

21 December 2023

### **Remediating legacy issues**

Being a large Nordic financial institution with more than 22,000 employees and 3.3 million customers, operational issues and errors unfortunately occur from time to time in Danske Bank. It is our commitment to our customers to work hard to avoid these errors altogether and to ensure to correct them as soon as we identify them.

During 2019 and onwards, Danske Bank identified a number of legacy issues in which errors led to poor outcomes and losses for our customers – for instance the debt collection issue. In 2020, we established a Remediation Office, which was tasked with overseeing the remediation of legacy issues at Danske Bank that were characterised by having a high degree of complexity and a large time span. As these legacy issues either were resolved or well underway to being resolved, the Remediation Office closed in 2023.

Danske Bank has established a long-term framework for handling remediation cases. This includes a handbook that clearly set outs principles and governance for remediation approach, guidelines for e.g. time compensation, lookback period and principles for customer communication. Furthermore, the Bank now has remediation teams anchored in the business units.

#### **Debt collection**

In 2004, we introduced a new IT system to process debt collection cases. Unfortunately, this resulted in some data errors that caused us in some cases to collect debt that was time-barred (out of date) or to collect a larger amount than the customers owed us. The errors also mean that, for a large number of our debt collection customers, the registered outstanding debt was incorrect.

In May 2019, a comprehensive investigation was launched, the relevant authorities were notified, and we began working intensely to find a solution to the problems and compensate the affected customers for overcollection in relation to their overdue debt. Progress was made on an ongoing basis, but at the same time, the scope and complexity of the case increased, and we realised that the timeline for resolving the issues could extend beyond 2024, which was unsatisfactory for our customers

and Danske Bank. On the basis of extensive analyses, we therefore worked to develop an accelerated solution that would provide clarity for the vast majority of our debt collection customers.

With the solution a total of approximately 245,000 debt collection customers have or will be informed that their debt is set to zero and that their debt collection accounts will be closed. At the same time, we will compensate customers for any potential overcollection related to the additional issues on the basis of a data driven model.

To mitigate the fact that using a model is less precise than manual reviews, the model has been designed to increase the level of customer compensation to the benefit of the customer.

We have begun outpayment of compensation based on the model and we expect that the vast majority of customers, who – based on the model – are entitled to compensation will be notified before the end of 2023. Customers, who are entitled to compensation, will be notified directly by the bank.

Customers with accounts transferred for debt collection after we initially suspended our debt collection as of 1 October 2020 are not part of the solution. This is because their debt collection is significantly less affected by the errors in our historical debt collection systems. We will communicate directly to the debt collection customers whose debt we will resume collection of.

Also, a small number of other case types, for instance corporate bankruptcies, are not covered by the accelerated solution. These cases will be subject to a manual review to determine if any overcollection has occurred.

The degree of complexity for the debt collection issue is highest in Denmark, but also Finland and Norway are affected.

The case is still ongoing.

### **Non-forced property sales made via home in which a loss is accepted**

As part of the investigation into Danske Bank's debt collection system, we discovered a practice whereby Danske Bank negotiated agency fees with all real estate agents except for home, which is part of the Danske Bank Group, in connection with property sales that customers agreed to in order to repay debt. This practice, which existed from 2013 to 2019, resulted in some customers paying too high agency fees to home.

Approximately 1,300 customers were informed about potentially being affected. In 915 trades, the agency fee was not negotiated and about 600 customers received compensation.

Danske Bank has closed the case.

**Interest on reminder fees**

In connection with the analysis of the debt collection issue, we found that we had wrongfully collected interest on reminder fees. The error arose in connection with an amendment of the Danish Interest Act (Renteloven) in 2005 to which our systems were not adapted.

We reviewed all reminder fees that we had charged in Denmark since 2005 – this concerned about 520,000 customers, whereas, 424,000 customers have since received compensation. Of these, approx. 271,000 customers received less than DKK 10, while the remaining approx. 153,000 customers on average received DKK 73.

We identified a similar issue in Realkredit Danmark. Our initial estimate was that approx. 40,000 customers potentially were affected by this issue of wrongful charging of interest on reminder fees or too many reminder fees.

Also in Norway, we identified a similar issue, where up to 184,000 customers potentially were affected. Due to differences in Danish and Norwegian legislation, Danske Bank in Norway repayed the rightfully charged fees in addition to the wrongfully charged interest.

The issues regarding the wrongful charging of interest on reminder fees also applied to Asset Finance Denmark (Nordania Leasing) and Asset Finance Norway.

We paused charging new reminder fees in Denmark as well as the charging of interest on new reminder fees in Norway – and ensured that all potentially affected customers in both countries were informed of the issue. The majority of the affected customer have received compensation, and approximately 8.000 customers were not affected.

Danske Bank has closed the case.

**Flawed estimates for profit and loss figures**

Up to 27,000 customers were potentially presented with incorrect profit and loss estimates for some of their shares in Danske eBanking or Mobile Banking for example, due to data shortcomings in an underlying IT system. However, customers had always seen the correct share price and received the correct amounts when selling. In addition to the data issues, the bank had not been consistently clear in guiding texts on the limitations of how the profit and loss figures could be used by our customers. Customers therefore risked having used flawed profit and loss figures for tax reporting or for purposes other than guidance, when making investment decision.

The data issues concerned a limited number of the shares that had been available on our trading platforms during the past 10 years and had primarily been an issue when a share's acquisition value changed due to, for example, the share being split into two. Furthermore, Danske Bank had incorrectly reported to the Swedish Tax Authorities on behalf of around 60 Swedish customers.

We corrected our reporting to the Swedish Tax Agency and stopped displaying profit and loss figures for the total of 5,000 potentially affected unique shares, until we had quality assured and updated the data. Since then, we re-opened the profit and loss figures for a substantial amount of these shares again, as we ensured the quality of the data.

The Bank has worked with the root causes and has implemented IT and process improvement solutions and in September 2021, a closing memo was sent to the DFSA. In addition, the Bank's Internal Audit department has performed a validation of the robustness of the mitigating solutions.

Danske Bank has closed the case.

#### **Discrepancy between investment agreement and profile**

We identified a number of investment agreements that were registered incorrectly, resulting in discrepancies between the customers' investment agreements and investment profiles. In some cases, the error dated back to 2007, and it resulted in customers having achieved a lower or higher return than they would have achieved if the agreement had been registered correctly.

We strengthened our controls and updated our processes for how investment agreements are registered to prevent similar errors from occurring again.

Around 600 customers were affected across the Nordic region, primarily in Denmark. We invited all affected customers to a meeting with an investment specialist to ensure alignment between their agreement and profile. Customers who had suffered a loss due to the registration error were compensated. Approx. 100 customers did not suffer losses.

Danske Bank closed the case in December 2021.

#### **Discounts on foreign exchange trades and foreign exchange in connection with international payments**

Across our markets, some customers, primarily business customers, did not receive the correct discounts on foreign exchange trades and foreign exchange in connection with international payments because the discounts were not registered correctly in our system in the period from 2009 to 2021. Across our markets, we identified around 3,800 customers potentially impacted by the issue. Around 1,100 of the customers had not received the correct discounts due to erroneous registrations in our

discount systems, and these customers were reimbursed for the excess amount paid. We also tightened our procedures and implemented an updated IT infrastructure to minimise the risk of similar errors.

For the rest of the customers, we assessed that there was a minimal risk that they were impacted, as there were no indications of erroneous registrations for these customers. All customers received new discounts agreements serving as documentation for the discounts to which they are entitled.

Except for one customer with a very complex reporting obligation, the case was closed in December 2022 with reimbursement to the last customer taking place in Q1 2023.

### **Issues with our tax services**

During the spring of 2020, we identified insufficiencies in internal processes supporting the tax services we offer customers with securities in their custody accounts. Consequently, we initiated a thorough review to uncover all potential issues. The issues identified fell into three categories:

- Delays and errors in our processes for tax-reclaim and relief-at-source services
- Reporting errors due to system limitations
- Potential tax benefit errors due to inadequate cross-border controls

Some of the issues caused customer detriment because they resulted in incorrect tax treatment of returns on securities or delays in services. Most of the customers affected were customers of Danske Bank in Denmark, the remainder were customers with Danske Bank in the other Nordic countries. Issues resulting in a direct loss for the individual customer, were remediated through compensation to the customer.

Danske Bank has closed the case.

### **Infinite loan terms**

For a number of customers the term of their loan had unfortunately become infinite, due to a lack of controls, which we failed to inform them about. In addition, we failed to follow up to ensure that customers had an appropriate repayment profile. The loan term had become infinite because payments did not cover interest accrued after a interest rate increase in a period between 2007 and 2012.

Adjustments were made to ensure none of the affected loans have infinite terms and system changes were implemented, so that if the interest rate changes, we are able to prevent the loan term from extending beyond a certain limit.

We have completed our analysis and found that the issue concerned 39 private customers in Denmark. We contacted all affected customers, adjusted their terms and conditions individually, and prepared new loan repayment agreements.

The Danish FSA has been informed of our work, and we consider the case to be closed.

### **Fees for business customers**

We identified a number of business customers in Denmark who had paid credit renewal fees which we did not have a basis for collecting. This was due to an issue in a system implemented in 2015, when we automated fee collection for business customers. The issue related to the lack of registration of credit facilities' expiry dates and the fact that the system was not able to identify whether the customers in question had facilities at the time of the collection. In some cases, the fees were therefore collected even though the customers did not have credit facilities when the fees were collected.

We also investigated an additional group of customers with credit facilities for whom the collection of the fees was wrongful.

We temporarily stopped the system collection of credit renewal fees until we had solved the issue to eliminate the risk of further wrongful collection.

We examined a group of around 2,200 business customers in Denmark from whom we may have wrongfully collected credit renewal fees. All potentially affected customers were informed. About 300 customers were not affected, and affected customers were compensated in 2021.

Danske Bank has closed the case.

Danske Bank

Contact: Stefan Singh Kailay, Head of Media Relations, tel. +45 45 14 14 00