors' debt"), ORIS no. 164854.a ("Incorrect collection of costs in connection with the outsourcing to debt collection agencies") and ORIS no. 165154 ("Issue regarding composition agreements"). See section 4.1.1.2 above for more details.

It is noted that section 9.4.25 of our report no. 2 of 31 May 2022 described how error no. 25 ("Costs aggregated with the principal") concerns cases regarding debt collection from business customers where the bank has identified various types of cost that, in connection with the booking of costs to the customer's file in the DCS system, have been or may have been aggregated with the principal. This may have caused errors in respect of the calculation of interest and the handling of time-barred debt.

In connection with the preparation of this report no. 5, the bank has stated that approximately 1,300 customer accounts linked to complex business cases being handled by the bank's insolvency department are affected by error no. 25. As described above, this report no. 5 does not cover these approximately 1,300 accounts. In addition, some 260 specific customer accounts handled by the bank's debt collection department may have been affected by the error. The bank has confirmed that the accounts of these some 260 specific customers are not covered by this report no. 5. The potentially affected accounts were identified by means of a search for specific types of cost that may have been aggregated with the principal.

Reference is made to section 9.4.25.2.1 of our report no. 2 of 31 May 2022 for a description of the individual cost types. This section also describes how we see a low risk that error no. 25 may (potentially) have affected a few accounts that the bank has been unable to identify.

4.2.2 *The bank's handling of business accounts through the compensation model*

The objective of the compensation model in relation to DCS business accounts is unchanged relative to the objective described for personal accounts in section 5.3 of our report no. 4 of 4 June 2023.

However, in relation to the tax compensation for DCS business accounts, it should be noted that for business accounts eligible for compensation under the compensation model, the bank maintains that the tax compensation assumed to be included in the nominal compensation amount must correspond to the average tax rate for personal customers, which is 37.8%. This also applies to legal entity accounts, which in many cases have a lower tax rate.

As for personal accounts, the way the model works is that the bank establishes a (correct or corrected) starting balance for the debt and deducts the customer's payments through the DCS system from this balance. If the payments exceed the corrected starting balance, the customer is generally entitled to compensation in a corresponding amount.

4.2.2.1 *Determination of a corrected starting balance*

As described in section 5.4.3 of our report no. 4 of 4 June 2023, the bank's registration of the original debt that was transferred to the DCS system is affected by a number of errors and inaccuracies that, for some accounts, generally require a number of adjustments to be made to the *registered* original debt.

4.2.2.1.1 *DCS business accounts **not migrated to the DCS system in 2004***

The compensation model for DCS business accounts applies the three approaches for DCS personal accounts described above in section 4.1.3.1.1.

In the following, we refer exclusively to approach no. 1 (elimination of accounts that cannot be time-barred) and approach no. 3 (the statistical model), since these are the only two approaches in respect of which we have identified matters that may result in the risk scenario for business accounts being different than for personal accounts.

Re approach no. 1 – on the so-called early exit logic (see section 4.1.3.1.1 above)

For about 2,200 non-migrated DCS business accounts out of the total of 3,623 non-migrated complexity level 1-5 DCS business accounts with registered debt repayments, the bank works from the assumption that if certain criteria are met, the principal cannot include time-barred interest or fees.

In relation to the bank's use of this assumption, we noted in section 5.4.2.1 of our report no. 4 of 4 June 2023 that, based on the bank's own documentation, time-barring could for a small number of accounts occur earlier than two years after registration in the DCS system. The reason is that, for a few accounts, it may take *more than one year* from the due date of interest or fees until the debt is created in the DCS system. We noted in this connection, however, that, based on the bank's information about its practices, the number of relevant accounts is most likely limited.

In connection with the preparation of this report no. 5, we asked the bank to indicate if it has analysed whether the assumption is applicable to DCS business accounts and whether any observations have been made to indicate that the business cases had systematically been held for longer in the ordinary banking system than personal accounts were before being transferred to the DCS system.

In response to this, the bank has stated that it has screened 81 DCS business accounts, corresponding to about 3.6% of the accounts covered by the assumption. The result of the bank's screening was that three out of the 81 reviewed DCS business accounts covered by the assumption under the compensation model had experienced a debt collection process in the ordinary banking system of more than one year prior to being transferred to the DCS system (corresponding to a risk of about 3.7%). For these three accounts, the bank's sample checks did not show a risk of undercompensation from applying the compensation model assumption.

The bank has further stated that – based on the insights gained from the individual reviews of the migrated DCS business accounts – it has established that only one out of 100 migrated DCS business accounts covered by the individual review had experienced a debt collection process in the ordinary banking system of more than one year prior to being transferred to the DCS system.

Based on its analyses, the bank therefore believes that the assumption can be applied to DCS business accounts without adjustments since the bank's analyses of a total of 181 accounts have shown that only four accounts had experienced a debt collection process in the ordinary banking system of more than one year prior to being transferred to the DCS system (corresponding to an overall risk of approximately 2.2%).

In our opinion, the bank's analyses sufficiently substantiate that the assumption can also be applied to business accounts in the DCS system, and based on the bank's sample check, it must also be assumed that claims were due for more than one year prior to being transferred to the DCS system for only a limited part of the population of accounts in question.

Re approach no. 2 – on the use of the statistical model for business accounts

Out of the some 3,623 complexity level 1-5 DCS business accounts with registered debt payments, the starting balance is corrected for approximately 1,105 DCS business accounts under the statistical model.

The correction under the statistical model, i.e. the downward adjustment of the initial balance, is based on insights into about 36,000 DCS cases created in the system after 2010, as described in more detail in section 5.4.2.1 of our report no. 4 of 4 June 2023, the correction amount being based on the assumption that no more than one year will pass from the due date of interest or fees until the case is registered in the DCS system. As regards DCS business accounts having experienced a debt collection process in the banking system of more than 365 days, they may (potentially) have been charged additional interest, costs and fees, which is exactly what the statistical model adjusts for.

Based on the analysis described above for DCS business accounts concerning the so-called early exit logic, which has shown that only about 2.2% of the 181 reviewed DCS business accounts have experienced a debt collection process of more than 365 days, we have no comments on the bank's use of the statistical model for DCS business accounts. For our general observations on the uncertainty arising from the use of the statistical model for non-migrated accounts, we refer to section 5.4.2.1 of our report no. 4. of 4 June 2023, in which section we noted that the use of the statistical model for non-migrated DCS personal accounts would, in our opinion, likely benefit a majority of customers. This is still our assessment for non-migrated DCS business accounts.

*4.2.2.1.2 DCS business accounts **migrated** to the DCS system in 2004*

It is noted that 125 business accounts managed through the compensation model were migrated to the DCS system in 2004, when the bank implemented the system. The bank has informed us that the compensation model for these 125 migrated business accounts calculates a compensation of less than DKK 1.

For purposes of adjusting the starting balance for root causes 1 and 2, the bank uses the statistical model to calculate a starting balance on the migrated business accounts (see above). The calculation of a legally enforceable starting balance assumes that the statistical model sufficiently adjusts the starting balance so that any time-barred interest, fees and costs are not included in the principal. In connection with section 5.7 of our report no. 4 of 4 June 2023, we noted that the bank's use of the statistical model for migrated (personal) cases is subject to some uncertainty and that the bank's sample basis for concluding that the model is applicable is very limited.

Since the release of our report no. 4 of 4 June 2023, the bank has not performed any further analyses or manual recalculations of the 125 migrated business cases that could alter our assessment of the applicability of the statistical model provided in report no. 4 of 4 June 2023. Accordingly, we note that the migrated DCS business accounts involve an elevated – but not easily quantifiable – risk of undercompensation specifically related to the use of the statistical model. It is noted that such risk is not reflected in the bank's calculations of the risk of undercompensation. It should be noted, however, that the uncertainty does not mean that the compensation model will result in undercompensation.

4.2.2.2 Adjustment of the starting balance for various errors

The bank's adjustment of the starting balance in relation to DCS business accounts for a number of errors basically follows the same principles as those applied to DCS personal accounts. See section 4.1.3.2 above for a more detailed description.

4.2.2.2.1 Adjustment derived from the bank's handling of error 2.b in the sample review

The bank has decided that the starting balance of all DCS business accounts will be adjusted to ensure that the very customer-friendly calculations by means of the account recalculation concerning fees do not lead to an artificially high observed risk of undercompensation (see section 4.2.3.1 below). We have no comments on this approach.

4.2.3 Validation of the compensation model and handling of the risk of undercompensation

As regards complexity level 1-5 DCS business accounts, the bank has stated that the validation as to whether the compensation model does not systematically undercompensate customers is the same as for complexity level 1-6 DCS personal accounts, subject to a few adjustments (see section 4.1.4 above).

The bank has stated that no special adjustments have been made to the account recalculation used in the sample review and the individual review for purposes of handling complexity level 1-5 DCS business accounts. Reference is made to section 5.5.1.1 of our report no. 4 of 4 June 2023 and to section 4.1.4.1 of this report no. 5 for a more detailed description of the account recalculation.

4.2.3.1 *The individual, partly manual review using the account recalculation*

The bank has stated that, in connection with the sample review of complexity level 1-5 business accounts, the case officers rely on the same comprehensive case processing guidelines and related appendices as have been used for the review of DCS personal accounts.

However, we note that the bank has prepared an appendix to the case processing guidelines that specifically relates to the sample review of business accounts. The appendix states, for example, that the case officers may not include more than three reminder fees of DKK 100 per reminder fee charged, even though under section 9b(4) of the Danish Interest Rate Act, the bank is permitted, in relation to business accounts, to derogate from the rules of subsections 1 to 3, which stipulate, among other things, that a reminder fee of up to DKK 100 may be charged for each reminder. The bank has stated that it has been entitled to charge a reminder fee of more than DKK 100 in relation to business accounts, and, according to our information, the bank has historically done so in practice, often charging an amount of DKK 150 in relation to business accounts. This is the reason why, as described above in section 4.2.2.2.1, the bank makes an extraordinary deduction from the original debt for all complexity level 1-5 business accounts.

We generally believe that, as for DCS personal accounts, the bank has chosen a customer-friendly approach to recalculating complexity level 1-5 business accounts in connection with the sample review.

4.2.3.2 *The bank's general method of validating the compensation model through sample checks*

The bank has set a target of a sample size of at least 1% of the population, however not less than 20 cases, for each of the complexity levels 1-5 for non-migrated DCS business accounts.

As at 11 January 2024, the bank had performed a total of 230 sample checks across a total of 3,387 complexity level 1-5 DCS business accounts in respect of which, according to the bank's registrations, customers have made debt repayments (equal to 6.8%). The bank has thus reached its target for the number of sample checks for all non-migrated accounts within the five levels of complexity.

The sample checks performed by the bank for purposes of calculating the risk of undercompensation are shown in figure 19 below.

Figure 19 – Distribution of sample checks performed for non-migrated complexity level 1-5 DCS business accounts and the number of sample checks performed for purposes of calculating the risk of undercompensation

Distribution of sample checks for non-migrated DCS business accounts			
Complexity level	Population	Number of sample checks	Percentage share of total population
1. Simple cases	1,079	39 (30)	3.6%
2. Agreements	709	47 (30)	6.6%
3 Court cases	765	56 (30)	7.3%
4 Debt collection agency cases	166	40 (30)	24.1%
5 Guarantors and co-debtors	668	48 (33)	7.2%
Total	3,387	230 (153)	6.8%

The numbers in brackets show the number of sample checks performed for purposes of calculating the risk of undercompensation. For purposes of this calculation, the bank disregards, for example, accounts not eligible for compensation under the compensation model, accounts handled through individual reviews and accounts affected by root causes 3 or 4.

As shown in the figure above, the maximum number of sample checks performed for a given level of complexity is 56. Considering only the sample checks performed for purposes of calculating the observed extrapolated risk of undercompensation, it is noted that the bank has performed between 30 and 33 sample checks for all complexity levels.

In relation to the above, it is noted that the sample for all five complexity levels of DCS business accounts is quite limited and that, as a result of the bank's targeted sample size, the number of sample checks is equally limited. Such a small sample would generally not be sufficient to achieve acceptable representativity to enable the results of the sample check to be extended to the remaining population with an acceptable degree of certainty. The bank is of the opinion, however, that the sample concerning DCS business accounts should be seen in conjunction with the sample concerning DCS personal accounts and that the representativity of the sample should therefore also be seen as a whole. The bank's sample review of DCS personal accounts is described in section 5.5.1.2 of our report no. 4 of 4 June 2023 concerning complexity level 1-4 personal accounts and in section 4.1.4.2 above concerning complexity level 5 personal accounts.

We note that the bank has confirmed that the selection of samples was made across the total population of both personal and business accounts and that the bank's analyses of the data basis have shown no significant differences between personal and business accounts in the DCS system. Consequently, it is the bank's overall assessment that, despite the small number of samples, the sample checks performed in respect of business accounts are sufficient.

Overall, we believe that the results of the sample review of DCS business accounts should not be evaluated separately but in conjunction with the results of the sample review of all non-migrated DCS accounts (see section 4.2.3.3 below for further details). As such, our general reservations with respect to the sample size

for DCS personal accounts, as described in section 4.1.4.2.1, also apply in relation to the bank's sample checks of DCS business accounts.

4.2.3.3 Risk of undercompensation

The bank's risk assessment in relation to DCS business accounts exclusively concerns non-migrated accounts. The risk assessment was prepared on the basis of the estimated overcollection from 153 non-migrated DCS business accounts. According to the bank's material, for most of the cases – 150 accounts out of the total sample of 153 accounts – there was no evidence of undercompensation. In addition, the bank observed that 52 of the total sample of 153 accounts will be compensated through the compensation model although the bank did not observe any overcollection for these accounts.

The bank estimates the risk of undercompensation for complexity level 1-5 DCS business accounts on the basis of insights gained from the sample review of non-migrated accounts. In this connection, the bank extrapolated *the observed risk of undercompensation* to the underlying population at the five complexity levels. The bank has stated that *the observed extrapolated risk of undercompensation* for the non-migrated DCS business accounts overall amounts to about 1.9%.

However, as mentioned above, we believe that the results of the sample checks performed for non-migrated DCS business accounts should not stand alone but should be seen in conjunction with the results of the sample checks performed for all complexity level 1-5 non-migrated DCS accounts.

The results of the bank's calculations of the risk of undercompensation for all non-migrated complexity level 1-5 DCS account (both personal and business accounts) may be illustrated as follows:

Figure 20 – Risk of undercompensation after calibration, tax and correction for excess time compensation

Observed extrapolated risk of undercompensation for non-migrated DCS accounts			
Complexity level	Business accounts	Personal accounts	Total
1 Simple cases	3.1% (1)	2.8% (22)	2.8% (23)
2 Agreements	3.3% (1)	1.5% (5)	1.6% (6)
3 Court cases	0.0% (0)	2.7% (7)	2.4% (7)
4 Debt collection agency cases	0.0% (0)	1% (3)	1.2% (3)
5 Guarantors and co-debtors	3.0% (1)	0.6% (2)	0.9% (3)
Total	2.3% (3)	2.0% (39)	2.0% (42)

Numbers in brackets show the number of accounts found to be at risk of undercompensation.

Against this background, we note that *the observed extrapolated risk of undercompensation* for the overall sample of non-migrated DCS accounts is acceptably low at all five levels of complexity.

4.2.4 *Distribution of compensation*

The bank has decided to pursue the same approach to the distribution of compensation for business accounts as for personal accounts. We therefore refer to section 4.1.7 above for our assessment and comments in this respect.

4.2.5 *The bank's individual review of business accounts*

As initially mentioned in section 4.2.1, the bank has decided to perform individual reviews of 308 complexity level 1-5 accounts before paying any compensation, the reason being that the compensation model has shown that customer claims for compensation exceed DKK 60,000 in total for non-migrated business accounts (a total of 188 accounts) and migrated business accounts eligible for compensation according to the model calculation (a total of 120 accounts).

The bank has stated that the individual reviews of business accounts will essentially correspond to the individual reviews of DCS personal accounts. In this connection, it is noted that this also implies that the bank will apply the same comprehensive case processing guidelines for individual reviews as it uses for sample reviews. Reference is generally made to section 4.3 below for a more detailed description of the bank's individual reviews and our evaluation of the reviews.

Consequently, the following section will merely describe the elements in respect of which the bank's individual reviews of DCS business accounts *differ* from the individual reviews of DCS personal accounts.

Specifically about tax compensation

As regards the individual reviews of DCS business accounts, the bank has for a number of cases decided to apply a different tax rate than the one applied for DCS personal accounts, which equals tax compensation based on the Danish average income tax rate, which is 37.8% for personal customers. Instead, for the individual reviews of a number of business accounts, the bank will apply a tax rate of 22% based on a specific assessment, i.e. the current corporate tax rate.

The bank has chosen an approach under which the case officers perform, through the available case documentation, including the file comments in the DCS system, a specific assessment of whether a natural person or a legal entity can be identified by means of a "CPR" (civil registration) number or a "CVR" (company registration) number. The reason for this approach is that some of the business accounts covered by this report no. 5 were previously registered as business accounts but are currently registered as personal accounts in the DCS system.

The approach described by the bank has not given rise to any comments, but we note that the bank's approach requires that the bank is able to establish whether the person is actually a legal entity or a natural person, so that customers receive tax compensation at least corresponding to the compensation promised by the bank in its compensation letters. We will follow up on this.

4.2.6 *The customer journey*

The bank has stated that its communication by way of letters and the detailed website texts for DCS business accounts will, as a general rule, be the same as for DCS personal accounts. Reference is therefore made to section 4.1.8 above.

We note, however, that the bank has informed us that it will make a number of adjustments to the compensation letters and the detailed website texts to ensure the letters reflect the customer segment consisting of business accounts. At the time of publication of this report no. 5, we have not, however, seen any updated compensation letters or texts for the bank's website. We expect that the bank will ensure the same level of information about the elements of the compensation calculation as was included in the letters we reviewed in relation to personal accounts (see section 5.6 of our report no. 4 of 4 June 2023).

4.2.7 *Our overall observations in relation to the bank's calculation of compensation and the payment plan*

On the basis of our investigations, we are of the opinion that the bank has identified, with a high degree of certainty, the customers with DCS business accounts who are covered by this report and who are entitled to compensation due to overcollection by the bank. We also believe that the compensation model in most cases will lead to payment of compensation equal to or exceeding the loss incurred by the customers.

As regards the migrated business accounts, it should be emphasised that our overall assessment of the bank's handling of these accounts in terms of the individual reviews depends on the bank's analyses as to whether the error rate observed in connection with the reviews shows that too many cases involve errors leading to undercompensation (see section 4.2.5 above). We will follow up on this.

As regards the non-migrated business accounts, we believe, as stated in section 4.2.3.3 above, that the risk of undercompensation should not be assessed solely on the basis of the sample of non-migrated business accounts but should be assessed on the basis of the overall sample of non-migrated complexity level 1-5 DCS accounts (business as well as personal accounts).

Against this background, we believe that the *observed extrapolated risk of undercompensation* for the overall sample of non-migrated DCS accounts is acceptably low at all five levels of complexity.

We also note that, in our opinion, the bank's customers may, in some cases, be entitled to repayment of compensation from the bank if the chosen distribution of the compensation amount between debtors does not accurately reflect who is actually entitled to compensation. However, the bank has informed us that customers are provided with information by way of compensation letters about the total amount of compensation in respect of the account and the allocation thereof, which in our view makes the bank's approach acceptable (see section 4.1.7 above).

Lastly, we believe that the bank, through its communication to customers, provides customers with accurate and suitably detailed information about the basis of the compensation calculated, and that the letters we have seen and the texts on the bank's website to which the letters refer provide adequate and, to the extent that we can determine, reasonable and accurate information and guidance.

4.3 The individual review of complexity level 1-6 DCS personal accounts

As described in section 5.6.3 of our report no. 4 of 4 June 2023 and as described in section 3 above, the bank has decided that a number of customers whose accounts could be processed in the compensation model should not receive compensation calculated on the basis of the model. The bank's decision is a business decision and was made because the compensation model, to a large extent, calculates compensation that significantly exceeds the loss suffered by the individual customers as a result of overcollection. At the same time, individual customers whose accounts are processed in the model have been offered the choice of individual compensation calculation if they are uncertain whether the model-calculated compensation will be sufficient.

The individual compensation calculation was not the subject of our investigation in report no. 4 of 4 June 2023, but we stated that the bank was planning to perform an individual compensation calculation via the account recalculation, which was also used by the bank in the sample review of accounts used for calibrating the model-calculated compensation. However, the bank was planning to further automate the process for individual recalculation compared with the sample review.

4.3.1 *Customers, case types and issues covered by the compensation calculation through the individual review*

4.3.1.1 *Accounts covered by the compensation calculation*

As described in section 5.6.3 of our report no. 4 of 4 June 2023, the bank has decided to always apply an individual review of DCS personal accounts if the model-calculated compensation exceeds DKK 60,000 for non-migrated accounts (equivalent to 2,206 accounts) and DKK 100,000 for migrated accounts (equivalent to 536 accounts).

However, for a number of selected customers' accounts, the bank has decided that these accounts will be processed using the compensation model, even though the model-calculated compensation amount exceeds DKK 100,000 (1,167 accounts). The reason is that the bank has assessed that there will presumptively be a minor difference between the customers' compensation amounts calculated according to the compensation model and the customers' compensation amounts calculated on the basis of an individual review. As mentioned above, this is a business decision on which we have no comments.

The individual review is also used in a number of cases which are not included in the compensation model because customers are flagged in the bank's systems as fraudulent – i.e. customers have committed fraud against the bank. However, this only applies where the compensation model shows compensation amounts exceeding DKK 10,000 (corresponding to 30 accounts) and/or for accounts where the outstanding debt in the DCS system exceeds DKK 50,000 (corresponding to 195 accounts). If a customer has an account that meets one of the two criteria, all the customer's accounts will be processed in the individual review.

As described in section 4.1.1.1 above on complexity level 5 and 6 DCS personal accounts, a number of sub-segments are excluded because they are still being analysed by the bank. It has not yet been decided whether and to what extent accounts in these segments should be processed during the individual review.

Finally, we note that the individual review is used for customers who, having received a letter from the bank concerning payment of the model-calculated compensation, request the bank to perform an individual review (see section 5.6.3 of our report no. 4 of 4 June 2023). For these customers, the bank has made a reservation to reclaim the model-calculated compensation if the individual review shows that the customer has not suffered a loss corresponding to the model-calculated compensation. At 31 December 2023, a total of 18 customers whose cases were covered by our report no. 4 of 4 June 2023 had requested an individual review. In addition, as at the same date, 0 customers whose cases are covered by this report no. 5 had requested an individual review.

In this section, we consider the bank's plan for calculating and potentially paying compensation in relation to the DCS personal accounts covered by segments we have dealt with in report no. 4 of 4 June 2023 and this report no. 5 and which must be processed through an individual review (see above). The figure below shows which accounts the bank has decided to process (i.e. not based on the customers' individual preferences) through the individual review:

Figure 21 – Overview of accounts covered by the individual review (illustrated on the basis of information from the bank)

Complexity level		Non-migrated accounts	Migrated accounts	Total number of accounts
1	Simple cases	130	53	183
2	Agreements	639	125	764
3	Court cases	557	174	731
4	Debt collection agency cases	148	25	173
5. Guarantors and co-debtors				
5.1	Guarantors	43	10	53
5.2	Co-debtors	357	147	504
6. Complex cases				
6.2	Manually created cases	301	2	303
6.5	MDS cases	31	0	31
Total		2,206	536	2,742

4.3.1.2 Issues covered by the compensation calculation

The compensation calculation for DCS personal accounts in the individual review covers the same 30 issues handled through the compensation model. Reference is therefore made to section 4.1.1.2 above.

As described in section 3 above, the bank expects that customers who are now covered by the model or are offered individually calculated compensation will not be entitled to compensation at a later stage for issues not yet processed by the model and for which the bank has not yet completed its analyses. As described in section 3 above, we do not address this matter in this report no. 5.

4.3.2 The bank's performance of individual reviews

As stated above, the individual reviews of DCS personal accounts largely correspond to the sample-based validation of the compensation model. This implies, among other things, that the case officers use the account recalculation also in the individual reviews, including various tools and the related case processing guidelines. For a more detailed description and our assessment thereof, please see section 5.5 of our report no. 4 of 4 June 2023 and section 4.1.4.1 above.

It is noted that the bank has shared documentation providing a general description of the process for the

individual reviews. In addition to the review of the documentation provided, we have followed the bank's processes for the use of the account recalculation, including the bank's quality control, the bank's ongoing work with documentation of the process and the observed error rates in the individual reviews. The following is a description of only the areas in which, according to the bank's documentation, there is a significant difference between the individual review and the review described by the bank in connection with the sample review.

4.3.2.1 *Time compensation*

The bank has stated that the interest rate used to calculate time compensation in the individual review differs from the interest rate the bank applies in the compensation model to calculate the customer's time compensation. In the compensation model, the bank has decided to calculate a time compensation for which the bank applies an interest rate which, as a minimum, corresponds to the late-payment interest rate that was in force in accordance with section 5 of the Danish Interest Act (debit interest rate with a statutory add-on of 7% or 8%) during the period when the customer's net payments to each account consistently exceeded the adjusted original debt. In its individual review, the bank has decided to apply the actual late-payment interest rates applicable under section 5 of the Danish Interest Act for the periods covered by the time compensation.

We have no comments on the bank's approach because, in connection with the individual recalculation, the bank applies, as a minimum, the actual interest rate applicable under the Danish Interest Act in a given period.

4.3.2.2 *Tax compensation*

The bank has stated that the compensation amount calculated in the individual reviews and the model-calculated compensation amounts will also contain a gift element, since the individual review applies a number of assumptions or calculation rules that will be to the benefit of the individual customers (see in particular section 5.5.1.1 of our report no. 4 of 4 June 2023). This means that a customer's actual loss resulting from overcollection is not always accurately calculated and that the compensation includes a gift element which, in the bank's opinion, makes the entire compensation amount subject to tax for the customer. In addition to paying a nominal compensation amount and time compensation, the bank will therefore, in the individual reviews, also pay tax compensation to its customers.

In this connection, it is noted that the bank has decided that, in its individual reviews, the tax compensation must be calculated solely on the basis of the nominal compensation amount, while in connection with the model-calculated compensation, the bank will also pay tax compensation for the time compensation. The bank's decision does not give rise to any comments on our part because, in our opinion, the bank will go beyond what it is obliged to do when it also calculates tax compensation for the time compensation in connection with the model-calculated compensation.

The bank has informed us that the tax compensation is based on a tax rate of 37.8% for personal customers. In its compensation letters, the bank also advises customers that they may contact the bank if they believe they are entitled to compensation based on a different tax rate.

4.3.3 *Allocation of compensation*

For a number of DCS personal accounts covered by this report no. 5, which are processed in the individual review, there may be accounts with multiple debtors. With a few adjustments, the bank's approach to the allocation of compensation in the individual review follows the bank's approach to the allocation of the model-calculated compensation amount for accounts in the DCS system. We therefore refer to section 4.1.7 above for a more detailed description of the bank's approach and our comments thereon.

However, in connection with the individual review, the allocation differs from the allocation of the model-calculated compensation in that the bank always checks whether it can be confirmed that the liable debtors have the same addresses at the time of payment. For periods in which this is the case, the compensation amount will be allocated equally between them. We have no comments on the approach, apart from those described in section 4.1.7 above.

4.3.4 *The observed error rate and the risk of undercompensation*

In section 5.6.3 of our report no. 4 of 4 June 2023, we described that the bank had observed high error rates in connection with its individual review during a test process and that, after submitting our report no. 4 of 4 June 2023, we would therefore monitor the bank's steps to address this risk in order to ensure, among other things, that the process is carried out without any unacceptable risk of error.

Since the submission of our report no. 4 of 4 June 2023, the bank has been working to reduce the risk of errors in the individual review. Consequently, the bank has performed sample-based quality controls of a number of accounts recalculated in the individual review. The bank has stated that the quality control entails a subsequent review of the case by a more experienced case officer at the bank.

The bank registers an error in the individual review if the result of the quality control calculation of the overcollection is more than DKK 100 higher than the one calculated in the initial review. It is noted that an error in the individual review does not necessarily result in undercompensation because the individual review uses a number of assumptions or calculation rules that are generally to the benefit of the individual customers (see above and section 5.5.1.1 of our report no. 4 of 4 June 2023).

The bank has stated that, at 11 December 2023, it had carried out quality controls of about 39% of the 2,742 accounts that were individually recalculated (corresponding to quality control of 1,061 accounts).

As a result of the bank's quality control, across the various complexity levels the bank has observed a substantial variation in the error rate observed in the individual review (from 3% to 23%).

Against this background, the bank has decided that, for complexity levels at which the observed error rate exceeds 10%, the bank will perform additional analyses to determine whether there is a higher risk of undercompensation for these customers' accounts.

This means that, for customers with accounts at complexity level 1 ("simple cases"), complexity level 2 ("agreements") and sub-segment 6.2 ("manually created cases") – corresponding to 1,250 accounts – the bank will not perform further analyses because, for these accounts, it has observed an error rate which, according to the bank, is stable and low (less than 10%).

For the other complexity levels and sub-segments covered by this report no. 5, the bank has initiated an analysis to determine whether the observed error rate may result in a higher risk of customers being undercompensated in the individual review, as the observed error rate exceeds 10%.

The bank has informed us that it has completed the analyses of complexity level 3 accounts ("court cases"). We note that, for accounts at this complexity level, the bank initially observed an error rate in the individual review of 19% out of a total of 696 accounts forming part of the bank's analysis. The bank's analysis includes a sample check of ten accounts, corresponding to a sample check of 4.7% of the 213 flawed accounts. The bank has informed us that the ten accounts were randomly selected from among the 24 complexity level 3 accounts where the bank's quality control has identified the largest nominal difference (to the disadvantage of the customer) between the control result and the result of the initial review. The bank's sample check consisted in the bank performing a full manual recalculation of the actual overcollection of the ten accounts in order to determine whether the high error rate observed in the individual review would result in an unacceptably high risk of undercompensation for these customers.

The result of the bank's sample check of the ten accounts showed that two customers had in fact been undercompensated. On the basis of the results of the sample check, the bank has calculated an observed extrapolated risk of undercompensation for the remaining population of complexity level 3 accounts which, despite the high error rates observed, amounts to 3.8%. The bank is therefore of the opinion that there is a low risk of undercompensation for complexity level 3 accounts.

For accounts at the other complexity levels (4, 5 and 6), the bank has not informed us of the correlation between the observed error rates and the risk of undercompensation. The reason is that, at the time of submission of this report no. 5, the bank continues to perform its quality control, and the bank has therefore not yet concluded whether or not to take corrective action in these segments.

On the basis of the information available to us, we find that, for complexity level 3 customer accounts, the bank has demonstrated that it has made reasonable efforts to investigate and ensure that the high error rates observed in the individual review do not result in an unacceptably high risk of undercompensation. As stated above, we will follow up on the individual observations in this connection.

4.3.5 *Our overall observations in relation to the individual review*

As described in section 5.6.3 of our report no. 4 of 4 June 2023, the bank's plans included the calculation of customer compensation for a number of accounts covered by the report as part of an individual review. This applied to a number of customers for whom the model-calculated compensation was particularly high or to customers who, having received the model-calculated compensation, requested an individual review of their case.

Overall, we are of the opinion that the use of the bank's method for the individual review as a basis for calculating compensation for losses incurred by certain customers in connection with the bank's debt collection case ensures that the customers will receive compensation that, as a minimum, corresponds to the customers' actual losses in case of overcollection as a result of the identified errors that are covered by this report no 5. We also believe that the risk of undercompensation in connection with the individual review is at an acceptably low level.

However, we stress that our overall assessment of the bank's handling of customers' accounts during the individual review depends on the bank's continuing ongoing analyses confirming that, for the remaining levels of complexity with an observed high error rate in the reviews (above 10%), there is no unacceptable high risk of undercompensation (see section 4.3.4 above). As stated above, we will follow up on this.

Finally, we note that the bank should generally inform its customers in the compensation letters that the individual review involves a risk of undercompensation, and the customers are therefore given the option of requesting that the bank conduct a fully manual review of their case (the so-called manual review). The bank has stated that this will be included in the letters and it is reflected in the drafts we have seen.

As regards the distribution of the compensation, we have noted that, as described in section 4.3.3 above, the distribution will generally follow the same principles as are applied to compensation calculated using the compensation model. Our comments on this are set out in section 4.1.7 above.

5. COMPENSATION REGARDING PF CLAIMS

5.1 Introductory remarks

5.1.1 Overview

This section describes the bank's approach to compensation for errors in the debt collection process in respect of a number of claims regarding defaulted mortgage loans from the bank's subsidiary Realkredit Danmark. The claims affected by errors have been registered in the so-called PF system. PF is short for the Danish term that means "personal claims".

The population of the PF system consists of approximately 62,000 claims. The term "claim" is used to describe Realkredit Danmark's total receivable in respect of non-performing loans. The PF system has been designed to ensure Realkredit Danmark's receivable has been registered as an aggregated claim. A claim in the PF system thus expresses the total receivable from the customer, comprising principal amount, interest and costs.

This report no. 5 concerns the bank's handling of about 39,100 of the 62,000 claims in the PF system since the analysis of about 22,900 claims is yet to be completed by the bank.

The bank states that, out of the about 39,100 claims, payments have not been made on about 30,300 claims in the PF system and that these customers therefore cannot have paid too much. The remaining group is made up of approximately 8,800 claims where customers may be entitled to compensation for a number of systematic errors in the PF system.

The bank's overall objective for handling errors in the PF system is that the bank must be able to identify with a high degree of probability the customers who are entitled to compensation and that the compensation calculated by the bank covers the errors which the customers' cases are or may be affected by, with an acceptable degree of risk of undercompensation.

The bank's risk measures are described in more detail in section 5.1.3, "The bank's hypothesis".

Overall, the bank handles claims in the PF system in two different categories:

- i. Claims handled in a model for compensation calculation. Claims in this group will be processed in the model developed for calculating compensation. According to the bank, the calculation model incorporates a number of customer-friendly assumptions, and therefore, the model is assumed to overcompensate customers to some extent. The bank expects that about 8,100 claims registered in the PF system and covered by this report no. 5 will have their compensation calculated using this method.
- ii. Claims handled on the basis of so-called individual recalculation. The individual recalculation is a model-based recalculation of the customer's case. The calculation includes fewer customer-friendly assumptions than the model for compensation calculation, and it is therefore expected to calculate a more precise amount of compensation without the same degree of overcompensation. At present, the bank expects that, for about 700 claims registered in the PF system and covered by this report no. 5, the customers will have their compensation calculated using this method. The final number of claims will depend on the threshold for individual recalculation set by the bank.

However, customers in both categories will be able to request a manual calculation after having received the result of the relevant model calculation.

The errors affecting claims in the PF system arose when Realkredit Danmark's residual claim against a customer in cases where a loss had been ascertained after the property provided as security for the mortgage loan had been sold to a third party. The sale may have been made directly to the third party either in a non-forced property sale in which a loss is accepted or in connection with a third party's acquisition of the property in a forced sale. In some cases, the property was first taken over by Realkredit Danmark in a forced sale and subsequently resold by Realkredit Danmark to a third party. The sales process itself, regardless of the sales method, has been handled in the IT system named OP. OP is short for the Danish term that means "foreclosed property", but the system is also used in cases where the property has not been taken over by Realkredit Danmark.

After the final processing of the case in the OP system, Realkredit Danmark's residual claim against the customer was registered in the PF system. The PF system is affected by a number of systematic errors, including that the system only allowed Realkredit Danmark's claims to be registered as one total claim, regardless of the various elements (i.e. principal amount, costs, interest, administration margin and fees) of the debt.

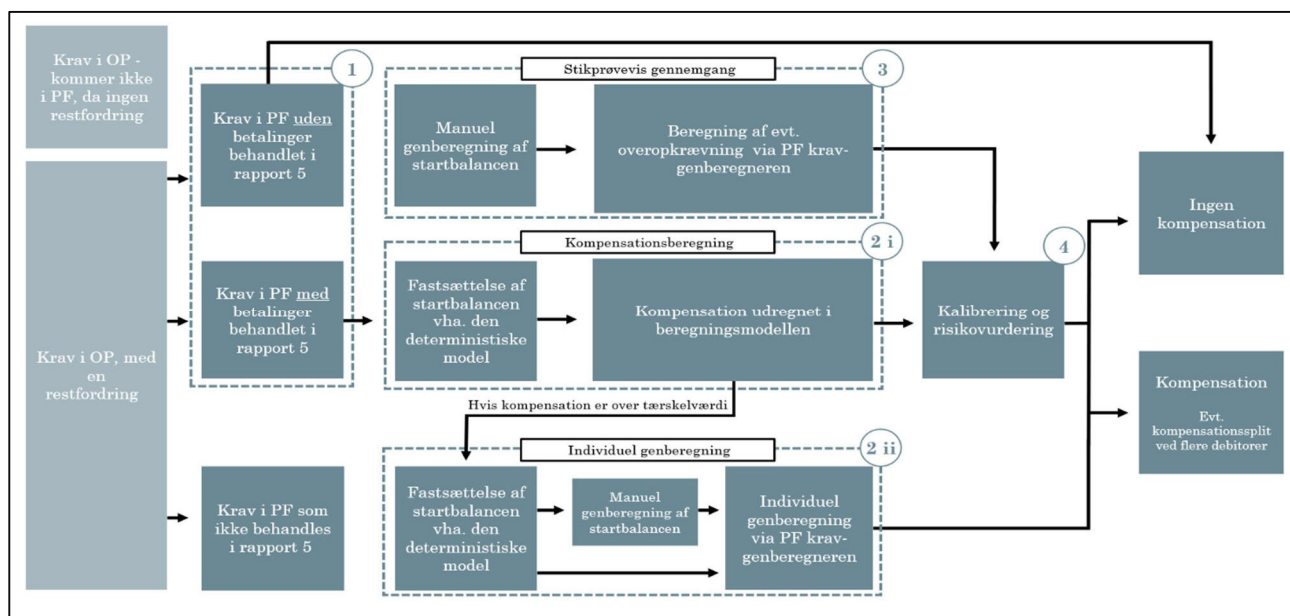
There were also interest calculation errors and a number of specific errors, some of which apply only to individual case types and in specific situations, etc.

The bank's calculation of compensation takes place as far back as and to the extent that structured data is available. The bank does not aim for the model-based calculations to compensate the customers for any non-systematic errors, such as operational errors. The bank generally finds that the data structure and data availability are better in the OP and PF systems than in the DCS system. The bank has informed us that, in most cases, the necessary information is available in the OP and PF systems to make the calculations necessary to determine whether customers are entitled to compensation and to calculate the amount of compensation. Where this is not the case, the bank states that it will solve this with the built-in customer-friendly assumptions in the calculations.

5.1.2 General information about the bank's approach to compensation of customers in the PF system

The bank's approach to compensation of customers in the PF system consists generally of four steps. The four steps are illustrated in the figure below:

Figure 22 – The bank's approach to compensation for the claims in the PF system covered by this report no. 5



1) Identification of customers who may be entitled to compensation.

The PF population consists of about 62,000 claims calculated in October 2023. The analysis of about 22,900 of these is yet to be completed. Among the remaining about 39,100 claims covered by this report no. 5, there are some 30,300 claims where the customer has not made payments while the claim was

registered in the PF system.

The bank is therefore of the opinion that these customers are not entitled to compensation. Our comments are set out in section 5.7.1. For the remaining about 8,800 claims on which payments have been made, the bank must decide whether the customer is entitled to compensation in the event of overcollection during the period in which the claim was registered in the PF system.

The bank's decision as to whether compensation should be paid and – if so – the amount of such compensation is made based on the model-based compensation calculation or the individual recalculation.

The claims, case types and issues that are now being processed are described below in section 5.2 and in appendix 2.

2) The bank's compensation calculation

ii) *Claims handled on the basis of the model-based compensation calculation (approximately 8,100 claims)*

For the claims handled on the basis of a model-based compensation calculation, the model-based compensation calculation in the PF system consists of two steps:

ii) In the first step, the so-called deterministic model corrects the starting balance. The starting balance is Realkredit Danmark's claim against the customer after the property has been sold and consists of the debt transferred from the OP system to the PF system. Corrections are made partly for a number of specific errors and partly by dividing the debt into parts with a short limitation period (i.e. three years and five years depending on the age of the debt and the rules on limitation over time) and parts with a long limitation period (i.e. 10 years and 20 years depending on the age of the debt and the rules on limitation over time). The corrected and divided starting balance serves as input to the second step in the calculation of compensation.

b) In the second step, the calculation model eliminates those parts of the debt that may be time-barred and does not calculate interest on the starting balance for the time the claim was in the OP and PF systems. This means that a number of interest calculation errors in the PF system will, according to the bank, also have been corrected. The model also takes into account any composition agreements. The calculation model then calculates a preliminary nominal compensation:

Nominal compensation = the customer's net payments – the adjusted starting balance

According to the model, the customer is entitled to compensation, however, only if the calculation shows a positive figure, i.e. the customer's payments exceed the adjusted starting balance (debt). As in the DCS system, the customer also receives time compensation and tax compensation.

The model-based compensation calculation is described below in section 5.3.

If the calculation results in a total compensation payment (comprising nominal, time and tax compensation) of more than DKK 100,000, the bank will make an individual recalculation of the case. The bank has set this limit in terms of business because, according to the model, the bank will presumably overcompensate a large number of customers, and because the bank expects that the customers' claims for compensation in connection with individual calculations will be significantly lower. The bank is considering changing this limit to DKK 30,000. This will result in fewer cases being handled in the model-calculated compensation process and more cases being handled in the more time-consuming (but presumptively more correct) individual recalculation process.

ii) Claims handled on the basis of the individual recalculation (approximately 700 claims)

Where the compensation model has calculated compensation in excess of DKK 100,000, an individual recalculation automated using the so-called PF claims recalculation will be made instead. The method of individual recalculation is described in section 5.6.

- a) In the individual recalculation, the first step will also be processing by the deterministic model, which means that the starting balance is corrected and divided as described above. However, for about two thirds of the cases for which an individual recalculation is made, the bank will perform a manual recalculation of the starting balance. This concerns a segment of cases in respect of which the bank believes that the model will overcompensate to a particularly high degree. See section 5.6.1.
- b) The second step is the recalculation using the PF claims recalculation. The PF claims recalculation is also used in the bank's review of samples as described in step 3 below. The PF claims recalculation does not eliminate parts of the debt as is the case with the calculation model and, according to the bank, for most customers, the PF claims recalculation will make more accurate calculations and not overcompensate to the same extent.

3) Performance of sample checks:

ii) Claims handled on the basis of the model-based compensation calculation

The bank has opted to validate the model-based compensation calculation via sample checks (see the bank's hypothesis in section 5.1.3 below). In the same way as for the actual model calculation, a sample check consists of two parts (described below in sections 5.4.2 and 5.4.3):

- a) A manual recalculation of the starting balance and registration of measures suspending the limitation period made during the period in which the claim was registered in the OP and PF systems. In this process, case officers manually recalculate and divide the starting balance (debt), partly by correcting a number of specific errors and partly by dividing the debt into parts with a

short limitation period of 3/5 years and parts with a long limitation period, i.e. 10/20 years.

When recalculating a case, the case officer takes into account all available data, such as documents from the bank's archives. Furthermore, the case officer also records any measures suspending the limitation period after the time when the claim was registered in the OP and PF systems. The manually recalculated and divided debt provides input for the second step of the calculation of samples.

- b) In the second step, the PF claims recalculation is used to recalculate the customer's case. Unlike the DCS system random sampling, this is not a spreadsheet-based solution, but a system-based solution developed on the basis of a further developed version of the PF system. According to the bank, the bank's aim with the PF claims recalculation is to recalculate cases and thus to show how a case would have been if the errors described below in section 5.3. had not been made. The explanation is that the starting balance error has been corrected in advance (in step 3a) and that specific adjustments are made so calculation errors in the PF system are corrected. This means that the claim can be recalculated so as to achieve a more "correct" result.

The total result of the sample calculation (steps 3 i) a and b) is then compared with the total result of the model-based compensation calculation (steps 2 i) a and b). This is done with a view to determining whether, according to the results of the random sampling, the customers are sufficiently compensated on the basis of the calculation made by the compensation model. The individual sample is finally included in a risk analysis and calibration (see step 4 below: Risk analysis and calibration).

ii) Claims handled on the basis of an individual recalculation.

The cases calculated in the automated individual review are not subject to random sampling and the bank's documentation shows that the second half of the calculation will be the same as in the sample calculation, i.e. recalculation using the PF claims recalculation. However, a number of tests have been carried out manually on the basis of specific cases in connection with the development of the model used. Test and validation are described in section 5.4.3.1.

4) Risk analysis and calibration

i) Claims handled on the basis of the model-based compensation calculation

In the fourth step, the bank compares the results of the model-based compensation calculation with the results of the random samples to identify the risk of customers being undercompensated. The assessment also takes into account the fact that customers will receive time compensation and tax compensation. The bank states that the compensation calculation is generally to the advantage of the customer and that the model is expected to overcompensate significantly in most cases. According to the bank's calculations, a downward adjustment (calibration) of the preliminary compensation amount may therefore be made without any unacceptable risk of undercompensation for the

individual customer.

The calculated compensation is generally reduced by 60%, but for certain sub-segments by 19% or 40%. Finally, there are segments for which there is no downward adjustment.

See section 5.5 below, which deals with the analysis of the risk of undercompensation and the calibration carried out.

ii) Claims handled on the basis of an individual recalculation.

Claims handled on the basis of an individual recalculation are not covered by the risk analysis described above and based on random sampling. The result of the calculation will not be calibrated either because the result is assumed to be more accurate in advance and does therefore not contain overcompensation to the same extent.

5.1.3 The bank's hypothesis

It is the bank's basic *hypothesis* that the chosen approach will allow the bank to compensate the right customers and mean that the compensation is sufficient.

According to the bank, this follows from the following:

- The model-based compensation calculation can be validated by sample checks This means the deterministic model can be validated by comparing the manually calculated starting balances with the result of the deterministic model, and the calculation model can be validated by comparing the compensation calculated via the sample check with the result of the calculation model.
- The taken samples are calculated correctly and provide a robust test of the model results; in other words that the sample checks are representative and adequate.
- The calculated risk of undercompensation does not exceed 5% at the portfolio level and 10% for sub-segments of the portfolio.

5.2 The PF population and the division into case types

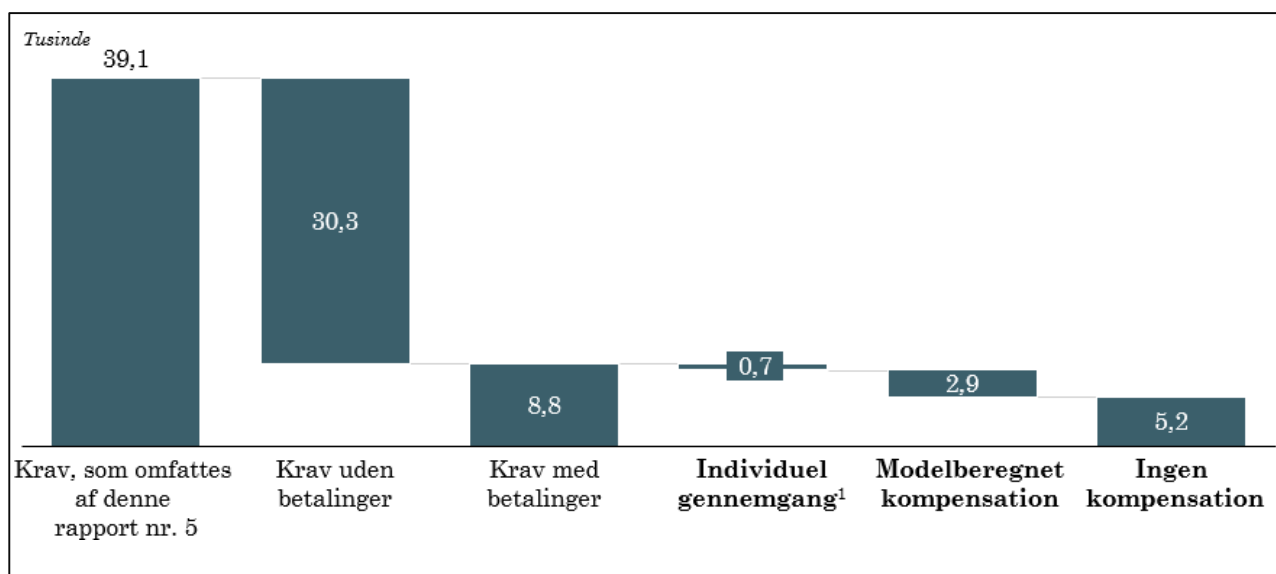
5.2.1 Which customers, claims, case types and issues are covered by the bank's compensation calculation plan

The following section describes the groups of customers, claims, case types and issues which the bank currently believes it can identify and possibly compensate by means of the model-based compensation calculation or the individual recalculation.

5.2.1.1 Claims covered by the bank's compensation calculation plan and by this report no. 5

The PF system contains a total of some 62,000 registered claims. As the bank has yet to complete its analysis of all issues and case types in the PF system, the report concerns the bank's plan for calculation and potential payment of compensation regarding a total of about 39,100 claims in the PF system.

Figure 23 – Number of PF claims covered by this report no.5



The bank has assessed that the customers regarding about 30,300 of the about 39,100 claims are not entitled to compensation in connection with overcollection having taken place during the period in which the claims were registered in the PF system as no repayments were registered during this period. Our assessment of this is set out in section 5.7.1.

As can be seen from figure 23, there are approximately 8,800 claims in the PF system in respect of which payments on the debt have been registered. Of these approximately 8,800 claims, the bank believes *that* the customers regarding some 5,200 claims are not entitled to compensation, *that* the customers regarding some 2,900 claims will receive model-calculated compensation of up to DKK 100,000 and that

the customers regarding some 700 claims are entitled to compensation calculated on the basis of the individual recalculation.

This figure assumes that the compensation is calculated for the PF cases on the basis of individual recalculation if the result of the calculation model shows a calculated compensation (nominal compensation and time compensation) exceeding DKK 100,000 (see section 5.6.1 for a more detailed description). The bank has reserved the right to lower this limit to DKK 30,000. This will result in fewer cases handled on the basis of the model-based compensation calculation.

There are about 22,900 claims in the PF system that the bank has chosen not to deal with in connection with this report no. 5. The claims have thus been postponed for subsequent processing. Appendix 5 provides an overview of the claims postponed for further processing.

We note that the vast majority of the about 22,900 postponed claims are claims with payments.

5.2.1.2 Case types in the PF system

The bank distinguishes between different case types in the PF system. The case types reflect four different reasons for creating a case in the PF system:

- Non-forced property sales (so-called I-02 cases): The property is sold in the open market to a third party, but the sale is a loss-making transaction, so Realkredit Danmark does not obtain full cover for its claim. Realkredit Danmark's claim against the customer thus consists of the uncovered outstanding debt.
- Forced sales to third parties (so-called I-05 cases): The property is sold at a forced sale to the highest bidding third party. The amount obtained in the sale at the auction is used to (partially) cover the debt. If Realkredit Danmark does not receive full cover from the forced sale, the outstanding claim will be created as a case in the PF system.
- Forced sales in which Realkredit Danmark itself takes over the mortgage (so-called O-01 cases): Realkredit Danmark takes over the property in a forced sale. The case will not be closed in the OP system until Realkredit Danmark has sold the property. Once the property has been sold, the outstanding debt will be created in the PF system with a view to debt collection. Following the forced sale, the customer will receive a preliminary calculation of the outstanding debt as well as annual messages with information about the outstanding debt until Realkredit Danmark has sold the property. The case will thus not be active in the PF system until the property has been sold to a third party, and the loans have been (partly) redeemed on the basis of the proceeds from the sale.

These three case types are dealt with in this report no. 5 and also form the basis for the bank's segmentation in connection with the calculation of compensation, the review of random samples (where practical execution varies depending on case type) and the calculation of the risk of undercompensation.

A fourth case type is:

- Remortgaged loans (so-called I-16 cases): Remortgaging of loans with arrears without price lock-in. In these cases, the customer retains the property, and the loss arises when the new loan is disbursed in connection with the remortgaging of the loan. These cases are not included in this report no. 5 but have been postponed for further processing.

Figure 24 – Distribution by case type of PF claims with payments covered by the compensation model and this report no. 5

Case type	Number of claims
Non-forced property sales (I-02 cases):	1,805
Forced sale (property taken over by a third party) (I-05 cases)	1,367
Forced sale (property taken over by Realkredit Danmark) (O-01 cases)	5,604
Total	8,776

5.2.1.3 Which issues are being compensated

This section contains an overview of issues by which the PF claims comprised by this report no. 5 (i.e. the about 39,200 claims), according to the bank, are or may be affected and which the bank's compensation calculation intends to compensate customers for. For a more detailed description of the issues, see appendix 2.

In our report no. 1 of 31 October 2021 and report no. 2 of 30 [SIC] May 2022, we described the four root causes (see section 3.1.1 of report no. 1 of 31 October 2021 and section 8 of report no. 2 of 31 May 2022). According to the bank, PF system claims are affected only by root cause 1. Root cause 1 is for PF claims arising as a result of the merging of the different parts of the debt into one amount when the case was transferred from the OP system to the PF system. This may have led to an incorrect assessment of any time-barring of all or part of the claim. According to the bank, this is handled by the approach selected in sections 5.3.2 and 5.4.2, where the starting balance is divided and "sorted" in terms of the various parts it consists of before the case is recalculated. This is done in the compensation calculation, in the random sample as well as the individual recalculation. Root cause 1 has for the PF segment been handled by adjusting for sub-issues 40.a-b, which is mentioned below and described in more detail in appendix 2.

Most errors in the PF system are addressed by the bank by adjusting and dividing the customer's starting balance. A number of additional issues (interest calculation errors) are, however, addressed in the step where the calculation of the claim itself is made, i.e. in the calculation model or in the PF claims recalculation, respectively.

Figure 25 shows an overview of the issues for which compensation is sought by the deterministic model (by means of division of the starting balance) and the calculation model (by means of the compensation calculation):

Figure 25 – Overview of additional issues handled by adjusting and dividing the starting balance Number of PF claims with payments covered by the compensation model and this report no. 5

Issue	Number of claims	Description
2b	0	Interest on reminder fees – all cases covered by this have, however, been postponed for further processing for other reasons
40a-b	8,776	Data flaws in the PF system where all parts of the claim are aggregated, which leads to collection of time-barred debt
40c	1,367	Wrongful collection of legal fees
40d	1,367	Cases with “overbidding”, i.e. cases between the first sale and the planned second sale in which a bid is received that the bank chooses to accept
171177a	1,782	Bond gain (capital gain)
164854b	338	Incorrectly calculated debt collection costs from external debt collection agencies

The issues are not mutually exclusive, and a claim may therefore be affected by several issues.

Figure 26 shows an overview of the issues for which compensation is sought by recalculation in the calculation model or in the PF claims calculator:

Figure 26 – Overview of additional errors handled by recalculation in the calculation model or in the PF claims calculator Number of PF claims with payments covered by the compensation model and this report no. 5

Issue	Number of claims	Description
166446.a	1,161	Interest errors (overlapping interest)
166446.b	1,086	Interest errors (interest is calculated differently from simple interest)
166446.c	42	Interest error (interest amount is larger than the first payment)

The issues are not mutually exclusive, and a claim may therefore be affected by several issues.

5.2.1.4 Issues expected to be handled by the compensation model but are yet to be processed

A number of identified issues relate to PF claims which are not considered in this report no. 5 because the bank's work on compensation in respect of these claims has not been completed. This applies to claims that have been issued with a so-called 20% guarantee. This concerns sub-issue 3.a about errors in connection with the correction of cases in the PF system (pro rata distribution) and sub-issue 3.b about the fact that the bank, in a previous manual correction process, has assumed that certain administration margins and commissions had a limitation period of ten years.

In addition, the handling of sub-issue 6.a (negative interest) has been postponed for a later report. The sub-issue concerns the bank's practice of charging late-payment interest in cases concerning unsecured mortgage loans transferred for debt collection in the PF system (described in more detail in section 9.4.6 of our report no. 2 of 31 May 2022).

5.3 Claims handled on the basis of the model-based compensation calculation

Most of the claims covered (about 8,100 claims) are handled on the basis of the model-based compensation calculation.

The total compensation calculation generally consists of a number of steps covering different models (the deterministic model and the calculation model) and a number of process steps that ultimately lead to the payment of a specific amount to a given customer. The individual steps are discussed below, and the steps are illustrated by the figure below.

Figure 27 – Steps in the calculation of compensation for customers



The calculation model itself generally corresponds to the model for calculating compensation to DCS customers. In our review, we have therefore focused particularly on elements that *are significantly different* from the bank's approach to the calculation of DCS compensation, as described in report no. 4 of 4 June 2023. In the following sections, we first review the bank's validation of the approach, then in general how the individual steps work and then finally our observations, if any, in relation to the individual steps in relation to the risk that the compensation calculation, in our opinion, does not meet the control points mentioned above.

5.3.1 The bank's validation of the model-based compensation calculation

As mentioned in section 5.1.2, the bank's compensation calculation consists of two models: the deterministic model and the calculation model. The calculation model is generally unchanged from the model described in our report no. 4 of 4 June 2023.

As mentioned above, the bank has developed "the deterministic model" to determine a starting balance for the calculation model.

The purpose of the deterministic model is to recalculate and split the PF claim into its components in order to correct errors concerning the failure to split the debt depending on whether the claims are covered by the 3-year or 10-year limitation period, respectively (sub-issues 40.a-b).

The purpose of the model is also to adjust for a number of specific errors in the starting balance related to incorrect calculation of capital gain (ORIS 171177.a), incorrect calculation of legal fees (sub-issue 40.c), overbid (sub-issue 40.d) and incorrectly calculated collection costs from external debt collection agencies (ORIS 164854.b).

To confirm whether the starting balance generated by the deterministic model is correct, the starting balance is compared with the results of the manual recalculation of the starting balance (the sample check).

2,200 cases have been used to validate the results of the deterministic model. A 4% deviation was observed, which the bank attributes to operational errors and the fact that it was possible to provide physical documents during the manual review. It should be noted in this respect that certain types of cases in which the bank has established that the deterministic model is not functioning correctly have been postponed for further processing (see appendix 5).

We agree with the bank that the results of the sampling with a reasonable degree of certainty show that the deterministic model calculates a starting balance that is suitable for calculating compensation on the basis of the model-based compensation calculation and the individual review, respectively.

However, it is noted that both the manually calculated starting balance and the deterministic model use data from the OP system etc. The bank has stated that no errors have been found in the OP system, but that data has not been fully validated. However, the bank has conducted a limited investigation of 150 cases of type O-01 (that is, cases in which the bank has acquired the property in a forced sale) in the OP system in which it compared the documents of the case, for example the particulars of sale, with the data registered in the OP system.

According to the bank, no systematic errors were found in this review. In three cases (2% of the cases), however, operational errors were detected where a too high debt amount was registered in the OP system by mistake. We do not have any information about the size of the deviations.

On the basis of the information available, including that data has not been fully validated, we cannot rule out undetected systemic errors in the data sources. It is also noted that the same data sources are used for both the deterministic model and the manual recalculation. For more information about data validation, see section 5.4.2.3.

In order to assess whether the design of the deterministic model assures adequate calculation of the starting balance, a legal validation has been carried out. The validation process consisted of the bank's legal department's participation in the development of the models and the obtaining of legal memoranda on specific subjects from an external legal adviser. However, the available documentation has not enabled us to verify that the legal validation will include all model choices. The validation thus appears to be fragmented and incomplete.

5.3.2 The deterministic model (recalculation of the starting balance)

Figure 28 – The deterministic model forms part of the total compensation calculation



General information about the deterministic model

As mentioned above, the deterministic model must determine the customers' original enforceable debt (after correction for specific errors) at the time the claim was transferred from the OP system to the PF system. In addition, the model must divide the claim into categories according to limitation periods.

Adjustment for sub-issue 40.a and b

Sub-issues 40.a and b concern situations in which the bank has failed to separate interest and costs from the principal, which this means that the parts of the debt that should become time-barred after the limitation period of 3/5 years and 10/20 years, respectively, were aggregated.

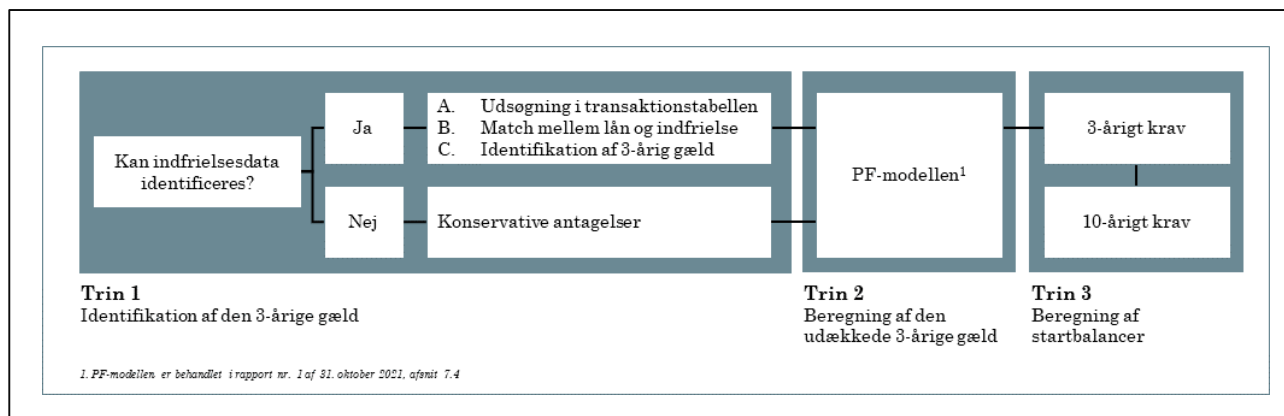
The bank may therefore have calculated erroneous interest on costs and fees and collected debt that was no longer enforceable.

The deterministic model is designed to split the debt depending on whether it has a short or a long limitation period.

In practice, the split is made on the basis of the so-called early exit criteria (see section 5.3.3 below) by eliminating in the calculation model all unsecured debt (after realisation of the mortgaged property) that has a limitation period of three years and which may be time-barred for all claims with the exception of the ones that are covered by the early exit criteria.

On the basis of the bank's documentation, we have illustrated the process of splitting the debt as follows:

Figure 29 – Process for splitting debt with a limitation period of 3 and 10 years, respectively



Overall, we have not found any grounds for challenging the bank's processes and approach, nor have we found any grounds for believing that the deterministic model does not correctly split debt (limitation period of 3 and 10 years).

Adjustment for sub-issue 40.c

Sub-issue 40.c concerns situations in which customers have been charged legal fees in I-05 debt collection processes to which the bank was not entitled. In this connection, the bank has stated that the system is unable to determine whether legal fees are legitimate or not but that the deterministic model does not include costs in the calculation of customer debt in I-05 cases. Since the deterministic model for I-05 cases excludes all costs – including legal fees – the model is assessed to adjust for this issue. As regards the I-05 cases, the bank has also identified cases in which the costs of loan repayment could have been incorrectly set off against the capital gain. Since all costs are excluded from the calculation in these cases, the model is assessed to also adjust for this issue.

Adjustment for sub-issue 40.d

Sub-issue 40.d concerns the situation where a satisfactory bid is not obtained at the first sale and the bank therefore requests a new sale to be held. The error occurs in cases where, during the period between the sale and the scheduled second sale, the bank receives a bid that it chooses to accept. The bank considers this bid to be an "overbid" because it is higher than the bid from the highest bidder at the first sale.

The bank has found that, in this type of case, customers have not benefited from the fact that the property has now been sold at a higher value than the highest bid at the first sale. This is because the bank has *not* deducted the positive added value achieved through the overbid from the customer's outstanding debt but instead used the amount to cover the bank's additional costs after the forced sale (so-called "additional loss"), which covers costs for which the customer is not liable.

The bank has informed us that the issue potentially affects 1,367 I-05 cases with payment covered by this report no. 5.

The deterministic model compensates for this type of issue by deducting the identified excess amount from the proportion of the customer's outstanding debt subject to a limitation period of ten years (see sub-issues 40.a and b). If the overbid exceeds the part of the debt subject to a limitation period of ten years, the remaining overbid will be deducted from the amount left of the debt that becomes time-barred after three years.

During our investigations, we reviewed the bank's approach to identifying overbid cases, including the affected customers. In this connection, we find that the bank has identified 21 claims where the overbid *exceeds* the total outstanding debt and that the bank has decided to postpone the processing of these cases with a view to a manual review if payments have been made in the PF system. As mentioned previously, the bank uses the deterministic model (and the compensation model) only for cases where *payments have been made* in the PF system.

We see a potential risk that, among the claims in the PF system and where no payments have been registered in the PF system, there may be claims for which the customer is entitled to compensation in connection with sub-issue 40.d. This is due to the fact that the overbid in these cases may have resulted in the claim actually being covered, so that the customer should not have been transferred to the PF system. In these cases, there may be home equity for the customer or cover for a lower-ranking mortgagee. The bank has stated that it has identified 94 claims that may have been affected by this issue and that the processing of these has been postponed with a view to conducting a more detailed investigation of whether the customers, or a third party, if any, is entitled to compensation. This covers claims in the PF system without payments and cases in the OP system that were never created in the PF system. We will follow up on the bank's investigation in a future report. For customers in respect of which a (reduced) claim still exists after inclusion of the overbid, the issue will be solved by the planned zero-setting and cancellation of debt, which also applies to customers in the PF system.

Adjustment for ORIS 171177.a

ORIS 171177.a concerns O-01 cases in which the bank has assessed that Realkredit Danmark should have ensured that the customer's outstanding debt after Realkredit Danmark's resale of a property which Realkredit Danmark had taken over at a forced sale was capped at the market value of the outstanding debt at the time of forced sale.

The issue is handled by the bank ensuring that the starting balance registered in the PF system does not exceed the market value of the outstanding debt not taken over at the time of forced sale. In cases where this is the case, the registered starting balance will be reduced to the market value of the outstanding debt not taken over at the time of the forced sale.

Adjustment for ORIS 164854.b

ORIS 164854.b concerns a number of cases in which customers have been charged too high debt collection fees. The reason for the issue is a derived effect of root cause 1, as the bank has potentially sent incorrectly calculated claims to debt collection agencies. Subsequently, the customer may have overpaid in the form of too high debt collection fees calculated on the basis of a claim that was too high. The bank calculates the compensation on the basis of information about the customer's original PF claims, among other things.

The compensation amount is determined separately for each claim and is subsequently "handed over" to the deterministic model. The overcollection adjustment will be made by reducing the 10-year unsecured debt. If the correction amount is larger than the 10-year debt, the 3-year debt will be reduced.

We believe that the bank's approach to the calculation of the compensation amount for this issue appears to be adequate. As regards fees which may have been approved by the enforcement court, we have noted that, according to our information, exact entries exist at the bank which may form the basis for the bank's compensation calculations.

5.3.3 *Early exit*

Figure 30 – Early exit criteria form part of the logic of the total compensation calculation



As is the case with the DCS system, the bank also applies so-called early exit criteria to the PF system. The background is that the bank should not adjust for the merger of principal amount and interest if payment or acknowledgement has taken place *before* the entire debt or parts thereof could be time-barred. Interest, fees and costs are not included in the compensation calculation for all claims that do *not* meet the early exit criteria, and the bank considers this to be one of the customer-friendly elements of the compensation calculation.

Thus, if a PF claim meets the early exit criteria, the effect is that debt with a 3-year limitation period and debt with a 10-year limitation period (as split by the deterministic model) are included in the starting balance as a basis for the model calculation. As regards claims that do not meet the early exit criteria, debt with a 3-year limitation period will not be included in the starting balance that makes up the original debt in the calculation model.

A PF claim meets the early exit criteria if

- the case is closed 3/5 years after the date of loss
- the claim is acknowledged within three years from the date of loss for the period after 1 January 2006. The same applies if acknowledgement has taken place within 5 years from the date of loss for the period before 1 January 2006, or

the case is active but not fully repaid in the PF system after the last day when it was possible to make payments in the PF system after the Pause logic *and* the claim therefore had been transferred to the PF system within a period of three years prior to the compensation payment date.

If the customer acknowledges the debt (second bullet), all parts of the claim will have the same limitation date and period (ten years), and that is why, according to the bank, this criterion of early exit will sufficiently reduce the risk of time-barring of those parts of the debt that are otherwise subject to a limitation period of three years.

We have assessed the bank's early exit criteria, including the potential failure to make adjustment for root cause 1 and the importance of whether a customer has acknowledged a claim. In this connection, we have no comments on the approach chosen by the bank.

5.3.4 *Special information on agreement logic*

Figure 31 – The bank's agreement logic forms part of the total compensation calculation



The PF system differs from the DCS system in that a customer cannot make payments on their debt without having a prior agreement. It is noted that agreements in the PF system do not necessarily mean that an agreement has been made with the customer under the provisions of the Danish Contracts Act.

However, an agreement means that a case officer has set up a repayment arrangement in the system for the claim in question, and often – but not always – an actual agreement has been made with the customer.

It is possible to enter into several agreements in relation to one claim, and it is also possible that multiple debtors are linked to one or more agreements, all relating to the same claim. However, each debtor can only be linked to one active agreement at a time.

5.3.5 Calculation model (calculation of compensation)

Figure 32 – The calculation model forms part of the total compensation calculation



As stated above in section 5.1.2, the calculation model is the second part of the total compensation calculation for the PF system. When the deterministic model is used, the calculation model is given the corrected starting balance as input and thus the basis for the calculation of any compensation. Potentially time-barred 3-year debt is then not included in the starting balance, unless the customer is subject to an early exit criterion, whereas debt with a limitation period of 10 years constitutes the basis of the calculation.

As with the DCS system, if the payments exceed the original debt, an amount is paid to the customer – *the nominal compensation* – in order to compensate the customer for the overcollected amount with the addition of *time and tax compensation*.

As interest accrued in the period when a claim has been registered in the OP and PF systems is not included as a part of the claim in the calculation model, any interest calculation errors will be adjusted at the same time in the PF system (ORIS 166446.a-c).

As described above, the calculation model has been validated by sample checking, and the results of this validation are described below in section 5.5.

Time compensation

The time compensation is calculated for the PF system in the same way as for the DCS system. We refer to the description in section 5.4.4.2 of our report no. 4 of 4 June 2023.

The calculation model calculates time compensation as far back as allowed by structured data regardless of whether the customer's claim for compensation may be time-barred. In the PF cases, the data available sometimes date back to the 1980s. In addition, in its calculation the bank uses an interest rate equal to or higher than the official late-payment interest rate. We have verified that this was the case for the entire relevant period. In this connection, the bank has stated that the combination of a portfolio of cases dating back to the 1980's and an interest rate that is higher than the interest rate in force reflects a particularly customer-friendly approach. The pay-out date will be the end date of the time compensation calculation. On this basis, we have no comments on the bank's calculation of time compensation.

Tax compensation

Tax compensation for claims in the PF system is generally handled in the same way as described in our report no. 4 of 4 June 2023 regarding the DCS system as the bank has stated that the customer-friendly assumptions in the calculation model entail that the amount resulting from the model calculation is considered to cover both nominal compensation and tax compensation (tax rate of 37.8%).

Selected PF claims will, however, be subject to separate tax compensation because the bank is of the opinion that there is otherwise a risk of undercompensation. These claims are described in greater detail in section 5.3.6.

5.3.6 Calibration and corrections

Figure 33 – Corrections and calibration form part of the total compensation calculation



Calibration

As is the case with the DCS system, the bank also makes a calibration (i.e. a downward adjustment) for PF claims of the calculated compensation in the calculation model. As regards the PF system, the results of the calculation model will generally be calibrated at 60%. This means that 60% of the amount will be deducted from both nominal and time compensation. Whether this can be done without resulting in an unacceptable risk of undercompensation is described in section 5.5 below.

For a total of six sub-segments of customers, the bank's random checks have shown a high degree of risk of undercompensation at 60% calibration. Consequently, the bank has set other calibration percentages for the segments in question and also performs individual adjustments. This applies to the following:

- Three segments with no calibration and addition of separate tax compensation:
 - Claims under repayment agreements where an interest rate of 0% has been agreed and the entire amount has been repaid
 - Claims affected by ORIS 164854.b – incorrectly calculated debt collection costs from external debt collection agencies
 - Claims with agreements where the principal exceeds the debt transferred to the PF system

- Claims affected by ORIS 166446.a – overlapping interest. A calibration of 19% is performed.
- Two segments where a calibration of 40% is performed:
 - Claims where the compensation is mainly due to the reduction of the debt in the deterministic model and not the non-calculation of interest in the calculation model. For these claims, the entire debt must also be repaid.
- Claims with a long-term repayment arrangement from before 1998.

The bank has stated that the compensation, as is the case for customers in the DCS system, is limited to a maximum of the customer's total payments in the PF system in cases where the customer has previously received compensation.

5.3.7 Allocation of compensation

Figure 34 – The allocation of compensation forms part of the total compensation calculation



Compensation for claims in the PF system is calculated at claim level. This also applies when there are multiple debtors to an individual claim and the compensation amount thus needs to be split with a view to determining the individual customer's compensation amount.

When several debtors are liable for a claim in the PF system, they may individually have entered into one or more payment agreements with the bank, or they may have entered into one or more joint payment agreements (or a combination of these). In this connection, the bank has informed us that the calculation model can link payments made to a given claim together with the related payment agreement(s). However, the PF system cannot identify *who* made a specific payment on a particular payment agreement.

The calculated compensation for the total claim is therefore initially distributed proportionally between the linked payment agreements, depending on the amount paid under the respective payment agreements. For example, if two payment agreements are linked to one claim, and if the two agreements account for 60% and 40% of payments, respectively, the compensation between the two agreements will also be 60% and 40%.

The compensation will be paid to the customer(s) with whom the payment agreement was concluded. If a payment agreement has thus been concluded with one debtor, the debtor will receive the entire compensation amount attributable to the payment agreement in question.

If several debtors are linked to a payment agreement, the bank has informed us that the debtors are always jointly and severally liable for the payments under the payment agreement. In such cases, the compensation amount is distributed equally between the debtors who have entered into the payment agreement in question as data is not available to show *who* among the debtors in question has actually made the payments.

As the bank, according to the information available, has no information about the source of funds, the solution outlined seems to be a reasonable starting point.

As described above in section 4.1.7, we believe that the distribution of compensation chosen should be communicated clearly to the customers in the bank's letters of communication, including an indication of how the compensation is distributed and of the basis on which the compensation was distributed. In our opinion, the bank should also inform its customers that they may disagree with the distribution of compensation chosen by the bank.

Further, in our opinion, customers may in some cases be entitled to receive compensation from the bank for renewed payment of compensation if the distribution chosen does not give accurate information about who actually made payments to the account. Therefore, it is also our opinion that the bank's approach, in which the "correct" distribution is not always determined before payment is made, requires that the customers receive specific information about the total compensation amount for the claim in the PF system and how it is distributed. The bank has stated that this will be included in the compensation letters used by the bank, and it is also reflected in the drafts we have presented with.

5.4 Sample checks

5.4.1 *Introductory remarks*

The bank's hypothesis (see section 5.1.3 above) is based on the fact that the samples taken must be calculated correctly to constitute a robust test of whether the model-calculated compensation is sufficient.

As in the calculation of the compensation amount, a sample check consists of two parts; the first part breaks down the starting balance manually so that the parts with a limitation period of 3 and 10 years, respectively, can be calculated separately, and a number of specific starting balance errors are corrected. In the second part, an automated recalculation of the claim is made on the basis of the manually calculated and divided and corrected starting balance. Errors related to calculation of interest on the claim are handled at this step.

The bank has taken about 1,400 samples of the population of about 8,800 claims for which payments have been registered in the PF system and which are covered by this report no. 5. This is therefore a significant share of the population.

5.4.2 *Manual recalculation of the starting balance and data validation*

5.4.2.1 *General information about the manual recalculation of the starting balance and the breakdown into balance types*

In the first part of the calculation of samples, the starting balance is recalculated and broken down as the bank's employees manually review each individual case and recalculate and break down the starting balance (deriving from the OP system) into the correct balance types. According to the bank, this takes into account the errors that have arisen as a result of the debt being transferred as one single item from the OP system to the PF system.

In addition, correction is carried out in the manual workflow for a number of specific errors described in section 5.4.2.2 below.

The parts of the debt not covered by the proceeds and thus constituting the recalculated starting balance will, once the review of a case has been completed, be broken down into five balance types. The breakdown ensures the "handling" of sub-issues 40.a-b.

Regardless of file type, the balance types are the following:

- outstanding debt (principal amount)
- payment of capital (the part of a payment of capital and interest that represents principal repayment)
- interest (also includes late-payment interest and administration margin)
- fees
- costs

The review is based on a work description, which specifies the steps to be completed by the employee for each of the three case types covered by this report no. 5. The work description is a distinctly technical document that requires in-depth knowledge of the bank's systems and business procedures. The work description has been reviewed and approved by the bank's legal department. We have only been presented with a very general written approval, but no detailed assessment of the work description, including a description of specific legal choices and assessments, etc. It has therefore been difficult for us, on the basis of a reading of the documentation, to obtain sufficient insight to assess the bank's work.

On several visits to the bank, however, we were able to attend the review of a number of cases and ask questions during the process. We have also asked questions in writing that the bank has answered. In the final phase, the bank also provided a general instruction describing in more general terms how the manual recalculation has been carried out. However, the latter document was not available in connection with the case officers' review of the cases and therefore does not constitute documentation of how the work was actually performed at the bank. According to the bank, this document was prepared for the sole purpose of giving us a better understanding of the work process. We find, particularly on the basis of our visit to the bank, that we have gained sufficient insight into the work process.

In the process described to us, the case officer also registers dates for any actions suspending the limitation period taken in the period after the claim was registered in the OP and PF systems, if these are not already in the bank's registers. On the other hand, no real assessment is made as to whether all or part of the claim is time-barred as this assessment is made in the subsequent automated step. Nor is there a follow-up on whether the limitation period is subsequently identified in the next step (calculation in the PF claims recalculation) in cases where an employee may identify a time-barred claim.

For each case, the employee records their calculations in a checklist and the parts of the calculation to be used in the next step (calculation of any overcollection in the PF claims recalculation based on the starting balance) is recorded in a documentation log. The overall review is subject to a quality check, which is assessed below in the section on four-eyes checking (section 5.4.2.5).

5.4.2.2 *Handling specific errors*

For the bank's validation to be accurate, it is a requirement, as stated in section 5.1.3, that the manual recalculation of the starting balance corrects the issues it intends to correct. The issues to be addressed in the manual recalculation are described below together with our assessment of the handling of each individual issue.

Sub-issue 40.c concerns situations where customers have been charged legal fees that the bank was not entitled to in a sub-set of the I-05 cases. The issue has been solved by ensuring that relevant cost codes have been completely excluded from the debt in the calculation. We have no comments on this.

Sub-issue 40.d concerns cases where the customer has not benefited from a so-called overbid between the first and second sales. The issue will be solved by the bank by including the overbid as part of the bid price in connection with the calculation. We have no comments on this.

As described above in section 5.3.2, ORIS 171177.a concerns cases in which the bank has assessed that Realkredit Danmark should have ensured that the customer's outstanding debt after Realkredit Danmark's resale of a property which Realkredit Danmark had taken over at a forced sale was capped at the market value of the outstanding debt at the time of forced sale.

The issue is handled by the bank ensuring that the starting balance registered in the PF system does not exceed the market value of the outstanding debt not taken over at the time of forced sale. In cases where this is the case, the registered starting balance will be reduced to the market value of the outstanding debt not taken over at the time of the forced sale. We have no comments on this.

ORIS 164854.b concerns a number of cases in all three categories where customers have been subject to overcollection in the form of collection fees that were too high. The bank will correct the issue by deducting the debt collection fee from the 10-year debt. If the 10-year debt is DKK 0, the debt collection fee will be deducted from the part of the debt with a 3-year limitation period. We have no comments on this.

5.4.2.3 Completeness and quality of the data basis

In addition to the process of recalculating the starting balance, we also examined the data basis in relation to whether it is complete and the quality thereof as a correct final result of the recalculation assumes that the calculation is made on the basis of correct data.

In its work description, the bank states the information and data points on which it bases the recalculation, where the information and data points are available and what validation must be performed. The recalculation is made on the basis of a large number of data points that originate from five different systems. For data collection and validation purposes, various types of documentation, such as sales presentations from forced sales, repayment receipts, mortgage payment letters, signed agreements, etc. are used.

Not all data is available in all cases. On our visit to the bank, the bank explained how the cases are divided into three categories on the basis of data quality:

Category 1: All documentation is present (i.e. repayment receipt, particulars of sale, mortgage payment receipt and signed declaration of debt if a settlement has been made).

Category 2: The repayment receipt is on the file, but the particulars of sale do not exist. Here the order of priority is used as specified in the OP system.

Category 3: In these cases, there is no repayment receipt, which is key to performing a precise recalculation and breakdown by balance type. Without this receipt, it is not possible to calculate the cases exactly, which is why the bank uses the deterministic model. The recalculation is then based on a number of assumptions in the deterministic model which the bank considers to be customer-friendly.

There may also be differences in data related to the age of the case. Before the second quarter of 1991, the bank started using a new system format, and from that date, the arrears on the repayment receipt were only listed as a total balance for payment of capital, administration margins, interest and late-payment interest and therefore could not be broken down. In these cases, the bank chooses to place the full amount of arrears under “interest” balance type, i.e. on the part of the debt subject to a limitation period of three years, which the bank considers a customer-friendly choice as part of the arrears is in fact principal repayment, which is subject to a limitation period of 10 years.

We have reviewed the two simplest case types (I-02 and I-05) and, for each data point in the recalculation, examined the data input, the data type and the system in which the data point was read, and whether the data points were individually validated (by looking up documents in the case or the like). We see that key data points are not validated but are used merely as registered in the systems. This applies, for example, to the date of loss (which affects the limitation date) and the amount of proceeds in a non-forced property sale (which affects the share of the claim that is covered when the mortgage is sold). The quality of these data points is therefore unknown. However, the bank has assessed that there are no systematic errors in the data from the OP system based on the sample checks performed (see section 5.4.2.4).

5.4.2.4 *Distribution of debt in O cases*

In its work description for the manual recalculation of the starting balance, the bank has described certain situations in which material is missing, but in which the employee can nevertheless calculate a breakdown of the debt in the categories with a limitation period of 3 and 10 years, respectively. This applies, for example, to the O-01 cases where the particulars of sale are not available, but where the employee can “recreate” the particulars of sale. This is done by the employee finding in the system outstanding debt and arrears at the time of sale and adding the amounts up. The employee will then compare the sum with the balance from the OP and PF systems. If a share of the balance from the OP system and the PF system cannot be derived from the documentation available to the bank, this share is treated as having a 3-year limitation period. The bank therefore believes that it has made a customer-friendly choice. The bank has established a control consisting of 150 O-01 cases in which the original particulars of sale are available and where the bank has been able to compare the debt as calculated herein with the balance stated in the OP system and the PF system. Out of 150 cases, three cases showed a higher balance in the OP system and the PF system than the opening balance documented on the basis

of the particulars of sale, corresponding to 2% of the cases.

The bank has therefore generally concluded that the balance in the OP system and the PF system is suitable for calculating compensation and that there is thus no systemic risk that the starting balance in the PF system is too high. We agree with the bank's approach, but note that there is a small risk that a few sample checks are based on too high a starting balance.

5.4.2.5 *Four-eyes checking*

The bank has implemented a so-called four-eyes check to validate the manually recalculated samples to support the hypothesis that the manual recalculation of the starting balance is performed correctly and thus provides a secure basis for the validation of the model calculation.

The four-eyes check must ensure that the bank's case officers perform the manual recalculation correctly in accordance with the work description and that attempts are thus made to minimise the number of operational errors in the process. We note that the bank performs four-eyes checks of all cases unlike the DCS system. However, the checks do not include a complete investigation of the case as it is the case for those cases selected for quality checking in the DCS system.

During visits to the bank, we have seen how the bank performs the four-eyes check for all three case types, I-02, I-05 and O-01. After our visits in relation to the four-eye checks, the bank has submitted a relatively brief itemised description of the contents of the checks and also separate detailed instructions for each case type with a list of the items to be checked.

We note that the four-eye checks, as stated above, do not include a complete investigation of the case as it is the situation for those cases selected for quality checking in the DCS system. The instructions for the control submitted to us are also dated after the time when most of the sample checks were investigated, which gives rise to uncertainty as to whether the process described in the instruction has been followed in connection with the actual work. Finally, the checks are characterised by many manual steps resulting in the risk of undetected errors.

5.4.3 *The PF claims recalculation (compensation calculation)*

The second part of the calculation of the sample consists of the use of the PF claims recalculation. The purpose of the PF claims recalculation is to recalculate the customer's case based on the starting balance established and divided into the manual recalculation of the starting balance, the payment agreements entered into by the customer and the payments made.

The PF claims recalculation is a model built into an independent IT system that, in addition to the functionality for recalculating the cases on a correct data basis, also contains built-in logic to ensure that claims or parts of claims that become time-barred are excluded from the calculation (see section 5.4.3.1 below).

It is a difficult and extensive task to validate whether such an independent IT system works as intended and whether the use of the system produces reliable and consistent results in relation calculating whether the bank's customers may be entitled to compensation. We have therefore to a large extent planned our work of examining the usability of the system for calculating compensation for the bank's customers on the assumption that our conclusion – in addition to a basic review of the bank's system documentation – could build on an examination and assessment of the bank's own tests and validations (see section 5.1.3 on the bank's hypothesis).

5.4.3.1 The bank's work on developing the PF claims recalculation

As stated above in section 5.4.3, the fundamental purpose of the PF claims recalculation is that the system, on the basis of input regarding the divided starting balance, can recalculate cases so that the result is a recalculation of a case that is not affected by the specific errors that the bank is currently aiming to pay compensation for through the model-calculated compensation.

As opposed to the objective of the model-calculated compensation that generally removes all interest and costs relating to the debt collection period, the objective is for the PF claims recalculation to make a presumptively more accurate recalculation of a customer case, including interest and costs – but the calculation must still use a number of customer-friendly calculation principles.

As described in section 5.1.1 of our report no. 1 of 31 October 2021, there were functional limitations in the original PF system, which meant that the system could only record a total amount per claim – that is, so the system could not handle a breakdown of the debt into principal, costs, interest, administration margins and fees. At the beginning of the debt collection case, the bank admitted that this functional limitation had resulted in a number of debt collection errors, including incorrect calculation of interest and failure to address time-barring.

In 2021, the bank started developing a new version of the PF system. The development included functionality that allows debt to be divided into several balance types. According to the bank's documentation, the work included specification and development of 55 new modules for the PF system. According to the bank, it has "recoded" or made corrections to about 40% of the original system code. The result of this development work is a new version of the PF system named "the updated PF system" by the bank. Originally, the purpose was for the updated system to provide the foundation for the future debt collection process, but after that plan was abandoned, the system has been redesigned to be used to recalculate claims.

As a result of the above, our position on the suitability of the PF claims recalculation actually comprises two main questions: 1) whether the updated PF system has been developed in such a way that it is useful and that the errors and inadequacies of the system already identified do not affect the recalculation and 2) whether the further development of the system for the PF claims recalculation has also taken place in such a way that the system produces reliable and consistent results that can be used as a basis for the sample-based review (see section 5.1.3 above on the bank's hypothesis).

a) Development of the updated PR system

We have not seen all of the documentation for the PF system, and we have not validated whether the system has errors other than those identified by the bank in connection with the debt collection case.

In relation to the further development in 2021, the bank has described the actual development process, including the preparation of what is known as user stories. These user stories were then broken down into concrete solution designs, which in turn formed the basis for system coding and implementation. Finally, the bank completed verification and validation tests with a view to ensuring that the system worked as intended.

The bank has explained that the development process has included consideration of both business and legal requirements for the system, including clarification of matters related to time-barring and interest calculation, etc. Input from the process of legal clarification is indirectly reflected in the requirements expressed in user stories, but the legal clarifications and choices are not explained here, and there is no full set of written material documenting the bank's considerations in connection with the development process.

We have not seen any documentation showing the connection between "functional requirements" of the individual "user stories" and, for example, legal or business clarifications made by the bank in connection with the development process. The material which we have had access to therefore appears to be fragmentary, and it is difficult on the basis of this material to make a thorough assessment of the usability of the system.

The bank has shown us examples of user stories, test cases and screen dumps from the updated PF system. The bank has also explained the validation process, including the way in which the bank has ensured that the completed validation tests have been satisfactory and adequate in relation to the total functional requirements. Although it is difficult for us to gain satisfactory insight into the specification of requirements on this basis, it is our impression that the work has generally been carried out in a structured and organised manner and that the bank, in connection with the development process, has ensured that the required business and legal capabilities have been involved to a relevant extent.

As described above, the PF system does not form part of the bank's future system support for debt collection, and it therefore falls outside the scope of our investigation to perform a more in-depth investigation of the functionality of the system. Thus, we cannot comment on whether the system contains errors or inadequacies other than the ones identified by the bank, and we have not been able to verify and validate whether the system now operates without the errors that originally existed.

- b) As stated, the PF claims recalculation is based on the updated PF system. We understand that the changes made by the bank to the updated PF system to develop the PF claims recalculation have primarily aimed at ensuring that the system could be used to recalculate legacy cases retrospectively rather than to create claims and handle interest and payments prospectively. According to information received, the bank has also made various adjustments to the system's interest calculation functionality.

We have not seen any documentation of the completeness of the bank's legal validation of the development undertaken in connection with the coding of the PF claims recalculation.

According to bank, it completed an internal evaluation of the programming of the PF claims recalculation during the period from January to April 2023. The evaluation primarily covers the programming code (i.e. code quality and general code maintenance) and *not* the actual question of whether the PF claims recalculation provides sufficient functionality and business logic to ensure correct handling of payments, returns and time-barring, etc. Finally, the evaluation appears to cover only parts of the system.

In order to validate the results of the PF claims recalculation, the bank has completed a total of 120 validation tests that check whether the end result has been correctly calculated. The tests were carried out by the bank manually recalculating 120 specific cases. The results of the manual recalculations were then compared against the results produced by the PF claims recalculation.

The comparison shows that the calculation made by the PF claims recalculation in cases covered by this report no. 5 is more "customer-friendly" than the manual recalculation.

In its tests, the bank found several scenarios in which the calculations made by the PF claims recalculation were not correct. The bank has identified the reasons for this and has on this basis chosen to postpone the processing of cases with the same characteristics.

34 of the 120 validation tests concern segments of claims that are dealt with in this report no. 5.

The bank's Model Risk Management carried out an evaluation of the test process in July 2023. Model Risk Management concluded that the data basis and the approach adopted to the recalculation were correct. Model Risk Management stated, however, that the department had not examined the actual code of the PF claims recalculation or the updated PF system. Instead, Model Risk Management based its evaluation on the fact that the code was evaluated in the bank's internal evaluation process.

With reference to the above, we note that we have not seen an overall and systematic validation of the functional requirements laid down by the bank for the PF claims recalculation, including the manner in which the original PF system was adjusted to the updated PF system and further developed for the PF claims recalculation. This makes it difficult for us to assess, on the basis of the bank's specification of system requirements, whether the bank's use of the system produces reliable and consistent results.

The bank's subsequent validation of the PF claims recalculation mainly consisted of the review of the 120 sample (see point b above). The result of the sample check contributes to substantiating that the tests carried out were adequate and that the tool works as intended.

We note that the lack of insight into documentation that we point out above, including the lack of documentation of all requirements for the PF claims recalculation, is very much due to the fact that it is more difficult to get an overview of the completeness of functional requirements and tests when the development is based on agile principles and when the development is based on an existing IT system. We have therefore not been able to validate whether the bank has defined the necessary requirements for the system or thus whether the tests carried out are accurate.

We also note that we have no reason to doubt that the bank has generally aimed to perform the work conscientiously or that the work has generally been planned with a view to ensuring that the system would produce correct and consistent results. Among other things, we see that the bank's legal department has been involved in the development process even though this has not in all cases resulted in documentation of legal clarifications.

On balance, we note that the bank's use of the PF claims recalculation for random validation of the model-calculated result is probably suited for providing a true and fair view of the risk of undercompensation. However, the weaknesses in the validation carried out by the bank itself imply a not easily quantifiable risk that the tool will produce incomplete or inconsistent results in segments of cases. This may but does not necessarily have to lead to inaccurate risk figures for the bank. On the basis of the information available, we are, however, of the opinion that this uncertainty does not alone give rise to such doubt as to the bank's risk figures that the figures cannot be used as a basis for the decision to pay compensation to the bank's customers.

5.4.4 Summary

On balance, we find on the basis of sections 5.4.2-5.4.3 above that the sample check constitutes a sufficiently reliable basis for assessing whether the bank, at an acceptable degree of probability, has identified the customers entitled to compensation due to overcollection by the bank for the errors described in section 5.2.1 and whether the customers, at an acceptable degree of probability, will be offered model-calculated compensation corresponding to and often exceeding their actual loss due to overcollection.

Regarding the manual recalculation of the starting balance, our assessment is subject to the uncertainty that, for the O-01 cases, we see a small risk that a few sample checks are based on too high a starting balance (see section 5.4.2) because the bank's sample checks have shown a small number of cases (3 out of 150) in which operational errors had caused too high a registered starting balance in the PF system. However, this matter is considered not to have had a decisive impact on the results of the sample check.

Regarding the PF claims recalculation, we note, as stated in section 5.4.3, that the bank's use of the PF claims recalculation for random validation of the model-calculated result is probably suited to provide a true and fair view of the risk of undercompensation. However, the weaknesses in the validation carried out by the bank itself imply a not easily quantifiable risk that the tool will produce incomplete or inconsistent results in segments of cases. This may but does not necessarily have to lead to inaccurate risk figures for the bank. On the basis of the information available, we are, however, of the opinion that this uncertainty does not alone give rise to such doubt as to the bank's risk figures that the figures cannot be used as a basis for the decision to pay compensation to the bank's customers.

5.5 Risk of undercompensation

5.5.1 *The basis of the risk analysis and the selection and representativeness of the sample check*

5.5.1.1 *The basis of the risk analysis*

The bank's risk analysis is made on the basis of sample checks. As mentioned in section 5.1.3 above, one of the bank's three fundamental statements is that the model can be validated by sample checking. An underlying argument in this context is that the samples have been stratified and randomly selected from the relevant segments.

According to the bank, a claim must meet the following criteria in order to form part of the population that forms the foundation for the bank's risk analysis:

- The bank must have received payments on the claim in the PF system. If no payments have been registered on the claim in the PF system, it can, as described in section 5.1.2, for that reason alone be ruled out that overpayment to the bank has taken place.
- Claims must be included in the population covered by this report no. 5. Claims postponed for further processing are not included in the sample.

5.5.1.2 Sample sizes, randomness and representativeness of sample checks

In order to achieve sufficient representativeness, the bank has stated that its objective is to perform sample checks corresponding to a minimum of 1% and a minimum of 30 cases of the total number of claims in each segment. For smaller segments, the bank has derogated from its objective of a minimum of 30 cases to the effect that a smaller number of sample checks have been made in the segment based on a specific assessment. For some segments, this may cause uncertainty about the bank's calculated risk of undercompensation (see section 5.5.3).

According to the bank, the samples are generally randomly taken. In practice, the samples are taken in four steps. The first three steps are performed on the basis of a completely random selection of samples across claim types, number of payment agreements and number of debtors, and the representation of additional issues involved. In the fourth step, cases where customers must be expected to be entitled to a large amount of compensation are selected because these cases are assumed to involve a higher risk of undercompensation.

The bank's test of representativeness

The bank has analysed sample to assess whether they are sufficiently representative. For example, the samples are compared with the total population in order to assess differences in relation to the age and amount of the debt and the repayment rate. The bank has submitted examples of such comparisons showing relatively close convergence between the *age* of the debt of the claims in the total population and in the samples. As regards the *size* of the debt, there is an imbalance in the form of overrepresentation of cases involving a large debt in the sample. The bank states that this is an intended consequence of the selection process for the sample check focusing on selecting cases with large compensation amounts because the amounts of compensation and debt are expected to be correlated.

The bank has also made comparisons on the basis of payments and repayment rates. The comparisons were made on the basis of 8,776 claims with payments. The comparisons show that the samples generally represent more claims with large payments and with high repayment rates compared to the PF population in general.

For instance, 42% of the samples have total payments of more than DKK 100,000 as opposed to only 16% of the population. Similarly, 50% of the samples have a repayment rate of more than 120% compared with only 17% for the total population. In the bank's opinion, the reason for these differences is that claims involving a large amount of compensation were a selection criterion in step four in the selection of samples.

The bank has performed a number of supplementary statistical tests of the representativeness of the samples. On the basis of the information available to us, these tests do not give rise to any comments on our part, and, overall, we have no comments on the stratification and representativeness of the samples.

5.5.2 Calibration

The bank's calculation model generally uses a calibration factor (reduction in the model compensation's preliminary result) of 60%.

The process of setting the calibration level has been planned so that the bank has carried out a more detailed examination to determine the underlying cause in the event of high risk figures. Subsequently, the bank has adjusted the established processes to reduce the risk of undercompensation. Such adjustment may involve the bank reducing its calibration rate to increase the nominal compensation. The risk figures have subsequently been recalculated using the new calibration. Calibration is carried out of the sum of the nominal compensation and time compensation. The bank has analysed the risk of undercompensation and set the level of calibration on the basis of the risk figures.

Systemic risk factors

In its risk analysis regarding undercompensation, the bank has identified six typical cases in which the risk of undercompensation exceeds or is close to the risk threshold value defined by the bank. In these cases, the bank has adjusted the level of calibration.

We are of the opinion that the bank's mitigating initiatives are sensible given the risk figures measured before and after. It should be noted, however, that for the very small sub-segment "Agreements under which the principal exceeds the debt transferred to the PF system", the number of samples is very small (4) out of a population of 23. The sample size for this sub-segment gives rise to uncertainty about the risk of undercompensation calculated by the bank.

The bank's approach to the six typical cases are described in greater detail in figure 35 below:

Figure 35 – Risk factors with sub-segments with risk figures before and after mitigation

Sub-segments per risk factor	Portfolio Samples	Risk before (60% calibration)	Risk after	Initiatives to reduce risk
ORIS 166446.a Overlapping interest	1,161 ----- 184	17.4%	0.5%	<ul style="list-style-type: none"> Calibration reduced to 19%
Payment agreements under which the interest rate is set at 0% and the full amount has been repaid	459 ----- 22	35.4%	0.0%	<ul style="list-style-type: none"> Calibration is eliminated Tax compensation is added (37.8%)
ORIS 164854.b – incorrectly calculated collection costs at external debt collection agencies	338 ----- 30	20.0%	0.0%	<ul style="list-style-type: none"> Calibration is eliminated Tax compensation is added (37.8%)
Agreements under which the principal exceeds the debt transferred to the PF system	23 --- 4	100%	0.0%	<ul style="list-style-type: none"> Calibration is eliminated Tax compensation is added (37.8%)
Adjustment of debt affects compensation	1,275 ----- 283	7.4%	1.1%	<ul style="list-style-type: none"> Calibration reduced to 40%
Claims with long-term settlement agreements	252 ----- 47	8.5%	0.0%	<ul style="list-style-type: none"> Calibration reduced to 40%

5.5.3 Analysis of the bank's risk figures

One of the bank's supporting arguments in favour of the hypothesis target being fulfilled is that the risk of undercompensation does not exceed 5% at portfolio level and 10% in relevant sub-segments. This corresponds to the risk level that the bank has generally considered acceptable throughout the debt collection case, including in the compensation model for the DCS system (see section 4 above).

Risk figures for main segments, sub-segments and additional issues:

The bank's analysis of the sample check shows risk figures at the portfolio level and for main segments (case types) and their sub-segments. The risk figures for sub-segments are broken down by the number of debtors and payment agreements and by additional issues and ORIS reports that affect the individual claims.

The risk analysis is based on sample sizes that in most cases meet the bank's requirement that the number of samples in a segment must comprise 1% of the total number of claims in the segment and that at least 30 claims must be sampled in each segment.

The total risk of undercompensation calculated by the bank in cases in which compensation is paid in respect of claims in the PF system is 1.9% and thus below the bank's threshold value of 5%.

The bank has calculated the following risk figures for the individual segments of claims in the PF system:

Figure 36 – Risk figures broken down by segment

Segments	Requirements	Samples	Risk figures
Main segments			
I-02 Non-forced property sales	1,805	179	2.2%
I-05 Forced sale, property is taken over by a third party	1,367	57	3.5%
O-01 Realkredit Danmark takes over the property in a forced sale	5,604	392	1.5%
Sub-segments			
Debtor with one agreement	3,444	162	1.9%
Debtor with multiple agreements	3,436	284	2.1%
Multiple debtors with one agreement	596	50	4.0%
Multiple debtors with multiple agreements	1,300	132	0.8%
Additional sub-issues			
Issue no. 2	0	0	n/a
Sub-issue 40.a-b	8,776	628	1.9%
Sub-issue 40.c	1,367	57	3.5%
Sub-issue 40.c	1,367	57	3.5%
ORIS 171177.a	1,782	135	1.5%
ORIS 164854.b	338	30	0.0%
ORIS 166446.a	1,161	184	0.5%
ORIS 166446.b	1,086	113	1.8%
ORIS 166446.c	42	7	0.0%
Report no. 5 portfolio	8,776	628	1.9%

Risk figures for repayment ratio, number of loans and sales price

The bank has also analysed the risk figures in relation to the repayment ratio. For a few sub-segments, the bank's risk calculation is based on a small number of samples (less than 30 samples), and this gives rise to uncertainty about the calculation of the risk of undercompensation, including in particular in the sub-segments where cases of undercompensation have been identified. For example, one case of undercompensation has been identified among 13 samples in the sub-segment "Multiple debtors with one agreement" with a repayment ratio of more than 125%, the result being a calculated risk of undercompensation of 7.7%.

We believe that the calculated risk of undercompensation at the "portfolio level" is acceptable and is based on an acceptable sample size. In this connection, we also find that the risk of undercompensation in the individual sub-segments calculated by the bank is acceptable or – in cases in which it exceeds 5% – is subject to such uncertainty because it is based on a small sample size and a low number of observed cases of undercompensation. We are therefore of the opinion that, for the total population of claims, it is reasonable to conclude that the risk of undercompensation is at an acceptable low level.

Figure 37 – Repayment ratio broken down by segment

Segments	Repayment ratio			
	0-100%	100-125%	>125%	Portfolio
	Portfolio Samples Risk figures	Portfolio Samples Risk figures	Portfolio Samples Risk figures	Portfolio Samples Risk figures
Single debtor with one agreement	2,868	205	371	3,444
	85	28	49	162
	1.2%	0.0%	4.1%	1.9%
Single debtor with multiple agreements	2,216	466	754	3,436
	71	68	145	284
	1.4%	2.9%	2.1%	2.1%
Multiple debtors with one agreement	482	53	61	596
	17	20	13	50
	5.9%	0.0%	7.7%	4.0%
Multiple debtors with multiple agreements	880	190	230	1,300
	34	45	53	132
	0.0%	0.0%	1.9%	0.8%
Report no. 5 portfolio	6,446	914	1,416	8,776
	207	161	260	628
	1.4%	1.2%	2.7%	1.9%

The bank has also looked at the correlation between the selling price and the number of loans on the property to examine whether there is an increased risk of undercompensation in cases where the selling price is relatively low and there are multiple loans on the property. On the basis of this analysis, the bank concludes that the risk figure is consistently low for all ranges and that there is no tendency towards an increased risk of undercompensation in the event of low selling prices and multiple loans. The bank's conclusion does not give rise to any comments on our part.

Figure 38 – Correlation between selling price and number of loans on the property

Selling price as a percentage of outstanding debt in relation to number of loans on the property					
No. of loans	0-70% Portfolio Samples Risk Figures	70-80% Portfolio Samples Risk Figures	80-90% Portfolio Samples Risk Figures	90-100% Portfolio Samples Risk Figures	Portfolio Samples Risk Figures
1 loan	950 33 0.0%	462 21 4.8%	830 42 4.8%	545 40 0.0%	2,818 140 2.1%
2 loans	837 50 6.0%	467 26 3.8%	758 87 2.3%	492 33 0.0%	2,586 197 3.0%
>2 loans	973 67 0.0%	593 55 1.8%	977 99 2.0%	764 67 0.0%	3,333 291 1.0%
Report no. 5 portfolio	2,760 150 2.0%	1,522 102 2.9%	2,564 228 2.6%	1,799 140 0.0%	8,776 628 1.9%

The number of claims in the sub-segments does not in aggregate correspond to the number of claims in the total report no. 5 portfolio due to a lack of data concerning number of loans and the selling price for a small number of claims.

Individual risk assessment of the segment with compensation of less than DKK 1

Claims with a model-calculated compensation of DKK 0-1 have been designated for individual risk assessment. In this individual risk assessment, the bank has performed a sample check across complexity levels and amount ranges.

The representativeness and risk figures of the sample are considered to be satisfactory and show that there is no risk of undercompensation for claims with a calculated compensation of less than DKK 1.

This means that the bank, at an acceptable degree of probability, has identified customers entitled to compensation.

The risk of undercompensation calculated by the bank is illustrated in figure 39 below:

Figure 39 – Compensation amounts broken down by segment

Segments	Compensation amount broken down by range				
	DKK 0-1	DKK 1-30,000	DKK 30,000-60,000	DKK 60,000-	Portfolio
	Portfolio Samples Risk figures	Portfolio Samples Risk figures	Portfolio Samples Risk figures	Portfolio Samples Risk figures	Portfolio Samples Risk figures
Single debtor with one agreement	2,317	540	254	333	3,444
	34	28	28	106	162
	0.0%	0.0%	0.0%	2.8%	1.9%
Single debtor with multiple agreements	1,780	644	395	617	3,436
	45	42	65	177	284
	0.0%	4.8%	1.5%	1.7%	2.1%
Multiple debtors with one agreement	413	79	44	60	596
	10	17	14	19	50
	0.0%	0.0%	7.1%	5.3%	4.0%
Multiple debtors with multiple agreements	728	215	121	236	1,300
	31	28	28	76	132
	0.0%	0.0%	3.6%	0.0%	0.8%
Report no. 5 portfolio	5,238	1,478	814	1,246	8,776
	120	115	135	378	628
	0.0%	1.7%	2.2%	1.9%	1.9%

5.6 Individual recalculation

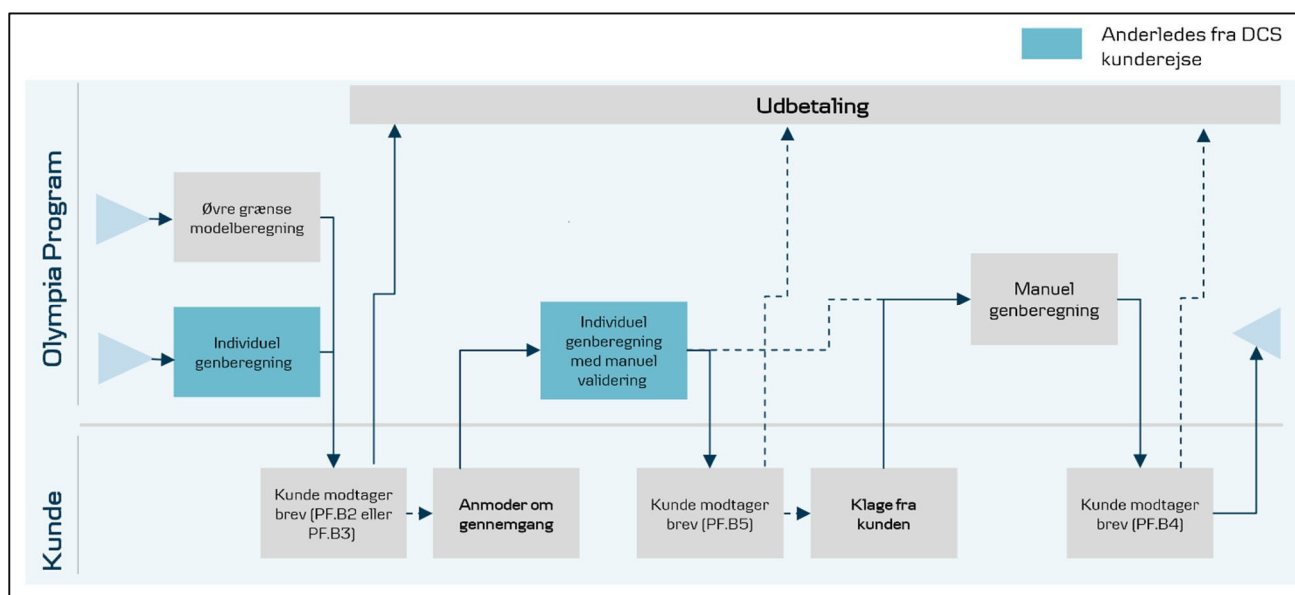
As stated in section 5.1.2, the bank in some cases performs an individual recalculation, which is more precise than the calculation model. In order for the bank to be able to meet the overall objective of compensating the right customers and ensuring that compensation amounts are adequate, the calculation must lead to compensation amounts that, at an acceptable degree of risk of undercompensation, covers the customers' losses resulting from overcollection, also in cases in which recalculation is made in the form of an individual recalculation.

Basically, an individual recalculation consists of the same elements as the bank's model compensation (see figure 22 in section 5.1.2). For the purpose of individual recalculation, the deterministic model, among other things, is used to determine a starting balance, the claim is recalculated using the PF claims recalculation, and in some cases, manual calculation of the starting balance is performed on the basis of the same work description. The observations we have described in relation to the deterministic model and the PF claims recalculation above therefore apply similarly to the individual recalculation.

The bank uses individual recalculation of the customer's debt in two different instances. Firstly, it is used for claims in respect of which the calculation model leads to a preliminarily calculated compensation amount exceeding DKK 100,000 (the bank is considering lowering this limit to DKK 30,000). At a limit of DKK 100,000, this group comprises 700 customers. Secondly, it is also used for customers who request an individual review of their debt collection case after receiving the bank's letter concerning compensation (or no compensation) calculated by the calculation model. In the latter case, the bank performs a manual recalculation of the starting balance (rather than using a starting balance calculated using the deterministic model), which is used as the starting point for calculating the compensation in the PF system claims recalculation.

The two different types of individual recalculation are illustrated in figure 40 below, showing the customer journey for PF customers, where individual recalculation and individual recalculation with manual validation, respectively, are marked in blue boxes:

Figure 40 – Customer journey in the PF system



5.6.1 Individual recalculation of amounts exceeding DKK 100,000

It is the bank's assessment that 700 claims should be individually recalculated because the amount calculated by the compensation model exceeds DKK 100,000.

These cases will automatically be calculated through an individual recalculation. A similar method was applied to DCS cases as mentioned in our report no. 4 of 4 June 2023, in which the threshold for migrated and non-migrated cases was set at DKK 60,000 and DKK 100,000, respectively.

For PF claims, individual recalculation (when it is not performed because of a customer request) is made by first determining the starting balance using the deterministic model (about one third of the claims) or a manual recalculation (about two thirds of the claims), so that the debt is adjusted and divided into 3-year and 10-year debt as described in more detail in sections 5.3.2 and 5.4.2. The second part of the calculation involves using the starting balance of the deterministic model in the PF claims recalculation, which, as described in section 5.4.3, is also used to make the more precise recalculation of the customer's claim as part of the sample check. The individual recalculation is thus an automated calculation. In certain cases, manual checks of these calculations are performed.

Section 5.3.1 above on the validation and control of the deterministic model states that the bank has identified an error rate of 4% for the deterministic model in relation to manually recalculated starting balances.

5.6.2 *Individual review upon request from customers*

A customer may request that the bank perform an individual review with manual recalculation of the starting balance. The offer of an individual review covers customers who will receive compensation as well as customers for whom the model shows that they *are not* entitled to compensation.

The individual review with manual validation takes place in several parts, including manual processing. First, the bank will investigate whether payments have been made on the debt. If payments have been made on the claim, the bank will manually recalculate the starting balance in the same way as it does for the samples (described in more detail in section 5.4.2). The manually calculated starting balance is used as the basis for calculating potential compensation in the PF claims recalculation. The PF claims recalculation results are reviewed by manual validation. According to the bank, a checklist for such validation is being prepared, but has not yet been completed. It has thus not yet been determined how manual validation will be performed. We note, however, that the process for individual recalculation includes elements that involve processes performed by the bank's employees. The reason for the manual processes is, among other things, to ensure compliance with data protection legislation (see section 5.6.2.1).

The bank has stated that, for certain older claims (i.e. claims that arose before 1990), it does not have any documentation and is therefore unable to manually recalculate the starting balance. In such cases, the bank will contact the customer to find out whether the customer can provide the documentation.

5.6.2.1 *Compliance with data protection legislation*

In our report no. 4 of 4 June 2023, we noted that one of the reasons why the bank offers customers an individual review of their debt collection case is that the bank has assessed that a model-based calculation of the compensation amount constitutes *an automated decision* covered by article 22 of the General Data Protection Regulation as the decision is made without human intervention. In this connection, the bank has assessed that, pursuant to article 22 of the GDPR, customers are entitled to individual processing of their case if they so request.

In relation to the PF system and article 22 of the GDPR, the bank's legal department has indicated that, the customer journey – after the customer has received a compensation letter – now includes several steps with human intervention (see section 5.6.2 above).

5.6.3 *Summary*

As described above, the individual recalculation is based on the use of the deterministic model and the PF claims recalculation, respectively, however, to the effect that the starting balance is calculated manually for customers who have requested an individual recalculation and in cases where the bank has decided to perform a manual recalculation (see sections 5.6.1 and 5.6.2).

As stated above in section 5.3.1, it is our assessment that the bank, with a reasonably degree of certainty, has demonstrated that the deterministic model calculates a starting balance that is suitable as a basis for calculating compensation in the individual review. This assessment is subject to the same uncertainties as described in section 5.3 above.

Moreover, as stated above in sections 5.4.3 and 5.4.4, we find that the PF claims recalculation is likely suitable to recalculate the bank's claims and thus form the basis for assessing whether overcollection has taken place. However, the weaknesses in the validation carried out by the bank itself imply a not easily quantifiable risk that the tool will produce incomplete or inconsistent results in segments of cases.

On the basis of the information available, we are, however, of the opinion that this uncertainty does not by itself give rise to such doubt as to the results of the individual recalculation that these results cannot be used as a basis for assessing whether compensation should be paid to the bank's customers and at what amounts. In this connection, we also find it important that customers who disagree with the outcome of the individual recalculation have the option to request a full manual recalculation of their case. Our assessment of the PF claims recalculation is subject to the same uncertainties as described in section 5.4.3 above.

5.7 Our overall observations regarding the bank's calculation of compensation

5.7.1 *Claims without payments (about 30,300 claims)*

We generally agree with the bank that in cases where no debt has been repaid during the period in which the debt was registered in the PF system, overcollection cannot have taken place and the customers are therefore not entitled to compensation as a result of overcollection during this period.

The documentation we have received in connection with our investigation shows that the bank is able to identify the claims of the PF system in respect of which debt repayments have been made, and we are therefore confident that the bank has correctly identified the claims in the PF system in respect of which no debt repayments have been made during the period after the claim was registered in the PF system.

For the sake of completeness, it should be noted that customers who have had a claim registered in the PF system may be entitled to compensation for other reasons, even if no debt repayments were made during the period after the claim was registered in the PF system. In this connection, we note that that the bank has identified a small number of claims without payment in the PF system which may be affected by sub-issue 40.d (see section 5.3.2), which may, under the circumstances, in itself give rise to a claim for compensation for overcollection. We also note that some of the investigations described in section 6 below on the estate case segment also concern the question of compensation, which does not assume that overcollection has taken place.

5.7.2 *Claims handled on the basis of the model-based compensation calculation (approximately 8,100 claims)*

As regards claims handled through the model-based compensation calculation and covered by this report no. 5 (about 8,100 claims) (see section 5.1.1), it is our assessment that the bank has identified customers, with a high degree of probability, who are entitled to compensation as a result of overcollection in relation to the errors described in section 5.2.1.3.

It is also our assessment that the bank, with a high degree of probability, via the model-calculated compensation offer the customers compensation for overcollection that at least corresponds to, and in many cases exceeds, their actual losses resulting from overcollection in relation to the errors described in section 5.2.1.3.

It is our overall assessment that the risk of undercompensation for the claims handled by the model-based compensation calculation and covered by this report no. 5 (about 8,100 claims) (see section 5.1.1) must generally be considered to be low. We cannot point to circumstances or contexts that, in our opinion, should have been subject to further analysis, and which could significantly change the basis for this conclusion.

As described above (see sections 5.3 and 5.4), we have identified uncertainties related to the bank's validation and work processes. None of these matters are, however, considered to have had a decisive influence on the results obtained by the bank in the sample review confirming that the risk of undercompensation for the population of claims in the PF system covered by this report no. 5 is at an acceptably low level.

In this connection, we stress that the bank has applied a number of customer-friendly principles in its objective for compensation, including in particular that the bank will not invoke time-barring in relation to customers' claims against the bank and that the bank will provide time-based compensation to customers for many years of potential overcollection at the late-payment interest rate pursuant to section 5 of the Danish Interest Act.

5.7.3 *Claims handled through the individual review (about 700 claims)*

It is our assessment that the bank, on the basis of the individual recalculation, calculates compensation that, with a sufficient degree of probability, ensures that customers receive full compensation for the errors described in section 5.2.1.3.

As described above, the individual recalculation is based on the use of the deterministic model and the PF claims recalculation, respectively, however, to the effect that the starting balance is calculated manually for customers who have requested an individual recalculation (see section 5.6.2).

As stated above in section 5.3.1, it is our assessment that the bank, with a reasonable degree of certainty, has demonstrated that the deterministic model calculates a starting balance that is suitable as a basis for calculating compensation in the individual review. However, this assessment is subject to the same uncertainties as described in section 5.3 above.

Moreover, as stated above in sections 5.4.3 and 5.4.4, we find that the PF claims recalculation is likely suitable to recalculate the bank's claims and thus form the basis for assessing whether overcollection has taken place. However, the weaknesses in the validation carried out by the bank itself imply a not easily quantifiable risk that the tool will produce incomplete or inconsistent results in segments of cases.

On the basis of the information available, we are, however, of the opinion that this uncertainty does not by itself give rise to such doubt as to the results of the individual recalculation that these results cannot be used as a basis for assessing whether compensation should be paid to the bank's customers and at what amounts. In this connection, we also find it important that customers who disagree with the outcome of the individual recalculation have the option to request a full manual recalculation of their case.

Our assessment of the PF claims recalculation is subject to the same uncertainties as described in section 5.4.3 above.

Finally, we note that the bank also has applied a number of customer-friendly principles in its objective for compensation via the individual recalculation, including in particular that the bank will not invoke time-barring in relation to customers' claims against the bank and that the bank will pay time compensation to customers for many years of potential overcollection at the late-payment interest rate pursuant to section 5 of the Danish Interest Act and that these principles, particularly in old cases, must be assumed to entail that the bank's compensation calculation will overall be to the advantage of the customers.

6. STATUS OF ESTATE CASES

6.1 Overview of estate cases

The bank has decided to separately handle cases concerning customers and former customers who are or have been subject to estate administration etc., so that, with respect to each relevant case type, it is determined whether compensation is to be paid for errors in the debt collection process and – if so – who is to receive the compensation and how the compensation is to be calculated.

At 31 December 2023, the segment of estate cases etc. awaiting a decision about compensation comprised 16,900 cases involving accounts in the DCS system, 9,900 cases involving claims in the PF system and 4,300 cases handled by the bank's Insolvency department, which handles business cases, see section 4.4.2.2 of our report no. 2 of 31 May 2022 (collectively the "estate case segment"). In addition, a number of cases were handled by Nordania.

The determination of the number of "cases" is based on whether a customer who is or has been included in the bank's collection systems as a debtor is comprised by the estate case segment. A "case" may comprise several accounts in the DCS system and/or claims in the PF system, which may also involve several debtors.

A common feature of these cases is that repayment has been made to the bank after the debt was registered in the bank's debt collection systems. Accounts and claims relating to customers who are or have been subject to estate administration but who have not – prior to, during or after the administration of their estate – made full or partial repayment of their debt to the bank after the debt was registered in the bank's debt collection systems are not included on the bank's list of estate cases pending a decision on compensation. The reason is that, in respect of accounts and claims for which no repayment has been made after the date on which the debt was registered in the bank's debt collection systems, it is clear that the customer cannot have suffered a loss as a result of overcollection.⁴

The bank's work on the estate case segment has included dialogue with Finance Denmark and the Danish Court Administration in order to develop solutions and answer questions that may be of significance to a large number of stakeholders, including former customers, the courts, beneficiaries and creditors.

In this connection, the bank has focused on finding the right solutions based on, for instance, analyses of legal issues, considerations regarding remediation for the bank's customers and avoiding loss of value and unnecessary administrative costs for the courts and other creditors, etc.

In the estate cases in which the bank is required to pay compensation, the bank wants, to the extent possible, to make a single calculation and payment of compensation in order to avoid piecemeal communication on compensation amounts for individual errors and instead communicate on all known or potential errors collectively. This is to ensure that administrative costs are kept to a minimum in cases in which the bank deems it necessary to involve former executors, the courts or others.

In addition, the bank has worked on determining the right approach to handling the various types of estate cases. This has meant (and still means) that the bank has not completed its compensation calculations and payment of compensation to any of the accounts and claims included in the estate case segment.

The bank has divided the cases into ten different case types. With respect to some, but not all, of the case types, the bank has made decisions on how to approach the question of compensation.

In the following sections, we describe the decisions made by the bank about the approach to compensation for each case type and the status of the bank's work with regard to compensation. Finally, we briefly describe the bank's time schedule for work regarding the estate case segment.

The bank's break-down of the estate case segment into ten case types is illustrated in figure 41 below.

⁴ However, see section 5.3.2 above regarding potential losses relating to the period during which certain customers' claims were registered in the OP system, and section 6.4.4 regarding the question of whether a customer may claim damages for losses and compensation for injury in cases where the bank has filed a petition for bankruptcy on the basis of a claim which did not exist in part or in full, see section 28 of the Danish Bankruptcy Act.

Figure 41 – Estate case segment broken down by case types

Segments		DCS cases	PF cases	Insolvency department	Nordania	Total*
1	Estates of deceased persons without dividend	6,900	3,900	N/A	Estates of deceased persons 500 customers Bankruptcy estates 1,500 customers	10,800
2	Debt relief	4,800	3,700	N/A		8,500
3	Bankruptcy estates with dividend and estates of deceased persons with dividend	2,900	500	4,300		3,400
4	Bankruptcy estates without dividend	100	100			200
5	Bankruptcy of former customers	Not yet calculate d	Not yet calculate d			Not yet calculated
6	Reconstruction	100	Not yet calculated			100
7	Forced sale	100	N/A			100
8	Liquidation	200	100	300		
9	Compulsory composition	Not yet calculated	Not yet calculated	Not yet calculated	Not yet calculated	Not yet calculated
10	Mix	1,800	1,600	N/A	N/A	3,400
	Total	16,900	9,900	4,300	2,000	26,800

* The total does not include figures from the Insolvency department or Nordania.

The bank has informed us that the calculation of accounts and claims within the individual case types is subject to some uncertainty and that the bank will update the calculations as the bank's data collection progresses. The bank has furthermore informed us that there is a small overlap of approx. 6% between customers linked to cases in the DCS system and the PF system.

The status of the bank's work with regard to compensation for each of the ten case types is described in more detail in the following section.

6.2 Status of the bank's work on compensation for the individual case types in the estate case segment

6.2.1 *Estates of deceased persons without dividend*

The segment "estates of deceased persons without dividend" comprises a total of 6,900 cases in the DCS

system and 3,900 cases in the PF system. The segment concerns deceased customers, where the administration of their estate has not resulted in payment of dividend to the bank, but where it remains to be determined whether payments to the bank prior to the administration of the estate should result in compensation being paid to the estate/beneficiaries.

The segment comprises estates administered out of court, undivided estates, estates where appropriation is made to a surviving spouse, solvent estates administered by an executor and estates where appropriation of all assets is made to a beneficiary. The segment comprises persons who were customers of the bank when they died (about 1,800 cases in the DCS system and about 400 cases in the PF system) and persons who at the time of their death were no longer customers of the bank (about 5,100 cases in the DCS system and about 3,500 cases in the PF system).

At a meeting of the Debt Management Committee on 11 September 2023, the bank decided that the “estates of deceased persons without dividend” segment should receive compensation in the same way as other personal customers. See section 6.4.2 as regards tax compensation, however.

This means that – as a general rule – the bank expects to calculate compensation in the same way as it would for a living personal customer and that the bank will seek to pay such compensation to the beneficiary or beneficiaries of the deceased customer or former customer (the estate or the beneficiaries).

However, the bank has stated that it is considering whether to apply a minimum limit for compensation and – if so – how such minimum limit is to be fixed and applied. The bank has not yet decided whether to apply a minimum limit, and we have therefore not received a written basis for decision-making that allows us to consider the bank’s deliberations.

We will revert to the “estates of deceased persons without dividend” segment in a future report, once the bank has completed its identification of those eligible for compensation and calculation of compensation that at an acceptable risk of undercompensation will cover the loss which the customers in this segment have or may have suffered due to errors in the bank’s debt collection process.

6.2.2 *Debt relief*

The “debt relief” segment comprises a total of 4,800 cases in the DCS system and 3,700 cases in the PF system. The segment comprises debt collection customers who have obtained debt relief and where the bank may have reported too high an amount and received a dividend on the basis of the amount reported.

The bank has obtained legal advice as to whether the bank should pay compensation to customers who have obtained debt relief and – if so – whether the compensation should be paid to the customer who obtained debt relief or to the customer’s creditors. In this connection, the bank has asked its legal adviser to consider the following example:

- The bank has filed a claim of DKK 100,000 in a debt relief case
- The debt relief decision fixes the dividend at 20%
- The bank receives DKK 20,000
- The bank subsequently finds that it filed too large a claim and that it should only have reported DKK 50,000
- The bank should have received 20% of DKK 50,000 = DKK 10,000
- What is to happen to the excess DKK 10,000 that the bank has received?

A memorandum prepared by the bank's external legal adviser on 29 August 2023 concludes as follows on the above example:

"The question of the obligation to repay and who would be the right recipient of the repayment, has, to the best of our knowledge, not been tested in practise. The answers to these questions are therefore subject to some uncertainty.

When weighing the arguments for and against a legal obligation to repay excess dividend received, we find that the bank will very likely have an obligation to repay the excess amount received and that the rightful recipient will be the debtor.

This assessment is based on the general doctrine of unjust enrichment and the nature of court settlements, which as binding agreements – but not with the effect of final judgments – allow for the basis for the settlement to be contested. If the calculation of the claim is contested, this may be tried in a civil action, also after the debt relief decision has been delivered, and in such case, the decision will probably be in favour of the debtor on the basis of the bank's acknowledgement of having filed too large a claim.

As the Danish Bankruptcy Act provides limited scope for reopening a case and, except in cases of fraud, such situations are quite unambiguously intended to protect the debtor, it seems most likely that a court review of the matter will result in an order for the bank to repay on the grounds of the bank's unjust enrichment, with the debtor being the rightful recipient of the excess dividend received." (our emphasis)

Against this background, the bank in January 2024 decided to pay compensation to customers who have obtained debt relief. The bank's decision is in accordance with the legal advice that the bank has been given on the issue.

We agree with this decision. The bank has yet to decide on the specific principles to be applied to the calculation of compensation to this segment, however.

We will revert to the “debt relief” segment in a future report, once the bank has completed its identification of those eligible for compensation and calculation of compensation that at an acceptable risk of undercompensation will cover the loss which the customers in this segment have or may have suffered due to errors in the bank’s debt collection process.

6.2.3 *Bankruptcy estates with dividend and estates of deceased persons with dividend*

The “bankruptcy estates with dividend and estates of deceased persons with dividend” segment comprises a total of 2,900 cases in the DCS system and 500 cases in the PF system.

The segment concerns deceased customers whose estate was insolvent and where the bank has received a dividend, and customers who have gone bankrupt and where the bank has received a dividend following the administration of the estate.

The bank has decided not to pay compensation for dividend payments from insolvent estates of deceased persons and bankruptcy estates. The motivation for the bank’s decision is that a final examination has been made of the bank’s claims (see section 133(2) of the Danish Bankruptcy Act and section 56(5) of the Danish Administration of Estates of Deceased Persons Act). The bank’s decision is supported by a legal assessment by the bank’s external legal adviser. The bank’s decision means that it will not pay compensation in relation to dividend payments, even if the bank has received dividend based on too large a calculated claim against the estate.

We agree that examination of a claim against a bankruptcy estate or the estate of a deceased person clearly is generally binding and that a creditor whose claim has been examined can usually act in reliance on this. However, this may in certain circumstances be derogated from under legal theory. In our opinion, this could be the case if a creditor has failed to disclose factual circumstances of material importance to the examination of a claim.

Our investigation of the bank’s debt collection case has not included the historical developments of the bank’s knowledge (or knowledge which the bank should have had) of the errors covered by the bank’s compensation calculation in the debt collection case – either in the debt collection area generally or in specific individual cases in which the bank has filed claims against bankruptcy estates or estates of deceased persons.

Against this background, we cannot assess whether the bank – whether in the debt collection area in general or in specific individual cases – has had knowledge of one or more of the errors covered by the bank’s compensation approach that would justify an examination of the bank’s claims not being binding, and whether the bank should therefore exercise restraint or refrain entirely from taking the view that examination of a claim is final.

Based on the information available to us, we therefore find no grounds to criticise the bank's decision to consider examination of claims filed by the bank against estates of deceased persons and bankruptcy estates to be final. The decision is in accordance with the general principle that examination of a claim is final, and it is also supported by general process and resource considerations.

It is noted that the bank's decision not to pay compensation for dividend payments – like other decisions of relevance to the estate case segment – is of a general and indicative nature and that further clarification is needed of the correlation between this decision and the bank's calculation of compensation when payments have also been made before and/or after the administration of an estate, for example in the case of natural persons making repayments on their debt to the bank after they have been subject to bankruptcy proceedings. Moreover, clarification is needed of the correlation between this decision and the bank's calculation of an outstanding debt with regard to natural persons who have been subject to bankruptcy proceedings and who are not covered by the bank's decision to cancel and set debt to zero. We will follow up on this in a future report.

As regards bankruptcy estates with dividend and estates of deceased persons with dividend where customers have been subject to overcollection by the bank before becoming an estate, at a meeting of the Debt Management Committee on 11 September 2023, the bank decided to disallow claims due to time-barring after the absolute 10-year limitation period. The bank's decision to disallow certain claims due to time-barring has yet to be specified but, generally, the decision means that the bank will not pay compensation if a claim in connection with overcollection arose before June 2010 (see section 6.4.1).

In respect of estates of deceased persons with dividend and bankruptcy estates with dividend, where a claim for compensation as a result of overcollection was made prior to the customer becoming an estate and where the claim is not disallowed on account of the bank's decision to use the 10-year limitation period, compensation will be paid according to the principles and calculation methods that the bank uses for personal customers in general.

A number of decisions of relevance to the question of compensation have yet to be made for these types of cases. The bank has indicated that it has yet to decide (i) the specific implementation of the bank's decision to disallow certain claims due to time-barring, (ii) whether the bank will apply minimum limits to payment of compensation and, if so, how such limits are to be calculated, and (iii) whether the bank will disregard payments approved by trustees/executors in the calculation model. Moreover, the bank has yet to decide (iv) how to calculate compensation for natural persons who have made repayments on their debt to the bank after bankruptcy proceedings have been completed.

We will revert to the “bankruptcy estates with dividend and estates of deceased persons with dividend” segment in a future report, once the bank has completed its identification of those eligible for compensation and calculation of compensation that at an acceptable risk of undercompensation will cover the loss which the customers in this segment have or may have suffered due to errors in the bank’s debt collection process.

6.2.4 *Bankruptcy estates without dividend*

The “bankruptcy estates without dividend” segment comprises a total of 100 cases in the DCS system and 100 cases in the PF system. The segment concerns customers who have gone bankrupt and where the bankruptcy proceedings did not result in the payment of dividend to the bank (for example cases under section 143 of the Danish Bankruptcy Act).

For this segment, the bank has decided to disallow certain claims due to time-barring. The decision means that the bank will not pay compensation in connection with overcollection made during the period prior to bankruptcy if the claim for compensation arose before June 2010 (see section 6.4.1).

As is the case for bankruptcy estates from which dividend has been paid to the bank, a number of decisions of relevance to the question of compensation have yet to be made for these (see section 6.2.3 above).

We will revert to the “bankruptcy estates without dividend” segment in a future report, once the bank has completed its identification of those eligible for compensation and calculation of compensation that at an acceptable risk of undercompensation will cover the loss which the customers in this segment have or may have suffered due to errors in the bank’s debt collection process.

6.2.5 *Bankruptcy of former customers*

The “bankruptcy of former customers” segment concerns customers who have gone bankrupt after leaving the bank. In such cases, the bank has not filed a claim against the bankruptcy estate and has therefore not received a dividend. The bank is yet to determine the number of accounts in the DCS system and of claims in the PF system for this segment.

At a meeting of the Debt Management Committee and Council on 28 November 2023, the bank decided to pay compensation according to the calculation model in this segment. However, the bank has decided not to pay compensation for any claims that arose before June 2010 (see section 6.4.1).

The bank has indicated that it has yet to decide (i) the specific implementation of the bank's decision to disallow certain claims due to time-barring, and (ii) whether the bank will apply minimum limits for payment of compensation amounts and, if so, how such limits are to be calculated.

We will revert to the "bankruptcy of former customers" segment in a future report, once the bank has completed its identification of those eligible for compensation and calculation of compensation that at an acceptable risk of undercompensation will cover the loss which the customers in this segment have or may have suffered due to errors in the bank's debt collection process.

6.2.6 *Reconstruction*

The "reconstruction" segment comprises a total of 100 cases in the DCS system and an as yet undetermined number of claims in the PF system. The segment comprises customers who have undergone reconstruction proceedings under the rules of the Danish Bankruptcy Act, and in connection with which the bank has received a dividend.

The bank has yet to decide whether compensation is to be paid to customers in the "reconstruction" segment and, if so, how it expects to calculate compensation for customers who have undergone reconstruction proceedings.

We will revert to the "reconstruction" segment in a future report, once the bank has finally decided whether to pay compensation to customers in the segment and, if so, – how such compensation is to be calculated.

6.2.7 *Forced sale*

The "forced sale" segment concerns the question of whether the bank has initiated unauthorised forced sale proceedings against any of its debt collection customers and, if so, whether the customers in question are entitled to compensation in relation to this.

The bank has launched an investigation into this question, which has yet to be completed. So far, the bank has not identified any customers who are entitled to compensation in relation to unauthorised initiation of forced sale proceedings, but as the bank's investigations are still ongoing, and as we have therefore not yet had the opportunity to review the final results of the bank's investigations, we will revert to this in a future report.

It is noted that the question of compensation in connection with *overcollection* from customers whose property was sold in a forced sale is handled in the bank's other compensation tracks. Accordingly, this segment solely covers the question of whether the bank has initiated an unauthorised forced sale and whether the customers are entitled to compensation in relation to this.

6.2.8 *Liquidation*

The segment comprises customers (legal persons) who have been in voluntary or compulsory liquidation (compulsory dissolution). The "liquidation" segment comprises a total of 200 cases in the DCS system and 100 cases in the PF system.

At a meeting of the Debt Management Committee and Council on 28 November 2023, the bank decided that customers in the "liquidation" segment should receive compensation in the same way as the bank's other customers (the DCS and PF models).

We will revert to the "liquidation" segment in a future report, once the bank has completed its identification of those eligible for compensation and calculation of compensation that at an acceptable risk of undercompensation will cover the loss which the customers in this segment have or may have suffered due to errors in the bank's debt collection process.

6.2.9 *Compulsory composition*

The segment comprises customers who have been subject to compulsory composition with creditors. Compulsory composition with creditors was used until 2011, when the rules on compulsory composition with creditors were repealed and replaced by the rules on compulsory composition under reconstruction. The bank has not yet determined how many cases in the DCS system and the PF system are comprised by the "compulsory composition" segment.

The bank has yet to decide whether compensation is to be paid to customers in the "compulsory composition" segment and, if so, how it expects to calculate compensation for customers in this segment.

We will revert to the "compulsory composition" segment in a future report, once the bank has finally decided whether to pay compensation to customers in the segment and – if so – how such compensation is to be calculated.

6.2.10 *Mixed segments*

The "mixed case types" segment covers cases in which the customer has been included in more than one case type in the estate case segment, for example if a customer who was subject to bankruptcy proceedings subsequently received debt relief and later died. The "mixed segments" segment comprises a total of 1,800 cases in the DCS system and 1,600 cases in the PF system.

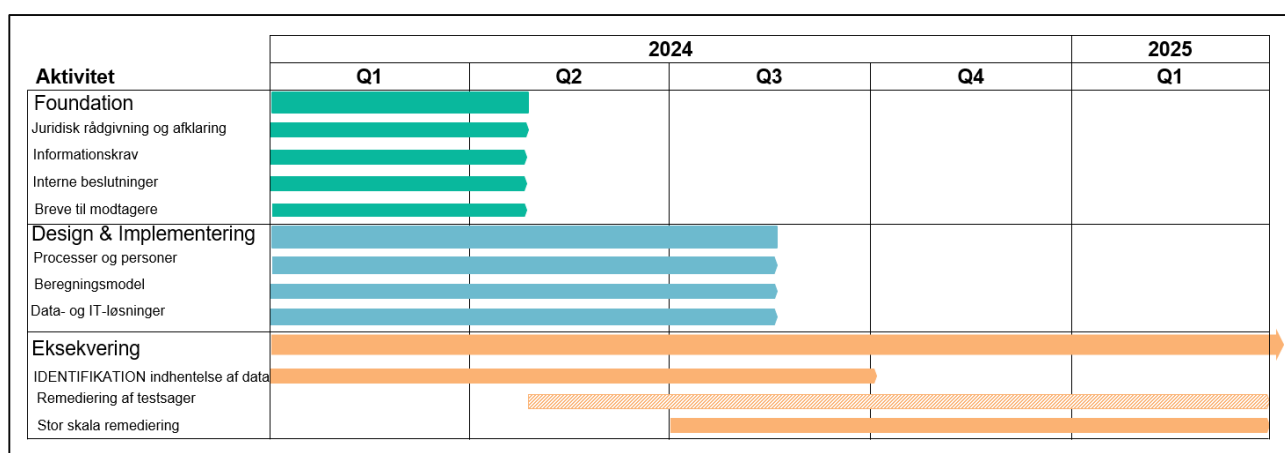
For customers included in several case types, the bank has informed us that it will remedy errors in its debt collection process by combining the approach applied to the individual case types that the customer is covered by. The decisions made for accounts or claims under each case type will therefore similarly apply to mixed segments. At the present time, the specific implementation of this has yet to be described to us in detail. As described above, the bank has yet to decide on a number of questions concerning the individual case types in the estate case segment.

We will consequently revert to the “mixed case types” segment in a future report, once the bank has completed its identification of those eligible for compensation and calculation of compensation that at an acceptable risk of undercompensation will cover the loss which the customers in this segment have or may have suffered due to errors in the bank’s debt collection process.

6.3 Time schedule for the bank’s future work on compensation

The bank’s current overall time schedule for work on the estate case segment is as follows:

Figure 42 – the bank’s current time schedule for work on the estate case segment



As set out in the time schedule, the bank expects to continue working on the estate case segment throughout 2024 and into 2025. The bank expects all necessary clarifications and internal decisions in each of the segments to have been completed at the beginning of the second quarter of 2024. The bank subsequently expects to have prepared and implemented final operational processes, IT solutions and calculation models to be able to handle closed estate cases in mid-third quarter of 2024. Concurrently, the bank will perform tests to ensure that the bank will expectedly be able to commence its compensation work in the third quarter of 2024. As the calculation and payment of compensation in the estate case segment will in some cases require communication with and retrieval of information from the probate courts, former executors, etc., the time schedule is subject to uncertainty, according to the bank.

The bank's current plans for the handling of the estate case segment cover activities up until 30 June 2025 (see section 3.7).

We believe that this time schedule is optimistic, and we agree with the bank that it is subject to uncertainty. However, the bank expects that compensation calculations will to a wide extent be made via the general compensation models (the DCS model and the PF model) developed by the bank in 2022 and 2023, which means that for a number of the case types, the bank will not have to develop compensation calculations "from scratch", but will to some extent be able to apply known solutions. However, it is likely that specific adjustments will be required, in particular in relation to communications.

6.4 Cross-issue observations

6.4.1 *The bank's decision to disallow certain claims due to time-barring*

As set out in sections 6.2.3, 6.2.4 and 6.2.5 above, for bankruptcy estates and estates of deceased persons with dividend, the bank has decided not to pay compensation in respect of claims that arose before June 2010. The decision is based on the view that claims that arose before June 2010 will generally have lapsed at the time when the "debt collection case" arose at the bank pursuant to the absolute 10-year limitation period set out in section 3(3), paragraph (4) of the Danish Limitation Act.

The decision involves a derogation from the principle according to which the bank has otherwise planned its compensation work, and which is described in section 7.2 of our report no. 1 of 31 October 2021. Under this principle, the bank has generally sought to repay any amount that has been wrongfully collected since the introduction of the bank's current debt collection systems, irrespective of when the individual overcollection may have taken place, and limited only by whether the bank has sufficient data to identify customers and calculate compensation amounts.

For the time being, the decision to disallow certain claims due to time-barring is of a general and indicative nature, and the bank has yet to decide the detailed principles for implementing the decision.

On the basis of the information available, it is our assessment that the decision to disallow certain claims due to time-barring may be well-founded and in accordance with general process and resource considerations as regards bankruptcy estates and insolvent estates of deceased persons, for which the administration was completed many years ago, and where the bank's declaration to disregard time-barring (see section 7.2 of our report no. 1 of 31 October 2021), cannot have come to the attention of the relevant persons. As described, the bank has yet to make a decision about the concrete implementation of the decision to invoke time-barring of claims that arose before June 2010, and it has therefore not been possible for us on the basis of the information available to identify which bankruptcy estates and estates of deceased persons would be affected by the bank's decision, and whether the bank with its decision disallows claims for compensation from administration estates or persons who may have been made aware of the bank's declaration to disregard time-barring. We will follow up on this in a future report.

6.4.2 *Tax compensation*

In cases outside the estate case segment in which the bank has paid compensation that does not correspond exactly to the overcollection covered by the compensation, the bank has decided to pay tax compensation (see for instance section 5.3 of our report no. 4 of 4 June 2023).

In the estate case segment, there are major differences in whether it would have tax consequences – and, if so, which – for the recipient of compensation that the bank's compensation amount does not correspond exactly to the overcollected amount (but is instead based on a model calculation that may contain a gift element). The bank has assessed that in some cases it will have no tax consequences for the recipient that the bank pays an inexact compensation amount, whereas in other cases it could result in taxation at a rate of up to 50%.

Against this background, the bank has generally decided that its communication with the probate courts concerning the compensation amounts that the bank intends to pay will not include tax compensation calculated by the bank. In addition, the bank has decided not to pay tax compensation on its own initiative in the estate case segment if it is not possible for the bank to estimate the tax consequences this may have for the compensation recipient.

So far, the bank's decisions on tax compensation in the estate case segment are of a very general nature. We have assessed the bank's considerations regarding certain specific scenarios, but several of these considerations have been subject to the reservation that they are pending further legal investigations. At present, the bank has not prepared a final and complete list of the cases in which it will pay tax compensation on its own initiative and the cases in which it will pay tax compensation only after having received a request in this respect. Against this background, we will follow up on this issue in a future report.

In this connection, we will also follow up on whether the bank's communication with the probate courts and the recipients of compensation contains a description of whether the calculated compensation amounts do or do not include tax compensation, and whether, in cases where the bank has decided not to calculate tax compensation on its own initiative, it has described what the recipient must do to raise a tax compensation claim against the bank, if relevant.

6.4.3 Risk of loss as a result of the bank's case processing time

Under the circumstances, the bank's ability to calculate and pay compensation to settled bankruptcy estates and estates of deceased persons will require the bank to obtain information from the courts, former trustees, executors, etc.

There is therefore a risk that relevant information to be obtained from the courts etc. may have been deleted in accordance with deletion policies and GDPR rules, etc. and that the information is consequently lost before the bank initiates the necessary activities. This implies a risk that the bank will not be able to pay compensation in all cases covered by the bank's compensation approach.

The bank is currently taking steps to clarify which information is to be obtained and from whom, in order to assess how this risk may be handled.

We will revert to this question in a future report.

6.4.4 The bank's filing of bankruptcy petitions

We have asked the bank if it has investigated whether customers may be entitled to compensation if, in certain cases, the bank has filed a petition for bankruptcy on the basis of a claim that did not exist in part or in full, see section 28(1) and (2) of the Danish Bankruptcy Act, which read as follows:

"(1) Where a creditor has petitioned for bankruptcy in a situation where the conditions for bankruptcy were not met and where this could have been avoided with the required level of diligence, he must pay damages to the debtor for loss and compensation for injury to reputation irrespective of whether bankruptcy has occurred.

(2) Where it becomes evident that the claim did not exist, the party petitioning for bankruptcy will be liable according to subsection (1) even though the said party was not at fault."

The bank has provisionally indicated to us that, in cases where it has filed a petition for bankruptcy, the bank will probably rarely be liable to pay damages for loss and compensation for injury pursuant to section 28 of the Danish Bankruptcy Act, because the bank will in most cases have been able to explain and document that a sufficient proportion of the bank's calculated receivable existed, and because such claims must be brought not later than three months after the date at which the customer became entitled to bring the claim, see section 242 a (1) of the Danish Bankruptcy Act. Moreover, the bank has stressed that in bankruptcy cases the bank will usually have processed the case manually and checked the registered debt information. The bank has informed us that it will share its further deliberations in relation to this issue when it has conducted further investigations.

We agree with the bank's preliminary deliberations on this issue, but we will follow up on the bank's further deliberations in a future report.

7. THE BANK'S HANDLING OF ADDITIONAL ISSUES NOT COVERED BY THE COMPENSATION MODEL

7.1 Overview of additional issues and errors

As described in section 3 above, the bank's models for calculating and paying compensation to a number of its customers do not include all additional issues or errors identified by the bank. This may be due to the following factors:

- In its analyses, the bank concluded that the additional issue did not lead to errors
- In its analyses, the bank found that errors did not lead to overcollection.
- The bank wishes to expand the compensation models for the DCS system and the PF system to include such errors, but the work in this respect has not been completed, and the affected accounts are therefore not yet covered by the models (see sections 4 and 5 above).
- The bank lacks the necessary information to be able to use the compensation models for the errors in question, and the bank will therefore perform full or partial manual handling of the cases or contact customers affected in order for the customer to provide the relevant information
- The bank has paid, or wishes to pay, compensation to the customers for any overcollection by paying separate compensation in addition to the model-calculated compensation

The extent of the errors detected and their distribution is illustrated in figure 11, section 3 above.

An overview of all the issues or errors identified by the bank is attached as appendix 1 to this report no. 5. For each issue, the overview indicates, among other things, whether the bank has completed its analyses of the issue, whether the bank assesses that customers may be entitled to compensation for overcollection as a result of the error, whether compensation will be handled via the overall compensation model (the "Olympia model") or whether compensation is expected to be handled individually.

Finally, it indicates whether we have completed our investigation of the bank's analysis and whether our investigation has given rise to comments or observations.

7.2 Additional issues considered in this report no. 5

In this report no. 5, we consider a total of 16 issues which are not covered by the Olympia model but which have, or may have, resulted in errors in the bank's debt collection. The following issues are considered in this report no. 5:

Figure 43 – Issues which are not covered by the Olympia model and are covered by this report no. 5

Number	Description	Section
Issues where customers have been compensated through separate payment of compensation		7.3
10	Failure to negotiate estate agent fees (Home)	7.3.1
16.a	Failure to register information on time-barring in the Mortgage Deed System	7.3.2.1
16.e	Late payment interest on repayment of mortgages	7.3.2.2
19.a and b	Recognition of overcollected amounts	7.3.3
Issues where the bank has found that errors did not lead to overcollection		7.4
6.c	Different late payment interest rates in the DCS system before and after 2010	7.4.1
21	Deleted customer data	7.4.2
35	Errors in the registration of limitation dates in the DCS system	7.4.6
Issues where the bank has concluded that the issue did not lead to errors		7.4
8.b	Charging of legal fees	7.4.3
18.a, c and d	Temporary payment agreements	7.4.4
26.f	Guarantees that are written off over time	7.4.5
ORIS no. 164265	Differences in calculated interest in the DCS system	7.4.7
ORIS no. 166446(d)	Interest calculation in repayment arrangements in the PF system	7.4.8
ORIS no. 171177(b)	Realkredit Danmark's acquisition of properties in forced sales	7.4.9

7.3 Additional issues where the bank has compensated customers through separate payment of compensation

In the following, we consider issues for which the bank's analyses have shown that its customers may have suffered losses as a result of overcollection. With respect to these issues, we have examined the bank's approach to identifying potentially affected customers, the bank's approach to calculating and paying compensation, the status of execution of the compensation payment, communication to the bank's customers and the bank's initiatives to ensure that the error will not continue to affect the bank's debt collection.

7.3.1 Additional issue no. 10 – Failure to negotiate estate agent fees (Home)

The issue of estate agent fees in relation to the estate agent chain Home is described in section 9.4.10 of our report no. 2 of 31 May 2022.

Additional issue no. 10 concerns the fact that, in the period from 1 February 2013 to 11 July 2019, the bank did not demand negotiation of home's agency fees in connection with customers' non-forced property sales in which a loss is accepted, i.e. sales where the bank accepted the sale of the customer's property even though the bank did not obtain full coverage of its secured claim. The bank did demand negotiation of the fees of other estate agents if the fees exceeded a maximum price fixed by the bank.

In section 9.4.10 of our report no. 2 of 31 May 2022, we described the bank's decision to compensate customers, as far as possible, by offsetting the compensation amount against the outstanding debt registered by the bank in the DCS system and the PF system. In such cases, the customers' registered outstanding debt might potentially also be affected by root causes 1-4. This could potentially lead the bank to offset compensation against a registered outstanding debt that the bank had already assumed to cover in connection with the bank's compensation for root causes 1-4, thus resulting in a risk of undercompensation. After our report no. 2 was submitted on 31 May 2022, the bank ruled out the risk that customers affected by root causes 1-4 and additional issue no. 10 would be undercompensated as a result of the fact that, at the date of set-off in relation to additional issue no. 10, the bank had not yet registered the set-off that it would perform in connection with root causes 1-4.

In relation to the bank's method of identifying potentially affected customers and calculating the compensation for the affected customers, we refer to section 9.4.10 of our report no. 2 of 31 May 2022.

In section 9.4.10 of our report no. 2 of 31 May 2022, we described that the bank had identified 1,233 customers who were entitled to compensation. After our submission of report no. 2 of 31 May 2022, the bank has established that only 1,151 of the 1,233 customers previously stated were entitled to compensation as a result of the issue.

Of these, the bank has paid compensation or set off the compensation against the customer's registered outstanding debt for 631 customers. For two customers, the bank does not have the necessary information to pay the customers their compensation, and these customers are therefore handled under Project Merlin, mentioned in section 3 above. The remaining 518 cases concern closed bankruptcy/probate cases which are handled under the bank's estate administration project (see section 6 above).

The bank has further informed us that customers who are affected by additional issue no. 10 may also be affected by other additional issues. In relation to these additional issues, the bank will therefore, to the widest extent possible, handle customers via the Olympia model, in which the compensation amount set off by the bank as a result of additional issue no. 10 will be included as a "payment" from the customer in the calculation of the customer's total eligibility for compensation. In this connection, the bank has informed us that 48 customers were not created in the debt collection systems because the outstanding debt to the bank had been repaid beforehand. Accordingly, the bank has not performed any set-off in respect of these customers. The remaining 583 customers to whom the bank has paid compensation or for whom they have performed set-off will be handled via the bank's Olympia models (see sections 4 and 5 above). However, only 115 of these customers form part of the customer segments described in our report no. 4 of 4 June 2023 or in sections 4 and 5 above in this report no. 5.

As regards the remaining 468 customers whose accounts or claims are to be handled via the Olympia model, we can conclude that these customers have not with certainty been fully compensated for their losses until they have received compensation, via the model, for any overcollection concerning the accounts against which compensation for additional issue no. 10 has been set off. We will follow up on this when we have been presented with the bank's plan for the calculation and payment of compensation for overcollection to these customers.

As described in section 9.4.10.14 of our report no. 2 of 31 May 2022, the bank has informed the affected customers about the issue and about whether the customers were entitled to compensation as a result of the issue. The bank has not yet sent out any information to customers whose cases are estate cases, however.

For our assessment of the bank's method of identifying potentially affected customers and calculating compensation to affected customers, we refer to section 9.4.10 of our report no. 2 of 31 May 2022. The same applies to our assessment of the bank's communication to the affected customers and the bank's measures to put a stop to the issue.

In our opinion, the bank has ruled out the risk that customers affected by root causes 1-4 and additional issue no. 10 would be undercompensated as a result of the fact that, at the date of set-off in relation to additional issue no. 10, the bank had not yet registered the set-off that it would perform in connection with root causes 1-4.

On the other hand, we are not yet in a position to make a final statement about the bank's outstanding balance with those customers for whom the bank has performed set-off, as the bank has not yet processed the majority of these customers' total compensation claims via the Olympia model, see above. We will follow up when the bank has completed its examinations of whether these customers are entitled to compensation for errors in the bank's debt collection, expectedly via the Olympia model, to coincide with the final calculation of the customers' potential claims for compensation.

7.3.2 Additional issue no. 16 – the bank's mortgage deed system ("MDS")

Additional issue no. 16 relates to errors in the bank's IT system for handling mortgage deeds. In the bank, the IT system is known as the "Mortgage Deed System" or "MDS". The mortgage deed system was developed in the 1980s, and the bank started using the system in 1991.

Some 370,000 cases have been registered in the MDS over time, and the bank has been a creditor in approx. 113,000 of the cases. In the remaining approximately 257,000 cases, the bank solely acted as administrator of the mortgages on behalf of a creditor. The bank calls this group of cases the "customer portfolio". The bank has informed us that 1,117 active cases were registered in the MDS at 31 December 2023 and that the bank was a creditor in all these cases, as the bank had closed all active cases in the customer portfolio at the end of 2023.

The bank has divided additional issue no. 16 into a number of sub-issues, which are dealt with under sub-issues 16.a-16.i. In this report no. 5, we only address sub-issues 16.a, 16.b and 16.e, as the bank has not yet completed its analysis of the remaining sub-issues. For sub-issue 16.b, we refer to section 4.1.3.2.4 above.

7.3.2.1 Sub-issue 16.a – Failure to register information on time-barring in the MDS

Sub-issue 16.a arose as a result of the MDS not being able to register information on time-barring. Claims may thus be registered as legally enforceable (valid) in the MDS even if they have in fact lapsed in whole or in part due to time-barring. Furthermore, no manual processes have been implemented to register and maintain data on time-barring.

Accordingly, the bank has not had a process in place to handle time-barring of debt registered in the MDS, and even if the bank had had a process for handling time-barring, it is not possible to delete claims in the system that have lapsed due to time-barring. The system is programmed to ensure that the customer's payments cover the debt according to a fixed order of priority which cannot be changed, where the oldest payments due are covered first and interest and fees are covered before principal repayments.

According to the bank, the issue has caused the bank to overcollect in 27 cases involving 39 different customers. The overcollected amounts in these cases range from approximately DKK 1,300 to approximately DKK 68,000, excluding time and tax compensation.

Sub-issue 16.a solely concerns the bank's own holdings, i.e. cases in which the bank is registered as the creditor of the mortgage, as the bank handles a similar issue regarding the customer portfolio in sub-issue 16.c, which the bank is still in the process of analysing.

Sub-issue 16.a and the bank's analysis thereof are also described in section 9.4.16 of our report no. 1 of 31 October 2021 and in section 9.4.16 of our report no. 2 of 31 May 2022. At the time, however, the bank had not yet completed its handling of the issue. Among other things, the bank had not yet paid compensation to all affected customers.

According to information received, the bank has now paid compensation to most of the affected customers.

The bank has identified 117 potentially affected cases comprising 139 customers. We have investigated the bank's method of identifying the potentially affected cases, and in relation to this, we believe that the bank has assumably identified the cases that may involve repayment on time-barred debt.

The bank has manually reviewed the potentially affected cases with a view to examining whether it had taken steps to suspend the limitation period in these cases and, if so, whether this had an impact on whether the customers' payments had been used to cover time-barred debt in whole or in part.

In this manual review, the bank assesses that it has collected time-barred debt in 27 of the cases identified.

In 15 of these 27 cases, the bank has manually calculated how much time-barred debt the customers have repaid. In addition, the bank has calculated an estimated compensation amount for overcollected late-payment interest as a result of the error as well as time and tax compensation.

For the remaining 12 cases, the bank considers these to also potentially be affected by additional issue 16.g regarding errors in the order of priority applied. The bank has informed us that, under the circumstances, the compensation calculation for sub-issue 16.g will require an individual and manual review and assessment on a case-by-case basis of the entire case process. At present, the bank cannot provide any further information about the timeline for the payment of compensation in these cases.

For a more detailed review of the bank's compensation calculation in relation to sub-issue 16.a, we refer to section 9.4.16.2.4 of our report no. 2 of 31 May 2022 in which we concluded that, in relation to the estimated compensation for overcollected late-payment interest, the customers will in most cases probably receive a larger compensation amount than they would be entitled to according to a precise recalculation.

As regards the bank's communication, we note that the bank's letters are very brief and only to a limited extent contain the information necessary to assess whether the customers have been fully compensated for their losses. However, the letters do contain instructions on how to contact the bank and, overall, we do not find that the inadequacy of the bank's communication requires the bank to take corrective action.

We have reviewed the steps taken by the bank to ensure that the sub-issue will not occur in future. As far as we have been able to ascertain, the bank's measures have not eliminated the possibility of customers making regular repayments on time-barred debt. As a result, the bank has taken a new approach of zero-setting and cancelling all instalments that had not been paid at a given date in May or June 2023. The bank subsequently resumed its previous collection process effective from 11 September 2023. The bank is working to find a solution to the issue. We will follow up on this.

The bank has paid compensation or performed set-off in 14 of the 27 cases involved. In the cases in which the bank has performed set-off, the bank has registered the calculated compensation as a payment in either the MDS or the DCS systems (if the mortgage had been extinguished and the customer's outstanding debt had therefore been placed for debt collection). The bank has paid the calculated tax compensation in all 14 cases, however.

Compensation or set-off remains outstanding in 13 cases. One of these cases is an estate case (see section 6 above). The remaining 12 cases are pending clarification, as the cases are also affected by the above-mentioned sub-issue 16.g concerning order of priority. The bank has been unable to provide further details about the timeline for the payment of compensation in these cases.

7.3.2.2 Sub-issue 16.e – Late payment interest on repayment of mortgages

Sub-issue 16.e concerns the bank's calculation of late-payment interest when calculating its total claim in connection with a customer's extraordinary repayment of the debt under a mortgage, for example in connection with the sale of a mortgaged property.

The bank's manual business procedures in this connection were flawed in the years 2000-2021.

The bank has identified 72 cases of overcollection by the bank in connection with the repayment of mortgages, and the bank will therefore compensate the 97 affected customers in these cases. The largest calculation error identified by the bank resulted in overcollection of DKK 475, and the bank has therefore chosen to pay all affected customers compensation of DKK 475 plus time and tax compensation per mortgage affected by the issue.

We have no significant comments on the bank's identification of the affected customers or the calculation of compensation, as we believe that the bank's plan for calculating and paying compensation is suitable for ensuring that customers receive sufficient compensation for the error.

As regards the bank's communication, we note that the bank's letters are very brief and that the letters only to a limited extent contain the information necessary to assess whether the customers have been fully compensated for their losses. For example, customers are not informed that this is a standard compensation that for some customers represents an estimate, because the bank has not been able to find the documents of the case. Similarly, the letter does not state whether any co-debtors or guarantors have received part of the compensation, or whether the bank has chosen to divide the compensation equally between the customers related to the case. In our opinion, the bank's communication to the customers is therefore inadequate. The letters do, however, contain instructions on how to contact the bank if the customer has any questions about the bank's calculation or if he or she requests to receive documentation. Considering the limited size of the losses, we do not believe that the bank's inadequate communication is sufficient grounds for the bank to contact the relevant customers again.

The bank has paid compensation to 77 of 97 customers in 56 of the 72 affected cases. Compensation thus remains to be paid to 20 customers concerning 16 cases. The pending compensation concerns customers who are or have been subject to estate administration (see section 6 above) or customers whom the bank is unable to contact or pay compensation to (see section 3 above on Project Merlin).

7.3.3 *Additional issue no. 19 – Recognition of overcollected amounts*

Additional issue no. 19 concerns accounts in which, in connection with repayment of their debt to the bank, customers have paid more than the outstanding debt registered by the bank and where the bank has subsequently set the debt to zero and thus recognised the customer's excess payment as revenue.

We previously described additional issue no. 19 in section 9.4.19 of our report no. 2 of 31 May 2022. Regarding sub-issue 19.a (compensation for overcollected amounts of up to DKK 50), we wrote that the bank had identified 12,804 customers affected by the sub-issue.

As regards sub-issue 19.b, the bank has identified 669 customers in cases where positive closing balances exceeding DKK 50 in favour of customers were reset to zero by the bank. Of these customers, 658 have had an amount of DKK 50-1,000 set to zero, while 11 customers have had an amount of more than DKK 1,000 set to zero.

We have no comments on the bank's identification of customers or the way in which the bank has calculated the compensation to these customers, nor do we have any comments on the bank's communication strategy regarding these customers. Moreover, we have noted that the bank has taken steps to ensure that accounts with positive balances are no longer set to zero. However, we note that there were 360 cases of positive balances registered in the DCS system at 31 December 2023. The bank has decided to handle these cases under sub-issue 38.b, which we do not describe in detail in this report no. 5, as the bank has not yet completed its handling of the issue.

The bank has paid compensation to a total of 9,470 of the 13,473 affected customers. Compensation to the remaining 4,003 customers concerns either cases subject to estate administration or cases where it has not been possible to pay compensation and which are therefore handled under Project Merlin referred to in section 3 above.

7.4 Additional issues that have not resulted in losses for the affected customers

In the following, we address issues for which the bank has completed its handling because an identified risk of errors is not deemed to have resulted in errors, or because errors that occurred did not result in losses for the bank's customers. In relation to these issues, we have investigated the bank's analyses of the errors, including the bank's identification of whether customers may have suffered losses. We have also investigated the measures taken by the bank – where relevant – to ensure that the error does not continue to affect the bank's debt collection.

7.4.1 Sub-issue 6.c – Different late-payment rates in the DCS system before and after 2010

Sub-issue 6.c concerns the fact that the bank in July 2010 changed its practice regarding the rate of late-payment interest charged by the bank in relation to customers created in the DCS system. For customers created in the DCS system before July 2010, the bank charged the interest rate agreed with the customer before the customer defaulted on his/her agreements with the bank ("the product interest rate"). For customers created in the DCS system in July 2010 or later, the bank charged the ordinary late-payment rate pursuant to section 5(1) of the Danish Interest Act, which, according to the bank's investigations, has always been lower than the "product interest rates".

The bank has informed us that some 130,000 customers are potentially affected by the issue, as after July 2010, some 130,000 customers have been registered with an interest rate higher than the late-payment interest rate pursuant to section 5(1) of the Danish Interest Act. Based on a random sample of 50 cases, the bank assesses that the customers potentially affected have on average been charged approximately DKK 10,000 more over a period of 3 years than if the bank had applied the interest rate pursuant to section 5(1) of the Danish Interest Act.

The bank assesses that the late-payment interest rate applied has in all cases been agreed with the customers. The bank also assesses that there is therefore no basis for compensating the customers for any losses, including claims that such compensation may be warranted by an argument of unfair discrimination under the rules on good practice or similar. We have no comments on the bank's conclusion, and we therefore agree that the issue may be closed by the bank.

7.4.2 *Additional issue no. 21 – Deleted customer data*

Until 2016, the bank's case processing guidelines stated that a customer's data were to be deleted from the DCS system when the customer had repaid his or her debt. As a result, the bank deleted data on 3,859 customers in the DCS system between 2004 and September 2021. About 100 of these cases were deleted after 2016, when the bank changed its case processing guidelines.

The bank has identified the affected customers by comparing data in the DCS system with underlying data tables, making it possible, according to the bank, to restore historical customer data even though they were deleted in the DCS system.

Additional issue no. 21 addresses the risk that affected customers have not been identified and handled in the bank's compensation and communication processes concerning root causes 1-4 and other issues identified by the bank.

The bank has concluded that its work processes have ensured that the affected customers, to the extent possible, have been included in the bank's searches and that customers affected by additional issue no. 21 as regards compensation for root causes 1-4 and the individual additional issues have been compensated in the same way as the customers whose data was not deleted in the DCS system.

As described in section 9.4.21.2 of our report no. 2 of 31 May 2022, additional issue no. 21 has meant that the data of the customers affected were not from the start of the project included on the lists applied as a basis for providing communication to the bank's customers. The bank has provided us with documentation that the customers are now included in the work on the additional issues and the Olympia programme, which means the customers receive information about the errors and their claims for compensation when they are either handled by the model or on the basis of an individual recalculation or in another compensation track.

We will follow up on this once we have received documentation that the bank has complied with the

Danish FSA's order on communications to the effect that such communication has been submitted to all customers affected, or attempts have been made to do so.

Other than that, we consider our investigation of this issue to be closed.

7.4.3 Sub-issue 8.b – Collection of high legal costs

Additional issue no. 8 concerns the fact that the bank has mistakenly charged customers too high legal costs. The error occurred in cases where the bank used external lawyers or debt collection agencies in connection with the debt collection process for the purpose of obtaining a judgment or in connection with the execution of enforcement court meetings, including with a view to levying execution in the customer's assets. The error is due to the fact that, in some cases, the bank demanded payment from customers of actual costs incurred for external assistance (typically legal assistance), despite the fact that these costs in many cases exceeded the amount awarded to the bank in legal fees and court attendance fees.

With regard to sub-issue 8.a – which concerns the period before 2008 – the bank's customers are compensated through the Olympia model or otherwise in relation to the manual compensation tracks for customers not handled in the model. We consider these customers' claims on an ongoing basis in connection with expressing our opinion on the bank's plan for calculating and paying compensation. In this connection, we refer to section 5.4.2 of our report no. 4 of 4 June 2023 and to sections 4-5 in this report.

Sub-issue 8.b concerns the question of whether the bank has in some cases continued its practice after the bank reorganised the debt collection process in 2008. The bank's investigation, which we have reviewed, shows that there are no signs that the issue persisted after 2008 and that, consequently, there are no signs that the issue may still occur. On this basis, we agree that the issue may be closed by the bank.

7.4.4 Additional issue no. 18 – Temporary payment agreements

Additional issue no. 18 concerns the bank's failure to follow up on "temporary payment agreements". In this connection, the bank defines a temporary payment agreement as an agreement that, according to its contents, runs for a maximum of three years, after which the agreement must be renegotiated.

The bank has typically entered into "temporary payment agreements" for debt registered in the DCS system in cases where the customer was unable to pay an instalment which, relative to the amount of debt, was sufficient to reduce the principal.

In cases where the bank has not followed up on temporary agreements within three years, for example, customers have been able to continue making payments under such agreements for a longer period, even if the customer would never be able to repay the entire debt to the bank under the payment agreement.

The bank has informed us that a total of 476,000 payment agreements are registered in the DCS system, of which some 95,000 payment agreements may potentially be affected by additional issue no. 18, as the registered information on the agreements indicates that they may be “temporary payment agreements”. The bank has not been able to inform us how many of these payment agreements were, in fact, “temporary agreements” that the bank failed to follow up on.

The bank assesses that it was entitled to enter into temporary payment agreements with its customers, even if the accrued interest addition exceeded the customer’s agreed payments. The bank furthermore assesses that it has had a uniform practice in connection with the conclusion of temporary payment agreements and that the bank has communicated clearly with its customers. On this basis, the bank has decided to close sub-issues 18.a, c and d, because the bank’s customers cannot have incurred losses as a result of these. We have reviewed the bank’s analysis of this matter and agree with the bank’s conclusions.

On the other hand, the bank assesses that its failure to *follow up* on the temporary agreements is in violation of the rules on good practise for financial undertakings and that customers affected may, depending on the circumstances, be entitled to compensation as a result of the bank’s failure to follow up (sub-issue 18.b). In other words, the bank finds that it should have notified the customers after a period of time or warned them that their payments did not reduce the interest-bearing principal amount.

Sub-issue 18.b is covered by the Olympia model, see our report no. 4 of 4 June 2023, and sections 4 and 5 above, as the model generally removes interest accrued for the entire debt collection period, and as all payments in the individual recalculation (on which the sample and thus the calibration are based) are first used to cover the interest-bearing principal amount. The bank must handle the issue separately for customers who are not compensated through the model and who may be affected by the issue. We will follow up on this if such customer relationships prove to exist.

7.4.5 Sub-issue 26.f – Guarantees that are written off over time

Sub-issue 26.f concerns a number of business-related cases in which a guarantee has been provided for the debt and in which the bank has entered into an agreement with the guarantor to write down the guarantee amount over time. Under these agreements, the bank should have written down the guarantee amount annually over a period of 7-10 years. The error arose because the bank failed in a number of cases to register the agreed write-down of the guarantee amount over time. Instead, the guarantee was registered in the bank’s systems at the full guarantee amount.

Thus, there is a risk that guarantors have paid the bank a greater amount than the bank was entitled to.

The bank has not identified how many, or which, guarantors are potentially affected by the issue, but it has informed us that, among others, the Danish Growth Fund has provided guarantees in the affected cases.

The bank has made a number of analyses to determine whether any guarantors have been affected by the issue. Based on these, the bank has concluded that it has ensured, through written manual procedures, that no guarantors (without being informed of this) have paid more than what they were actually required to pay. The bank has also concluded that its current business procedures ensure that the issue no longer occurs.

We have no comments on the bank's conclusions, including on the fact that the bank completes its handling of the issue without paying compensation to any customers or guarantors. However, we have primarily based our investigation on documents that summarise the bank's own investigations, and we have not reviewed descriptions of business procedures, conducted interviews with employees, or the like.

7.4.6 *Additional issue no. 35 – Errors in the registration of time-barring in the DCS system*

On 9 April 2021, the bank implemented a function to automatically register suspension of the limitation period in the DCS system. As a result of the change to the system, the IT system automatically updates the registered limitation date of the registered principal if a payment is received on an account covered by an agreement with the customer on repayment in instalments.

Prior to the implementation of the new function, the bank assessed that any payment by a customer of debt covered by an agreement on repayment in instalments signed by the customer would interrupt the limitation period on the principal pursuant to section 15 of the Danish Limitation Act on interruption upon the debtor's acknowledgement of the debt. However, the bank has mistakenly not in all cases examined whether the repayment arrangement had been signed by the customer, which may potentially have led the bank to erroneously consider the period of limitation to be interrupted and that the customer may have made repayments on time-barred debt.

In our assessment, the bank has identified the cases in which customers may have made repayments on time-barred debt as a result of the error. The bank has manually reviewed all the cases identified and found in that connection that no customers have made repayments on time-barred debt as a result of the error. In this connection, we have had no comments on the bank's manual review procedure.

We note that, in connection with the manual review, the bank identified other time-barring errors in 34 cases, corresponding to 11% of the cases reviewed. The bank will investigate further whether the errors in the 34 cases represent systematic errors in the bank, and we will follow up on this.

We also note that the error has led to faulty time-barring data in the DCS system which in the long term may result in customers repaying time-barred debt, if the bank does not collect the claim or correct the faulty data before the actual limitation date of the debt. In this connection, the bank has stated that it will correct the data in connection with the migration of the cases to the new debt collection system, and we will follow up on this.

7.4.7 ORIS 164265 – Differences in calculated interest in the DCS system

The bank has created ORIS 164265 because a case officer in the bank's Swedish department had observed that the customers' outstanding debt in the DCS system at a given historical date could inexplicably change, depending on the time of day the case officer reviewed the customer's outstanding debt. The information indicated that interest calculation in the DCS system was or might be faulty.

The bank has performed a number of tests in version of the DCS system applied by the bank in Denmark. The bank's tests have not detected similar errors in this version of the DCS system. We have no comments on the extent of the tests performed by the bank in order to determine whether the error might occur for customers in Denmark. Against this background, we agree with the bank deciding to complete its handling of the issue without any compensation being paid to any customers.

7.4.8 ORIS 166446.d – Interest calculation in repayment arrangements in the PF system

On 16 May 1998, the bank changed its practice for the calculation of interest in connection with repayment arrangements in the PF system.

In respect of repayment arrangements created in the system before 16 May 1998, the bank only calculated interest on the registered principal amount. In respect of repayment arrangements created in the system after 16 May 1998, the bank has calculated interest on both the registered principal amount and on the late-payment interest accrued before the conclusion of the agreement on a repayment arrangement.

The issue concerns the matter of whether, under its agreements with customers concluded on or after 16 May 1998, the bank was entitled to also charge interest on the late-payment interest accrued before the repayment arrangement was agreed.

The bank has reviewed nine randomly selected agreements concluded with customers in the period from 1998 to 2019. The bank has assessed that all nine agreements sufficiently clearly state the amount on which the bank would subsequently charge interest and that late-payment interest accrued before the

agreement was concluded was included in the amount on which the bank would subsequently charge interest.

Therefore, the bank's position is that, under the agreements reviewed, it was entitled to charge interest on late-payment interest.

The bank has informed us that it has throughout this period drawn up agreements with its customers using a standard template similar to the ones reviewed by the bank, as described above. On this basis, the bank has assumed that all agreements on repayment arrangements it has concluded regarding debt registered in the PF system since 16 May 1998 have had the same wording as regards the interest terms of the agreements (except for the interest rate applied). We therefore assess that the eight randomly selected agreements are representative of the agreements concluded throughout the period.

We have no comments on the bank's investigation, and we agree with the bank's decision to complete its handling of the issue without paying compensation to any customers or guarantors.

7.4.9 ORIS 171177.b – Realkredit Danmark's acquisition of properties in forced sales

It follows from section 578 of the Danish Administration of Justice Act that, if a mortgagee has bought a property in a forced sale at a price which has not provided the mortgagee with full coverage of his or her claim, and the mortgagee submits the remaining claim against the debtor as a personal claim, the court may reduce the claim to the extent that it can be demonstrated that the offer made in the forced sale was disproportionate to the value of the property at the time of the sale.

In connection with ORIS 171177.b, the bank has examined whether there are indications that Realkredit Danmark has systematically acquired properties in forced sales at prices that were disproportionate to the values of the properties at the time of the sale. The bank has concluded that there is no indication that this was the case, and the bank has therefore completed its investigation with the conclusion that there is no need to inform or compensate any customers.

On the basis of the bank's analyses, which we have examined, we have found no basis for concluding that systemic errors have occurred at the bank that have caused the bank to acquire properties in forced sales at prices that were disproportionate to the values of the properties. The bank has also decided that, as a general rule, it will reduce the customer's debt by any profit that the bank makes in connection with a resale of the property (see section 5.4.2.2 above).

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