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Danske Bank presents solution for its debt collection customers and sets the debt of approximately 90,000 debt collection customers to zero

Since Danske Bank's Executive Leadership Team in 2019 became aware of the systemic nature of the errors in the bank's debt collection systems, we have worked intensely to find a solution to the problems and compensate the affected customers for potential overcollection in relation to their overdue debt. This work has taken place in dialogue with relevant authorities. Progress has been made on an ongoing basis to correct past errors and to compensate the affected customers. However, as the remediation has progressed, new issues have emerged, which have increased the scope and complexity of the challenges considerably, resulting in a timeline for resolving the issues that could extend beyond 2024, which is unsatisfactory for our customers and Danske Bank. We have therefore – as communicated in April 2022 – explored alternative approaches to provide faster clarity for the affected debt collection customers.

On the basis of extensive analyses, Danske Bank has now developed an accelerated solution that provides clarity for the vast majority of our debt collection customers. The solution is built on a number of key decisions, which Danske Bank announces today:

- Approximately 90,000 debt collection customers in Denmark will have their debt to the bank set to zero, and Danske Bank will not collect this debt. Due to the ongoing identification of additional issues in our debt collection systems, we do not find it viable for the customers or the bank to resume collecting this debt since the time and costs associated with determining the amount of debt in each individual case would outweigh the potential repayment of parts of the debt for the bank. In addition, approximately 155,000 customer cases have previously been closed, meaning that a total of approximately 245,000 debt collection customers will be informed that their debt is set to zero and their debt collection accounts will be closed.

- Danske Bank has decided to compensate customers for any potential overcollection related to the issues in the historical debt collection systems on the basis of a statistical model. Deploying this statistical model will enable a much faster resolution of the cases than manual processing of all identified issues on an issue-by-issue basis.
- Using structured digital data as far back as is available, the statistical model developed by Danske Bank estimates the extent of potential overpayment. The foundation for the model is the customer's original principal when their debt was recorded in our historical debt collection systems or a later debt agreed with the customer. If the customer's subsequent repayments exceed this level of debt, the customer will receive a sufficient amount of repayments made to ensure that potential overcollection is compensated at a level that covers both relevant time and tax compensation.
- Extensive sample checks in which manual reviews of individual cases have been compared to the model results have been used to validate the model. As this is a statistical model, we cannot rule out that in special cases there can be aspects that the model does not fully capture. This can affect the compensation. 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. The sample checks confirm the model's principle of overcompensation to a level that is generally sufficient to also cover compensation for time and tax. Further sample checks are needed across more customer cases and this work will continue for the next few months. Danske Bank has allocated DKK 650 million to cover the compensation for potential overcollection.
- We have been able to help the vast majority of our customers with overdue payments without their case moving into late debt collection. Those of our customers entering late collection, we are addressing with today's announcement. Customers with accounts transferred for debt collection after the bank initially suspended its debt collection as of 1 October 2020 will not be part of the solution. This is because their debt collection is significantly less affected by the errors in the historical system. The bank will review the cases for this group of approximately 7,000 customers before resuming debt collection.
- We will proactively contact the affected customers who are to have their debt set to zero and those in scope for compensation for potential overcollection.
 - Within the next two months, we expect to begin informing those customers whose debt is set to zero and debt collection accounts are to be closed. The vast majority is expected to be informed within six months.
 - Within the next three months, we expect to communicate directly to the customers whose debt we will resume collecting on, and expect to resume our debt collection during 2023.
 - We expect to begin communicating to customers regarding compensation for potential overcollection in the beginning of next year and expect that the compensation pay-out to the vast majority of customers is completed by the end of 2023.

“The historical errors we have discovered in our debt collection systems do not in any way reflect the bank we want to be, and we deeply apologise for these errors and the consequences for the affected customers. For the past years, we have worked hard to solve the errors in our systems and to provide clarity for our customers and the bank, but we have continuously seen the number of issues increase. We have therefore decided to implement an accelerated solution based on the debt being set to zero and to compensate the affected customers for potential overcollection using a statistical model that provides clarity for our customers much faster than a solution based on the manual approach resolving each customer case issue by issue. We believe that this more efficient solution is fair to our customers as well as our other stakeholders. It brings closure to our customers much sooner than would otherwise be possible, and for the bank, it means that we can now communicate a plan to have the matter resolved in 2023” says Carsten Egeriis, Chief Executive Officer.

A smaller number of other case types, e.g. corporate bankruptcies, will not be covered by the accelerated solution. These cases will be subject to a manual review to determine if any overcollection has occurred. We continue our dialogue with the authorities on the estate cases and are currently looking into a suitable solution.

The degree of complexity for the debt collection issue is highest in Denmark, and the analyses have been ongoing for a longer period than in our other markets. We will inform regulators and customers of the approach for other markets at a later stage. Based on our current knowledge, we expect a small financial impact in 2023 from resolving the matter outside of Denmark.

Our operating expenses for 2022 are expected to increase by approximately DKK 0.6 billion due to an increase in provisions for compensation to customers whereas write-down of debt will lead to higher loan impairment charges of DKK 0.65 billion, which includes part of the compensation for customers. These items will be booked in the third quarter of 2022.

Despite this, we confirm our outlook for net profit of between DKK 10-12 billion in 2022.

Danske Bank

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