

APPENDICES

Appendix 1: Order of the High Court dated 30 March 1998

1998 No 89 COS

Monday the 30th day of March 1998

BEFORE MR JUSTICE KELLY

IN THE MATTER OF THE COMPANIES ACTS 1963-1990

AND IN THE MATTER OF NATIONAL IRISH BANK LIMITED

**AND IN THE MATTER OF AN APPLICATION PURSUANT TO SECTION 8
OF THE COMPANIES ACT 1990**

THE MINISTER FOR ENTERPRISE TRADE AND EMPLOYMENT

APPLICANT

Upon the Application of Counsel for the Applicant made unto the Court on this day pursuant to Notice of Motion herein filed on the 27th day of March 1998

On reading the said Notice of Motion the Affidavit of Paul Appleby sworn on the 27th day of March 1998 and on the 30th day of March 1998 the documents and exhibits in said Affidavit referred to and on hearing said Counsel and Counsel for National Irish Bank Limited

1. IT IS ORDERED pursuant to Section 8(1) of the Companies Act 1990 that John Blayney SC and Tom Grace be appointed as inspectors to investigate and report on the affairs of National Irish Bank Limited
2. IT IS ORDERED until further Order of the Court that the said John Blayney SC and Tom Grace shall investigate and report on the affairs of National Irish Bank Limited relating to

- (i) the improper charging of interest to accounts of customers of the said National Irish Bank Limited between 1988 and this day
- (ii) the improper charging of fees to accounts of customers of the said National Irish Bank Limited between 1988 and this date
- (iii) the improper removal of funds from accounts of customers of the said National Irish Bank Limited between 1988 and this ^{day} ~~date~~
- (iv) all steps and action taken by National Irish Bank Limited its directors and officers servants or agents in relation to the charging of such fees or interest or the removal of any funds without the consent of the account holders and their actions arising from the issues when discovered
- (v) the matter in which the books records and accounts of the said National Irish Bank Limited reflected the foregoing matters
- (vi) the identity of the person or persons responsible for or aware of any of the practices referred to above
- (vii) whether other unlawful or improper practices existed or exist in National Irish Bank Limited from 1988 to date which served to encourage the evasion of any revenue or other obligations on the part of the Bank or Third Parties or otherwise

IT IS ORDERED that the said Inspectors investigate and deliver an interim report to the Court not later than 5 o'clock in the afternoon of Monday the 22nd day of June 1998 and that the matter be listed before the Court on Monday the 29th day of June 1998

THE HIGH COURT

The Court doth direct that in preparing the report that the said
Inspectors bear in mind the provision of Section 22 of the Companies Act 1990

Reserving the costs of this Application and Order

Liberty to apply

B. Reedy

REGISTRAR

Chief State Solicitor
Solicitor for the Applicant

A Copy which I attest

W. McKenna
Superintendent of Copyists

Appendix 2: Order of the High Court dated 15 June 1998

1998 No 132 Cos

Monday the 15th day of June 1998

BEFORE MR JUSTICE SHANLEY

IN THE MATTER OF THE COMPANIES ACTS 1963 TO 1990

**AND IN THE MATTER OF NATIONAL IRISH BANK FINANCIAL
SERVICES LIMITED**

**AND IN THE MATTER OF AN APPLICATION PURSUANT TO SECTION
8 OF THE COMPANIES ACT 1990**

THE MINISTER FOR ENTERPRISE TRADE AND EMPLOYMENT

APPLICANT

Upon application of Counsel for the Applicant made unto the Court
pursuant to Notice of Motion dated the 11th day of June 1998

And on reading the said Notice of Motion and the Affidavit of Paul
Appleby filed the 11th day of June 1998 and the Affidavit of Graham Savage filed
the 12th day of June 1998 the documents and exhibits referred to in said Affidavits

And on hearing said Counsel and Counsel for National Irish Bank
Financial Services Limited

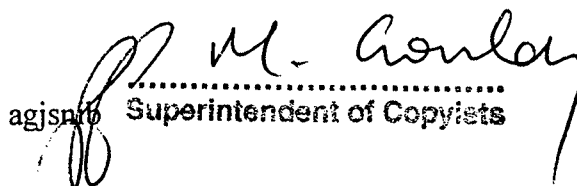
IT IS ORDERED

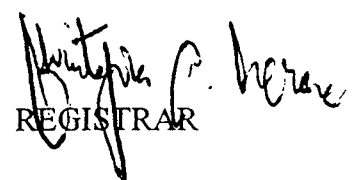
1. that pursuant to Section 8 (1) of the Companies Act 1990 Mr John
Blayney S.C. and Mr Tom Grace be appointed as Inspectors to
investigate and report on the affairs of National Irish Bank Financial
Services Limited
2. that until further Order of this Court the said Mr John Blayney S.C.
and Mr Tom Grace do investigate and report on the affairs of National
Irish Bank Financial Services Limited relating to

THE HIGH COURT

- (a) The effecting of insurance policies through National Irish Bank Financial Service., Limited with Clerical Medical Insurance Company Limited Scottish Provident International Life Assurance Limited and Old Mutual International (Guernsey) Limited
 - (b) The role of National Irish Bank Financial Services Limited its officers servants and employees in connection with the effecting of the said policies of insurance
 - (c) The purposes behind the execution of the aforesaid policies of insurance
 - (d) The knowledge of the management and board of directors of National Irish Bank Financial Services Limited of the effecting of the said policies of insurance
 - (e) The identity of the person or persons responsible for or aware of the effecting of or purposes behind the said policies of insurance
3. that the said Inspectors do deliver an interim report to the Court not later than 5 o' clock in the afternoon of Tuesday the 11th day of August 1998 and that the matter be listed before the Court on Wednesday the 12th day of August 1998
 4. that the Solicitors for National Irish Bank Financial Services Limited be notified in advance of the date of the presentation of said interim report
 5. that the cost of the proceedings herein be reserved

A Copy which I attest


.....
agjsnrb Superintendent of Copyists


REGISTRAR

Appendix 3: Order of the High Court dated 31 July 2001

Tuesday the 31st day of July 2001

BEFORE MR JUSTICE KELLY

IN THE MATTER OF THE COMPANIES ACTS 1963 - 1990

IN THE MATTER OF NATIONAL IRISH BANK LIMITED

**AND IN THE MATTER OF AN APPLICATION PURSUANT TO SECTION
8 OF THE COMPANIES ACT 1990**

THE MINISTER FOR ENTERPRISE TRADE AND EMPLOYMENT

APPLICANT

Upon Motion of Counsel for the Applicant made unto the Court this day pursuant to Notice of Motion dated the 31st day of July 2001 in the presence of Counsel for the National Irish Bank Limited and the Solicitor for the Inspectors

Whereupon and on reading said Notice the Affidavit of Peter Durnin filed this day the Order dated the 30th day of March 1998 and on hearing said Counsel and said Solicitor

IT IS ORDERED that the said Order dated the 30th day of March 1998 be amended as follows

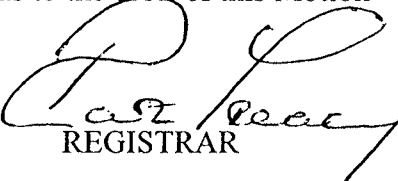
- (a) The insertion of "(A)" at the commencement of page 2 thereof
- (b) The insertion of the letter "(B)" after sub-paragraph (7) of the aforesaid Order and the addition thereafter of the following:

- (i) The effecting of insurance policies through National Irish Bank Limited with:

- CMI Insurance Company Limited
- Clerical Medical and General Life Assurance Society
- Clerical Medical Investment Group Limited
- Scottish Provident International Life Assurance Limited

- Old Mutual International (Guernsey) Limited
- (ii) The role of National Irish Bank its officers servants and employees in connection with the effecting of the said policies of insurance
- (iii) The purpose behind the execution of the aforesaid policies of insurance
- (iv) The knowledge of the management and Board of Directors of National Irish Bank Limited of the effecting of the said policies of insurance
- (v) The identity of person or persons responsible for or aware of the effecting of or purposes behind the said policies of insurance

And the Court doth make no Order as to the costs of this Motion


REGISTRAR

A Copy which I attest


.....
Superintendent of Copyists

Appendix 4: Order of the High Court dated 31 July 2001

Tuesday the 31st day of July 2001

BEFORE MR JUSTICE KELLY

IN THE MATTER OF THE COMPANIES ACTS 1963 - 1990

**IN THE MATTER OF NATIONAL IRISH BANK FINANCIAL SERVICES
LIMITED**

**AND IN THE MATTER OF AN APPLICATION PURSUANT TO SECTION
8 OF THE COMPANIES ACT 1990**

THE MINISTER FOR ENTERPRISE TRADE AND EMPLOYMENT

APPLICANT

Upon Motion of Counsel for the Applicant made unto the Court this day pursuant to Notice of Motion dated the 31st day of July 2001 in the presence of Counsel for the National Irish Bank Financial Services Limited and the Solicitors for the Inspectors

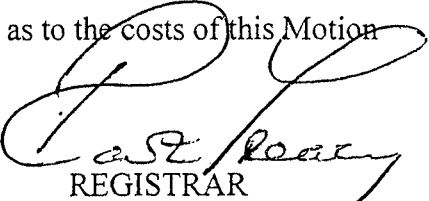
Whereupon and on reading said Notice the Affidavit of Peter Durnin filed this day the Order dated the 15th day of June 1998 and on hearing said Counsel and said Solicitor

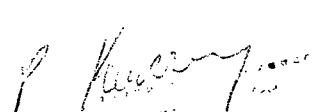
IT IS ORDERED that the said Order dated the 15th day of June 1998 be amended as follows

- (a) The insertion of "(A)" at the commencement of page 2 thereof
- (b) After "Clerical Medical Insurance Company Limited" as same appears on the second line of sub-paragraph (a) at the top of page 2 thereof
"CMI Insurance Company Limited
Clerical Medical and General Life Assurance Society
Clerical Medical Investment Group Limited"

- (c) The insertion of the letter “(B)” after paragraph 2 sub-paragraph (e) of the aforesaid Order and the addition thereafter of the following
- “(i) The effecting of insurance policies through National Irish Bank Limited with
- CMI Insurance Company Limited
 - Clerical Medical and General Life Assurance Society
 - Clerical Medical Investment Life Assurance Limited
 - Old Mutual International (Guernsey) Limited
- (ii) The role of National Irish Bank Limited its officers servants and employees in connection with the effecting of the said policies of insurance
- (iii) The purpose behind the execution of the aforesaid policies of insurance
- (iv) The knowledge of the management and Board of Directors of National Irish Bank Limited of the effecting of the said policies of insurance
- (v) The identity of the person or persons responsible for or aware of the effecting of or purpose behind the said policies of insurance”

And the Court doth make no Order as to the costs of this Motion


REGISTRAR



Appendix 5: Order of the High Court dated 13 July 1998

1998 No 89 Cos

Monday 13th
~~Tuesday~~ the ~~14th~~ day of July 1998
BEFORE MR JUSTICE SHANLEY

IN THE MATTER OF NATIONAL IRISH BANK LIMITED (UNDER INVESTIGATION)

AND IN THE MATTER OF THE COMPANIES ACT 1990

The Motion pursuant to Notice dated the 11th day of June 1998 on behalf of John Blayney and Tom Grace the Joint Inspectors appointed by this Honourable Court on the 30th day of March 1998 (hereinafter referred to as "the Inspectors") having been at hearing before this Court on the 25th day of June 1998 the 26th day of June 1998 the 30th day of June 1998 the 1st day of July 1998 and the 2nd day of July 1998 in the presence of Counsel for the Inspectors Counsel for the Minister for Enterprise Trade and Employment and for the Attorney General Counsel for National Irish Bank and Counsel for John O'Reilly (the Representative Respondent) (Counsel for Jim Lacey having appeared on the 25th day of June 1998 and indicated that he did not wish to be represented or take part in any way)

And on reading said Notice and the Affidavit of John Blayney and Tom Grace filed the 11th day of June 1998 and the documents and exhibits referred to therein the Order herein dated the 11th day of June 1998 the skeleton legal arguments on behalf of the Applicant filed the 18th day of June 1998 the Affidavit of Edmund Fry filed the 22nd day of June 1998 the Affidavit of Grahame Savage filed the 25th day of June 1998 the Affidavit of John O'Reilly filed the 24th day of June 1998 and the documents and exhibits referred to therein

And on hearing said Counsel

And the Court having been pleased to reserve its judgment herein

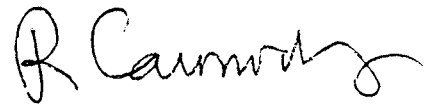
And the matter coming on before the Court this day for judgment in the presence of said respective Counsel

The Court doth Order and Declare

- (i) that persons (whether natural or legal) from whom information documents or evidence are sought by the Inspectors in the course of their investigation under the Companies Act 1990 are not entitled to refuse to answer questions put by the Inspectors or to refuse to provide documents to the Inspector on the grounds that the answers or documents may tend to incriminate him her or it
- (ii) that the procedures outlined by the Inspectors in their letters dated the 4th day of June 1998 (contained within Exhibits C and D to the Affidavit of John Blayney and Tom Grace sworn on the 11th day of June 1998) are consistent with the requirements of natural and constitutional justice

And IT IS ORDERED that John O'Reilly (the Representative Respondent herein) and National Irish Bank do recover against the Applicants their costs of this Issue and Order

And the Court doth make no Order as to the costs of the Minister for Enterprise Trade and Employment and the Attorney General



REGISTRAR

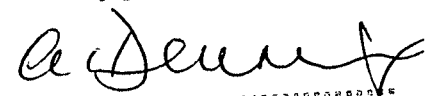
William Fry
Solicitor for Inspectors

Matheson Ormsby Prentice
Solicitors for National Irish Bank

O'Mara Geraghty McCourt
Solicitors for Representative Respondent

Chief State Solicitor
Solicitor for Minister for Enterprise Trade and Employment and for the Attorney General

A Copy which I attest


.....
Superintendent of Copyists

Appendix 6: Order of the Supreme Court dated 21 January 1999

SUPREME COURT

(No 235 of 1998)

1998 No 89 COS

Thursday the 21st day of January 1999

BEFORE

MR JUSTICE O'FLAHERTY

MR JUSTICE BARRINGTON

MR JUSTICE MURPHY

MR JUSTICE LYNCH

MR JUSTICE BARRON

**IN THE MATTER OF NATIONAL IRISH BANK LIMITED (UNDER
INVESTIGATION)**

AND IN THE MATTER OF THE COMPANIES ACT 1990

The Motion on the part of John O'Reilly (the representative Respondent) pursuant to Notice of Appeal dated the 4th day of August 1998 by way of Appeal from the Judgment and Order of the High Court (Mr Justice Shanley) given and made on the 13th day of July 1998 (whereby Orders and Declarations were made (i) that persons (whether natural or legal) from whom information documents or evidence are sought by the Inspectors in the course of their investigation under the Companies Act 1990 are not entitled to refuse to answer questions put by the Inspectors or to refuse to provide documents to the Inspectors on the grounds that the answers or documents may tend to incriminate him her or it and (ii) that the procedures outlined by the Inspectors in their letters dated the 4th day of June 1998 (contained within Exhibits C and D to the Affidavit of John Blayney and Tom Grace sworn on the 11th day of June 1998) are consistent with the requirements of natural and constitutional justice) on the grounds and as set forth in the said Notice of Appeal coming on for hearing before this Court on the 4th day of November 1998

Whereupon and on reading the said Notice of Appeal the said Order of the High Court the Affidavits and exhibits referred to therein the Judgment in the High Court and

SUPREME COURT

the written submissions herein and on hearing Counsel for the said Representative Respondent Counsel for John Blayney and Tom Grace the Joint Inspectors appointed by the High Court on the 30th day of March 1998 and Counsel for the Minister for Enterprise Trade and Employment and the Attorney General

In the course of the written submissions to the Court on behalf of the said Representative Respondent it having been intimated that he was only concerned with the rights of natural persons and in the course of oral submissions to the Court by Counsel on his behalf it having been intimated that the Appeal against the declaration at (ii) hereinbefore referred to was being abandoned

It was Ordered that the case should stand for Judgment

And the same being listed for Judgment this day and being called on accordingly in the presence of said respective Counsel

IT IS ORDERED AND ADJUDGED that the said Appeal be dismissed and that the said Judgment and Order (including the Order for costs) do stand affirmed accordingly with the addition thereto of a Statement that a confession of a Bank Official obtained by the said Inspectors as a result of the exercise by them of their powers under Section 10 of the Companies Act 1990 would not in general be admissible at a subsequent criminal trial of such official unless in any particular case the trial Judge was satisfied that the confession was voluntary

And Counsel on behalf of the Representative Respondent having applied for an Order for payment of his costs the Court doth make no Order as to the costs of the Appeal

A Copy which I attest

[Signature]
.....
Superintendent of Copyists

11B89COS.SAM

[Signature]
REGISTRAR

Appendix 7: Order of the High Court dated 19 March 1999

Record No 1998 89 COS

Friday the 19th day of March 1999

BEFORE MR JUSTICE KELLY

IN THE MATTER OF

NATIONAL IRISH BANK LIMITED (UNDER INVESTIGATION)

APPLICANT

AND IN THE MATTER OF

Record No 1998 89 COS

NATIONAL IRISH BANK FINANCIAL SERVICES LIMITED (UNDER
INVESTIGATION)

APPLICANT

AND IN THE MATTER OF

THE COMPANIES ACT 1990

On Motion of Counsel for the Applicants made unto the Court on the
3rd and 4th days of March 1999 pursuant to Notice, dated the 3rd day of March
1999 and the 5th day of February 1999 for

1. An Order pursuant to Order 28 of the Rules of the Superior Courts
granting the Applicants herein leave to amend their Notice of Motion
dated the 5th day of February 1999 by the deletion of paragraph 1 and
the insertion of the following paragraph

An Order directing that the Inspectors should not engage in a Deposit
Interest Retention Tax (DIRT) compliance investigation of the Bank
which extends beyond effecting such investigation as is necessary to
report upon any issues of unlawful or improper practices that exist or
existed in the Bank from 1988 to date which served to encourage the

evasion of any revenue or other obligations on the part of the Bank or Third Parties or otherwise and which relate to the effecting or selling or marketing in any capacity whatsoever of insurance policies through the Bank and/or the Company with Clerical Medical Insurance Company Limited Scottish Provident International Life Assurance Limited and Old Mutual International (Guernsey) Limited

2. An Order directing that National Irish Bank Limited and National Irish Bank Financial services Limited be furnished with a copy of all the transcripts and supporting documentation relating to interviews carried out by Inspectors with staff and customers of National Irish Bank Limited and National Irish Bank Financial Services Limited which are referred to in the Interim Report of the Inspectors dated the 17th day of December 1998

3. Such further Orders as the Court thinks fit

And the Court being pleased to reserve its judgment and coming on again for judgment this day

IT IS ORDERED that liberty be given to the Applicant to amend paragraph 1 of their Notice dated the 5th day of February 1999 in the terms set out above

IT IS ORDERED that the application for the relief sought in paragraph 1 of the Notice dated the 5th day of February 1999 as amended above be refused

IT IS ORDERED that the relief sought at 2 and 3 above be refused

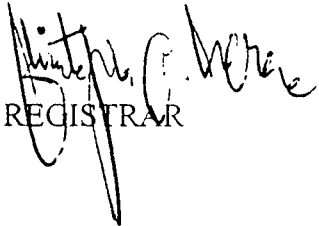
IT IS ORDERED that the Inspectors herein and the Minister for Enterprise Trade and Employment do recover against the National Irish Bank

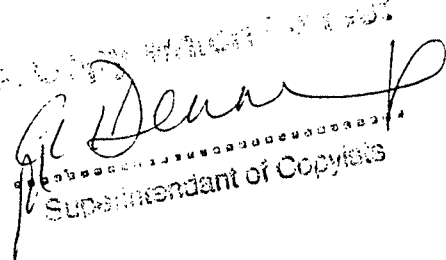
G.1.

THE HIGH COURT

Limited (under investigation) and National Irish Bank Financial Services Limited
(under investigation) the costs of the proceedings herein

IT IS ORDERED that execution on foot hereof in respect of costs be
stayed for a period of 21 days from the date of perfection of this Order and in the
event of the Applicants within said period serving and duly entering Notice of
Appeal herein until the Appeal shall have been disposed of


REGISTRAR


Superintendent of Copyists

**Appendix 8: Copy memorandum dated 18 November 1993 from Gerry
Hunt, Head of Financial Control**

~~CONFIDENTIAL~~
~~SECRET~~

22 NOV 1993

Memorandum

To: F.Brennan, M.Keane, D.Boner
cc: J.Lacey
From: G.Hunt
Date: 18/11/93
Subject: Non Resident Accounts

/

I have recently received three separate phone calls from senior officials in the Dept. of Finance and Revenue on the 1993 tax amnesty and they are clearly unhappy about the alleged actions of a number of bank officials. I am now convinced that the Revenue will commence detailed audits of the major banks in 1994 with particular attention on non resident accounts. The U.K. Revenue did a similar exercise on Northern Bank in 1990 and made claims for negligence based on inadequate documentation..

Over the past 12 months non resident deposits in branches have increased from £80m. to £110m. (detailed analysis attached) and it is difficult to explain why such a high proportion of new funds are from non residents. I have spoken with R. Bowden and P. Harte and both share my concerns that our documentation may be weak in the following areas:

1. c/o branch addresses.
2. Non resident declaration forms missing, incomplete or inaccurate.
3. Unusual addresses that clearly warrant closer scrutiny eg Main St., Swansea, Wales.
4. Obvious errors eg non res. deposit and resident loan in same name.

It is essential to advise all managers of the immediate risks and the personal penalties. There can no longer be excuses for sloppiness in this area and we have been given advance warning.

G. Hunt

Branches received

TO: GERRY HUNT
AT: FINANCE DEPT

RE: BALANCES OF NON RESIDENT SAVINGS ACCOUNTS AT N.I.B. BRANCHES

<u>BRANCH</u>	<u>SEPT 1992 TOTAL</u>	<u>SEPT 1993 TOTAL</u>	<u>% INCR/DECR</u>	<u>NON RES DEPOSITS AS % OF TOTAL FOR 1993</u>
COLLEGE GREEN	2,905	3,955	36%	9%
BLANCHARDSTOWN	764	681	-11%	7%
FINGLAS	632	1,025	62%	11%
O'CONNELL ST	2,183	3,009	38%	15%
SOUTH CIRCULAR RD	1,567	3,871	147%	14%
WILTON TCE	0	65	100%	42%
WALKINSTOWN	1,355	1,768	30%	9%
BAGGOT ST	664	624	-6%	3%
DUN LAOGHAIRE	1,000	896	-10%	7%
B' EBORO	1,637	2,365	44%	18%
B' IGGAN	1,018	1,676	65%	19%
B' INAMORE	1,962	2,695	37%	33%
BALLINASLOE	1,142	1,011	-11%	18%
BALLYBOFEY	1,524	2,061	35%	22%
BOYLE	1,400	1,342	-4%	14%
BRAY	804	1,457	81%	10%
ATHLONE	1,538	1,349	-12%	12%
CARNDONAGH	2,606	2,900	11%	25%
CARRICK ON SHANNON	3,708	3,790	2%	24%
CASTLEBAR	44	3,302	7405%	45%
FERMOY	726	738	2%	14%
CORK	1,021	950	-7%	6%
DRUMSHAMBO	1,889	2,147	14%	25%
DUNDALK	3,608	5,843	62%	49%
DUNGLOE	7,147	9,264	30%	53%
ENNIS	638	1,013	59%	14%
CLONMEL	0	107	100%	3%
GALWAY	1,920	2,205	15%	16%
GWEEDORE	3,445	3,752	9%	57%
KELLS	1,866	2,424	30%	15%
KILKENNY	705	810	15%	12%
K' RNEY	2,771	3,552	28%	44%
K' COURT	633	1,109	75%	16%
L' ERKENNY	2,575	4,427	72%	26%
LANESBORO	604	619	2%	10%
LIMERICK	1,943	3,020	55%	18%
MALAHIDE	1,326	2,000	51%	14%
HOWTH RD.	0	20	100%	3%
MILFORD	1,810	1,384	-24%	12%
MOHILL	3,448	3,209	-7%	31%
MONAGHAN	2,506	5,191	107%	32%
MULLINGAR	925	1,841	99%	15%
NAAS	0	101	100%	38%
RAPHOE	2,166	2,163	-0%	26%
SHERCOCK	1,421	1,783	25%	22%
SKERRIES	327	1,138	248%	15%
SLIGO	2,511	3,391	35%	29%
SWORDS	1,529	2,412	58%	18%
TERENURE	0	6	100%	24%
VIRGINIA	1,260	1,368	9%	15%
WATERFORD	893	1,465	64%	18%
WEXFORD	880	1,069	21%	13%
TOTAL	80,946	110,363	36%	19%

Appendix 9: Report on DIRT Theme Audit, December 1994

NATIONAL IRISH BANK
DIRT THEME AUDIT
DECEMBER 1994

Circulation :

B Seymour	- Executive Director
M Keane	- General Manager Banking
P Byrne	- Head of Finance & Planning
P Halpin	- Head of Treasury & International

Prepared By :

C Lahert	- Computer Auditor
A Creamer	- Branch Auditor

Approved For Issue By :

P Harte	- Head of Audit
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Issue Date : 24 /1/95

Note on issue of final report

We issued a draft report on the DIRT Theme Audit to M J Keane, General Manager and to P Byrne, Head of Finance & Planning. The report findings have been accepted in general terms.

M J Keane has raised the following issues which require further consideration, and which are contributing factors to the findings of the report:

- Confusion regarding product design.*
- Absence of product training.*
- Conflicting information requirements.*
- General complexity.*
- Lack of monitoring.*

The issues raised in the audit report and the above issues will be discussed at a meeting on 9th February next. Responsibilities will be assigned and detailed plans of action produced after that meeting.

P Byrne has stated that Finance will continue to work towards a final circular covering the whole DIRT area. Audit and Finance will work together to ensure that the issues raised in the report are covered in the final circular. The issues raised will be discussed and responsibilities assigned at the meeting on 9th February.

Both M J Keane and P Byrne have agreed that we should proceed to issue the final report. We have not included detailed management comments and action plans but these will effectively be produced following the 9th February meeting.

1. MANAGEMENT SUMMARY

INTRODUCTION

This is our first theme audit; this concept involves selecting a particular theme / area, such as DIRT, for review on a Bank wide basis.

DIRT compliance issues (principally missing and incomplete documentation) continue to be reported in branch and other audits on a regular basis. For this reason, it was decided to select DIRT for our first theme audit to gain an understanding of the extent of DIRT compliance problems. We analysed the level of SSA and non resident deposits throughout the network and visited 12 branches in total. In addition, we visited Treasury and we have incorporated DIRT issues raised in previous audit reports in this theme audit report.

We have had a number of discussions with Finance Department during the course of this audit. Finance Department have made a significant contribution to the process and many of their suggestions have been incorporated into this report.

MAJOR FINDINGS

In general, there is a lack of clear and concise guidelines on DIRT compliance issues. Finance Department are in the process of re-issuing DIRT compliance procedures and we will liaise with Finance to ensure DIRT problems included in this report are covered in new procedures.

SSA notice requirements are not being properly imposed - 91% of withdrawals reviewed breached the notice requirements. The profile of this issue needs to be raised again; a number of initiatives should be undertaken including use of standard documentation. The notice requirements finding in this report should be reviewed by the Pricing Committee as an input to future SSA pricing decisions.

There is some evidence that branches have made progress through ad hoc reviews but an unacceptably high proportion of declarations were missing or incomplete - approximately 40% of non residents, 20% of SSAs and 53% of charities. Branch responsibilities for DIRT documentation need to be clearly defined and it is our opinion that Finance Department should co-ordinate a regular review to confirm that properly completed documentation is held for all accounts not subject to DIRT at standard rate (27%).

We were surprised to find a very small number of DIRT free company accounts in most branches. This is not a control issue, but branches could improve their customer service by advising more customers of the benefits of DIRT free company accounts.

A significant number of DIRT compliance issues were reported in recent audits of NIIB Deposits (June 1994) and International (September 1994). During this theme audit we did not perform further audit work in these areas but we have accepted assurances from management in both areas that significant progress has been made. We reviewed DIRT compliance in Treasury and found the standard of DIRT documentation to be good.

CONCLUSION

Results of this audit are very disappointing and management must take immediate steps to improve the situation. The structure of the whole area can be improved but the level of non-compliance is too high. It appears that there needs to be an organisation-wide change in attitude to the whole area. This is a risk area and the penalties for non-compliance at the level shown in this report would be very significant.

RATING

December 1994 - Unsatisfactory

2. Purpose And Scope

• Audit Objectives

1. Perform theme audit in a range of branches to gauge compliance with DIRT requirements throughout the network.
2. Review adequacy of procedures for compliance with DIRT requirements.
3. Obtain assurance that properly completed documentation is held for non resident, SSA, DIRT free company, pension fund and charity accounts.
4. Obtain assurance that SSA qualifying criteria and notice requirements are being enforced.

• Selection of branches

Samples were selected with a view to covering the branches with the highest value of SSA and non resident accounts (excluding branches audited in 1994).

Overall analysis showed that SSAs amounted to £136m and non resident accounts amounted to £88m in September/October 1994. It was decided to select top 8 SSA branches and top 6 non resident branches - two branches were selected in both categories so a total of 12 branches were visited (see list below). Testing covering both SSA and non resident accounts was conducted in all 12 of the branches visited.

Branches visited represent the following % coverage of these deposits in the network.

Branch	SSA		Non Residents	
	£m	%	£m	%
College Green	10	7%	3	3%
Baggot Street	6	4%	0.5	1%
Bray	5	4%	1	1%
O Connell Street	5	4%	2	2%
Dundalk	5	4%	6	7%
Malahide	5	4%	2	2%
Dun Laoghaire	4	3%	0.5	1%
Letterkenny / Ramelton	3	2%	3	3%
Monaghan / Clones	3	2%	4	5%
Castlebar	3	2%	3	3%
Sligo	3	2%	3	3%
Dungloe	2	1%	7	8%
Total coverage in 12 branches	54	40%	35	40%
Retail - all branches	136	100%	88	100%

- **Scope of Audit Testing**

Branch sample sizes selected were 30 non resident accounts, 30 SSAs and 10 accounts covering DIRT free companies, pension funds and charities. The sample for SSA notice requirements consisted of those SSAs selected which had a withdrawal since date of last statement or May 1994 (i.e. date when Livelink on-screen history enquiry facility became generally available).

Testing concentrated for the most part on the following areas:

Non Residents

Ensure that properly completed non resident declaration forms were held for the 30 non resident accounts. Briefly check that address on declaration form is not at variance with other branch records.

SSAs

Ensure that properly completed SSA declaration forms were held for the 30 SSAs. Briefly review listing of branch SSAs for apparent inconsistencies (e.g. sole and joint accounts held by same person, joint account held by persons not married to each other).

SSA Notice Requirements

Discuss understanding of SSA notice requirements with two members of branch staff.
Review withdrawal notices for selected SSA withdrawals (e.g. notice period, amount of withdrawal and signature of account holder(s)).

DIRT Free Company / Pension Fund / Charity Accounts

Ensure that properly completed charity declaration forms were held for selected charity accounts
Ensure that a copy of Revenue Commissioners certificate was held for each charity account.

Ensure that an appropriate and properly completed declaration is held for each of the DIRT free company and pension fund accounts selected. Ensure that company Tax Reference Number was input to Livelink.

3. General Findings - Retail Network

Major Findings

- Main issues which affect all aspects of DIRT compliance (i.e. non resident, SS A, DIRT free company, pension fund and charity accounts):
 1. Lack of clear and concise guidelines. Procedures do not clearly differentiate between the different types of DIRT. For example, SSA procedures / conditions are contained in several circulars and some branches confuse DIRT free company accounts with SSAs.
 2. Lack of understanding regarding documentation required for each account category e.g. we identified instances where charity form was used for a non resident account.
 3. There has been no co-ordinated review of all DIRT documentation on a regular basis. In late 1993, Administration Department conducted a review of non resident and DIRT exempt accounts whereby all branches were required to sign off on DIRT documentation held. This type of sign off does not guarantee that all DIRT documentation is in order as branch audits have continued to reveal problems in this area. There has been no formal review of SSA documentation (some branches have carried out their own reviews).
 4. Livelink does not specifically highlight new DIRT Free or 10% DIRT accounts opened for review.
- In the period 8/93 to 9/94 branch audit reports frequently included a point on interest refunds / adjustments where DIRT was credited in error due to incorrect usage of I.D. code 36. Branch audits showed that DIRT collected in error amounted to approximately £48k - incorrect use of this code reduces Net Interest Income by £48k.

Recommendations

- 3.1 Finance Department are in the process of re-issuing DIRT compliance procedures. We welcome this initiative and suggest that Finance Department should withdraw existing DIRT circulars and issue consolidated procedures (preferably in a format which can be incorporated into branch procedures manuals at a later stage). Instructions need to clearly distinguish between the various categories of DIRT compliance; we suggest that the new procedures should have separate sections for non resident, SSA, DIRT free company, pension fund and charity accounts. The instructions should emphasise importance of obtaining properly completed DIRT documentation.
- 3.2 Finance Department should co-ordinate a regular review to ensure that properly completed DIRT documentation is held for all accounts. Guidelines should be issued to assist with the review i.e. type of form required, completion of all sections and dating of the form. In 1995 Branch Planning Diary, a requirement to review SSA and non resident documentation has been included; this review should be extended to cover all DIRT categories.
- 3.3 We support Finance Department's initiative to liaise with IT Ireland regarding the feasibility of reporting opening of DIRT free and 10% DIRT accounts on Livelink for next day review. Could Livelink be used to prompt branch staff to check completeness of documentation?
- 3.4 Instructions regarding interest refunds / adjustments should be reissued e.g. use of I.D. code 36 automatically collects DIRT which means that this code needs to be used with care.
- 3.5 Finance Department and Retail should issue instructions regarding uniform filing of all DIRT declarations in branches; live and obsolete declarations should be filed separately in alphabetical order to facilitate review. Separate binders should be maintained for SSA, non resident, DIRT free company, pension fund and charity declarations.

4. Special Savings Accounts

Major Findings

- Withdrawal Notices

91% of SSA withdrawals reviewed breached the notice requirements.

Our review of 136 SSA withdrawal notices showed:

1. Notices were not sighted for 79% of withdrawals.
2. 55% of notices found were invalid e.g. no notice date, notice < 30 days.
3. None of the accounts in breach of the notice requirements had been subject to 27% DIRT from the date the requirements were breached.

Many branches are finding it difficult to impose SSA notice requirements due to:

- (a) Fear of losing deposits.
- (b) No standard procedures / documentation for implementing notice requirements.
- (c) Lack of understanding of notice requirements. For example:
 - Some branches understood that when a fixed term deposit account matures, the account holder could withdraw deposit without notice (area needs to be clarified).
 - Branches were not aware that notice is required for withdrawal of interest once interest has been capitalised.
 - Verbal notification of withdrawal was being accepted by one branch.

We were concerned to find that notice requirements are not being imposed in many cases as it is our understanding that the Pricing Committee has agreed to pay higher rates on SSAs on the basis that notice requirements have the backing of legislation. Properly implemented SSA notice requirements make it difficult for customers to move funds once they have been deposited with the Bank.

Details of audit results by branch are set out in Appendix 1.

- SSA Declarations

Approximately 20% of declarations selected contained some errors / omissions.

Our review of 372 SSA declarations showed:

1. SSA declaration forms were not sighted for 7% of accounts.
2. 9% of the declarations were not dated.
3. 5% of the declarations were not properly completed (e.g. no address, no account name).

In addition to the above, 19% of the declarations had an incorrect account number due to:

1. Initial migration to SSA accounts (i.e. Savextra product in early 1993).
2. Switching between variable and fixed term deposits - this will continue to be a problem due to limitations with Livelink.
3. Branch errors in the administration of fixed term deposits.

In our opinion; incorrect account number on a declaration means that the declaration is not valid.

Details of audit results by branch are set out in Appendix 2.

- SSA Account Holders

A high level review of SSAs in the selected branches showed that 29 SSAs did not comply with SSA qualifying conditions (e.g. sole and joint accounts held by same person, joint account held by persons not married to each other). It should be noted that this was a high level review which would only highlight very obvious inconsistencies.

Details of high level review by branch are set out in Appendix 3.

Recommendations

4.1 Procedures

The SSA procedures (refer 3.1) should include:

1. SSA qualifying conditions and proper completion of SSA declarations.
2. Procedures to be followed in the event of a breach of SSA conditions.
3. Notice requirements:
 - (a) Procedures to be followed in the event of a breach of notice requirements.
 - (b) Notice requirements in respect of recently capitalised interest.
 - (c) Notice requirements for fixed term deposits.
 - (d) Notice must be given in writing.
4. Procedures regarding changing from fixed to variable term deposits (i.e. how to treat changing account numbers). Procedures should also cover situation where account number changes due to branch error etc..

4.2 Notice Requirements

A new approach should be devised to assist branches in the implementation of SSA notice requirements. This should include:

1. Standard SSA notice document. This document should include:
 - Date of notice
 - Date of withdrawal of money
 - Withdrawal amount (or instruction to close the account)
 - Signature(s) of account holder(s)
 - Brief summary of notice requirements (e.g. 90 / 30 day notice, notice must be in writing) to ensure notice implications are clearly understood by customers and branch staff.

It may be possible to incorporate fixed term deposit reinvestment and SSA notice instructions in the same document.

2. Issue of timely reminders to account holders via statements / passbooks about notice requirements and DIRT penalties in the event of a breach of notice requirements.
3. Standard approach to diarising, filing and retaining notices.
4. Finance Department should consider seeking clarification from tax advisors and/or the Revenue Commissioners as to whether specific notice of withdrawal is required following rollover of a fixed term deposit (i.e. where term is one month or greater).

4.3 SSA Conditions / Declarations

1. Branches should be asked to review their SSAs (refer 3.2) to ensure:
 - (a) Each SSA meets the qualifying conditions. Where accounts do not meet the qualifying conditions, 27% DIRT should be applied.
 - (b) A properly completed declaration form is held for each SSA.
2. As an interim measure, where an account number changes on switching to a different deposit type, the opening entry on the new account statement should show previous account number to assist in tracing back to original account. The fixed / variable term deposits procedures should be amended to incorporate this new procedure.
3. In addition, Finance Department should:
 - (a) Seek clarification from tax advisors and/or the Revenue Commissioners as to whether an SSA declaration with a previous account number constitutes a valid declaration.
 - (b) Liaise with IT Ireland to investigate feasibility of changing Livelink to eliminate need to change account number when switching between deposit types.

4.4 Pricing Committee

Results of the notice requirements aspect of this audit report should be reviewed by the Pricing Committee as an input to future SSA pricing decisions.

5. Non Resident Accounts

Major Findings

- Non Resident Declarations

Approximately 40% of declarations selected contained some errors / omissions.

Our examination of non resident accounts showed:

1. Non resident declaration forms were not sighted for 12% of accounts.
2. 21% of the declarations had an incorrect account number.
3. 13% of the declarations were not dated.

Details by branch visited are set out in Appendix 4.

- Details at variance with other branch records

Instances have been reported in branch audits where non resident details were at variance with other branch records. Some branches appear to be of the opinion that once a non resident declaration form is held there is no obligation on the branch to confirm the residency of the account holder.

- Statement Despatch Code 'B'

A significant number of non resident accounts had a statement despatch flag of 'B' i.e. statement is sent to branch. (This area was not reviewed in detail as it will be subject to a separate theme audit later).

- Classification on Livelink

A significant number of non resident accounts were incorrectly classified in 'E' tax deduction status (see part 6 of this report).

- Deposit Receipts

Non resident deposit receipts balances amounting to £18k were examined in three of the selected branches. Non resident declarations were not sighted in respect of the majority of these accounts. Most of these accounts have been in existence more than 20 years and have never had a transaction apart from the initial deposit.

Recommendations

5.1 Procedures

The non resident procedures (refer 3.1) should include:

1. Documentation requirements when opening an account.
2. Clarification of branch responsibility for verification of account holder(s) residency e.g. passport, licence etc..
3. Completion of a separate non resident declaration form for every account flagged non resident for DIRT purposes. Procedures should specifically state that no account should be flagged 'N' (for non resident) unless a form for that account is held.

5.2 Non Resident Declarations

Branches should review all accounts flagged 'N' (refer 3.2) to ensure that a properly completed non resident declaration form is held for each account.

5.3 Offshore Accounts

We understand that a number of other NAB Group banks are sending major non resident accounts offshore in order to reduce documentation risks. We should consider doing likewise for major non resident accounts. This area needs to be researched before making a final decision - for example, there may be a requirement to report the opening of such accounts under Section 230 of the 1992 Finance Act.

5.4 Statement Despatch Code 'B'

The use of statement despatch code 'B' for non resident accounts should be discouraged as it could be taken as prima facie evidence of resident status. Review existing instructions to branches.

5.5 Deposit Receipts

Legal Department should be asked to advise on situation regarding transfer of dormant deposit receipt balances to Unclaimed Balances Account.

6. DIRT Free Company / Pension Fund / Charity Accounts

Major Findings

- Charity Accounts

Many branches do not hold charity declaration forms in respect of DIRT free charity accounts.

Our review of 43 charity accounts showed:

1. Charity declaration forms were not sighted for 53% of accounts.
2. Revenue Commissioners charity certificates were not sighted for 95% of charity accounts.
(Procedures require that a Revenue Commissioners charity certificate be held for each charity account - Special Circular S9/93).

Details by branch are set out in Appendix 5.

- DIRT Free Company / Pension Fund Accounts

Our review of 38 DIRT free company accounts showed:

1. DIRT free company declarations were not sighted for 5% of accounts.
2. 61% of declarations were not certified on behalf of the Bank.
3. The Tax Reference Number had not been entered into Tax Ref No. field on Livelink for 53% of accounts.

Other weaknesses are set out in Appendix 6.

In general, there is a very low number of DIRT free company accounts in most branches; we intended to select samples of 10 accounts in each branch but most branches did not have this number of accounts. This is not a control issue but branches should consider advising customers about DIRT free company accounts to improve service.

- 'E' Tax Deduction Status Accounts

DIRT free company, pension fund and charity accounts are the only accounts which should be classified as 'E' Tax Deduction Status (exempt) accounts.

We examined 141 accounts in 'E' status and over 50% of these accounts had been misclassified:

1. 36% of accounts relate to non residents which should have been classified as non resident accounts ('N' status).
2. 5% of accounts relate to credit interest bearing resident accounts which should be subject to 27% DIRT. Due to improvements in the validation software in May 1994, this should not be a problem in the future. (Note: Balances in these accounts were small).
3. 10% of accounts relate to non interest bearing resident accounts. Due to improvements in the validation software in May 1994, this should not be a problem in the future.

Details by branch are set out in Appendix 7.

Livelink does not perform adequate validation on the opening of an 'E' Tax Deduction Status account i.e. it is possible to classify a non resident account in 'E' status.

Recommendations

6.1 Procedures

1. The charity account procedures (refer 3.1) should include documentation to be retained by branch (e.g. Revenue Commissioners charity certificate).
2. The DIRT free company / pension fund accounts procedures (refer 3.1) should include:
 - (a) Procedure for certifying declaration on behalf of the Bank (e.g. signed and dated by bank official).
 - (b) Documentation to be held in respect of DIRT free company / pension fund accounts.
 - (c) Input of Tax Reference No. on Livelink.

6.2 'E' Tax Deduction Status Accounts

1. Branches should review all accounts classified in 'E' Tax Deduction Status (refer 3.2) to ensure:
 - (a) Properly completed DIRT documentation exists for each DIRT free company, pension fund and charity account. Documentation should include copy of Auditors certificate or charity certificate as appropriate.
 - (b) Misclassifications are identified and corrected e.g. non residents should not be included.
2. Finance Department should liaise with IT Ireland regarding feasibility of improving the validation of 'E' Tax Deduction Status accounts i.e. prohibit the opening of a non resident account in 'E' Tax Deduction Status by restricting use of 'E' status to charity and business industrial classification codes.

6.3 DIRT free company accounts

Consider instructing branches to review classification of company accounts (particularly where the company has interest bearing accounts) and identify customers who may benefit from DIRT free status. Branches should then advise customers and, where appropriate, obtain the necessary documentation. This would improve customer service.

7. DIRT Compliance Issues - NIIB Deposits and Treasury & International

- NIIB Deposits

In the recent NIIB Deposits audit (June 1994), principal DIRT compliance issues reported were:

1. A significant number of non resident declarations were not held for foreign currency accounts.
2. A substantial number of declarations were not properly completed.

During the course of this theme audit, we did not perform further audit work in Deposits but we have accepted ongoing assurances from Deposits management that significant progress has been made to ensure DIRT documentation is in order.

- International

In the recent International audit (September 1994), principal DIRT compliance issues reported were:

1. A substantial number of non resident declaration forms had errors / omissions.
2. Non resident declarations were not held for several non resident accounts.

During the course of this theme audit, we did not perform any further audit work in International but International management inform us that a detailed review of all non resident accounts has been carried out and good progress has been made in obtaining properly completed non resident declarations. There are still a number of outstanding declarations which are being followed up by International.

- Treasury

We decided to review DIRT documentation in Treasury as no such review had been done in the recent past.

We reviewed 47 DIRT exempt accounts (i.e. 30 non residents, 11 DIRT free companies, 6 charities) and found that properly completed declarations were held for all accounts. However, Revenue Commissioners charity certificates were not sighted in respect of the charity accounts.

Overall, the standard of DIRT documentation in Treasury was good.

Special Savings Accounts - Notice Requirements

Appendix 1.

Branch	Sample Size (Note)	Total Error Rate	A %A	B %B	C %C	D %D
Castlebar	13	100%	13 100%	0%	0%	0%
Baggot St	14	93%	13 93%	0%	0%	0%
Sligo	13	92%	12 92%	0%	0%	0%
Monaghan / Clones	12	92%	11 92%	0%	0%	0%
College Green	14	93%	12 86%	1 7%	0%	0%
Malahide	11	100%	9 82%	0%	2 18%	0%
Dungloe	11	82%	9 82%	0%	0%	0%
Letterkenny / Ramelton	8	75%	6 75%	0%	0%	0%
Bray	11	100%	8 73%	2 18%	1 9%	0%
Dundalk	9	89%	6 67%	0%	2 22%	0%
O Connell St	12	100%	6 50%	5 42%	0%	1 8%
Dun Laoghaire	8	50%	2 25%	1 13%	0%	1 13%
Total	136	91%	107 79%	8 6%	5 4%	1 1%

A - No notice held.

B - Notice held - not dated.

C - Notice held - < 30 days.

D - Notice held - no amount specified on notice.

Note: Sample represents SSAs selected for tests in Appendix 2 which had a withdrawal since date of last statement or May 1994 (i.e. date when on-screen history enquiry became generally available).

Special Savings Accounts - Declarations

Appendix 2.

Branch	Sample Size Note	A %A	B %B	C %C	D %D	E %E	F %F	G %G
Bray	30	5 17%		1 3%		4 13%	1 3%	8 27%
Baggot St	32	5 16%		4 13%				14 44%
Castlebar	30	4 13%		1 3%			1 3%	1 3%
Letterkenny / Rameilton	30	3 10%	1 3%	1 3%			2 7%	4 13%
Sligo	30	2 7%		4 13%				9 30%
Malahide	31	2 6%	1 3%	4 13%	1 3%		1 3%	9 29%
College Green	34	2 6%	1 3%	2 6%				2 6%
Dungloe	30	1 3%		4 13%			2 7%	1 3%
O Connell St	33	1 3%		5 15%	1 3%	1 3%	3 9%	12 36%
Dundalk	31			4 13%			2 6%	4 13%
Monaghan / Clones	31	0%	2 6%	2 6%			3 10%	3 10%
Dun Laoghaire	30	0%	0%	0%		2 7%	2 7%	3 10%
Total	372	25 7%	5 1%	32 9%	2 1%	5 1%	15 4%	70 19%

A - Missing declaration.

B - Incorrect declaration.

C - Declaration not dated.

D - Declaration not signed by all parties.

E - No account number on declaration.

F - Incomplete declaration (e.g. no address, no account name).

G - More than one account number / incorrect account number on declaration (Livelink problem).

Note: In order to select a minimum of 30 accounts per branch, we had to increase our sample size in our Audit Interrogation software and this resulted in selection of bigger samples for some branches.

Branch	Total	A	B	C	D	E
Castlebar	6	3	1		1	1
College Green	5	3	1		1	
Dundalk	4	2	1	1		
Monaghan / Clones	3	2		1		
Sligo	3	1	1		1	
Baggot St	2	1	1			
O Connell St	2	1	1			
Dun Laoghaire	2	1	1			
Malahide	2	2		1	1	
Letterkenny / Ramelton	0					
Dungloe	0					
Bray	0					
Total	29	15	6	3	4	1

- A - Account in name of two or more males / females.
 B - Customer had a sole SSA and was a party to a joint SSA.
 C - Joint account in name of family members which are not married to each other.
 D - Customer has more than one sole SSA accounts.
 E - Account in name of a Charity.

Note: This review was a very high level review of SSA account names in branches visited. It has only highlighted very obvious inconsistencies.

Non Resident Accounts - Declarations

Appendix 4.

Branch	Sample Size (Note)	A	%A	B	%B	C	%C	D	%D	E	%E
Malahide	36	9	25%	1	3%	3	8%	15	42%	1	3%
Dungloe	35	8	23%		0%	10	29%	7	20%		0%
O Connell St	32	6	19%		0%	6	19%	8	25%	1	3%
Letterkenny / Ramelton	37	5	14%		0%	3	8%	7	19%		0%
Dun Laoghaire	35	5	14%	1	3%	2	6%	7	20%		0%
Dundalk	41	4	10%		0%	5	12%	1	2%		0%
Baggot St	32	4	13%		0%	3	9%	10	31%	3	9%
Sligo	36	3	8%		0%	6	17%	4	11%		0%
College Green	33	3	9%	1	3%	2	6%	9	27%		0%
Castlebar	36	2	6%		0%	1	3%	3	8%		0%
Bray	31	1	3%	3	10%	3	10%	11	35%		0%
Monaghan / Clones	31		0%		0%	9	29%	6	19%		0%
Total	415	50	12%	6	1%	53	13%	88	21%	5	1%

A - Missing declaration.

B - Incorrect declaration (i.e. standard non resident form not used).

C - Declaration not dated.

D - No account number / more than one account number / incorrect account number on declaration.

E - Incomplete declaration.

Note: Basis of sample selection was 30 per branch, however, a significant number of non resident accounts were misclassified in 'E' status and these accounts have been included in the above sample size.

Branch	Sample Size (Note)	A	%A
Dundalk	0	0	0%
Monaghan / Clones	9	1	11%
Letterkenny / Ramelton	3	2	67%
Dungloe	6	4	67%
Sligo	2	0	0%
Castlebar	2	1	50%
Baggot St	4	4	100%
O Connell St	2	0	0%
Bray	7	5	71%
Dun Laoghaire	1	1	100%
Malahide	6	5	83%
College Green	1	0	0%
Total	43	23	53%

A - Missing declaration.

Note: Basis of sample was 10 accounts per branch covering DIRT free company, pension fund and charity accounts.

Branch	Sample Size (Note)	A %A	B %B	C %C	D %D	E %E	F %F	G %G
Dundalk	1	0%	0%	0%	0%	0%	0%	1 100%
Monaghan / Clones	0	0%	0%	0%	0%	0%	0%	0%
Letterkenny / Ramelton	0	0%	0%	0%	0%	0%	0%	0%
Dungloe	0	0%	0%	0%	0%	0%	0%	0%
Sligo	1	0%	0%	0%	0%	0%	0%	1 100%
Castlebar	1	0%	0%	0%	0%	0%	0%	0%
Baggot St	1	1 100%	0%	0%	0%	0%	0%	0%
O Connell St	6	0%	3 50%	0%	0%	0%	0%	3 50%
Bray	1	1 100%	0%	0%	0%	0%	0%	0%
Dun Laoghaire	3	0%	0%	1 33%	0%	0%	0%	3 100%
Malahide	3	0%	2 67%	0%	1 33%	0%	0%	3 100%
College Green	21	0%	18 86%	0%	0%	1 5%	1 5%	9 43%
Total	38	2 5%	23 61%	1 3%	1 3%	0 0%	0 0%	20 53%

A - Missing declaration.

B - Declaration not certified on behalf of the Bank.

C - Incomplete auditor's cert.

D - No account number specified on declaration.

E - Incomplete declaration.

F - Tax Ref No. on cert is different to one on declaration.

G - Tax Ref No. not input to Tax Ref No. field on Livelink.

Note: Basis of sample was 10 accounts per branch covering DIRT free company, pension fund and charity accounts. However, it was not possible to select this number of DIRT free company, pension fund and charity accounts as most branches have a very small number of these accounts.

Appendix 10: Copy Product Features Sheet

CMI PERSONAL PORTFOLIO

Advantages

1. Confidentiality/Security

Deposit is transferred out of existing account and re-invested in the names of a holding company. Therefore clients names does not appear on any account.

2. No Probate requirements

Investment is written in trust i.e. client can decide on day one who the beneficiaries will be in the event of his death. All the beneficiaries need to supply is a death certificate and the investment will be released.

3. Cautious Investment

The client can have the funds invested in the exact same deposit account as he is in presently and at the same rate or he can choose any other sterling deposit account anywhere in the world.

4. Tax Free

All returns are paid gross.

5. Accessibility

Client can draw an income if he wishes.

6. Quarterly Valuations provided

7. The portfolio can also invest in shares, unit funds, bonds and deposit accounts.

Disadvantages

1. The Charges

Up front charge 1% of capital invested. Annual management charge 1.6% per annum of original capital invested. This charge applies for the first 5 years, thereafter there is no charge.

2. Small delay in getting an income from the investment. Usually allow 5-10 working days.

**Appendix 11: Copy report dated 20 April 1993, prepared by Ms
Patricia Roche, FASD financial services manager**

Sent out 20.

20th April, 1993.

Mr. & Mrs. [name deleted]
C/O National Irish Bank,
Mullingar,
Co. Westmeath.

Dear Mr. & Mrs. [name deleted]

Thank you for meeting with me recently. We discussed a number of points relating to the investment of non-resident monies and perhaps it would be helpful if I set these out below.

BANK DEPOSIT ACCOUNT

- (A). Any interest over a certain minimum threshold earned on U.K. based deposit accounts is returned to the Inland Revenue. With double taxation treaties and closer co-operation between the U.K. and Irish authorities, this must pose a confidentiality problem.
- (B). With the introduction of the Special Savings Accounts and the removal of Exchange controls, it is widely believed that Irish based non-resident accounts will come under scrutiny. In addition the treatment of the 27% DIRT Accounts may also change possibly reverting back to the old system where the institution returned the interest earned on each account individually.
- (C). In the event of the death of any of the named person to an account a "Grant of Probate" would be required. This automatically notifies the Capital Taxes Office of the existence of certain assets. Despite what you may be led to believe this formality is normally adhered to as, in the event of the bank releasing monies without the grant of Probate, they may find themselves open to litigation both from the Revenue and from other persons who may be entitled to the monies. And, indeed, who may have been able to present a Grant of Probate for same.

As confidentiality and continuity of your capital is of paramount importance to you, I would suggest that you consider changing your existing approach to your deposit account. Instead of holding the deposit account directly in your own names you should

transfer the monies into a Trust, which you own and of which you would be beneficiaries. The monies remains on deposit but its treatment from a tax viewpoint changes. This would be set up through Clerical Medical Trust Co. Limited, which is based in the Isle of Man.

CMI PERSONAL PORTFOLIO

The Tax Advantages of an Offshore Investment Trust Fund

The Isle of Man is a highly respected financial centre, with an enviable reputation for political stability. Its democratically elected parliament, Tynwald has been in existence for over 1,000 years.

Although the Isle of Man is within the British Isles and has easy access to the City of London, one of the major world financial centres, it is governed by Manx law and is not subject to United Kingdom or Irish Tax regulations. CMI Insurance Company Limited will not be liable to either Irish or U.K. Income Tax, Capital Gains Tax or Corporate Tax in respect of the deposits and investment funds linked to its Personal Portfolios. The Company is also not liable to any Isle of Man taxes on these funds.

This means that all the deposit interest or investment profits earned by the holdings in your Portfolio investment fund are able to accumulate completely tax-free, which greatly increases your Portfolio's growth potential.

An important feature of the portfolio is the trust facility, which ensures that a "Grant of Probate" is not required in the event of death. In addition to this facility there is no tax imposition on gains made.

What you are achieving by investing your money in this way, i.e., in Trust is the following:-

- (A). Absolute confidentiality;
- (B). Continuity of ownership without the need to present a grant of probate either in Ireland or the Isle of Man;
- (C). Continued non-resident status in respect of your deposit, i.e., as a non-resident account DIRT tax of 27% is not deducted.

Should you require income or capital at any stage, this can be accommodated in the normal way as with any normal deposit account. Any requirements you might have would be channelled through me and monies would be available within a few days. Despite this administrative requirement the deposit itself would continue to remain at your local branch, thereby ensuring your current banking relationship continues.

We discussed the fund management charges attached to setting up the Trust. There is a 1% once off setting up charge plus a quarterly charge of 0.4% per quarter based on the original amount invested, this regular fee is charged in each of the first five years. There is no charge after the fifth year, apart from an annual management fee of £75 per quarter.

Charges are deducted from the interest, therefore, your capital is not eroded. It is important for me to point out at this stage that the 1% up front charge may be waived depending on the amount invested.

I hope the foregoing is clear to you, however, please contact either me or Michael if anything requires further clarification.

Yours sincerely,

PATRICIA ROCHE,
Manager.

Appendix 12: Copy Investment Checklists



To: Financial Consultants

From: Patrick Cooney

Subject: Authorisation for Investment Recommendations.

Date: 28th February 1990

Please complete the attached "Investment Checklist" with the appropriate details for all single premium investment recommendations and pass to me before drafting a report.


In this way I can;-

- a. Assist you in reaching a decision and
- b. monitor our investments in the various funds.

The Investment Checklist, which should be put on file at report stage, will enable Linda to process all application forms received without having to check with me first.

As always, if you have questions regarding any investment matter, don't hesitate to ask.

Regards !


Pat.

cc Linda Hughes
Joanne Perry
Nigel D'Arcy.

INVESTMENT CHECKLIST

To: Patrick Cooney

From: _____

Investment Analyst

Financial Consultant.

Client Name(s) _____

1. Investment Amount £ _____
2. Is the money declared? Yes/No
3. What is the Investor(s) attitude to risk ?

Cautious? _____
 Balanced? _____
 Aggressive? _____
4. Does Investor wish to invest Offshore? Yes/No
 What percentage of investment? ____ %
5. Is an income required on the investment ? Yes/No
 How much per annum ? £ _____
6. What Company(s) and Fund(s) have you recommended ?

Co.1 _____	Fund _____	% Split _____
Co.2 _____	Fund _____	% Split _____
Co.3 _____	Fund _____	% Split _____
Co.4 _____	Fund _____	% Split _____
Co.5 _____	Fund _____	% Split _____
Co.6 _____	Fund _____	% Split _____
7. Has a "Switching Authority Form" been signed. Yes/No

Signed : _____

Date: _____

Approved: _____

Date: _____

INVESTMENT CHECKLIST

To: Patrick Cooney

From: _____

Investment Analyst

Financial Consultant.

Client Name(s)

[names deleted]

1. Investment Amount

£ 259,000 566.

2. Is the money declared?

Yes/No

3. What is the Investor(s) attitude to risk ?

Cautious? _____

Balanced? _____

Aggressive? _____

}
}
}

Ally off shore.

4. Does Investor wish to invest Offshore?

Yes/No

What percentage of investment?

100 %

5. Is an income required on the investment ?

Yes/No

How much per annum ?

£ _____

6. What Company(s) and Fund(s) have you recommended ?

Co.1 Ernest Poffel

Fund Property

% Split 175,000

Co.2 Ernest Poffel

Fund Opportunity

% Split 75,000.

Co.3 _____

Fund _____

% Split _____

Co.4 _____

Fund _____

% Split _____

Co.5 _____

Fund _____

% Split _____

Co.6 _____

Fund _____

% Split _____

7. Has a "Switching Authority Form" been signed.

Yes/No

Signed :

[Signature]

Date: _____

Approved: _____

Date: _____

INVESTMENT CHECKLIST

To: Patrick Cooney

From: BEVERLEY

Investment Analyst

Financial Consultant.

Client Name(s)

[names deleted]

1. Investment Amount

\$ 160000

2. Is the money declared?

Yes/No

Y + N

3. What is the Investor(s) attitude to risk ?

Cautious?

Balanced? ✓

Aggressive?

4. Does Investor wish to invest Offshore?

Yes/No

What percentage of investment?

62.5 %

5. Is an income required on the investment ?

Yes/No

How much per annum ?

6. What Company(s) and Fund(s) have you recommended ?

Co.1 FIDELITY Fund EURO PORT % Split 37.5%

Co.2 FLEMINGS Fund EAST OAP % Split 25.0%

Co.3 NEW IRL Fund PROP. % Split 12.5%

Co.4 STANDARD Fund EQUITY % Split 12.5%

Co.5 N.U Fund ^{S.P.} ENDOWMENT % Split 12.5%

Co.6 Fund % Split

7. Has a "Switching Authority Form" been signed.

Yes/No

Signed :

Beverly C. J. J.

Date:

5/4/90.

Approved:

Patrick Cooney

Date:

5/4/90

14/5/90 2 EXTRA INVESTMENT

NEW IRL OPPOR MGD

10000

HID LIFE EXPERT MGD

10000

20,000.

17/5/90

Beverly C. J. J.
Patrick Cooney

INVESTMENT CHECKLIST

To: Patrick Cooney

From:

MI. FITZGERALD

Investment Analyst

Financial Consultant.

Client Name(s) [name deleted]

1. Investment Amount INVESTED £ 75,000
2. Is the money declared? Yes/No £66,000 NO
£19,000 YES.
3. What is the Investor(s) attitude to risk ?
Cautious?
Balanced? ✓
Aggressive?
4. Does Investor wish to invest Offshore? Yes/~~NO~~
What percentage of investment? 67 %
5. Is an income required on the investment ? ~~Yes~~/No
How much per annum ? £ NONE.
6. What Company(s) and Fund(s) have you recommended ?
Co.1 C.M.I. Fund H. Income % Split 20,000 Kster
Co.2 Fidelity Fund EUROPEAN. % Split 20,000 Kster.
Co.3 Hemings Fund ASIAN. % Split 10,000 Kster.
Co.4 New Ireland Fund OPPORTUNITY % Split 16,000 Ir.
Co.5 Norwich Union Fund S.P. ENDW. % Split 10,000 Ir.
Co.6 Fund % Split
7. Has a "Switching Authority Form" been signed. ~~Yes~~/No

Signed : Michael FitzgeraldDate: Approved: Date:

50,000 Sterling. — HOT.
16,000 Irish. — HOT.
10,000 Irish. — legitimate.

Report Required Please A.S.A.P.
Thank You.

Michael.

20/3/98.

INVESTMENT CHECKLIST

To: Patrick Cooney

From: A.S

Investment Analyst

Financial Consultant.

Client Name(s)

[name deleted]

1. Investment Amount

£ 109,800 STG.

2. Is the money declared?

Yes/No

3. What is the Investor(s) attitude to risk ?

Cautious?

Balanced?

Aggressive?

 off line already.

4. Does Investor wish to invest Offshore?

Yes/No

What percentage of investment?

100 %

5. Is an income required on the investment ?

~~Yes~~/No

How much per annum ?

£

6. What Company(s) and Fund(s) have you recommended ?

Co.1 Emerald Portfolio Fund Prosperity 70% Split Co.2 " " Fund Opportunity 30% Split Co.3 Fund % Split Co.4 Fund % Split Co.5 Fund % Split Co.6 Fund % Split 7. Has a "Switching Authority Form" been signed. N/A. Yes/NoSigned : *Patrick Cooney*Date: Approved: Date: *Be used take 4% commission**10% to client**NHS College 'open'.**45,000 in opp
30,000 in ...*

INVESTMENT CHECKLIST

To: Patrick Cooney

From:

Mr. Fitzgerald.

Investment Analyst

Financial Consultant.

Client Name(s) MR. [name deleted]

1. Investment Amount £ 100 sterling
2. Is the money declared? Yes/No V. Not.
3. What is the Investor(s) attitude to risk ?
- Cautious? ULTRA
- Balanced? _____
- Aggressive? _____
4. Does Investor wish to invest Offshore? Yes/No No option
- What percentage of investment? 100 %
5. Is an income required on the investment ? Yes/No
- How much per annum ? £ No
6. What Company(s) and Fund(s) have you recommended ?
- | | | | | | |
|------|---------------------|------|-----------------|---------|-------------|
| Co.1 | <u>EMERALD fund</u> | Fund | <u>CAITILL.</u> | % Split | <u>100%</u> |
| Co.2 | _____ | Fund | _____ | % Split | _____ |
| Co.3 | _____ | Fund | _____ | % Split | _____ |
| Co.4 | _____ | Fund | _____ | % Split | _____ |
| Co.5 | _____ | Fund | _____ | % Split | _____ |
| Co.6 | _____ | Fund | _____ | % Split | _____ |
7. Has a "Switching Authority Form" been signed. Yes/No

Signed : Michael FitzgeraldDate: 19.6.90.

Approved: _____

Date: _____

Introduction by [town] MANAGER. Rife for New fund. This money is in CASH form in A BANK in N. IRELAND. He is very cautious as his father left it to him. I require good presentation in order to shift. Mentioned "BOYLE NAMES" knocked that. Perhaps you could do something for me.

Thank you MF

Taken by MICHAEL PFLUGERAW On 19 / 06 / 90

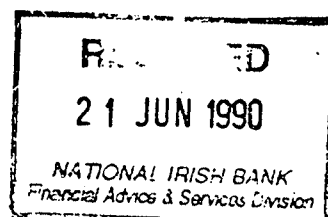
Caller's Name Mr. [name deleted]

Address C/O N.I.B.
[town]
Cc. [deleted]

Telephone No. _____ Occupation [deleted]

Prospect Code : 3. Prospect Rating ? ~~***~~ / ***

Nature of Enquiry [name deleted] and I met this client in
[town] He has "ROAD RUNNER" Funds that he
needs to shift. He works in N.I. but lives in
South. Very CAREFUL AND THE NEW BAND SHOULD
SHIT. Report REQUIRED NP



**Appendix 13: Copy letter dated 30 July 1990 from Patrick Cooney,
investment manager, FASD**

Date 30th JULY, 1990



HI GUYS,

Just a brief note to accompany this month's Investment Bulletin on funds which we should be concentrating on at present.

For all long-term investments where people are cautious, and this seems to represent a substantial percentage of people, we should be looking only at **Norwich Union Single Premium Endowment Bond**. I think we all know the advantages attached to this product especially in such times of uncertainty. Added to this, is the fact that as well as the security attached, it has a very creditable investment performance and is very flexible.

For those people who are a little more balanced in their outlook, we should invest in a range of managed funds (don't put all your eggs in one basket) with the main emphasis on **New Ireland**, followed by **Standard Life**. **New Ireland** is without doubt the market leader in terms of performance and this combined with an excellent back up service and superb investment personnel, makes it a very attractive investment opportunity.

For those guys who are a little more adventurous in their outlook, we should be investing in **offshore markets**, where there are numerous investment opportunities available in worldwide markets and with leading companies such as **Fidelity**, **Flemings**, **Gartmore**, **Morgan Grenfell**, **C.M.I.**, and **Eagle Star** to mention but a few.

Finally, we have the people who have money invested offshore already or whose money is "Hot". In this scenario, we should in almost all cases, direct the monies into our New Bond, "**The Emerald International Portfolio**", which is a combination of the above funds.

If anything should dramatically change in the near future, I will be in touch with you, while I hope to update the folders of funds in the very near future.

Cheers for a while,


PATRICK COONEY.

Appendix 14: The Unauthorised Interest & Fee Amendments Report



EUROPEAN AUDIT
INVESTIGATION REPORT

NATIONAL IRISH BANK

UNAUTHORISED INTEREST & FEE AMENDMENTS

DATE : MARCH 1999

Report issued to:	Don Price, Chief Executive Officer, National Irish Bank Philip Halpin, Chief Operating Officer, National Irish Bank
Report copied to:	Grahame Savage, Managing Director, Europe Greg Willcock, General Manager, Risk Management, Europe Frank Cicutto, Executive Director & Chief Operating Officer, National Australia Bank
Report prepared by:	Colin Dundas, Regional Manager, Banking Audit
Report reviewed by:	Adrian Stirrup, Head of European Audit
Report issued by:	Robert Thurley, General Manager, Group Audit

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APPENDICES

A. EXECUTIVE SUMMARY

1 INTRODUCTION

1.1 Background

On 23 March 1998 National Irish Bank received a letter from RTE alleging that interest charges had been increased without legitimate reason and without customer knowledge in Carndonagh, Carrick-on-Shannon, Walkinstown and Cork branches.

The subsequent broadcast on 25 March 1998 also alleged that customer fees had been uplifted in College Green branch in November 1989 without customer knowledge or underlying justification.

Both programmes referred to the practices as being systematic within the Bank and motivated by a desire for enhanced profitability and career progression. The term 'loading' was used in the broadcast with an implication that this term was both widely used by Bank personnel and described the unacceptable nature of the practice.

1.2 Definitions

No documented definition of the term 'loading' can be found in the bank's records. From discussions with personnel at the time it would appear that the term was in general use, and indeed appears in audit reports from the time, but could be applied to any increase in charges made to a customer and cover legitimate activities such as pricing for additional risk.

Therefore, in order to avoid any ambiguity, for the purposes of this report the term 'unjustified loading' has been used to denote any activity of adding unjustified amounts to a customer's fee or interest charge without their prior knowledge.

2 OBJECTIVE

The primary objective of the investigation was to gain a full understanding of the key issues relating to the alleged abuse of fee or interest adjustments in order to determine whether unacceptable activities had occurred and to assist in the development of a strategy that allowed Bank management to respond appropriately to the allegations.

Additionally, the impact of any unacceptable activities which had taken place, particularly on customers, needed to be quantified and the areas of responsibility affected identified.

Specifically, through gaining an understanding of the allegations, the underlying practices required to achieve the stated outcomes and determining how the occurrence of such activities in the past could be detected from currently available information, the review endeavoured to:

1. Assess the integrity of the Bank's systems to establish if unjustified fee or interest loading would have been controlled through adherence to laid down procedures.
2. Determine whether the Internal Audit process was adequate and effective in providing oversight, particularly with regard to interest and fee charging.
3. Determine the management response to any reporting of unjustified fee and interest loading practices historically.
4. Identify the scale and detail of unjustified fee and interest loading in the named branches (ie those featuring in the audit reports and others mentioned in the media) and ascertain the extent, if any, of the practice in the wider Network.
5. Review current practices to establish if unjustified fee or interest loading currently occurs.

3 SCOPE

For practical reasons it has been necessary to apply some restriction to the scope of this review. This is driven by a desire to keep the work focused on specific issues raised as a result of the allegations rather than review the whole of the bank's activities in operating customer accounts, particularly in areas where no suspicions have been raised. That said, where potentially suspicious activities came to light during the review, they have been explored further.

The widest potential interpretation of the scope of this review would lead to a need to review all transactions on all types of account over a period of up to forty years, assuming one wished to cover the whole period that all current employees had been in the Bank. However, this would be an inappropriate response to the allegations, which were very specific and centered around the application of particular types of adjustment to customers' current accounts held at branches of National Irish Bank.

A broader review of National Irish Bank's activities is being undertaken by Court Appointed Inspectors and further internal reviews may be appropriate once their findings are known.

Consequently, the scope of this review has been restricted to examining the specific allegations made and hence was focused on adjustments made to interest and fees charged to current accounts held at all branches of National Irish Bank.

The period examined was from the date of acquisition by National Australia Bank in October 1987 to June 1998. This is a period of nearly 11 years which is in excess of the seven year period usually associated with limitation of liability.

4 ASSUMPTIONS AND CONSTRAINTS

Significant amounts of supporting documentation for the earlier parts of the period under review cannot be found. Of itself, this is not a significant issue in as much as this period is outside the seven year one for which documentation ought generally to be retained. However, it has impacted on the ability to find documentary substantiation for transactions processed assuming that such existed in the first place.

Similarly, not all parties present at the time have been available for interview. Those that have been interviewed have been as part of the fact gathering exercise rather than the more challenging initial process of the disciplinary route. This has been in recognition of the separate strategy and activities taking place in this area. Evidence given to other parties who have greater powers to extract information, particularly under oath, may differ from that previously proffered.

Consequently, whilst effort has been made to find other and corroborating evidence, there must remain some uncertainty as to the impact this poor quality of available evidence has on the overall conclusions.

It has been assumed that the computerised processes for calculating interest and other 'automated' charges have operated effectively throughout the period.

5 APPROACH

5.1 Strategy

The approach adopted endeavoured to ensure that there was no inherent bias towards assuming guilt unless otherwise established but also to ensure that an objective assessment was made which would allow guilt to be established where present. It also needed to be suited to the anticipated nature and extent of the problems likely to be present.

In deciding the strategy, assumptions needed to be made about the underlying error rate. Recognition also needed to be given to the quality of available evidence, given that a considerable amount of time has elapsed since the events which occurred in a large proportion of the period under review, with the consequent effect on both availability and completeness. Any conclusions drawn from an absence of supporting evidence alone could be particularly unsound, as this may represent no more than the effects of the passage of time.

If the problems were widespread or 'endemic' then this would imply that the systems in place were either flawed or not operating correctly and hence could not be relied upon. Hence, the approach would need to be one that endeavoured to substantiate individual transactions in order to establish the 'error rate' in the population as a whole.

Consequently, the sample sizes would need to be a significant proportion of the population being tested to give a reliable projection of the total error. The sheer volume of transactions generated by fee and interest charges over more than ten years is enormous and such a substantive approach would consume significantly large amounts of effort.

If the problems were less pervasive then that would imply that the systems in place were mostly operating effectively and could generally be relied upon. In this scenario, the approach would need to establish what 'symptoms' would be displayed as a result of the problems occurring and search for signs of these. This search would be directed towards all those locations where the risk of occurrence was assessed as being high, which would be determined through a separate assessment.

In addition to the above specific testing, the basic presumption of an absence of error in the remaining population would need to be verified through testing, albeit at reduced levels. Recognising the noted absence of available evidence, positive assurance rates required would be set to meet appropriately high thresholds rather than achieve complete verification.

5.2 Interim appraisal

Following a review of the internal audit process and reports over the period under review and interviews with internal audit staff involved, it was judged that it was unlikely that an endemic problem existed whereby there were widespread unjustified interest and fee amendments being applied to customers' current accounts.

Consequently, it was decided to adopt the second strategy outlined above which entailed pursuing a more targeted approach rather than a fully substantive one.

5.3 Areas examined

Early results of work on recreating the evolution of fee and interest charging practices over the relevant time period indicated that it was necessary to adopt different approaches to the interest and fee investigations.

This decision was primarily influenced by the differing levels of computerisation in the interest and fee charging systems. Whilst the interest system was highly automated, there were significant limitations at that time, brought about by the as yet incomplete automation of feeder systems, in the ability of the fee charging systems to capture all of the relevant transactions automatically. The fees system was therefore designed around the need to make manual adjustments to the computer generated figures produced due to their inherently incomplete nature.

The review was split into three main areas:

- interest
- fees
- audit oversight process

For each area the approach adopted was to review the general environment, in terms of both the system of processes used and review of any other available documentation, in order to highlight whether there were other potential 'weak spots' requiring further examination.

This approach allowed us to focus quickly on the specific allegations, identify where else there may be issues and gain a level of overall comfort, or otherwise, as to the extent of any inappropriate practices.

Specifically, an initial scoping exercise was undertaken to identify in which branches over which time periods the alleged type of activity may have occurred. This identified five branches for 'unjustified interest loading'. Little circumstantial evidence could be found to corroborate suspicions of 'unjustified fee loading' so the branch featured in the television broadcast was selected for review.

To maintain absolute impartiality, the initial fee and interest work was carried out by Arthur Andersen. The scope was set to address the specific allegations made both in terms of time periods and the particular manual adjustment processes that were examined.

A more detailed review of the approach in each area is set out in the sections following, but for convenience has been summarised below. In all cases the investigation approach combined a review of available documentation and discussions with relevant personnel.

5.4 Interest

Following the initial Arthur Andersen findings on interest, further specific work was carried out by the Internal Investigation Team on these branches. The overall approach developed in these branches was extended to the wider network using a range of information to identify further branches and generate samples.

5.5 Fees

Arthur Andersen's initial work on fees was also followed up by the Internal Investigation Team. In the general and anticipated absence of detailed supporting documentation, this entailed establishing retrospectively whether the account showed sufficient activity to warrant adjustments being made. This work was particularly labour intensive.

The reassuring results from this review, combined with a lack of internal audit findings in this area, prompted a sample based approach to the wider network supported by activity based profile matching for individual branches, using the detailed work undertaken for College Green as a base. Branches identified as requiring further investigation using a range of information were subjected to the more in-depth review.

5.6 Internal Audit oversight process

The review of audit oversight activity comprised a thorough review of available documentation, including reports produced and meeting minutes, together with interviews of relevant personnel. This incorporated review work performed in Group Audit, Melbourne.

6 OVERALL CONCLUSIONS

In regard to the specific objectives set for this review, the following can be concluded from the work performed:

1. Assess the integrity of the Bank's systems to establish if unjustified fee or interest loading would have been controlled through adherence to laid down procedures.

Full adherence to the bank's laid down procedures would have ensured that 'unjustified loading' of interest and fees could not have occurred. However, the systems catered for manual adjustments to be made to correct genuine errors and to apply interest resulting from the practice of 'suspending' customers' cheques to allow them time to introduce sufficient funds into their account to allow these cheques to be presented and paid.

This process along with the relatively common practice of producing 'redo' statements, which appears to have been originally motivated by a desire to hide genuine mistakes from customers in order to present a more professional image, rendered the interest charging system vulnerable to abuse. It is apparent from the work performed that some degree of abuse was present and that the control mechanisms in place were not always sufficient to either detect or prevent this activity.

The fee system required a significant amount of manual adjustments to be made which, particularly in the earlier periods when there was little automation, was heavily reliant on the accuracy, judgment and integrity of the individuals processing and reviewing them. This however was not uncommon for systems in many institutions at the time.

It is worth noting that, for all processes in any service industry such as banking, effectiveness of control is heavily reliant on the integrity of the individuals involved. Any degree of collusion or lack of application, particularly by people in positions of review or authority, will undermine or eliminate the effectiveness of controls present in that person's sphere of influence, though the impact of any loss of control will also be restricted to that same area.

An effective internal audit function will also deter such control breakdown and through detection reduce its impact.

2. Determine whether the Internal Audit process was adequate and effective in providing oversight, particularly with regard to interest and fee charging.

The operational effectiveness of Internal Audit in NIB was found to be satisfactory.

Both interest and fee charging practices were part of the regular audit programme applied for each branch visit and departures from bank policy were regularly reported. Indeed, the substance of some of the allegations being examined in this review emanated from internal audit reports from the time.

Independence appears to have been maintained and findings from audits performed were brought to the attention of management up to Chief Executive level. However, the 'interest loading' findings in particular were not reported to either the NIB Board Audit Committee nor Group Audit and this must be seen as a failing.

3. Determine the management response to any reporting of unjustified fee and interest loading practices historically.

The only significant internal audit reporting of 'unjustified loading' found related to interest rather than fees. Some lesser findings, requiring no management response at the time, were also raised with respect to fees. Management appear to have responded to the 'interest loading' audit findings raised for specific branches by bringing these unsatisfactory practices to a halt and this is generally confirmed by the absence of repeat findings in subsequent audits for those branches.

However, no attempts appear to have been made to make good any loss to the customers affected nor does any disciplinary action appear to have been taken against the managers concerned.

4. Identify the scale and detail of unjustified fee and interest loading in the named branches (ie those featuring in the audit reports and others mentioned in the media) and ascertain the extent, if any, of the practice in the wider Network.

Interest

Over the period reviewed it was not possible to justify completely the interest amendments made for specific and discrete periods in 13 branches, including the five examined by Arthur Andersen.

In total, these amounted to £135k though it should be recognised that, because of a lack of full documentation due to the period of time that has elapsed beyond normal retention periods, some of this amount could have been justifiable at the time. The total amount refunded to customers after applying the appropriate indexation is £557k.

No 'unjustified loading' was found in the remainder of the network.

Fees

Fee charging practices in College Green were found to be reasonable and in line with procedures at the time. The remainder of the network passed the criteria set with the exception of three branches where insufficient justification could be found for the level of fees charged.

Work has still to be completed in the third of these branches but it is anticipated from the work completed to date that approximately £200k of amendments will be refunded which will amount to nearly £1m after indexation. The branches concerned also appear in the list of those where interest refunds have been made.

5. Review current practices to establish if unjustified fee or interest loading currently occurs.

Interest

The basic system for interest charging and amendment processing has not changed significantly in the period under review and consequently the ability to hide manual interest amendments from customers by producing “redo” statements still exists. Therefore, the system remains vulnerable to abuse.

A review of interest amendments for the recent two year period showed that one small ‘spoke’ branch was engaging in ‘unjustified interest loading’ as defined. This practice has since ceased and the customers affected included in the reimbursement programme.

The requirement to adhere to laid down procedures has been reinforced by management who have committed to increased vigilance in this regard. No instance of ‘unjustified loading’ has been found in the period following the start of the investigation.

Fees

The system for fee charging has become significantly more automated since that in operation at the time highlighted in the allegations. Additionally, increased regulation requiring fuller disclosure and pre-notification of fees has contributed to the much increased transparency for customers over what they are being charged for. Consequently, the scope for abuse is much reduced.

As in any service industry, fees have and will always be the subject of challenge and negotiation between the provider and the customer and disputes will occasionally arise as a result. The level of dispute over current fees being levied does not appear to be indicative of significant systemic overcharging.

In summary, there are clear cases where unjustifiable amendments have been made to both the interest and fees charged to customers’ current accounts. However, these appear to represent the initiatives of individual managers rather than an institutionalised policy to

defraud customers. Greater clarity on their motivation may emerge once the interview process has been completed.

There was undoubtedly a strong requirement from senior management to meet demanding targets and it could be that this was a strong influence on the actions of some of the individuals involved. However, given the relatively small absolute amounts involved over an extended period it is unlikely that there was a concerted executive effort to enhance Bank profitability through the application of 'unjustified loading'.

The total number of branches affected is 14, with approximately £335k of unjustified amendments being found. After indexation, reimbursements amounting to nearly £1.5m will be made to customers of which £557k has already been paid.

7 RECOMMENDATIONS

1. All staff should undergo refresher training in the group's core values programme
2. The Business Excellence Achiever programme recently introduced for control risk self assessment should be strictly adopted, applied and monitored, with action plans being produced and completed where appropriate
3. The internal interview process should be completed as soon as possible and any disciplinary action should be vigorously pursued for those personnel identified as being potentially culpable in applying 'unjustified loading'
4. The remaining fee investigations should be completed as a matter of urgency and all affected customers should be speedily recompensed
5. The facility to 'redo' statements should be withdrawn and be replaced by a process which presents the customer with a greater degree of visibility in relation to manual interest adjustments
6. All interest amendments should be signed off at Area Manager level on a quarterly basis
7. The target setting process and individual targets for fees should be reviewed to ensure there is consistency maintained with the customer asset base for individual branches

The above recommendations should be actioned within the overall context of the migration to 'New Bank' which is currently being implemented and this migration should be completed as a matter of urgency.

B INTEREST

1 APPROACH

1.1 Overview

The work on the review into ‘unjustified interest loading’ was governed by the general principles outlined in section A.5. Within this targeted approach the approach was further split into three main areas of focus:

- the system in place during the period under review
- the extent, if any, of any ‘unjustified loading’ historically
- the current position

In order to react quickly to the allegations made, following some initial work by the internal investigative team, it was decided to engage Arthur Andersen to perform a review of the interest and fee related allegations. This exercise was scoped to address the specific allegations made both in terms of time periods and the particular manual adjustment processes that were examined.

Follow up support work on the initial Andersen findings was carried out under the control of the Internal Investigation Team.

The work on the remainder of the network, aimed at giving general reassurance on interest charging practices, was also carried out under the control of the Internal Investigation Team. The scope for this work was driven by the outputs of the Internal Audit Report review, the tracking of specific career histories, the interview process and the customer enquiries line in addition to some random sampling across all branches.

The investigation work combined a review of available documentation and discussions with relevant personnel and as detailed above was designed to look at three aspects namely, the system, historic practice and current practice.

1.2 System

The integrity of the system was assessed by recreating the system documentation across the time period in question thus enabling a retrospective review of the interest charging process in operation.

The investigation approach focused on the methodology described in the allegations for processing manual interest amendments. In particular, any definition of or reference to ‘interest loading’ were sought from contemporaneous documentation.

The management letters of the external auditors, KPMG, were also reviewed for any references to failings in the interest processing system raised.

1.3 Historic practice

A comprehensive list of all branch audit reports issued over the period was assembled from available records and the individual reports were reviewed where available. From this review, combined with the branches named in the allegations, five branches were identified for immediate review.

Arthur Andersen were engaged on 9 April 1998 to establish “whether additional interest charges have been debited to customer current accounts at quarter end without any contractual, statutory or other valid basis for doing so and, if so, the extent thereof at the following branches”:

- | | |
|----------------------|------------------|
| • Blanchardstown | Feb. 91 - May 93 |
| • Carndonagh | Oct 87 - Dec 90 |
| • Carrick-on-Shannon | Oct 87 - Dec 90 |
| • Cork | Jan 88 - Dec 90 |
| • Walkinstown | Jan 89 - Dec 90 |

Following a review of normal interest charging practice and procedures Arthur Andersen developed the following approach to their work in the five named branches:

- Review General Ledger records at quarter end charging dates, and for the five days following, for evidence of manual credit interest adjustments.
- Identify supporting evidence for interest adjustments.
- In the absence of such evidence trace the entry via the Autowaste Journals to the customer’s account and reconcile the total of customer debits to the total of General Ledger credits.
- Interview available individuals who held management positions at the relevant branches during the period under review.
- Review the follow up work performed by the Internal Investigation Team, which consisted of an account by account review of any entries for which no supporting evidence was available, to establish possible justification for the charge. This review sought to identify:
 1. any instances of holding over cheques pending a pay/no pay decision (suspending cheques) which would then necessitate manual calculation of lost interest, or
 2. activities requiring a post hoc application of management time, which was calculated using a matrix compiled from historic charges and standard times.

In order to determine whether any further branches needed to be investigated in more depth, the findings of the following activities were considered:

- the results of the parallel exercise underway into resolving individual customer queries into interest charges, and
- potential leads arising from the fact finding interviews being undertaken

Relatively early in the review, the Cork branch was identified as being a potential common factor linking the branches being more extensively reviewed. Consequently, an exercise was undertaken to map the movements of all connected personnel of management grade and add those branches to the list for further review. Tracking the movements of all managers of branches reviewed was also performed.

The wider review of these identified network branches carried out by the Internal Investigation Team followed the same approach that Arthur Andersen developed as described above.

1.4 Current practice

The documentation review and the interview process were also used to gather information on the quality and integrity of the current system.

Additionally, as part of Arthur Andersen's work, system records were interrogated for the last two years to establish ongoing instances of manual interest adjustments. The results of this enquiry were then examined by the Internal Investigation Team to identify supporting evidence for each charge.

2 ASSUMPTIONS AND CONSTRAINTS

It has been assumed that the computerised processes for calculating interest has operated effectively throughout the period.

Retained system records of interest charged were only available for the last two years and work beyond that period necessarily involved a trawl through manual records.

Significant amounts of supporting documentation for the earlier parts of the period under review could not be found. Of itself, this was not a significant issue in as much as this period was outside the seven year period for which documentation ought generally to be retained. However, it did impact on the ability to find documentary substantiation for transactions processed assuming that such existed in the first place.

Similarly, not all parties present at the time have been available for interview. Those that have been interviewed have been as part of the fact gathering exercise rather than the more challenging initial process of the disciplinary route. This has been in recognition of

the separate strategy and activities taking place in this area. Evidence given to other parties who have greater powers to extract information, particularly under oath, may differ from that previously proffered.

Consequently, whilst effort has been made to find other and corroborating evidence, there must remain some uncertainty as to the impact this poor quality of available evidence has on our overall conclusions.

3 CONCLUSION

Some incidence of interest amendments, which could not be fully justified as interest, was found in all of the five named branches. In total this amounted to £100,513. Additional work carried out identified that of this total an amount of £59,275 could have been justified if it had been charged as a management time fee. This leaves £41,238 with no evidence of a justifiable charge being due.

The review of the wider network identified incidences of interest adjustments which could not be justified, as interest, in a further 8 branches totaling £34,816.

The relatively small incidence discovered in the remainder of the network, supported by the absence of repetitive interest loading findings in Internal Audit reports, indicates that the practice was not widespread and given the absolute amounts involved that the motivation was not to enhance Bank profitability. No branches were identified through the review of external audit management letters.

The review of Internal Audit reports highlighted instances where branches were charging a management time fee for suspending cheques as interest. Although non compliant with procedures, on the basis that these charges could be fully substantiated they were not included within amounts to be refunded.

The system for interest charging was unchanged throughout the period investigated and, due to interest calculations being made on cleared balances, remains largely invisible to the customer. The requirement for interest amendments still remains although this process could be reviewed to give greater visibility to the customer which in turn would act as a control over the processing of unjustified amounts.

The review of the last two years showed that only one 'spoke' branch, Strokestown, was not adhering to the laid down procedures for interest amendments by recovering management charges through amending the interest charge. This amounted to less than £800 in total.

4 DETAILED FINDINGS

4.1 System

Interest is calculated automatically by the Livelink system based on the outstanding balance, the base interest lending rate plus margin if applicable, and the time outstanding.

Manual interest amendments are permitted at the end of each charging period where the system has been unable to capture the full interest applicable.

An example would be where a cheque has not been paid on the due date but is held over for a day to allow the customer to lodge to cover. The extra interest due requires manual calculation and is applied as an adjustment at the period end.

The investigation approach focused on the methodology described in the allegations for processing manual interest amendments and it was found that what was described was an exact match to the Bank's normal procedures and which were designed to be invisible to affected customers.

No definition of interest loading was found in contemporaneous documentation.

No references to unjustified interest loading were noted from the review of the external audit management letters.

4.2 Historic practice

4.2.1 Review of audit reports

In all a total of 172 branch internal audit reports were reviewed spanning the period from 1987 to 1997. A further 55 reports completed during this period were not available for review due to the practice of holding only 2 historic reports for each branch.

The initial review identified that 'interest loading' had been noted as a finding in reports for Carndonagh, Carrick-on-Shannon and Blanchardstown.

A number of audit report findings also highlighted a lack of sufficient documentation for interest amendments however there was no implication that the underlying transaction involved was not genuine.

Interest loading findings in Sligo and O'Connell Street branches were not identified until a more comprehensive review was undertaken and they were therefore selected for detailed review by the Internal Investigation Team.

Further audit reports highlighted that a £5 charge for suspending cheques was being passed as additional interest. This represented a valid charge however the procedures were considered to be ambiguous as to whether this should have been charged as fees or interest. Where this practice existed but there was no other evidence to suggest interest

loading, and the amount could be clearly substantiated as being due to the Bank, the decision was taken not to classify this charge as unjustifiable. Consequently no quantification has been attempted nor have any refunds have been made for these amounts.

The lack of further audit findings in this area across the ten year time period supports the conclusion that the practice of interest loading was not widespread.

4.2.2 Interview process

On receipt of the letter from RTE the immediate discussions with the managers in charge of the named branches during the specified periods gave an indication that there was some substance to the allegations.

In subsequent more detailed interviews there was a specific acknowledgment by one of the Branch Managers that interest loading took place on accounts where the lending was hard core or where customers had not adhered to conditions of sanction.

The wider and more formal phase of the interview process showed a reasonable level of awareness of the concept of interest loading among the population selected.

Most of those who were aware of the practice believed that it was used for the collection of amounts that would have been a reasonable recovery for management time spent if they had been charged as fees. It appeared that in some cases this method was used when it was known the charge would have been resisted by the customer.

There was some inconclusive comment that the practice may have been condoned from Regional Manager level and a suggestion that the practice emanated from Cork branch.

4.2.3 Arthur Andersen findings - five named branches

Full detail of Arthur Andersen's findings together with the follow up work on the five named branches carried out by the Internal Investigation Team is found in the report to Matheson Ormsby Prentice dated 8 June 1998. A copy of the Executive Summary is contained in Appendix 2.

A summary of the initial findings, in the Andersen report, for debit interest adjustments is as follows:

	Number	£ Value
Total debit interest adjustments found	1106	228,713
of which:		
Supporting evidence found	332	128,201
Charges relate to management time	200	42,255

Unresolved

574

58,257

Of the adjustments which related to management time, 75% were found in Cork branch. In all these cases the management time charge for suspending cheques was recorded on an interest amendment sheet which was not in line with Bank procedures.

The Internal Investigation Team then followed up, on all interest adjustments for which no supporting evidence had been found by Arthur Andersen, by conducting an account by account review.

This work led to final summary figures in the Andersen report as follows:

	Number	£ Value
Total debit interest adjustments found	1106	228,713
of which:		
Supporting evidence found	359	132,364
Charges relate to management time	382	55,112
No basis for justification	365	41,237

It should be noted that of the types of activities which would attract a management time charge only a small number can be clearly identified from a retrospective account review.

The 365 interest adjustments for which there is no basis for justification relate to 171 customers across the five branches. Carndonagh branch accounts for 60% of these adjustments.

4.2.4 Summary of additional work - remainder of network

In all cases where an interest amendment was uncovered which gave cause for concern the branch records were examined in detail until the full period involved was determined and all customers affected were identified.

Based on the same classification used in the five named branches the investigation of the wider network has produced a total of £34,816 across 9 branches for which refunds have been made.

A summary of the activities which made up the network wide follows.

Five named branches

The scope of Arthur Andersen's work was limited to the time periods specified in the allegations and was based on the assumption that the practice ceased following issue of the Audit Reports.

The internal investigation team reviewed periods outside the defined scope to ensure that all unjustified manual adjustments had been identified.

As a result of this exercise an additional £3,500 was identified in Cork branch in November 1987.

Career progression

In reviewing the remainder of the network particular attention was paid to branches which were controlled by staff who had worked in branches where loading had been identified.

Specific focus was given to officials who had worked in Cork branch where it was alleged the practice had originally taken place.

Manual interest adjustments were then sampled over the time period the official was in control of the branch. Where any instances of suspicious interest adjustments were identified a detailed review took place.

This process identified a total of £4,949 in interest adjustments which could not be fully justified in Baggot Street branch.

Review of audit reports

As was indicated earlier, this exercise identified interest loading findings in Sligo and O'Connell Street branches.

A detailed review of manual interest adjustments in these branches was conducted by the Internal Investigation Team and amounts of £6,326 (Sligo) and £5,909 (O'Connell Street) could not be fully justified.

Review of two quarters

Further testing across all branches for the quarters ended May 1989 and November 1990 took place. This involved reviewing all manual interest amendments and sourcing supporting documentation.

No instances of unjustified interest amendments were found as a result of this exercise.

Review of interest amendment sheets

As part of the internal investigation, all interest amendment sheets from 1986 to date were requested from the branches and retained centrally.

These interest amendment sheets were reviewed by the Internal Investigation Team on a sample basis for evidence of inappropriate interest charges.

One further branch (Letterkenny) was identified during this exercise and the total of interest amendments which could not be fully justified was £4,991.

Customer enquiries

In addition to the work detailed above 1,661 customer interest enquiries were logged which ranged across the full branch network. For each enquiry a complete check of interest amendments over the eleven year period was carried out.

For many of these enquiries the review involved examination of the branch's general ledger accounts which would have identified any significant incidence of manual interest adjustments.

Of these enquiries two branches, Waterford and Limerick, were identified and the total amounts which could not be fully justified were £12,851 (Waterford) and £350 (Limerick).

4.3 Current practice

4.3.1 Interview process

There were no indications in the interviews conducted that the practice of making unjustified interest amendments was still in existence, even from those managers who were aware of the practice historically.

4.3.2 Analysis of recent postings (last two years)

Particular focus within the Internal Investigation was given to examining the integrity of current interest charging practices. A comprehensive review was undertaken of all manual interest adjustments network wide for the last two years. This utilised a CAAT developed by Arthur Andersen during their initial scoping review to interrogate the system records network-wide for the last two years to establish the current incidence of manual interest amendments.

The total amount and number of debit manual adjustments identified was as follows:

Adjustments	Number	£ Value
Under £500 (round sum amounts)	334	6,458
Over £500	120	765,558

A comprehensive examination of all these adjustments showed that interest amendment sheets detailing acceptable reasons existed in all cases with the exception of one period in Strokestown sub-branch where interest adjustments had been used to mask the charging of referral fees and arrangement fees.

Further investigation revealed that this practice had been in existence at the branch since November 1995. The total of interest adjustments which could not be fully justified was £774.

C FEES

1 APPROACH

1.1 Overview

The work on the review into ‘unjustified fee loading’ was governed by the general principles outlined in section A.5. Within this targeted approach the approach was further split into three main areas of focus:

- the system in place during the period under review
- the extent, if any, of any ‘unjustified loading’ historically
- the current position

In order to react quickly to the allegations made, following some initial work by the internal investigative team, it was decided to engage Arthur Andersen to perform a review of the interest and fee related allegations. This exercise was scoped to address the specific allegations made both in terms of time periods and the particular manual adjustment processes that were examined.

Follow up support work on the initial Andersen findings was carried out under the control of the Internal Investigation Team.

The work on the remainder of the network, aimed at giving general reassurance on fee charging practices, was also carried out under the control of the Internal Investigation Team. Based on the high satisfaction level achieved for College Green the work on the wider network was at first restricted to ensuring a common approach had been taken to that used by the management in College Green.

The scope for this work was later widened to ensure that all branches achieved a minimum threshold of justification on a sample of fees derived from customer account queries. A matrix was developed based on the management time fees levels that applied in College Green and other branches were measured against this.

In branches which had been ‘named’ in the interest allegations, and in branches which failed the matrix test, more extensive testing of a wider customer sample was carried out.

The investigation work combined a review of available documentation and discussions with relevant personnel and as detailed above was designed to look at three aspects namely, the system, historic practice and current practice.

1.2 System

The integrity of the system was assessed by recreating the system documentation across the time period in question thus enabling a retrospective review of the fee charging process in operation.

The investigation approach focused on the methodology described in the allegations for processing manual fee amendments. In particular, any definition of or reference to 'fee loading' were sought from contemporaneous documentation.

The management letters of the external auditors, KPMG, were also reviewed for any references to failings in the fee processing system raised.

1.3 Historic practice

A comprehensive list of all branch audit reports issued over the period was assembled from available records and the individual reports were reviewed where available. From this review, no further branches were identified for immediate review.

Consequently, it was decided to concentrate on the branch referred to in the RTE report, which by then had been identified as being College Green, for the period shown being the period ended November 1989. As the report for the period in question was not available for examination the period following, February 1990, was selected.

Arthur Andersen were engaged on 9 April 1998 to establish "whether fees had been debited to customer current accounts at the College Green branch without any contractual, statutory or other valid basis and, if so, the extent thereof for the February 1990 quarter posting date".

Following a review of the normal fee charging practice and procedures, Arthur Andersen developed the following approach to their work:

- Examine all manual amendments to the Fees to be Applied Report.
- Review the Fees to be Applied and related reports for supporting annotation and explanation.
- Review individual customer files and other sources of documentation for supporting explanations.
- Interview individuals who held management positions at College Green during the period under review.

Following Arthur Andersen's review, the Internal Investigation Team conducted a detailed review of all accounts where Arthur Andersen had identified fee amendments greater than £3.00. The objective of this exercise was to see if the uplift could be justified by calculating an applicable management time charge.

The process used by the Internal Investigation Team and the results produced were then reviewed by Arthur Andersen prior to inclusion in their report.

In addition, a sample of 12 branches were selected for a detailed review of a significant number of fee amendments for one quarter. This sample was biased towards branches and time periods which had been found to include unjustified amendments in the work on interest.

The approach taken was to identify all manual amendments for the accounts selected on the Fees to be Applied report and conduct an account review identical to that carried out by the Internal Investigation Team on the College Green amendments.

A higher level review of fee amendments in the remaining branches was carried out by the Internal Investigation Team.

Based on the satisfaction levels achieved in College Green a matrix of reasonable fee uplifts, by account type and account activity level, was developed. This matrix was then applied across all customer fee enquiries for one quarter to achieve further satisfaction of fee charging practices on a branch by branch basis.

Those fee enquiries which failed this test were subjected to a detailed account review for the quarter in question to establish whether adequate justification for the fee uplift existed.

1.4 Current practice

The current system was reviewed to assess its integrity in the application of management time charges. The interview process was also used to gather information on the operation, quality and integrity of the current system.

2 ASSUMPTIONS AND CONSTRAINTS

It has been assumed that the computerised processes for calculating transaction based fees has operated effectively throughout the period.

The clearer customer visibility of fee charging practice whereby tariffs were published and transactions, and quarterly fee charges, were listed on statements allowed a more restricted approach to the work on fees. This was reinforced by the view expressed in management interviews that customers regularly challenged, and negotiated adjustments to, fees charged on their current accounts.

The basis of testing for one quarter only was that, across a wide population, customer behaviour remains reasonably constant and the level of management time spent on accounts would not vary significantly except for one off events such as new lending propositions which should be charged for at the time.

Considerable amounts of supporting documentation for the earlier parts of the period under review could not be found. Of itself, this was not a significant issue in as much as this period was outside the seven year period for which documentation ought generally to be retained. However, it did impact on the ability to find documentary substantiation for transactions processed assuming that such existed in the first place.

Similarly, not all parties present at the time have been available for interview. Those that have been interviewed have been as part of the fact gathering exercise rather than the more challenging initial process of the disciplinary route. This has been in recognition of the separate strategy and activities taking place in this area. Evidence given to other parties who have greater powers to extract information, particularly under oath, may differ from that previously proffered.

Consequently, whilst effort has been made to find other and corroborating evidence, there must remain some uncertainty as to the impact this poor quality of available evidence has on our overall conclusions.

3 CONCLUSION

The fee charging process in place at the time of the allegation involved a series of three reports and required manual intervention for the application of management time charges. The approach taken in College Green branch, namely making manual amendments to the Fees to be Applied Report, was typical across the network.

While many of the activities which would warrant management time charges are invisible to a retrospective account review, the results of the work carried out in College Green gave a high level of satisfaction with their fee charging practices at the time of the allegations.

Work carried out across the remainder of the network confirms that there was no widespread abuse of fee charging practices. However Cork, Carndonagh and Waterford branches have been identified as having low justification levels for fee uplifts applied during certain time periods. Whilst the full quantification of the position in Waterford has not yet been completed, it is anticipated that the total amount of fees that will be refunded will be approximately £200k before indexation.

System developments in the periods since the allegations were made have resulted in improvements in the capture of administration and management time and, as a follow on, in enhanced transparency to the customer.

The introduction of detailed pre-notification of fees in August 1996 gives a high level of comfort with the integrity of current fee charging practice.

4 DETAILED FINDINGS

4.1 System

The system for charging quarterly fees relies on two major components. The central calculation of transaction charges is based on mainframe generated activity levels and a range of publicly advertised tariffs.

The addition of management or administration time historically required management intervention which was accommodated for, and prompted by, the cycle of reports which issued for branches.

The system supporting the calculation of management time has evolved significantly over the period under investigation. At the time of the allegations made against College Green there was little supporting evidence kept detailing how the charge was arrived at. Typically the changes were made directly to the Fees to be Applied Report which gave a customer listing of transaction fees. The combined fee was then entered to the central system for processing.

In 1992 Customer Information Pads were introduced which prompted managers to record management time as it occurred thus giving an improved support for the amount applied at quarter end.

This system was further enhanced by the weekly capture of management time on the mainframe and then in 1995 by the introduction of Pre-Notification of fees which provides the customer with a detailed breakdown of fees prior to the charging date.

No definition of fee loading was found in contemporaneous documentation.

No references to unjustified fee loading were noted from the review of the external audit management letters.

4.2 Historic practice

4.2.1 Review of audit reports

In all a total of 172 branch internal audit reports were reviewed spanning the period from 1987 to 1997. A further 55 reports completed during this period were not available for review due to the practice of holding only 2 historic reports for each branch.

There were no findings relating to unjustified uplifts in customers fees.

No branches were selected for specific examination as a result of this review.

4.2.2 Interview process

Managers interviewed, including those who admitted an awareness of the practice of interest loading, believed that the Bank's fee charging process required the manual uplift of charges and that all amendments were a reflection of genuine management time expended rather than an unjustified method of increasing income.

4.2.3 Arthur Andersen findings - College Green

Arthur Andersen identified a total of 886 debit amendments amounting to £48,496. Of this figure one amendment accounted for £37,202 and upon investigation was found to have never been debited to the customers account. This left a residual of 885 amendments totaling £11,294 for detailed examination.

As Arthur Andersen's approach consisted of seeking supporting documentation and the common practice at the time was not to record detailed reasons for fee amendments, their initial work was generally inconclusive.

The Internal Investigation Team then conducted an account by account review for each customer identified by Arthur Andersen who had a fee amendment greater than £3.00 during the quarter. By applying standard times for certain identifiable management activities to the appropriate cost per hour, a calculation of management time cost was compared to the fee uplift.

The outcome of this exercise, which was subsequently reviewed by Arthur Andersen, was as follows:

	Business		Personal		Total	
	No	£	No	£	No	£
Fee amendments	214	8,454	671	2,840	885	11,294
Examined	214	8,454	335	2,197	549	10,651
Justified	214	8,454	225	1,504	439	9,958

It should be noted that the list of activities likely to require intervention which would warrant a management time charge indicates that only a small percentage would be identifiable from the review of transaction activity carried out.

4.2.4 Summary of additional work - remainder of network

The results of the review of branches selected for detailed examination showed acceptable satisfaction rates for all except Cork and Carndonagh. Further work was carried out on these two branches but no significant improvement resulted and it was

apparent that the charging practices for the periods examined were not in line with the remainder of the network.

Following a further detailed analysis, 519 fees amounting to £92k cannot be justified in Cork and 341 fees amounting to £50k cannot be justified in Carndonagh. Following indexation the amounts of the applicable refunds will be approximately £755k.

The career histories of the managers involved in these two branches were tracked and more detailed samples were reviewed in other branches they had managed.

The review of Waterford indicated potential problems and the sample rate was increased further across the entire period to establish the scale required for a comprehensive review. This showed that while personal customer fee uplifts were within the parameters set for acceptability, the business customer fees showed an unacceptable number which could not be justified in the sample exercise.

A comprehensive review of business account fee charges has now commenced which covers the period August 1990 to May 1996. This involves reviewing 2,400 charges relating to 286 customers and is estimated to complete in mid April.

Through the remainder of the network, a minimum of ten amendments over two quarters were examined in detail to establish if the uplifts were justifiable. This exercise produced a network satisfaction rate of 84%.

4.2.5 Customer fee enquiries

A total of 1,445 fee enquiries ranging across all branches was tested using the College Green matrix. Based on the findings of this exercise combined with the general satisfaction level network wide, branches were closed off one by one as having satisfactory fee charging practices.

4.3 Current practice

The introduction of an automated system for daily/weekly capture of administration/management time against specified activity categories has resulted in much greater discipline in this area both in data capture and audit trail.

The detailed pre-notification of fees to customers which was introduced in August 1996 has resulted in improved transparency for both transaction and management time charges.

There were no indications in the interviews conducted that the practice of making unjustified fee amendments was currently in existence.

D AUDIT OVERSIGHT PROCESS

1 APPROACH

In line with Group policy, NIB had an established Audit Committee and Internal Audit function whose purpose was to provide assurance through overseeing the proper application of management control to the bank's business systems. Therefore, it should be reasonable to rely on the Internal Audit process to have picked up any significant deviation from the bank's laid-down policies and procedures during the period under review. An absence of Internal Audit reporting on this topic would indicate the absence in NIB of an endemic practice of unjustified interest and fee 'loading'.

The objectives set for this part of the review were aimed at establishing:

- whether the Internal Audit process was adequately designed.
- whether the Internal Audit process was complied with.
- whether Internal Audit was effective in providing oversight.
- the extent and nature of the reporting of the interest and fees loading practice noted above.
- the nature and extent of follow-up actions to exceptions found.

The review focused on the overall operation of the Internal Audit related functions in NIB over the period from the date of acquisition (ie 1987) to last year.

Whilst the review was essentially general in nature, covering the wider aspects of the function's operation, particular attention was paid to the audit of Interest and Fees, particularly with respect to potential overcharging practices.

2 ASSUMPTIONS AND CONSTRAINTS

A significant period has elapsed since the period relating to the allegations, which means that it was not possible to review the systems in situ. Consequently, historical evidence has had to be gathered through the following means:

- Review of surviving contemporaneous documentation (eg work programmes, reports produced, meeting minutes).
- Fact-finding interviews of personnel from Internal Audit over the period.
- Review of available reports produced by external independent parties (eg KPMG).

3 CONCLUSION

Overall, the effectiveness of the Internal Audit process for the period was found to be satisfactory.

The most significant findings identified surround the reporting of interest and fee issues to the Board Audit Committee. Although the four interest 'loading' issues discovered were reported to appropriate line management up to and including the Chief Executive, neither executive management nor the then Heads of Audit chose to raise them specifically to the Board Audit Committee's attention. General concerns surrounding the adequacy of documentation supporting interest amendments throughout the network over the period were also not raised, though results from audit testing undertaken at the time does not indicate that this shortcoming led to unjustifiable charges being made.

The Internal Audit programmes appear to have been comprehensive, covering, inter alia, tests on amendments to both interest and fees, diligently applied on a cyclical basis across the network, and reported upon to appropriate line management. Recommendations were generally aimed at correcting non-compliance with policy, rather than rectifying any incorrect treatment already applied, as can be seen from the absence of recommending the refund of the unjustified interest adjustments found. However, where unacceptable 'loading' practices were found and reported upon they stopped thereafter.

Internal Audit were not subjected to adverse pressures on their independence, over and above the normal level of management challenge, and in this context had free reporting lines into the Board Audit Committee (BAC), which comprised independent and non-executive directors. Consequently, if Internal Audit had discovered widespread practices of unjustified interest 'loading', it should have reported thereon to the BAC. Similarly, Executive Management who also regularly attended the BAC should have raised any issues in this area causing them concern.

In the 172 branch reports examined, four instances of interest 'loading', and one of fee 'loading', were found and these were reported individually to branch, senior and executive management at the time. It follows that, by only reporting on this issue on these few occasions, the practice was not widespread or endemic to the whole network. This conclusion is reinforced by the findings of the Internal Audit staff interviews.

4 DETAILED FINDINGS

4.1 Independence

All staff in Internal Audit since 1986, remaining in NIB, have been interviewed. This totaled 15 people and included all the Heads of Audit over the period, namely:

- Hilary Flood (1986 - May 88)
- Enda Carberry (Mar 90 - Mar 93)
- Paul Harte (Apr 93 - Mar 97)

No concerns were expressed by the interviewees about the audit process undertaken or its independence. The interviewees also stated that they had no concerns at the time about any of the allegations subsequently made.

Peer reviews of the audit process were undertaken within the Group with no major concerns being expressed about NIB audit. Global responsibility for the banking / branch audit programme was developed with co-ordination from Melbourne thus ensuring group-wide alignment of the banking audit process.

An independent second review process was available to the NIB audit team through Group Audit in Melbourne and the Chief Auditor of National Australia Finance (UK), who was based in London.

4.2 Process and coverage

The Internal Audit process for the period, as derived from the interviewees and a review of available reports from the time, comprised the following main features:

- branch audits based on standard audit programmes
- branches selected on a cyclical basis to achieve total network coverage over a two or three year period
- recommendations to correct deficiencies agreed with branch management
- all audit reports passed to Chief Executive Officer and appropriate senior management
- continuing process issues raised with executive management for action / correction (although this was not done prior to 1993)
- significant issues were elevated to Board Audit Committee and Group Audit in quarterly report at the discretion of the Head of Audit

The audit programme for 1992 is the only version that has been found but the audit staff interviewed confirmed that this programme was broadly similar to that used prior to and since 1992. The Inspection process was in place up to 1994 when there was a move to a more risk based approach, which was subsequently refined in 1996.

The audit process was determined by Group Audit who would have maintained a close oversight. Audit programmes would have been tailored locally for National Irish Bank specific processes but approved by Group Audit.

The audit programme was split into four 'cores' covering all major areas of branch activity. Interest and fees were covered and the validity of amendments processed in both areas was specifically tested. Testing was based on samples, which would be extended if problems were discovered during testing (for interest amendments this would often result in all of the population being tested).

Branches were covered on a two year cycle basis up to 1993, and then three year cycle up to 1997. If a branch was rated as 'Poor' then a follow-up visit was scheduled within 12 to 15 months. The applicable audit programme was rigorously applied to each branch visited, no matter the results of the previous audit.

No audit work papers can be found for most of period. This is not unexpected as it is in line with policy at the time which states that working papers should be destroyed following the subsequent audit visit.

Departmental audit programmes were individually developed to cover the specific risk profile present there. Theme audits were developed later in the period (1994), in conjunction with Group Audit, and covered the examination of a common topic (eg interest amendments) in the network.

No adverse comments were made on the Internal Audit process by the external auditors.

4.3 Reporting

Individual reports produced covered Branches, Departments and Themes (from 1994). Quarterly Reports were produced for the Board Audit Committee and Group Audit. The Group Audit retention policy for reports is 7 years.

4.3.1 Branch audit reports

172 reports were reviewed over the period 1987 - 1997, as follows:

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Reports examined	6	12	12	18	16	20	19	20	20	18	11

55 reports prior to 1990 (ie beyond retention period) could not be found and were therefore not examined. The reports examined appear to be comprehensive and follow a standard format.

Issues identified from the review of audit reports are as follows:

	Number of report items raised	Number of lesser significance items raised
Interest 'loading'	4	0
Fee 'loading'	0	1
Interest & fee amendments not adequately documented (note 1)	109	70
Other interest & fee issues (note 2)	30	106

Notes

1. The number of interest amendments reported as being inadequately documented does not imply that interest 'loading' was present. Auditors interviewed confirmed that justification was sought for the underlying transactions and would have been separately reported as 'loading' should this have been present. The findings could also relate to the Debit Interest Report not being updated with amendments made (this is used to produce the Interest Certificates).
2. Other interest & fee issues contain three findings of incorrect capitalisation periods being applied but these all relate to credit interest on savings accounts (& hence to bank's disadvantage). Remaining issues surround non-issue of facility letters to customers.
3. Interest 'loading' reported on at Carrick-on-Shannon, Carndonagh, Sligo and Blanchardstown branches.
4. Fee 'loading' was reported on at Sligo branch as a 'lesser importance' item.

The findings show that the incidents of 'loading' found were isolated, though against a background of a poorly operated system, particularly with respect to supporting documentation produced. This issue of poor documentation could have been raised to the Board Audit Committee on the basis of being a consistent finding across the whole network.

In summary the picture painted by this review is one of a system that, whilst not perfect, was also not systematically bad.

4.3.2 Department audit reports

25 such reports were reviewed covering the period 1987 - 1997. None of the reports reviewed related to interest or fees or indeed contained any major findings directly related to customers.

4.3.3 Theme audit reports

Two theme audits, Control of Interest Amendments (July 1996) and Fee Income (November 1996), over the period 1987 - 1997 were reviewed. The findings can be summarised as follows:

Control of Interest Amendments (July 1996)

This review resulted in 'Poor' rating being given for this subject. The reasons supporting this were:

- the processes were fragmented
- authorisation procedures lacked clarity
- reporting requirements were not clearly communicated
- account closing process were cumbersome and error-prone
- product information and interest codes not easily identified and were often inconsistent

No comment on interest 'loading' was noted.

Fee Income (November 1996)

This review resulted in 'Poor' rating being given for this subject. The reasons supporting this were:

- the recording of administration time was inconsistent
- fees waived / reversed / blocked were not subject to standard overview / approval processes
- a lack of effective management information on commission / fees
- an inability to monitor fees that were waived / reduced
- there was a significant number of exempt accounts with no reason given and no on-going review being performed

No comment on fee 'loading' was noted.

4.3.4 Quarterly reports

Quarterly reports were prepared by the Head of Audit and contained a summary of:

- Department Audit Reports
- Branch Reports, analysed by overall outcome (ie Satisfactory / Unsatisfactory)

No branch audit finding trends were identified until reasonably recently (post 1993). Quarterly reports could not be found for March 1990, June 1989 and March 1989, all of which are outwith the Group retention period.

Specifically, interest and fee 'loading' issues not raised as significant items. It has been stated in interview that there was mention made of 'interest amendments' regarding Blanchardstown in the supplementary section of the August 1993 quarter's report, but no documentary evidence is available to support this claim.

4.3.5 National Irish Bank Board Audit Committee minutes

The minutes were reviewed for the period December 1988 to February 1997, when the committee was disbanded in favour of the European Board Audit Committee.

The overall quality of reporting improved significantly over the period, particularly following Paul Harte's appointment as Head of Audit in April 1993. However, from this review, none of the identified reported findings on interest and fee 'loading' were raised to the Board Audit Committee. As noted in the previous section, it has been stated that the findings relating to interest amendments processed in Blanchardstown branch were raised at the September 1993 Board Audit Committee meeting although they were not emphasised and the 'loading' aspect was not mentioned at all.

A comment made in the June 1994 minutes by the Board Audit Committee Chairman, is as follows:

"The Chairman noted that it is now accepted that there have been serious shortcomings in the management of our branch system for some time - together with poor discipline and slack procedural controls. He expressed concern that this had not been brought to the attention of the Audit Committee by executive management, internal or external auditors. He indicated to KPMG that the Directors expect them to identify significant malaise and to plan their audit accordingly."

4.4 Follow-up

All findings in audit reports had accompanying suggested actions. These could be characterised as normally being of the 'stop it' type rather than 'correct it'.

Responsibility for ensuring actions were implemented for the network rested with the Head of Retail, who followed up individual audit reports with specific instructions to the branch manager. The branch manager had then to confirm that the specified actions had been taken. Progress would have been monitored through Regional Manager visits.

A quarterly return to the Head of Audit was issued by the Head of Retail to advise on the progress made in implementing required actions in the network. This return was not presented to the Board Audit Committee.

The interest 'loading' issue was highlighted in May 1990 to Regional Managers by the General Manager following the Carrick-on-Shannon audit report. It has not been possible to confirm whether any remedial action was taken by Regional Managers as a result of this communication.

For major audit issues arising from Departmental and Computer Audits, the relevant management were responsible for ensuring resolution. Progress was tracked through the Quarterly Audit Report.

Generally, no specific follow-up of implementation of agreed actions by management was performed by Internal Audit. This was in line with Group Audit policy. Confirmation that the action had been taken was covered through subsequent audit visits when a full audit programme was applied.

4.5 External audit

The external auditors of National Irish Bank were Touche Ross (1987 - Oct 1990) and KPMG (Oct 1990 - date).

The scope of the External audit work would be directed at providing an opinion on the financial statements and would therefore cover an examination of all systems producing significant figures therein. Consequently, external auditors would have examined both interest and fees for material overstatement and would have relied upon Internal Audit work in this regard.

It must be recognised however, that external audit terms of reference are not comprehensive regarding system review and state that the work is not aimed at looking for fraud etc, being just for the purposes of signing the accounts. Consequently considerations regarding materiality apply, though this would not mean that major fraud, if present, would not be detected.

No qualifications to the financial statements were issued for period since acquisition (1987). Management letters were prepared each year, arising out of issues which had come to the external auditors' attention only, and these were reviewed for years except 1987 and 1988 for which no documentation could be found.

No reference to interest or fee 'loading' was noted in any of the management letters reviewed. The only issues raised with respect to interest or fees were in 1986 and 1991 but these points were not about overcharging. One can presume that if the external auditors had been particularly concerned about an endemic interest or fee 'loading' problem then they would have raised it strongly in the management letters.

Indeed, KPMG made various statements to the Board Audit Committee about the quality of control environment. A quote from the minutes of February 1991 is as follows:

“Auditors, at the request of the Committee commented generally on the Bank, its records and controls. They stated the overall view obtained by them was one of:

- tight management
- where management is in control of what is happening
- where controls though commented upon does not indicate management is lacking in their application

- management takes the audit recommendations seriously
- a good internal control system “

No other regulatory report submitted by external auditors expressing any material concerns. No adverse comment on quality or coverage of Internal Audit were raised by the external auditors in either the Board Audit Committee minutes or management letters.

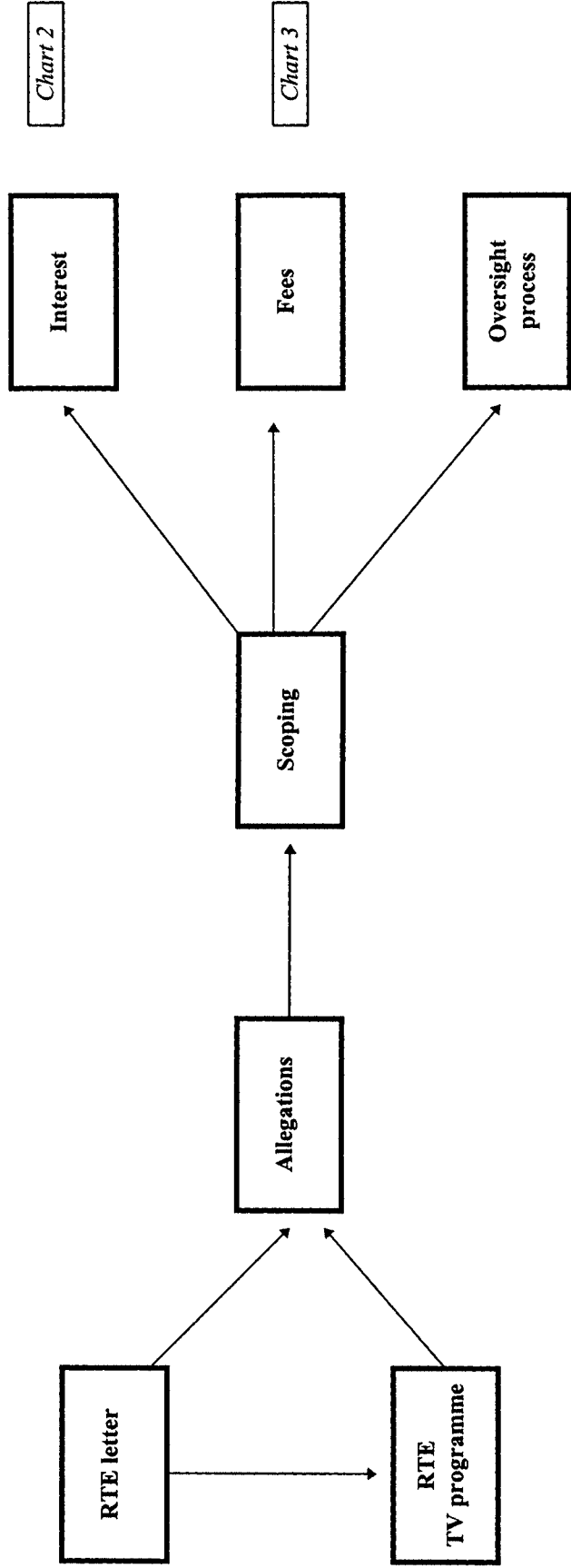
APPENDICES

- 1 Diagrammatic representation of investigation steps taken**
- 2 Arthur Andersen report - executive summary**
- 3 Analysis of unjustifiable amendments by time**

Appendix 1

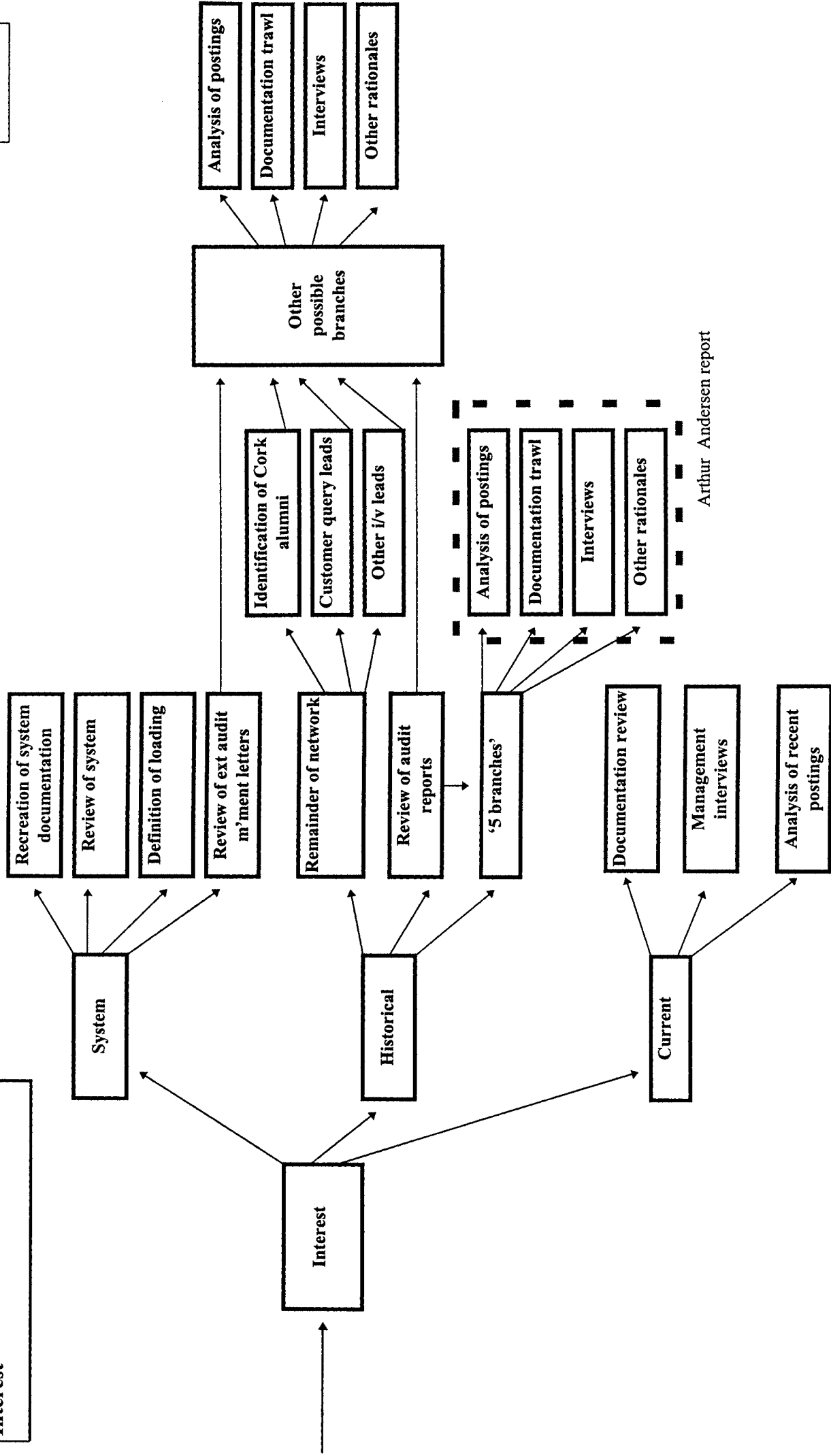
Diagrammatic representation of investigation steps taken

OVERVIEW OF INVESTIGATION INTO INTEREST & FEE LOADING ALLEGATIONS



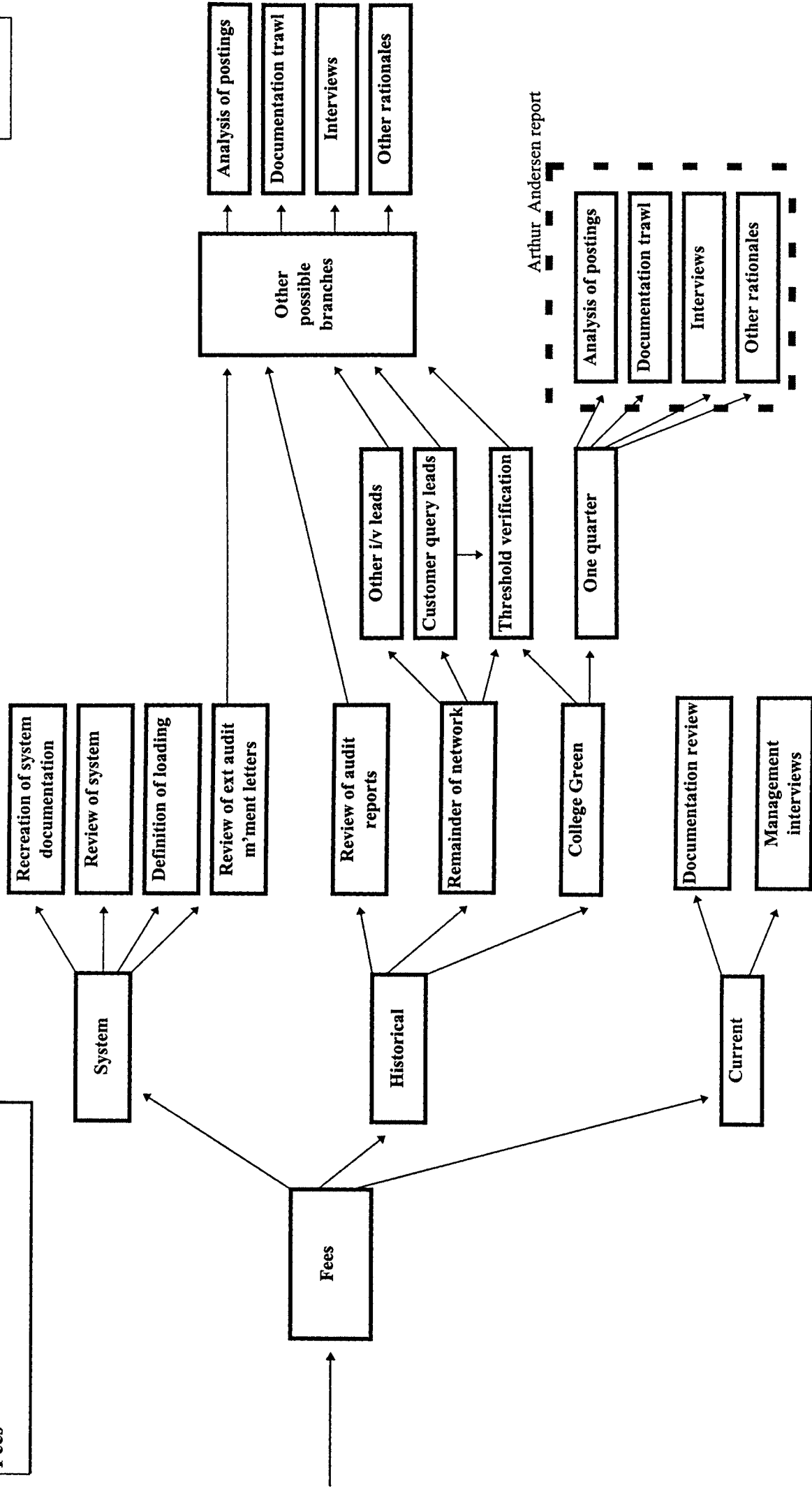
Interest

Chart 2



Fees

Chart 3



Appendix 2

Arthur Andersen report - executive summary

ARTHUR ANDERSEN

Private and Confidential

Report to Matheson Ormsby Prentice
in connection with the investigation of certain
matters relating to National Irish Bank Limited

8 June 1998

1. Executive Summary

1.1 Terms of Reference

In accordance with the agreed terms of reference, which are described in greater detail in Section 2, Arthur Andersen has investigated the following matters:

- (i) Whether additional interest charges have been debited to customer current accounts at quarter end without any contractual, statutory or other valid basis and, if so, the extent thereof at the following branches of National Irish Bank Limited ("the Bank") for the following periods:

Branches subject to specific allegations, with respective periods:

Branch	Periods Covered
Carndonagh	October 1987 to December 1990
Carrick-on-Shannon	October 1987 to December 1990
Cork	January 1988 to December 1990
Walkinstown	January 1989 to December 1990

Additional branch requested by National Australia Group Europe - Internal Audit ("IA"), identified in an internal audit report:

Branch	Period Covered
Blanchardstown	February 1991 to May 1993

- (ii) Whether fees have been debited to customer current accounts at the College Green branch of the Bank without any contractual, statutory or other valid basis and, if so, the extent thereof for the February 1990 quarter end posting date.

The period identified by the Bank as being the subject of specific media allegations was the half year to December 1989. However, we were informed by the Bank that the only copy of the relevant "Fees to be Applied" Report is believed to be held by RTÉ and hence is unavailable. The February 1990 quarter end posting date was therefore selected by the Bank for review as it is the quarter closest to the period actually subject to allegation.

1.2 Summary findings

This report should be read in its entirety. The Executive Summary provides an overview of the work performed by Arthur Andersen and of our findings. The summary information included in this Executive Summary is based on the more detailed analyses which are included in Section 3 (for fees) and Section 4 (for interest) and which are derived from the detailed spreadsheet analyses included in the Appendices.

In relation to both fees and interest, as described in Section 1.3 and Section 3 as well as Section 1.4 and Section 4 respectively, our work comprised a detailed review for documentary evidence supporting the fee amendments and interest adjustments made for the relevant branches and the relevant periods.

The Executive Summary also provides an overview of the work performed by IA and its findings. This is described in more detail in Sections 3 and 4.

Fees

Arthur Andersen Findings

Arthur Andersen identified and classified a total of 896 manual amendments to the “Fees to be Applied Report”. We reviewed this report and other related reports for any supporting annotation and explanation. We also reviewed other potential sources of documentation, principally individual customer files, for supporting explanations. The results of the Arthur Andersen review are indicated in Table 1.1 below and are detailed further in Section 1.3.2.

Certain documentation gaps exist which are described in Section 3 of this report. Documentation was identified, indicating activity on certain accounts, which because of the nature of the activity, may provide support for the identified manual fee amendments on these accounts. However, the documentation did not provide unambiguous support for a specific amendment except in two instances.

IA Findings

Following Arthur Andersen’s review, IA conducted a review, the focus of which was to seek support for the fee charged and to identify the reason for a specific fee amendment. The IA procedures are described in Section 1.3.3. and involved a post hoc application of charges for management time allowed for specific tasks identified. The results of the IA review are outlined in Table 1.1 below and detailed further in Section 1.3.3.

As Table 1.1 indicates, 885 debit amendments totalling IR£11,294 were posted. Of these, 214 amendments, totalling IR£8,454, were posted to business accounts. IA have examined these amendments and consider them justifiable in the context of a post hoc application of charges for management time allowed for specific tasks identified (see Note (iii) to Table 1.1 below). Of the remaining 671 fee amendments to personal accounts, which total IR£2,840, IA have examined approximately 50% of these amendments, representing approximately 80% by value, and have concluded that approximately 70% (by value) of these amendments are justifiable in the same context as for the business accounts. By 8 June, the date of issue of our report, a total

of 110 amendments (IR£693 by value) are unresolved and 336 amendments (IR£643 by value) had not been examined by IA.

The procedures adopted by IA were, in our view, reasonable given the focus of their review and the results reflect the consistent application of these procedures.

Interest

Arthur Andersen Findings

Arthur Andersen reviewed available documentation and classified interest adjustments according to information contained in this documentation. Certain documentation identified as a potential source of information for interest adjustments was not available for review and such documentation gaps are described in Section 4 of this report. The results of the Arthur Andersen review are indicated in Table 1.2 below and detailed further in Section 1.4.2.

Out of a total of 991 adjustments identified, Arthur Andersen noted that 332 were supported by specific detailed explanations. A further 200 adjustments were indicated as being in respect of management time charged as interest according to the available documentation reviewed by Arthur Andersen.

IA Findings

Following Arthur Andersen's review, IA conducted a review, the focus of which was to seek support for the interest charged and to identify the reason for the specific interest adjustment. The scope of the IA review covered those adjustments which were not classified above by Arthur Andersen in the 332 items supported by specific explanations and in the 200 in respect of management time.

The IA procedures involved a review of individual customer account activity and a post hoc application of charges for either specific reasons or for management time. IA concluded that 27 adjustments could be considered justifiable on the basis of specific transactions identified by IA in its review. IA concluded that 182 adjustments could be considered justifiable in the context of a post hoc application of charges for management time based on account activity but which were not charged as fees. The remaining 365 adjustments in respect of which no basis was identified were classified accordingly by IA.

The procedures adopted by IA were, in our view, reasonable given the focus of their review and the results reflect the consistent application of these procedures.

Summary Analysis of Interest Adjustments

As indicated in Table 1.2 below, 991 adjustments totalling IR£226,491 were posted to a total of 382 customer accounts. A summary analysis of these adjustments indicating the results of the reviews by Arthur Andersen and IA, which are described above, is set out below for ease of reference.

	No.	Value IR£
Review by Arthur Andersen		
Supported by specific detailed explanations per Arthur Andersen review	332	128,202
Adjustments, in respect of management time charged as interest rather than fees per documentation reviewed by Arthur Andersen	200	42,255
Review by IA		
Considered justifiable by IA on the basis of specific transactions	27	4,163
Adjustments, less than a charge for management time which would, on the basis of the review by IA, have been justified based on account activity but which were not charged as fees	182	12,857
Less combined items/credit adjustments	(115)	(2,224)
Adjustments with no basis identified by Arthur Andersen or IA, posted to 171 customer accounts	365	41,238
Total adjustments	991	226,491

1.2.1 Summary findings - fees

Our findings are set out in summary at Section 1.3.2 and IA's findings are set out in summary at Section 1.3.3. A combination of these findings is summarised as follows:

Table 1.1 Overall Summary of Manual Fee Amendments

Review by Arthur Andersen	Personal Accounts		Business Accounts (Note (i))		Total	
	No.	Value IR£	No.	Value IR£	No.	Value IR£
Total debit amendments	671	2,840	215	45,656	886	48,496
Less: Customer C (amount not ultimately charged to customer)	-	-	(1)	(37,202)	(1)	(37,202)
	671	2,840	214	8,454	885	11,294
<i>Average fee amendment</i>		4.23		39.50		
Analysed as:						
Documentation indicating account activity (Note (ii))	260	1,136	89	3,187	349	4,323
No documentation obtained	411	1,704	125	5,267	536	6,971
	671	2,840	214	8,454	885	11,294
Review by IA	Personal Accounts		Business Accounts		Total	
	No.	Value IR£	No.	Value IR£	No.	Value IR£
Examined and considered justifiable by IA (Note (iii))	225	1,504	214	8,454	439	9,958
Examined, not yet resolved	110	693	-	-	110	693
Not examined	336	643	-	-	336	643
<i>Average fee amendment</i>	-	1.91	-	-	-	-
	671	2,840	214	8,454	885	11,294

Notes:

- (i) 'Business Accounts' comprises both 'basic' accounts and 'negotiated' accounts.
- (ii) 'Documentation indicating account activity' – activity on certain accounts which, because of the nature of the activity, may provide support for identified manual fee amendments on these accounts.
- (iii) 'Examined and considered justifiable' by IA reflects post-hoc application of the then current standard charge for management time (IR£10 per hour) to the standard times currently allowed for specific tasks, where these are evident from a review of a customer's account activity (but which were not computed by the Bank's IT system and charged in the automated fee charge to the customer account). Consequently, IA have considered this to be a valid basis for making a charge.

1.2.2 Summary findings - interest

Our findings are set out in summary at Section 1.4.2 and IA's findings are set out in summary at Section 1.4.3. A combination of those findings is summarised as follows:

Table 1.2 Overall Summary of Manual Interest Adjustments

	Number of Adjustments	Adjustment Amounts IR£
<i>Arthur Andersen review</i>		
Specific detailed explanation available	332	128,202
Documentation indicates 'management time'	200	42,255
Other	572	58,258
Credit adjustments	5	(2,224)
Combined items, i.e. where adjustments are included in more than one classification above	(118)	-
Totals	991	226,491

IA review

IA personnel reviewed the 'Other' category above, and have analysed the adjustments as follows:

	Number of Adjustments	Adjustment Amounts IR£
Adjustment justified for a specific reason	27	4,163
Interest adjustment is less than a charge for management time which could have been justified (based on account activity) but was not charged as a fee	182	12,857
No basis identified	365	41,238
Combined items	(2)	-
Totals	572	58,258

The 365 manual interest adjustments identified as having 'no basis' above were posted to a total of 171 customer accounts.

1.3 Fees

1.3.1 Arthur Andersen Procedures

Our work performed in relation to the manual amendments to fees in College Green for the quarter ended February 1990 is described in detail in Section 3.1.2 and involved the following principal steps:

- The identification of all manual amendments made to fees in the College Green Branch for the quarter ended February 1990.
- A detailed review of the “Fees to be Applied report” and other fee related reports to identify any annotation on the reports which may explain the reasons for fee amendments made.
- The identification and examination of available supporting documentation relating to these amendments, with the assistance of Bank personnel.
- Interviewing certain individuals who held management positions in the branch during the period under review.
- Reviewing the work performed by IA.

The principal documentation reviewed by Arthur Andersen comprised the “Fees to be Applied Report”, the “Amended Fees Input report”, the “Fees Applied report” and individual customer files.

We were informed that, in accordance with the Bank’s policy for destruction of old documents, certain documentation, identified as a potential source of support and explanation, had not been retained. This documentation included the general file of customer correspondence for 1990; costings sheets for the quarter under review; agency fee files for that quarter ; and records of management time for that quarter.

The documentation reviewed and the related documentation gaps are more fully described in Section 3.

1.3.2 Findings

The results of our work are summarised below and described in detail at Section 3.

A total of 896 manual amendments to the “Fees to be Applied Report” were identified, which related to three account types – “Personal”, “Basic” and “Negotiated”. The number and monetary value of the amendments are summarised as follows:

Table 1.3 Summary of Manual Fee Amendments

	<div>Business</div>							
	Personal Accounts		Basic Accounts		Negotiated Accounts		Total	
	No.	Value IR£	No.	Value IR£	No.	Value IR£	No.	Value IR£
Total amendments	677	2,822	133	39,539	86	(52,871)	896	(10,510)
Of which – Credit Amendments	(6)	18	-	-	(4)	58,988	(10)	59,006
Customer C effect (see below)	-	-	(1)	(37,202)	-	-	(1)	(37,202)
Debit Amendments	671	2,840	132	2,337	82	6,117	885	11,294

The account types are described as follows:

Personal Accounts :	Represent personal current accounts. Prior to an IT system change in 1991, personal accounts were described as “student” accounts - see Section 3.2.1.
Basic Accounts:	Represent all business accounts for which no specific fee arrangement has been negotiated with the customer.
Negotiated Accounts:	Represent business accounts for which a fee arrangement has been agreed with the customer.

Our review of the “Fees to be Applied Report” and supporting documentation resulted in the identification of correspondence and documentation indicating activity on certain accounts which, because of the nature of the activity, may provide support for the identified manual fee amendments on these accounts. However, we were able to identify only two instances where the documentation reviewed provided unambiguous support for a specific amendment identified. Details of the types of amendments identified and the nature of supporting documentation found are set out below.

“Customer C effect”

An amount of IR£37,202, out of the total amendments of IR£39,539 under Basic Accounts relates to a single customer, Customer C in Table 1.3 above.

Review of Fees to be Applied Report

We reviewed the "Fees to be Applied Report" and have classified the amendments recorded in the following summary table. This classification is based solely on our analysis of the information available in the "Fees to be Applied Report" and does not reflect the result of our review of any supporting documentation.

Table 1.4 Summary Classification of Manual Fee Amendments

Classification	Personal		Business						Total	
	Accounts		Basic		Negotiated					
	No.	Value IR£	No.	Value IR£	No.	Value IR£	No.	Value IR£	No.	Value IR£
Amended fee equates to previous quarter fee	64	293	23	283	17	807	-	-	104	1,383
Amended fee equates to gross fee	283	1,050	33	363	5	787	-	-	321	2,200
Amended fee equates to an amount within 10p of gross fee	68	407	3	22	-	-	-	-	71	429
Fees waived	6	(18)	-	-	-	-	-	-	6	(18)
“Being costed” annotation	-	-	14	378	-	-	-	-	14	378
“P%” charged, not calculated by system	-	-	2	364	2	158	-	-	4	522
“P%” changed during the quarter	-	-	-	-	1	148	-	-	1	148
Fee and Interest Group	-	-	-	-	1	25	-	-	1	25
Agency fee charged	-	-	-	-	1	1,238	-	-	1	1,238
Fee basis changed during quarter	-	-	-	-	4	60	-	-	4	60
Customer A (i)	-	-	-	-	-	-	1	(52,484)	1	(52,484)
Customer B (i)	-	-	-	-	-	-	1	(5,643)	1	(5,643)
Customer C (ii)	-	-	1	37,202	-	-	-	-	1	37,202
Other – not possible to classify	256	1,090	57	927	51	2,894	2	(861)	366	4,050
	677	2,822	133	39,539	82	6,117	4	(58,988)	896	(10,510)
Less: Customer C	-	-	(1)	(37,202)	-	-	-	-	(1)	(37,202)
Less: credit adjustments	(6)	18	-	-	-	-	(4)	58,988	(10)	59,006
	671	2,840	132	2,337	82	6,117	-	-	885	11,294
	====	=====	====	=====	====	=====	====	=====	====	=====

- (i) In relation to Customers A and B we were informed that the P% charged was incorrectly input to the IT system and that the amendment was processed in order to apply the correct fee charge to the customer account.
- (ii) The fee amendment made to the account of Customer C, as noted on the Fees to be Applied report, was not subsequently charged to the customer's account and there is no explanation as to why the manual amendment was made.

Note that "P%" refers to a specifically defined percentage of account credit turnover which forms the basis for negotiated fees.

Each of the classification captions described above is explained more fully at Section 3 below.

Review of Supporting Documentation

Our review of supporting documentation involved the examination of Fee Amendment Sheets and current and historic customer files.

Fee Amendment Sheets

Our review of the Fee Amendment Sheets identified only two sheets which supported amendments made to the "Fees to be Applied Report". These are detailed in the spreadsheet at Appendix 1.

Costings Sheets

A file of costing sheets for the quarter was not available. Costing sheets were located in 17 customer files during our review.

Fees Applied Report and Amended Fees Input Report

A small number of amendments identified from the Fees to be Applied Report were not processed through the Fees Applied Report and Amended Fees Input Report. These included the IR£37,202 described above as relating to Customer C.

Customer Files

Details of the documentation identified, by customer, are included in the spreadsheet at Appendix 1. The following table summarises the results of our review of customer files by classifying the documentation and correspondence identified by us under each of the customer account types. In a number of cases, our review identified more than one item of potential support for an amendment on file and accordingly there is overlap between the classification types and it is not meaningful to provide column totals in this table.

Out of the total of 896 amendments reviewed, the number of amendments for which no items of relevant documentation or correspondence were located on the related customer files or where the related customer file could not be located amounted to 536.

Table 1.5 Summary Classification of Documentation and Correspondence Identified in Review of Customer Files

Classification	Personal Accounts		Business						Total	
			Basic Accounts		Negotiated Accounts					
					Amendments					
					Debit		Credit			
No.	Value IR£	No.	Value IR£	No.	Value IR£	No.	Value IR£	No.	Value IR£	
Notices to Customers	51	166	12	138	8	590	1	(700)	72	194
Costings Sheets	1	2	3	95	13	760	2	(5,804)	19	(4,947)
Mortgages	39	190	-	-	-	-	-	-	39	190
Limits Marked	138	629	28	355	19	1,117	1	(52,484)	186	(50,383)
Facilities in place	168	753	33	710	24	1,183	1	(52,484)	226	(49,838)
File Notes	84	367	20	617	17	823	-	-	121	1,807
No documentation found*	411	1,704	82	1,290	43	3,977	-	-	536	6,971

*Accounts for which there was no documentation or correspondence on file or the file was not located.

Notes :

"No." refers to number of customer accounts to which classification applies

"Value" refers to monetary value of amendments made to customer accounts

See over for Classification Key.

Classification Key

“Notices to customers” refers to those accounts for which notices were issued during the quarter

“Costings sheets” refers to customer files on which a relevant costings sheet was located

“Mortgages” refers to those customers who had a mortgage in place during the period

“Limits marked” refers to those accounts on which a lending limit was established or renewed during the quarter

“Facilities in place” refers to those customers who had an overdraft facility in place during the period

“File Notes” refers to those accounts where indicators of performance were identified during the period

Interviews

Individuals identified by IA as having been involved in the management of the branch during the relevant period, where available, were interviewed. The results of the interviews are set out in Section 3.2.4 below. Each of the individuals interviewed indicated that the principal reason for fee amendments was to reflect administration or management time which was not captured automatically by the system-based fee charging system.

1.3.3 National Australia Group Europe, Internal Audit review procedures

Following our review and classification of the fee amendments, IA personnel reviewed each of the debit fee amendments which had been identified as relating to business customers ("Basic" and "Negotiated" accounts) and a significant number of fee amendments, relating to personal customers. This review was conducted by reference to individual customer account microfiche records during the quarter ended February 1990 and sought to identify a basis for each fee amendment.

During the period the standard charge for management time was IR£10 per manager hour. Standard times for specific tasks were not introduced until July 1992. IA has used the standard times currently applied combined with the appropriate hourly rate for the period, where such tasks were evident from a review of a customer's account activity (but which were not computed by the Bank's IT system and charged to the customer account), to support the charges. The procedures adopted by IA were, in our view, reasonable given the focus of their review and the results reflect the consistent application of these procedures.

The percentages shown under the column "Examined by IA" represent the percentage of the total number of amendments which were reviewed by IA personnel. The percentages shown under the column "Considered justifiable by IA" show the percentage of the accounts reviewed by IA in respect of which they considered that the fee amendment was justifiable in the context of the post hoc application of standard times and charges to tasks identified.

The following table summarises the results of the IA review :

Table 1.6 Summary Results of IA investigation of Debit Fee Amendments

Classification	Total		Examined by IA		Considered justifiable by IA		Not yet resolved by IA	
	No.	Value IR£	No.	Value IR£	No.	Value IR£	No.	Value IR£
Amended fee equates to previous quarter fee	104	1,383	72	1,314	64	1,268	40	115
<i>Percentage of total</i>			69%	95%	89%	96%		
Amended fee equates to gross fee	321	2,200	172	1,957	126	1,730	195	470
<i>Percentage of total</i>			54%	89%	73%	88%		
Amended fee is within 10p of gross fee	71	429	49	332	27	175	44	254
<i>Percentage of total</i>			69%	77%	55%	53%		
Others, excluding customer C	389	7,282	256	7,048	222	6,785	167	497
<i>Percentage of total</i>			66%	97%	87%	96%		
Total	885	11,294	549	10,651	439	9,958	446	1,336
<i>Percentage of total</i>			62%	94%	80%	93%		
Analysed as:								
Personal	671	2,840	335	2,197	225	1,504	446	1,336
			50%	77%	67%	68%		
Basic	132	2,337	132	2,337	132	2,337	-	-
			100%	100%	100%	100%		
Negotiated	82	6,117	82	6,117	82	6,117	-	-
			100%	100%	100%	100%		
	885	11,294						

1.4 Interest

1.4.1 Arthur Andersen Procedures

Our work performed in relation to interest adjustments is described in detail at Section 4.1.2 and involved the following principal steps:

- The identification and extraction of all manual credit interest adjustments posted to the 'Interest Charged on Current Account' (General Ledger Account) and the 'Interest Charged and Paid Account' (General Ledger Account) on the date of the quarter end automated interest posting.
- The analysis of all manual credit interest adjustments identified above by agreeing them to individual debit postings made to customer accounts.
- The identification and examination of any available supporting documentation relating to these adjustments.
- Interviewing certain individuals who held management positions at the relevant branches during the periods under review.
- Reviewing the work performed by IA, who conducted a review of the interest adjustments made to certain customer accounts.

Certain documentation, identified as a potential source of support and explanation, was not available for review. The documentation gaps are described at Sections 4.1.2 and 4.3, and principally comprise the following:

- Red debit vouchers, autowaste reports, red duplicate statement books and interest amendment sheets, all of which represent potential sources of documented annotation and/or explanation, were not available for significant parts of the periods under review.
- More specifically, the documentation gaps relate to:
 - Interest amendment sheets, red duplicate statement books, general ledger vouchers and debit interest applied to accounts reports for Blanchardstown.
 - Interest amendment sheets and debit interest applied to accounts reports for Carndonagh.
 - Debit vouchers for Carrick-on-Shannon.

- Autowaste reports or interest amendment sheets for Walkinstown.
- A reconciliation of the Carrick on Shannon bulk posting on 27 November 1987.

The scope of our work was extended to include the following additional procedures:

- Our review of manual interest adjustments was specific to each quarter end posting date within the relevant periods. In a number of situations no manual bulk posting was processed to the “Interest charged and paid account” or the “Interest charged on current account” on the quarter end date for the branches and periods under review. As a result, it was agreed to extend our scope to search for any bulk postings processed within 5 business days of the quarter end posting date. We identified only two manual bulk postings within this “cut-off” period and therefore it was agreed that a Cork bulk posting on 23 February 1990 and a Walkinstown bulk posting on 28 May 1990 should be analysed, reconciled and reviewed as outlined above.
- Review of “debit interest applied to accounts” reports. These reports were identified as an additional source of potential explanation for manual interest adjustments.
- Review of the “general ledger” vouchers. These vouchers were identified as an additional source of potential explanation for manual interest adjustments.

1.4.2 Findings

The results of our work are summarised below and described in detail at Section 4.

A total of 991 manual interest adjustments were identified amounting to IR£226,491. These adjustments were recorded in 382 individual customer accounts. Included in the total is a single adjustment amount of IR£100,631 on a business customer account for which supporting documentary evidence is available.

Our review of the available documentation indicated that similar explanations applied to a number of these manual interest adjustments. These additional interest charges have been classified below according to the explanations contained in the available documentation.

The classification captions used are described below under ‘Classification Key’.

Classification Key

- A Detailed explanation obtained from certain available documentation.
- B Certain available documentation indicated additional charges were made for 'management time'.
- C Certain available documentation describes additional charges as 'loading'.
- D Available documentation does not provide a specific detailed explanation – for example the narrative description on the available documentation is 'Int Adj', '1/4 Int Adjustment', 'Additional Int', 'Int Amend', 'Amend', 'Adj', 'Int', 'Interest', 'Interest Amend', 'Int Amendment', 'Additional Interest Charge', 'Interest Amendment', 'Int Append' or there is no narrative description on the available documentation.
- E Interest amendment sheet indicated an additional £10 charge for each suspended payment.
- F All manual interest adjustments (debit) not falling within the classification types described under A through E are included under this caption. It was not meaningful to classify these adjustments into further captions based on our review of the available documentation. See detailed sheets in Appendices.
- G Represents credit interest adjustments to customer accounts for which the available documentation does not indicate that the credit is exactly offset by an equal debit.

Table 1.7 Summary Classification of Manual Interest Adjustments by Number

Branch Classification	Blanchards- town	Carndonagh	Carrick On Shannon	Cork	Walkins- town	Total
A	2	-	15	315	-	332
B	-	-	-	171	29	200
C	-	-	110	-	-	110
D	21	261	33	27	70	412
E	-	-	-	23	-	23
F	-	10	6	10	1	27
G	-	-	2	3	-	5
Total	23	271	166	549	100	1,109
Less combined items	-	-	(2)	(116)	-	(118)
Total number of adjustments	23	271	164	433	100	991
Total customer accounts	19	106	66	157	34	382

Notes:

- (i) The number of adjustments is greater than the number of accounts to which these adjustments were made as a number of customer accounts were subject to an adjustment at more than one period end.
- (ii) "Combined items" refer to situations where a single additional interest adjustment applied to a customer account is analysed into more than one classification caption based on our review of the available documentation.

Table 1.8 Summary Classification of Manual Interest Adjustments by Value

Branch	Blanchardstown	Carndonagh	Carraig On Shannon	Cork	Walkinstown	Total
Classification	IR£	IR£	IR£	IR£	IR£	IR£
A	102,893.17	-	630.89	24,677.46	-	128,201.52
B	-	-	-	31,555.00	10,700.00	42,255.00
C	-	-	7,215.00	-	-	7,215.00
D	2,298.93	25,116.87	1,685.00	2,071.19	15,507.47	46,679.46
E	-	-	-	350.00	-	350.00
F	-	425.67	309.50	3,223.41	54.69	4,013.27
G	-	-	(79.13)	(2,143.94)	-	(2,223.07)
Total	105,192.10	25,542.54	9,761.26	59,733.12	26,262.16	226,491.18

Notes:

- (i) Included in Classification A for Blanchardstown is a single specific amount of IR£100,631.05 on a business customer account for which supporting documentary evidence is available (see above).
- (ii) In compiling the summary classification 'F' for Cork, the effect of two debit adjustments and one corresponding credit adjustment, each in total amounting to IR£32,558.28, arising on a number of linked customer accounts, was excluded as the net effect is zero.
- (iii) No other credit interest adjustments within the bulk postings reviewed were identified showing instances where the available documentation indicates that the credit adjustment offsets a debit interest adjustment for the same amount.

Interviews

Various individuals who were identified by IA as having held management positions in the branches during the relevant periods (see Section 4.1.2) where available were interviewed. However, none of the Branch Managers for the relevant periods were available for interview. In general, interviewees could not recollect any specific information.

1.4.3 National Australia Group Europe, Internal Audit review procedures

As outlined in Section 4.1.4, IA reviewed each of the interest adjustments included by us in Classifications C through F and reclassified the amounts based on their work. The procedures adopted by IA were, in our view, reasonable given the focus of their review and the results reflect the consistent application of these procedures.

The classifications used by IA are as follows:

- 1 IA are satisfied, based on their work, that the interest adjustment is justified for a specific reason, e.g. additional interest due to the Bank caused by cheques held in suspense.
- 2 IA are satisfied, based on their work, that the interest adjustment is less than a charge for management time which could have been justified based on account activity but which was not charged as a fee.
- 3 IA are unable to identify a basis for the interest adjustment.

The tables below summarise the results of the IA review:

Table 1.9 - IA Classification of Manual Interest Adjustments by Number

Branch	Blanchards-town	Carndonagh	Carrick On Shannon	Cork	Walkins-town	Total
Classification						
1	5	3	6	10	3	27
2	12	51	62	41	16	182
3	6	217	81	8	53	365
Total	23	271	149	59	72	574
Less combined /add split items	(2)	-	-	1	(1)	(2)
Total number of adjustments	21	271	149	60	71	572

Notes:

- (i) "Combined items" refer to situations where a single additional interest adjustment applied to a customer account is analysed into more than one classification caption during the IA classification process.
- (ii) "Split items" refer to situations where a single additional interest adjustment was analysed into more than one classification caption based on our review, and these analysed classifications were combined into one single amount during the IA classification process.

The 365 manual interest adjustments included in classification 3 above were posted to 171 customer accounts as follows:

	Number of adjustments	Number of customer accounts
Blanchardstown	6	6
Carndonagh	217	89
Carrick on Shannon	81	36
Cork	8	8
Walkinstown	53	32
	<u>365</u>	<u>171</u>

Table 1.10 - IA Classification of Manual Interest Adjustments by Value

Branch	Blanchards- town	Carndonagh	Carrick-On- Shannon	Cork	Walkins- town	Total
Classification	IRE	IRE	IRE	IRE	IRE	IRE
1	539.61	232.90	309.50	2,666.63	414.77	4,163.41
2	1,163.00	2,883.53	4,140.00	2,220.00	2,450.00	12,856.53
3	596.32	22,426.11	4,760.00	757.97	12,697.39	41,237.79
Total	2,298.93	25,542.54	9,209.50	5,644.60	15,562.16	58,257.73

Appendix 3

Analysis of unjustifiable amendments by time

Unjustifiable charges (excluding Waterford Fees)

Year	Interest	Fees *
1987	8,192.32	12,809.74
1988	26,592.70	37,048.71
1989	54,460.32	37,083.59
1990	34,620.24	24,529.05
1991	6,624.28	31,181.66
1992	2,417.25	7,806.88
1993	585.45	
1994	55.00	
1995	330.00	
1996	884.97	
1997	109.98	
1998	75.00	
Total	134,947.41	150,459.63

* Waterford fees excluded as yet to be quantified

**Appendix 15: Copy Bank letter dated 10 April 2001 to Inspectors
outlining proposed further review of interest charges**

Date 10 April 2001

The Honourable Mr Justice John Blayney
And Mr Tom Grace
Joint Inspectors
C/o PricewaterhouseCoopers
Wilton Park Hse
Wilton Place
Dublin 2

Re: Further Interest Review Project

Ref: Your letter dated 19/2/2001

Dear Inspectors,

I refer to your request dated 19 February 2001 for details of the further review of interest currently underway and your subsequent letter dated 15/3/2001.

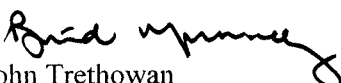
The Bank has embarked on a programme to review interest postings across the branch network for the period 1/10/1987 – 5/4/1998. The programme comprises four phases and includes reviews of the following interest postings:

- **Phase 1** - Quarter end adjustments in branches where interest refunds have previously been made, to ensure four calendar quarters have been reviewed before and after the calendar quarters in which refunds have been made as a result of the IA and AA reviews conducted during 1998
- **Phase 2** - All interest discrepancies reported by Livelink in excess of £5, where the HI2000 Closed accounts reports are available.
- **Phase 3 & 4** Sampling of all remaining postings to the interest income accounts within the general ledger, for all branches.

As with the AA & IA reviews, the work is incremental in structure, with the scope of phase 3 and 4 being based on the outcome of phase 2.

While initial reviews have been completed of the transactions within phase 1, work is not yet complete in respect of this phase. It is envisaged that the review will be completed by the Autumn of 2001. However the completion of the review is dependant on the sampling rate selected for phase 3 & 4 which will not be determined until phase 2 is completed, which we expect to complete by the end of June 2001.

Yours sincerely


John Trethowan
Programme Director

**Appendix 16: Copy memorandum dated 24 July 1992 from Dermott
Boner, Head of Retail, with attachments**

1 2 3 4 5 6 7

MEMORANDUM

To: 28 JUL 1992 All Branch Managers & Staff
From: D Boner Head of Retail
Date: 24 July 1992

Re: ~~Fees - Management Time~~

Following discussions at the recent Managers Strategy Conference a new charge sheet for monitoring and charging Management Time will be introduced shortly (copy attached).

Our efforts for increased fee income should be concentrated in this area to ensure a realistic level of fee income for Staff and Management Time.

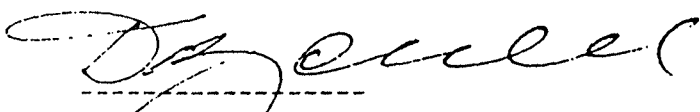
Attached is a guideline for charging Management Time. The charge should be applied to all accounts that are troublesome and time consuming.

Accounts should be monitored daily with details of services provided recorded on the new St. E0020. These charges should be processed on a quarterly basis by way of fee adjustment to the fees to be applied report.

We should be mindful of our competitors system of applying the charge for Management Time. It has come to our attention over the last few months that one of our large competitors apply a charge of £25 to business customers for sending one letter re. account within the quarter.

As you are aware increasing fee income is one of our key targets for the present financial year. Managers and Branch staff should be constantly vigilant when dealing with customers of the need for Management Time cost recovery. Each Branch Manager should now set a target for Management time for the quarter ending September '92. Branch staff should be advised of this target at staff meetings and branch progress monitored throughout the quarter.

While I realise that setting a target for Management Time in addition to our present fee target may appear very stretching, it can be achieved when we consider our recent success on Referral fees - Income to date £ 295K.


D Boner
Head of Retail

Enc: Copy St E0020
Guideline for Management Time
Estimated cost of Slip Letters

National Irish  Bank

CUSTOMER ACTION PAID

DATE : _____

ACCOUNT NUMBER

--	--	--	--	--	--	--	--

CHARGE £ _____

CUSTOMER'S NAME: _____

PHONE NUMBER: _____

CUSTOMER QUERY / REQUEST ☐

MGT. TIME ☐

BUS. OPP. ☐

PLEASE TICK APPROPRIATE BOX

DETAILS :

T. EOOD

ACTIONED BY _____

CHARGE AUTHORISED BY (MANAGER) _____

Estimated Total cost of Processing A Slip Letter

Branch - Day 1

	Grade	Referral Time in Minutes	Standard Costs
Managers Morning Meeting - Example PBWL	Manager	3	1.44

Make Credit Decision:

(1) Pay Cheque - no further action
except apply referral charge

(2) Take the following course of action:

- contact customer, no lodgment expected	Officer	5	1.44 ✓
- Retrieve debit (i) suspend	Officer	8	1.92
(ii) Return unpaid			
- apply charge			
- Update M & M	SBO	5	1.20
- Prepare Slip letter	Manager	15	7.20
- Have Slip Letter typed, checked	JBO	15	1.50
and forwarded to R/O	Manager	5	2.40

Regional Office Day 2

Examine Slip Letter	Asst. Mgr.	5	1.60
- Check customers file for account history			
- Based on account history and Managers recommendations			
(i) pay debit	Asst. Mgr	15	4.80
(ii) excess refused			
- Relate decision to Branch at 11.30am	Asst. Mgr.	5	1.60
- Confirm instructions on slip letter and return to branch.	SBO	15	3.60

96	28.46
----	-------

Notes:-

The above does not account for limits in excess of £250K which must be referred to Credit desk.

No fixed costs e.g. Bank rent, Computer costs, Stationery, Courier charge etc. are included in the above calculations.

Guidelines for charging Management Time

	Minimum Charge
Standard pre-printed letters eg. St 188 overdrawn accounts	£3.00 per letter
Short letters (5 - 7 typed lines) to Customers, their Accountants or Solicitors.	£7.00 per letter
Letters (7 - 20 typed lines) to customers their Accountants or Solicitors.	£12.00 per letter
Interviews with customers, their Accountants or Solicitors with the exception of normal review, interview or request for additional funds.	£12.50 per 1/2 hour £25.00 per hour
Phone calls re account activity	
Local calls (approx 40 miles)	£2.00
Long distance calls	£5.00
Constant / frequent requirement for slip letter communication to Regional Office	£25.00 per S/L

The above are guidelines to assist branch staff and should not specifically be advised to customers.

No provision made for time incurred obtaining knowledge of the customer.

Assumed Average Time Costs:-

	Per Hour IRE	Per minute IRE
Manager	26.70	0.48
A/Manager	19.00	0.32
Officer	14.37	0.24
S.B.O.	14.37	0.24
J.B.O.	6.00	0.10

Appendix 17: Copy Bank paper – Fees Review 2001

Background

Reviews of fees charged to customers during the period November 1987 and April 1998 have been conducted by Internal Audit and Arthur Andersen, arising from allegations of overcharging in the media.

The media allegations resulted in customer enquiries regarding the fees charged on their accounts. (approx 1800). Whilst some of the enquiries were specific in nature and in the form of a complaint, the majority sought assurance that the appropriate fees had been charged to their accounts.

The investigation completed following the media allegations examined the fee charging practices within the bank, and found them to be broadly acceptable. This review is best described as a Network Assurance Review.

The investigation identified 3 branches where for certain periods the fees charged were out of line with the norm, and more detailed reviews revealed 1030 customers where, based on the available information, a reason for the fee charged could not be documented.

The Bank made a commercial decision that the most appropriate response to these findings was to refund amounts involved to customers totalling £213k, including an amount to reflect the time value of money resulting in refunds of 883k

Resolution of Customer Enquiries

The Bank initially envisaged resolving the enquiries received from customers on a customer by customer basis, however it became apparent that this approach was not sustainable as the volume of queries increased. This was further compounded by the general nature of the enquiries.

In response to this analysis, the Bank placed reliance on the outcome of the network assurance review, and adopted a graded approach to the resolution of the customer enquiries, based on the following broad principles

- ❑ Specific enquiries were responded to in a specific manner, supported by detailed research
- ❑ General enquiries were responded to based on the network assurance review results, indicating that charging practices at the branch where the accounts were held had been found to be acceptable.
- ❑ Where an account was examined within the network review and other work, and the fee charged was found to be adequately documented, the response to the customer indicated that their account had been sampled for a period and found to be correct.
- ❑ Customers at the 3 branches¹ where the fee charging was found to be outside the norm where responded to on the basis of the outcomes of the detailed review work conducted at this branches.

Whilst this approach enabled the Bank to address the concerns of the enquiring customers, in a timely manner, a number of issues have arisen following reviews of the work completed by both internal and external² review teams.

- ❑ Customers whose individual accounts did not achieve the acceptable threshold within the network assurance review have been given assurance on the basis of that the fees charged at their branch were reasonable, notwithstanding the results of the work on their accounts.
- ❑ Where a branch passed the network assurance review, outstanding issues identified within work in progress on their specific accounts have not been resolved.

¹ Waterford Branch was initially incorporated in the general response process, however following further risk analysis was included in the detailed due diligence review.

² High Court Appointed Inspectors

- ❑ The text of the letter sent to customers does not always reflect the work on which the response was made.
- ❑ The review periods quoted in the Due Diligence response letter to customers does not accurately reflect the underlying work completed by the research teams.

Arising from these issues it has been decided to instigate a further review, to examine the outstanding matters from the existing reviews.

In addition to the further work within the scope of this paper, the Bank will establish a customer contact process to enable customers to address any issues which arise following the publication of the report of the inspectors appointed by the High Court. The structures and approach adopted during this review will be the framework on which all further enquiries will be resolved.

Scope of Proposed Fee Review

The review will examine the following areas in detail:

- ❑ Ensure that the all customer enquiry files contains evidence of a specific review, and that the outcome of that review meets the appropriate criteria for resolution of the enquiry;
- ❑ Review all files where an issue within the test results remains unresolved, and resolve such issues;
- ❑ Review all files where the 80% threshold was not achieved within the internal audit reviews (including the College Green Branch Review), and determine the appropriate action (both customer enquiries and other selected amendments)
- ❑ Review all further requests for a review of the fees charged.
- ❑ Review customers enquiries from the 3 due diligence branches to ensure that the due diligence work adequately addresses the customer query.

The review will exclude the following areas

- ❑ Fees charged to large corporates;
- ❑ Fees charged to accounts after the introduction of the pre-notification of fees;
- ❑ Examination of system generated fees;
- ❑ All fee periods covered by the due diligence review at Cork Carndonagh and Waterford;
- ❑ Amendment amounts of £10 and less will not be examined, even in cases where existing work has not resolved the amendment.

Whilst the Bank continues to rely on the overall outcome of the Network Assurance Review, this review will include a further examination of the results of each branch to determine if there are any further branches where a Due Diligence review is appropriate

Methodology

The methodology is outlined in Appendix A. In general the approach adopted will mirror that adopted in the past. Three levels of testing will be considered on an account level as follows:

- ❑ Level 1 – Sample identification of amendments
Examination of Fees Applied /to be Applied to determine if the system generated fee was subject to amendment. To examine the fees of accounts over time, individual quarters will be examined at approximately 2 year intervals (Feb 88, May 90,Aug 92, Dec 94). Where an amendment is identified level 2 testing will be completed

- ❑ Level 2 – Resolution of amendments with the sample periods
Each amendment identified during level 1 testing will be examined in detail to determine if a reason to explain the amendment can be identified. In the event that any of the selected quarters cannot be adequately explained, level three testing will be completed.
- ❑ Level 3 Testing – Full examination of Fee for the account
Where an explanation for the charging of a fee can not be identified, the quarters before and after the affected quarter will be examined to identify other instances where this is the case for the account. This work should be continued until 4 unaffected quarters have been identified before and after the quarter concerned.

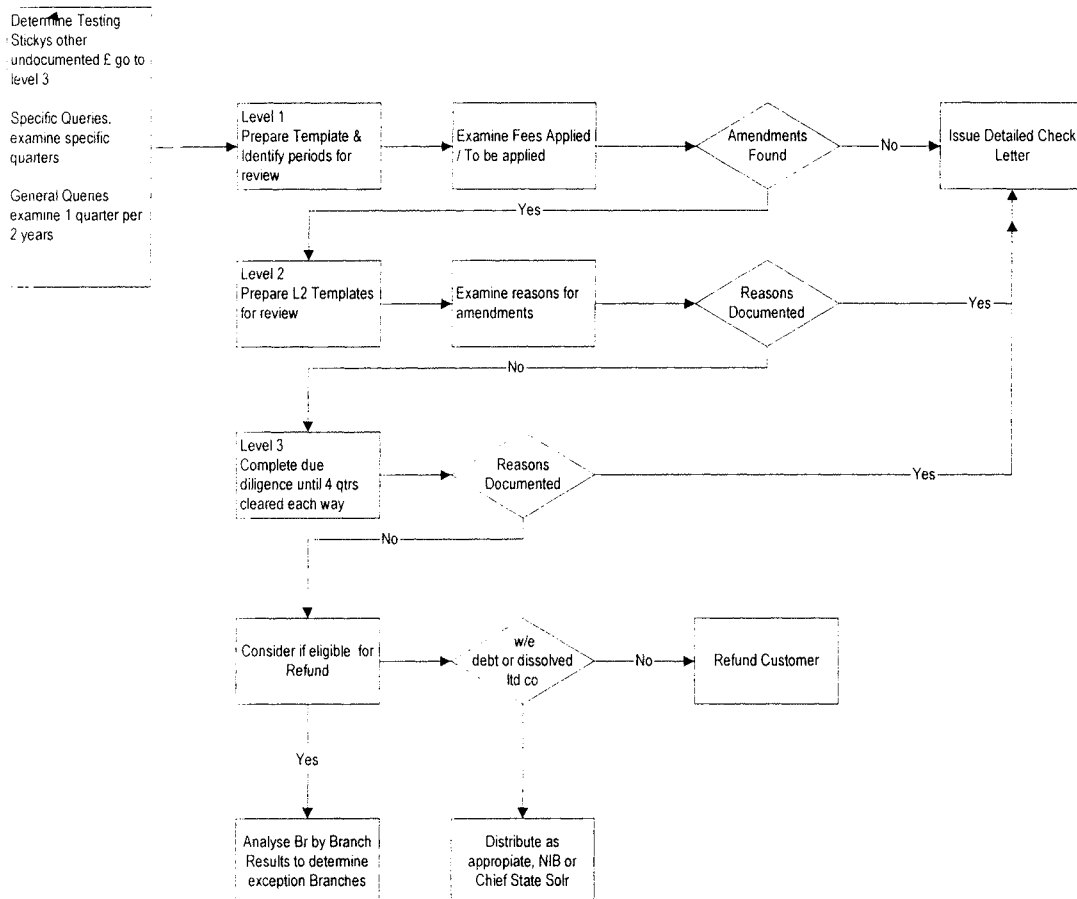
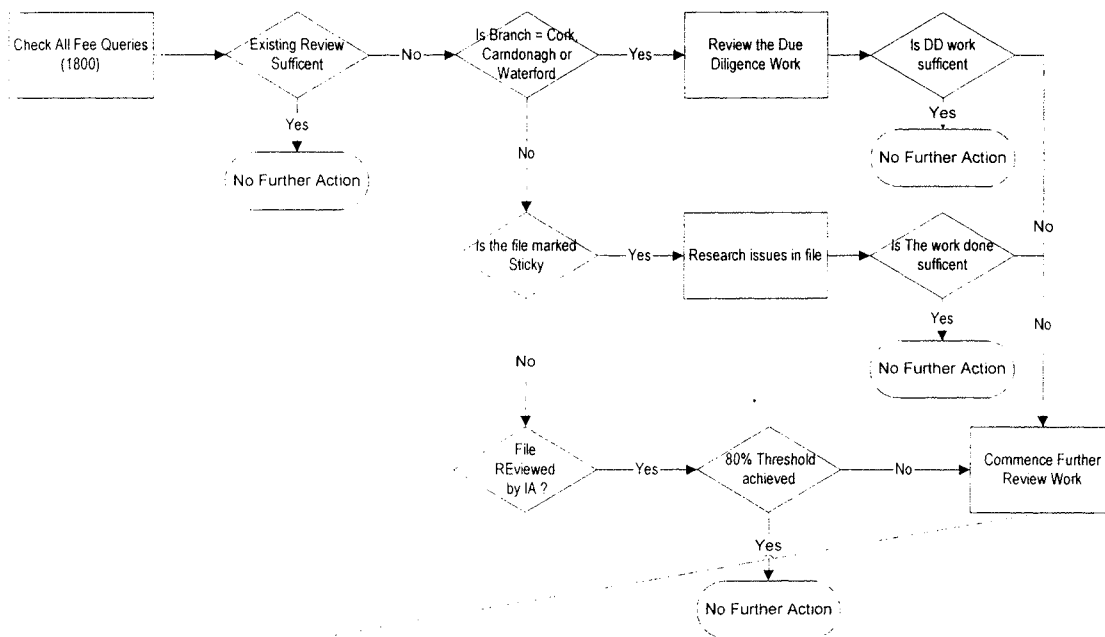
In addition to the testing conducted at a customer level, the outcomes of each branch will be benchmarked against the network as a whole to determine if there are any branches which will require more detailed examination.

Review Outputs

The results of the reviews will be reported to management and the anticipated outcomes are as follows:

- ❑ In cases where the text of any previous letter sent to customers did not accurately reflect the testing conducted, but that the account passes the review criteria, no revised letter will be sent to the customer.
- ❑ In cases where a customers fee, was not amended or where an amendment is adequately documented by the review, no further action will be taken.
- ❑ In cases where the review is unable to document the reason for an amendment, the customer will be passed into the normal refund process.

Appendix A



Appendix 18: Summary, changes at NIB since 1998

Appendix 18

SUMMARY, CHANGES AT NIB SINCE 1998

At the Bank's request, the Inspectors in October 2000 attended a presentation from senior executives of the Bank on changes in organisation, management and procedures since the appointment of the Inspectors.

The Inspectors were informed that many of these changes would have taken place as part of global developments in the National Australia Bank Group, but that there had been special emphasis on compliance issues in Ireland as a result of the news media reports of improper practice at NIB. Changes were outlined under a number of headings:

General

- The Board and senior management of the Bank have been re-organised.
- An early retirement scheme resulted in many managers aged 50 and over taking early retirement.
- All branch and business centre procedures manuals were reviewed, rewritten and reissued to branches between November 1999 and May 2000.
- Additional resources have been applied to training – including refresher training on Group values and ethics – supplemented by the appointment of three compliance training managers (former internal audit staff), with the role of inspection, coaching and reporting findings to senior management.
- New customer complaints procedures were launched in September 2000; a booklet is now displayed in branches entitled “Resolving your complaints”, outlining the Bank's procedures and setting out the role and address of the Banking Ombudsman.

DIRT exempt accounts

- Control of DIRT compliance, including the holding of records, was centralised in November 1998.
- The Bank's auditors in December 1998 compiled a new tax manual on all areas of taxation, including DIRT, sections of which were circulated to branches.
- A tax compliance manager has been appointed, responsible for co-ordinating all taxation initiatives in NIB.
- In May 1999, each branch was required to nominate a DIRT compliance supervisor as liaison with the central unit and as a local controller.
- Account opening procedures have been rewritten, and authorisation to assign tax exempt status is issued centrally, following review of documentation.
- Intensive training on account opening, non-resident requirements and SSA procedures took place in July and August 1999.
- Ongoing compliance is monitored by the compliance training managers.
- Non-financial amendments to non-resident accounts are centrally monitored for risk indicators of return to residence.

- Revised instructions and guidance on the six-monthly branch confirmations on non-resident accounts were issued in July 2000.

Financial Services

- New management appointments have been made, including the appointment of an Operational Risk and Compliance Manager who took over as Head of European Compliance in April 2000.
- The Compliance Manual, outlining all policies, procedures, and competence standards for staff has been rewritten.
- The complaint handling procedures have been upgraded.
- Offshore insurance policies are no longer sold.
- Current products have been examined for suitability and approval.
- A more detailed “factfind” has been introduced to establish the investment requirements of customers.
- Ongoing performance monitoring of investment advice in respect of new sales has been introduced.
- Staff remuneration is linked, *inter alia*, to compliance.
- There is additional emphasis on training and staff qualifications.

Special Savings Accounts

- Branch procedures have been simplified.
- The number of SSA products has been reduced.
- The SSA withdrawal process has been redesigned to include use of a multi-part withdrawal form.
- The branch is required to review SSA withdrawals each day to ensure no unexpected SSA withdrawals appear.

Interest adjustments

- Since November 1998, all quarterly interest charges have been pre-advised to personal customers.
- From August 1999, customers have been routinely advised where interest errors have occurred and the practice of retyping statements to hide such mistakes has been discontinued.
- Interest adjustments are shown separately on customer statements; from February 2001 a more detailed advice will identify standard and default charges.
- All interest amendments must be authorised by Area Managers.

Fee charging procedures

- The Fees and Costing Manual has been rewritten, setting out clear policy and procedural guidelines in relation to the application of operating fees, and was distributed to branches in April 2000.

- Training workshops have been held for branch staff.
- Quarterly charging instructions are routinely issued, referring branch staff back to the procedures manual.
- Compliance with fee charging procedures is now audited by non branch staff.
- Redesigned fee notices and leaflets have been made available in branches.
- Since August 1999, all fee adjustments have been entered on a summary form and overviewed by the branch manager and Area Manager, and copied to Head Office.
- All “end of period” amendments in excess of IR£10 are approved centrally.

Appendix 19: Copy Bank “Reaction Paper” dated 24 March 2004

– REACTION PAPER –

DATED 24 MARCH 2004*⁺

TO

DRAFT REPORT ON INVESTIGATIONS INTO THE AFFAIRS OF NATIONAL IRISH BANK LIMITED

AND NATIONAL IRISH BANK FINANCIAL SERVICES LIMITED

BY HIGH COURT INSPECTORS MR JUSTICE BLAYNEY AND TOM GRACE FCA

APPOINTED 30 MARCH 1998 AND 15 JUNE 1998

DATED 31 JULY 2003

^{*}Figures in table on page 4 revised on 26 May 2004

⁺Appendix V revised 26 May 2004 and on 25 June 2004

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Schedule VII	List of Regulatory Authorities who the Bank wish to be furnished with the High Court Inspectors’ Report (50)

REACTION PAPER

1. On 1 August 2003 the Joint Inspectors (the “Inspectors”) appointed by the High Court by Order dated 30 March 1998 to investigate the affairs of National Irish Bank Limited and by further Order dated 15 June 1998 to investigate the affairs of National Irish Bank Financial Services Limited delivered a draft document entitled “Report on Investigations into the Affairs of National Irish Bank Limited and National Irish Bank Financial Services Limited by High Court Inspectors Mr Justice Blayney and Tom Grace FCA appointed 30 March 1998 and 15 June 1998”, dated 31 July 2003 (the “Draft”) to National Irish Bank Limited (the “Bank”)¹. The Inspectors’ work deals with a ten year period from 1988 to 30 January 1998 (the “Investigation”).
2. Since 1 August 2003, the Bank has had the opportunity to consider the Draft.
3. The Bank was informed by the Inspectors that they proposed to finalise their report as soon as they received the Bank’s reaction to the Draft. It was explained to the Bank that the Inspectors’ final report would issue without further consultation with the Bank.
4. The Bank has, since receipt of the Draft, communicated with the Inspectors by letter, in meetings and by way of written papers delivered to the Inspectors. Details of these communications between the Bank and the Inspectors between 1 August 2003 and 5 February 2004 are set out in the attached Schedule I.
5. The media allegations that were the catalyst for the High Court ordering the Investigation suggested a failure by the Bank to operate appropriately in the retail banking market and in and about the provision of financial services and/or advice.
6. Given the fact that the Inspectors were charged to investigate allegations which span a timeframe from 1988 to 1998 and that they had powers to do so beyond any powers of the Bank, it was considered inappropriate to try to duplicate the Investigation. Rather, the Bank determined to review the retail banking operations and financial services and advice operations that were affected by the allegations to ensure that its business was equipped to operate as a fully functioning member of the Irish financial community and that it had systems in place which are in line with the appropriate standards. The Bank has sought to ensure that, going forward, events of the type suggested in the allegations could not occur. The Bank has also focused on addressing customer issues and settlement of liabilities with the Revenue

¹ This document represents the reaction of National Irish Bank Limited and National Irish Bank Financial Services Limited to the Draft referred to above.

Commissioners. The Bank explained this approach to the Inspectors in the course of their Investigation and the approach taken has been the subject matter of a number of presentations and documents delivered to the Inspectors. The first presentation was made by the Bank on 18 October 2000 and was summarised by the Inspectors at Appendix 18 of the Draft. After receipt of the Draft, the Bank made a further presentation to the Inspectors, on 10 December 2003, at which two documents were delivered to the Inspectors. The first outlined the “Policies and Controls in National Irish Bank as at December 2003 Relating to Matters under Investigation by High Court Appointed Inspectors” and is attached at Schedule II. As part of the same presentation to the Inspectors the Bank provided the Inspectors with a version of Appendix 18 of the Draft marked up to reflect the updated position since the first presentation had been made in October 2000. This is attached at Schedule III. In short, the documents provided to the Inspectors describe the implementation of structures and processes that have been designed to guard against activity of the kind described in the allegations. The Bank believes that its retail banking operation is now compliant with all appropriate laws, regulations and other codes governing banking practice.

7. In respect of allegations that interest bearing deposit accounts were wrongly designated² for the purposes of the deduction of Deposit Interest Retention Tax (“DIRT”) the Bank investigated and scoped the extent of this issue. The Bank also investigated and scoped the extent of the issue in respect of Special Savings Accounts (“SSA”s). Separately, an investigation was undertaken by a sub-committee of the Committee of the Public Accounts of Dáil Éireann (“PAC”) into the Bank and other financial institutions in the State on the subject of compliance with the legal regimes that governed DIRT and SSAs. In addition, the Revenue Commissioners carried out an investigation into the alleged failures to return DIRT and operate SSAs in accordance with the regulations governing such accounts. The Bank has co-operated fully with the Revenue Commissioners and the PAC and believes that it has settled all of its liabilities with the Revenue Commissioners that are asserted to flow from the inappropriate treatment of such accounts. Full details of the settlements are contained in Schedule IV.
8. The possibility that there were fictitious and incorrectly named accounts had been identified by the Bank prior to the appointment of the Inspectors. Such practices, which were unauthorised by the Bank, were always contrary to the Bank’s internal policies.
9. In respect of the allegations concerning the charging of fees or interest on retail bank accounts, the Bank decided that it was appropriate to review the account population affected by the

² These are sometimes called incorrectly classified non-resident deposit accounts.

allegations and to refund any charges that could not be justified by the review. An initial review dealt with specific allegations made. In response to the broader findings by the Inspectors a comprehensive new programme has been developed and is being applied. The Inspectors have been informed of the new programme and the principles it applies. By way of overview, this programme includes the assistance of two outside agencies to ensure objectivity and appropriate checks and balances to ensure its robustness. The details of this programme were notified to and explained to the Inspectors on 16 December 2003. This was followed by a written presentation to the Inspectors on 28 January 2004. The written presentation and the rollout of the programme is set out in Schedule V. The Bank offers this new programme as a proportionate and appropriate response to the issues that arise in respect of fees and interest allegations. The programme was a response to the Inspectors' findings in respect of the fees and interest matter. The objective of the programme is to ensure that the Bank retains no financial benefit from the deficiencies identified in the fees and interest charging practices.

10. Following the allegations, the Bank received complaints and set up a programme to address complaints by Irish resident customers who bought offshore products, commonly referred to as "CMI", through the Bank's former Financial Advice and Services Division in respect of losses arising as a result of sales by Bank employees to these customers. Details of this programme, which is ongoing and has been in operation since January 2001, are set out in Schedule VI.
11. On the appointment of the Inspectors the Bank committed itself to afford the Inspectors every assistance both in terms of encouraging its staff to give evidence to the Investigation and in terms of providing access to and copies of the Bank's documentation. The Bank would like to record its appreciation of the professionalism with which the Inspectors have dealt with it over the period of the Investigation and the understanding they have shown towards the logistical problems involved in dealing with the Inspectors' requests for information regarding matters that relate on many occasions to events that date back 15 years. As might be expected in such an extended investigation legal issues have arisen from time to time which have led to applications to Court in order to have those issues determined. The Bank hopes that its motives in seeking clarification of these legal issues will not be misconstrued. The Bank estimates that well in excess of 25,000 working days have been committed to assisting the Inspectors in the Investigation. The Bank considers it appropriate to commend the co-operation that its employees have given to the Inspectors.
12. The Bank accepts that it is right and proper that allegations that improper practices occurred in the Bank at times in the past be investigated. It is essential that an independent report be available to record this Investigation and to provide for closure on an unhappy chapter in the

Bank's history. When a report issues the Bank will ask that it be made available to all relevant regulatory authorities set out in Schedule VII.

13. The Bank's commitment to addressing the issues identified in the Investigation, as outlined in paragraph 6 above and in paragraph 14 below, has resulted in costs being incurred by the Bank together with further anticipated costs.

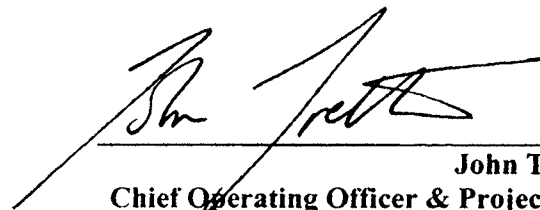
Area	Cost €m	Status	See Schedule
Revenue Audit DIRT/SSA Settlement	6.7	Paid	IV
Fees and Interest Refund Programme	1.9	Paid to date	V
Fees and Interest Refund Programme	<u>10.6</u> 12.5	Anticipated	V
Offshore Investors' Settlement Programme	8.9	Offers accepted	VI
Offshore Investors' Settlement Programme	<u>1.9</u> 10.8	Further offers made	VI
High Court Inspectors' Costs	5.3	Anticipated	----
Sub-Total	35.3		
Legal and Bank costs relating to investigations and programmes outlined above	28.7	Paid	----
TOTAL	64.0		

The costs of the fees and interest refund programme include an estimate of approximately €10 million in respect of the new programme referred to at paragraph 9 above and described in Schedule V. The final costs of this programme have not yet been quantified. Costs to date for the Offshore Investors' Settlement Programme reflect offers made to over 40% of the affected Bank customers.

The expense of engaging with the Investigation has been substantial. Whilst the terms of the report to the High Court remain to be finalised, the terms of the Draft are of the utmost gravity. Accordingly, the Bank's view is that the Taxpayer should not be liable for the Inspectors' costs and the Bank will, therefore, offer to discharge the Inspectors' reasonable

taxed costs of the Investigation. A provision of €5.3million in respect of those costs is shown in the above table.

14. The costs of the Investigation continue to escalate. The Bank is committed to such expenditure as is required to conclude these matters. This obligation is owed to its customers, its staff, the public at large and those responsible for its regulation. As stated in paragraph 6 above, the Bank and its owners believe that it is imperative that the Bank be restored as a fully functioning member of the Irish financial community. The Bank believes that the efforts described above are consistent with that goal.
15. It is a matter of the deepest regret to the Bank that during the period under investigation events took place which fell short of the standards customers and third parties dealing with the Bank were entitled to expect. The Bank is profoundly sorry that these events could have occurred, and apologises to all those who have been affected by these events. The Bank believes that the programmes put in place for those affected by reason of the practices described by the Inspectors have remedied or will remedy any disability they may have unfairly suffered as a result of the events described. The changes made in the operational structures of the Bank which have been explained to the Inspectors are designed to ensure that the Bank operates at all times to high standards of governance. The Bank considers that it is also appropriate to mark the debt it owes to its employees who have had to work under the shadow of the Investigation. Their dedication has been an essential building block in creating a new bank and maintaining customer confidence.



John Trethowan
Chief Operating Officer & Project Director
National Irish Bank

24 March 2004

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TO REACTION OF THE BANK DATED 24 MARCH 2004

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SCHEDULE I

LIST OF COMMUNICATIONS BETWEEN THE BANK AND THE INSPECTORS SINCE RECEIPT OF THE DRAFT ON 1 AUGUST 2003

1 CORRESPONDENCE

1 August 2003	Letter – Inspectors to Bank
23 September 2003	Letter – Bank to Inspectors
9 October 2003	Letter – Inspectors to Bank
15 October 2003	Letter – Bank to Inspectors
16 October 2003	Letter – Matheson Ormsby Prentice to Inspectors
16 October 2003	Letter – Matheson Ormsby Prentice to Inspectors
31 October 2003	Letter – William Fry to Matheson Ormsby Prentice
26 November 2003	Letter – Matheson Ormsby Prentice to Inspectors
28 November 2003	Letter – Matheson Ormsby Prentice to Inspectors
2 December 2003	Letter – Matheson Ormsby Prentice to Inspectors
5 December 2003	Letter – Inspectors to Matheson Ormsby Prentice
5 December 2003	Letter – Inspectors to Matheson Ormsby Prentice
15 December 2003	Letter – Matheson Ormsby Prentice to Inspectors
19 December 2003	Letter – Inspectors to Matheson Ormsby Prentice
7 January 2004	Letter – Matheson Ormsby Prentice to Inspectors
21 January 2004	Letter – Inspectors to Matheson Ormsby Prentice
2 February 2004	Letter – William Fry to Matheson Ormsby Prentice
5 February 2004	Letter – Inspectors to Matheson Ormsby Prentice

2 MEETINGS

16 October 2003	Meeting between Bank and Inspectors
14 November 2003	Meeting between Bank and Inspectors
10 December 2003	Meeting between Bank and Inspectors
16 December 2003	<p>Meeting between Bank and Inspectors</p> <p><i>Paper presented to the Inspectors: “Policies and Controls in National Irish Bank as at December 2003 relating to Matters under Investigation by High Court Appointed Inspectors”.</i></p> <p><i>Marked up version of Appendix 18 of the Draft provided to the Inspectors.</i></p>

28 January 2004	Meeting between Bank and Inspectors <i>Paper presented to the Inspectors: "National Irish Bank – Fees and Interest Refund Programme".</i>
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3 COURT APPEARANCES

4 November 2003	Matter mentioned in High Court before Kelly J
4 February 2004	Matter mentioned in High Court before Kelly J

SCHEDULE II

**“POLICIES AND CONTROLS IN NATIONAL IRISH BANK AS AT
DECEMBER 2003 RELATING TO MATTERS UNDER INVESTIGATION BY
HIGH COURT APPOINTED INSPECTORS”**

(PRESENTATION MADE TO THE INSPECTORS ON 10 DECEMBER 2003)

POLICIES AND CONTROLS IN NATIONAL IRISH BANK AS AT DECEMBER 2003

RELATING TO MATTERS UNDER INVESTIGATION

BY HIGH COURT APPOINTED INSPECTORS

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5	New Policy and Procedures	11

1 POLICIES AND CONTROLS RELATING TO DIRT

In December 1998 KPMG completed a review of all tax procedures at National Irish Bank. A Tax Policies & Procedures manual covering these processes was compiled and circulated to business units and branches. The manual is reviewed periodically in line with taxation changes with updates or new sections on DIRT, SSA, SSIA, TRS & Stamp Duties.

An experienced Chartered Accountant was appointed as Tax Compliance Manager for Ireland in October 2000. This senior manager is responsible for ensuring compliance with all product related tax legislation and plays a lead role in initiatives such as the introduction of TRS, and DIRT audits. The Operational Tax, Finance unit reports to him.

The Tax Compliance Manager ensures a focus on local taxation requirements and that all matters relating to tax are co-ordinated by one person. He has a dual reporting line to the Head of Financial Governance for National Australia Group in Europe and to National Australia Group's European Tax Management Function in London.

Controls

Control of DIRT compliance has been centralised to increase the level of control and specialist knowledge in those dealing with tax related matters.

The Operational Tax, Finance unit was set up in 1998. The Dublin unit comes under the supervision of an experienced manager who has undertaken this role for a number of years in Northern Bank. It deals with, or overviews most aspects of Non Resident Accounts (NR), Tax Relief Scheme (TRS) for Mortgage Interest, tax-concessionary savings products and the collection and administration of both Stamp Duty and Encashment Tax.

All declarations for NR, SSA and other tax-exempt accounts were centralised in this Unit by March 1999. A review of all Non Resident declarations was then carried out against account records using five basic checks:

- existence of form
- name
- address
- country
- signature verified

A check on the date of the declaration was subsequently added.

All SSA declarations were centralised in early 1999 and reviewed during Summer 1999 and checked for the following:

- existence of forms
- account name on form
- address on form
- signature

All Company, Charity and Pension Trust declarations (i.e.: DIRT Free or gross interest paying) were centralised during Autumn / Winter 1999 and checked for the following:

- existence of declarations
- Revenue letter held (*)
- Auditor letter held (*)

() certain declarations required a formal Revenue Commissioners' letter and / or Auditors letter to be attached. Note that Revenue have since advised that the requirement for these declarations and supporting letters has been removed.*

Subsequent Revenue initiatives such as management and control of Tax Relief Scheme (TRS) for Mortgage Interest, SSIA, Stamp Duty and Encashment Tax have also been placed with this Unit.

Control of DIRT processes was further tightened through a number of direct interventions:

- (i) In May 1999, each Branch was required to nominate a DIRT Compliance Supervisor (now known as Tax Compliance Supervisor) as a direct point of contact with Operational Tax, Finance. All Branches continue to have a nominated Official as a liaison point and a local controller. Since early 2001 Operational Tax, Finance has undertaken a series of presentations / workshops involving branch staff on operational tax issues e.g. SSIA training, TRS training, DIRT compliance. The latest formal training was undertaken during September 2002.
- (ii) Account opening procedures have been rewritten to ensure DIRT compliance and compliance with the Bank's Account Opening conditions (i.e. production of picture ID and proof of residential address). All accounts are now opened as tax paying until formal application to and approval from Operational Tax, Finance has been sought to treat as tax exempt. The option to amend an account flag to DIRT Exempt or SSA reduced DIRT rate status has been controlled centrally since May 1999.
- (iii) Since June 1999, Operational Tax, Finance monitors the report which details static amendments (non financial) transactions on Non-Resident accounts to ensure that no evidence of a return to resident status appears on the transaction profile of accounts (e.g. change of address). This has been extended to cover financial transactions since 15 April 2002.
- (iv) Procedures for dealing with transactions on SSA accounts at branch counters were also simplified to ensure compliance.
 - (a) The number of SSA products on sale in the Bank was reduced from 21 to 2 by end October 1999. Sale of these products was ceased under legislation at 5 April 2000.
 - (b) The SSA withdrawal process was redesigned to minimise risk of breach of 30-day notice. A new three-part form was introduced for SSA withdrawals in August 1999. This form is to give written notice of withdrawal and the top copy is retained by the Customer, the second part is retained by the Branch and the third part is sent to the Account Management Services (AMS) in Belfast, for the transaction to be completed in 30 days time. Since October 1999, DIRT Compliance Supervisors (with sign off by Branch Managers) are required to check the savings account withdrawals each day to ensure that no

unexpected SSA withdrawals appear. Where a customer makes a withdrawal and does not give the required notice, the account is closed. In Sept 2000 this monitoring was centralised in the AMS with new reports for AMS and Operational Tax, Finance.

- (c) A 'laminated guide' was produced for counter staff to assist them identify the 21 SSA products already in existence and to give guidance with procedures to be followed.
- (v) In June 2001 NIB introduced a €10,000 minimum balance for NR accounts. Any balances below that level become DIRT paying irrespective of residency status. A monthly review is carried out to identify and reset such accounts. If a customer subsequently wishes to have NR status restored he is required to complete a fresh declaration.
- (vi) For accounts above this €10,000 threshold which continue to enjoy tax exempt status, an exercise was carried out to validate the residency of these Non-Resident account holders. A small number that no longer warranted this status were revised to DIRT paying accounts. Following the "spring clean" of Non-Resident accounts a final settlement was agreed with the Revenue Commissioners for the period after the DIRT Audit i.e. 6 April 1999 to 5 April 2001.
- (vii) The current Revenue Commissioner DIRT Guidelines recommend that the Bank undertake an annual review of all our Non Resident customers. Within the current 2003 review, the Bank wrote to all Non Resident customers and requested them to confirm their status by signing and returning a declaration and also provide the Bank with copies of valid identification and valid proof of address. Circa 150 customers failed to reply to at least 2 letters and their accounts were reclassified to DIRT paying.

2 CMI – OFFSHORE INSURANCE

Where appropriate references have been included in the following text to the general principles and section numbers of the Central Bank of Ireland, Code of Conduct for Investment Business services of Credit Institutions, to show the standards that are now required.

Insurance and Investment Sales - Structure and Management

General Principle 1.1; acts honestly and fairly in conducting its investment business services in the best interests of its clients and the integrity of the market.

The Financial Advice and Services Division (FASD), responsible for the CMI sales, has ceased to exist. A new wealth management unit has been embedded into National Irish Bank, and is now run on common lines with similar businesses in National Australia Group's worldwide operation.

The long-standing Head of FASD left the Bank in November 1998. An experienced Senior Manager was put in charge of the unit, which was further strengthened by the appointment of an Operations Manager who previously had compliance responsibility for a similar unit in one of the Group's UK subsidiaries. Ongoing management is now the responsibility of the Head of IFA Sales (Europe) based in Glasgow. A Senior Manager from Clydesdale Bank Insurance Brokers has been engaged to provide guidance and support to the NIB Area Manager to further align NIB's processes with group practices.

The Unit's processes and practices are progressing towards full alignment with the standards set by the Financial Services Authority (FSA) in the UK environment. These have been tailored recently to ensure compliance with the Insurance Act requirements, introduced in April 2002, and are well placed to meet any further requirements of the emerging regulatory framework in the Republic of Ireland.

Products

General Principles 1.2; acts with due care skill and diligence in the best interests of its clients and the integrity of the market.

All Offshore Insurance products were withdrawn from sale in February 1998.

A Product Panel was set up in March 1999 and further revised in October 2001. Initially all existing products were reviewed and approved for sale by the panel. The product approval panel consists of the Area Manager, the Operations Manager and a legal representative. All new products are approved prior to sale.

All existing Agency Agreements with Insurance/Investment suppliers were revisited and approved by the Operations Manager and the Bank's Legal Department, and since March 1999 all new agency agreements are approved by both parties before any business is conducted

Policy and Procedure

General Principles 1.3; has and employs effectively the resources and procedures that are necessary for the proper performance of its investment business services.

Between January 1999 and April 1999 a Compliance Manual was introduced. This was followed by the introduction of manuals covering Competence Standards and a Training & Competence (T&C) Scheme. Together these manuals stipulate the standards to be followed by both sales and back office staff, and are fundamental to controlling the actions of the Financial Planning Managers. The Competence Standards manual and T&C scheme have now been merged into the current T&C scheme which is managed by the National Australia T&C Department based in Glasgow. The drafting of the revised policies and procedures was based on FSA standards applicable in the UK and meets regulatory requirements in the Republic of Ireland.

The Training and Competency Scheme is being aligned with that in place for UK based IFAs and the Compliance Manual has been revised to take account of the introduction of the Statutory Code of Conduct for Investment Business in Credit Institutions introduced in April 2002.

Operations

General Principles 1.3; has and employs effectively the resources and procedures that are necessary for the proper performance of its investment business services.

Management Information Systems (MIS) to monitor activity and adherence to standards have been reviewed and improved. This provides valuable control mechanisms to the management.

New procedures were introduced in April 1999 to govern how accounts are reconciled.

Updated MIS was implemented in October 2000. It provides information on:

- Products by Originating Company
- Business written by product type. E.g. Pensions, Savings, Protection Insurance
- Persistency levels. How many policies remain in force in the period following the sale

Since then further Key Performance Indicators have been introduced for example:

- Range of advice given by Financial Planning Managers
- Quality of fact finds and files submitted
- Fact Find completion standard reports
- Cancellation levels

Customer Complaint handling and tracking has been reviewed and improved. The complaint handling procedures were upgraded in April 1999 to FSA standards. Complaints have actually been few in number (fifteen in 1999, three in 2000, one in 2001 and two to the end of September 2002). All complaints are recorded on a central register, and are used as one of the Financial Planning Managers' key performance indicators.

Complaint resolution is managed by the T&C Department in Glasgow which seeks local input as required. All correspondence relating to complaints is overviewed, reviewed and managed by this department. The complaints process is in line with FSA standards:

- Acknowledgement of complaint issued within five days, setting out process and timescales that will be followed
- Letter updating client of progress issued one month after complaint

- Complaint investigated and outcome letter issued within two months

One complaint received in 2002 covers a service issue and the other relates to the performance of an investment set up about 18 months ago.

Sales Process

General Principle 1.4; seeks from its clients, other than execution only clients, information regarding their financial situations, investment experience and objectives as regards the investment business services requested.

A review of the existing Customer Factfind Document was completed in December 1998 and resulted in the introduction of a more detailed Factfind.

The pre December 1998 Customer Factfind document had two pages of questions for Customer's circumstances. The revised version gathered 12 pages of customer information and subsequently a further revision now requires up to 18 pages of customer information to support financial advice given. *(Knowing the Client, Section 5 of the 'Client Information Form'. There are two versions of this document: one for personal customers, the other for business customers.)*

Performance monitoring of investment advice was introduced in March 1999. Initially all new business cases were examined for the quality of the sales process and suitability of the financial advice given.

Since July 2000, having established that suitable standards were being consistently observed 10% sampling was introduced. Since then group standards have been introduced requiring 100% paper check and an additional monthly overview of two files per adviser based on a sample picked by Training and Competency in Glasgow. This review is carried out by the Area Manager, Financial Planning.

The Operations Manager also undertakes a monthly review of two files per Sales Support person responsible for processing advisers cases.

Staff

General Principles 1.3; has and employs effectively the resources and procedures that are necessary for the proper performance of its investment business services

New recruitment procedures were introduced in June 2000. These comprise the following requirements:

- Record of last 10 Years employment
- References from last two employers
- A supplementary questionnaire to ascertain fitness and propriety
- Formal interview
- Psychometric testing
- Role plays during the interview
- Induction training

An independent telephone interview is undertaken by an external company to assess sales skills. To date four new Financial Planning Managers have been recruited under this process.

Job descriptions were reviewed, re-written and re-issued in 1999. These are reviewed on an annual basis. All Advisers sign to agree their job description and Key Result (Performance) Areas (KRAs) on an annual basis. KRA's are reviewed quarterly.

The National Australia Group's performance appraisal system was introduced to the unit during 1999 and performance reviews are conducted quarterly.

A revised remuneration package for Financial Planning Managers (basic salary and bonus payment) was introduced in October 1999 and has been regularly reviewed since. All staff are appraised against the Group standard management framework and rewarded via the Group Performance Related Pay scheme.

Financial Advice and subsequent records must also pass a Compliance Overview before credit is made leading to possible bonus payments. Where a compliance issue remains outstanding, credit will not be given until the issue has been resolved.

The Unit has an objective to have all Financial Planning Managers accredited with the Life Insurance Association (LIA) Financial Planning Diploma (Three stages). This is the same standard as required by the UK's FSA, and exceeds the current requirements in the Republic of Ireland.

There are currently ten Financial Planning Managers and one Area Manager. Their accreditation status is as follows:

- six have full accreditation to Qualified Financial Adviser status
- one has accreditation to stage two
- four have accreditation to stage one

Although not a regulatory requirement all internal staff are required to commence studying the Financial Planning Diploma. Of the seven internal staff:

- Four have full accreditation to Qualified Adviser status
- One has accreditation to stage two
- Two have accreditation to stage one

Any new Financial Planning Managers must have stage one accreditation before joining the company and all Financial Planning Managers are required to work towards achieving full accreditation of Qualified Financial Adviser status.

As a minimum team meetings are held every two months for Financial Planning Managers at which Continuous Professional development is undertaken in line with LIA requirements (minimum 20 hours per annum). Within these meetings is a test to cover industry knowledge as well as procedures and practices in place within NIB Financial Planning Dept. Further enhancements to this process are being introduced from October 2002 which will include technical knowledge tests.

As well as bi-monthly formal team meetings, weekly telephone conferences are held with all Financial Planning Managers to review business.

3 INTEREST

In the case of interest charging the components are as follows:

- (a) A system generated calculation based on the uncleared debit balance on an account
- (b) Details of interest rates and margins agreed with the customer and input to the system
- (c) A facility exists to manually adjust the interest charge in exceptional circumstances

The computer system has satisfactory change control and testing procedures and the accuracy of the system generated fees and interest has never been in question. The risk of error is increased when the application of fees or interest involve a degree of manual intervention. Much effort has therefore been focussed on reducing the incidence of manual intervention while strengthening internal controls and overview where such intervention remains necessary.

Since 1998 all quarterly interest charges have been pre-advised for personal customers. Any manual interest adjustments are shown separately on the customer's statement and are advised in writing.

Interest Amendments

Since May 1999 all interest amendments have been overviewed by Area Managers.

The branch manager counter-signs all Interest Amendment Sheets at the time the interest amendment is raised. All Interest Amendments Sheets are then sent to the relevant Area Manager for authorisation.

The processing of interest amendments now takes place remotely from branches in the AMS. Any Interest Amendment Sheets that do not carry the authorisation of an Area Manager will be returned by the AMS unprocessed.

More comprehensive overview controls have been introduced to monitor fee and interest charging. These consist of:

- A control self assessment process carried out in each branch at least twice a year
- Inclusion in a structured Area Manager visit checklist where each branch is visited every 4 months.
- Themed review by Compliance Monitoring staff twice a year
- Inclusion in the annual Audit review of Personal Financial Services

In addition the Bank has engaged a firm of external economic consultants with experience in the settlement of customer compensation issues in a variety of jurisdictions, and has embarked on a major piece of work with their assistance to develop a comprehensive response, built on internationally accepted principles, which should enable final resolution to be achieved on these issues.

The Bank expects to make a separate submission on this response during January 2004 after consultation with the regulator.

4 FEES

The fee charging system until November 2002 had two main components:

- (a) A system generated amount based on the number of transactions on the account over the charging period. For personal customers this only applied where the account went overdrawn during the period.
- (b) A manually input 'Administration Time' element to cover a range of customer generated ancillary activities carried out in relation to the account.

The Bank obtained approval from the Director of Consumer Affairs to revise its fees from November 2002. Transparency was improved through a series of tariffs being introduced to replace the widespread use of Administration Time for ancillary activities. Administration Time is now an exceptional charge (e.g. discovering supporting account documentation for Court cases for customers), and is only applied with the authorisation of senior management and billed to the customer with full details of the charge provided.

Procedures

To ensure that the Administration Time charging was more effectively controlled in the period 1998 to 2002 a number of measures were taken. The Fees and Costings Manual was rewritten in mid 1998 based on the existing procedures in Northern Bank, and setting out clear policy and procedural guidelines for the application of Fees. The updated Branch Procedures Manual was distributed to all Branches in April 2000.

Two series of training workshops were held based in each of the three Retail Financial Segment's Areas for staff nominated by Area Managers. This training included the proper use of codes identifying the reason for administration time charges to improve transparency.

As a further reminder detailed procedural instructions have been sent to all branches in advance of each fee and interest charging date.

Transparency

Fees have been pre-advised in detail to Customers since 1996. This industry wide enhancement has significantly enhanced the transparency of fees for Customers.

Fee leaflets, which were always available in NIB branches, were re-launched in October 1998 as 'Clear and Simple'.

There are currently three separate Clear and Simple Brochures in the Branches:

- Commercial Schedule
- Personal Schedule
- Guide to explaining our fees

In addition we currently have 5 notices displaying our Fees and Charges in branches:

- Information on Fees and Charges
- Fees and Charges for Personal Customers
- Fees and Charges for Business Customers

- Bank Service Charges X2

Controls

Fee Amendments (1998-2002)

Fee amendments, primarily resulting from the application of Administration Time, were processed quarterly.

The Branch Manager had discretion to waive fees below €15. Above this amount authorisation of Area Manager/Head of Retail Bank was required. From January 2003 this discretion was increased to €50.

All fee adjustments were entered onto a summary form and overviewed by the Area Manager, and copied to the Retail Bank Segment programme office. This process was introduced in August 1999.

Since June 1999 Administration Time input sheets are keyed in the (back office) Account Maintenance Services (AMS) centre for Ireland in Belfast. The Administration time input sheets are also retained there for future enquiry, if required. The AMS also monitor for the excessive use of Category 99 – unspecified general categorisation for adjustments. In certain cases to facilitate the quarter end fee charging, Branches may still key Fee amendments.

Present Situation

From November 2002, the widespread use of Administration Time was discontinued, as more transparent specific tariffs were introduced. Fees comprise the system generated transaction fee, charged quarterly, and specific tariffs for other services charged at the time the service is provided and described on the Customers statement. At the same time the branch manager's discretion to waive fees was increased to €50.

5 NEW POLICY AND PROCEDURES

As part of the overall compliance review completed during 1998/99, a weakness was identified in relation to the maintenance of the Branch Procedures Manuals. Prior to the compliance review, manuals had been updated on an ad-hoc basis and at the time of the review, the manuals were found to be out of date.

Following the findings of the compliance review all Retail Financial Services (branch) procedures manuals were reviewed, rewritten and reissued to branches.

Ongoing maintenance of the manuals is the responsibility of Operations Support. Maintenance is completed on a rolling basis with procedural change initiatives being introduced by circular initially and then updated in the manuals at the time of the next update.

Procedural manuals have been drafted for the business units and issued to relevant staff.

Since 1998 the following have been reviewed and rewritten:

- Tax Compliance Manual
- Human resources Manual
- Lending Manual

Controls

In September 1999, following the concentrated training focus on DIRT exempt and SSA account standards, it was decided to supplement the directional approach given in this training and in the new procedures issued, by providing intervention on the ground to ensure that the instructions were being fully adhered to.

A Senior Manager who had previously been in charge of Northern's Branch network, was deployed to conduct follow up visits of NIB branches to ensure that this training had been cascaded and that all members of staff had understood and were putting into practice the procedures.

In Oct 1999, this Senior Manager was joined by three ex-Internal Audit Staff who were deployed to review the Branches. The scope of these reviews was broadened to cover other processes that the bank wanted additional assurance on.

More recently these three staff have been absorbed into the Compliance Function and still carry out periodic reviews of high risk processes.

Business Excellence Achiever is a control self-assessment programme deployed throughout the National Australia Group. Managers are required to complete a suite of programmes at predefined intervals throughout the year. Area/Regional Managers are required to overview their managers' returns and the whole process builds to a total bank view on key risk areas, which highlights relative strengths and weaknesses and prompts actions for improvement at all levels.

A new and enhanced reporting format was introduced in July 2000 initially covering quarterly reporting of results. This quarterly reporting was supplemented with monthly reporting during August 2000.

A legal compliance programme is now in place with Legal Compliance Co-ordinators in each business unit. This programme raises awareness of legislative requirements across the

business and changes to that framework. It involves a quarterly compliance sign off by each business unit.

Staff

Policy

As part of the continuing harmonisation of organisational structures across the National Australia Group consistent job titles and role descriptions have been adopted in NIB. These role descriptions are in day to day use for performance appraisal purposes, and for job advertisements. Many European Group jobs are advertised to NIB personnel and certain NIB jobs are routinely advertised to staff across the European Group.

To provide closer alignment with Group employment practices the NIB staff contracts have been reviewed and updated.

Training and Development

The Bank is absolutely committed to the provision of training and development of our people as can be seen from the range of activities and programmes which have been implemented over the last four years.

An Induction course was introduced in January 1999, which welcomes new entrants into NIB and National Australia Group. The course covers key regulatory and legislative requirements such as Money Laundering and Health & Safety at Work. It also includes training on the Group values.

During 1999 standardised training was introduced using European Group Training resources. Three local trainers were assigned to NIB's retail network to provide ongoing training programmes backed up by additional resources from the European Group training pool. Courses in 1999 included Consumer Credit Act, Money laundering and DIRT Compliance, Appraisal Skills and Performance Management Skills as well as a range of more specific topics covering branch activities such as Practical Cashiering, Foreign Cashiering and Autowaste or Data processing skills.

In 2000, the Group's Global Employee Opinion Survey highlighted a demand for a structured, competency based approach to training which would better prepare staff to carry out their roles effectively. Also during this time, the Group's business model moved to a new segmented structure with retail job roles and responsibilities split into Personal and Business segments.

In response to this and to support staff through this major change initiative, the Leadership Team initiated a major Training Standards initiative to support one of its core values- "the growth and development of our people".

Using the standardised role descriptions previously described, a training needs analysis was completed for all Personal and Business segment jobholders by the European Training Function and the Segment Programme Offices. The roles and responsibilities of these newly defined roles were used as a basis for defining the key competencies required for effective performance and for developing a set of clear Training Standards for each role.

These Standards are divided into three stages - Pre-Appointment; Role Development and Coaching; Continuous Personal Development. Training Standards for each role are consistent in format and cover the following areas:

- Service and sales
- Compliance policy and procedures
- Technical and core skills

The introduction of these new standards was supported to a new rolling 90 day plan approach to the prioritisation, planning and delivery of training linked to either:

- Large scale business needs as determined by the leadership team e.g. money laundering or DIRT compliance training
- Induction training of new entrants
- Existing job holders performance reviews and personal development requirements

The training plan is reviewed monthly at leadership team level and remains flexible to accommodate the changing needs of NIB staff.

After extensive consultation with staff and line managers, these Training Standards were rolled out to NIB staff in January 2001 and have been the basis for all Learning and Performance Improvement initiatives since.

Also in January 2001, a new Sales Training & Competency Scheme for employees involved in front line sales was launched providing an accreditation approach to development in the areas of:

- Generic knowledge- e.g. Mortgage Advice and Processing;
- Bank specific knowledge e.g product knowledge and policies and procedures; and
- Essential skills e.g. financial needs analysis, interviewing credit skills etc.

Access to all of the above development is now provided in the following ways:

- Face to face training delivered by the Group's Learning and Performance Improvement Training Delivery team- comprising 9 mobile trainers operating across Ireland at dedicated training sites in Belfast and Dublin and regionally at selected external "hub" locations
- Self- directed learning using distance learning materials ordered direct from the Group's Learning and Performance Improvement Distance Learning Catalogue
- Self development and private study for specific examinations prescribed by the Institute of Bankers in Ireland or other approved further and higher education providers
- In the line coaching by line management or designated coaches/mentors
- Ad hoc face to face training or coaching sessions delivered by specialist support areas such as the Bank's Credit, Money Laundering and Operational Risk and Tax Unit teams

The above approach has created a performance focussed approach to training and development across the business. It has also enabled staff and people leaders to understand their roles better and to access development opportunities to empower them to carry out their roles and responsibilities more effectively. This opportunity is further reinforced through use of post training action plans which require delegates to review their learnings with line management and to agree how they will be afforded the opportunity to apply their learning back in the workplace.

Leadership development

Most of the training and development in the past two years has been directly linked to line management's nomination of staff for the various training solutions detailed in the Training Standards. However this has been supplemented by other training and coaching, delivered to line management to develop their people leadership and management skills and to support the Group's strategic "Managing People Better" Programme.

This programme is designed to improve the leadership behaviours of staff with people leadership and performance management responsibilities and to define common standards of self-conduct, coaching and teamwork.

Specific training initiatives delivered to support this programme during 2001/2 are as follows:

- Skillsmasters Coaching for line managers in Personal and Business Financial Services
- Appraisal training for line managers in Personal Financial Services
- Negotiation Skills
- High Performance Leadership- including leadership, coaching, facilitation skills, change management
- Performance Management Framework – the performance cycle, consultative performance reviews and improvement planning and individual development plans
- Equal Opportunities training for people leaders
- Behavioural Event Interviewing capability and IBEC training for Managers involved in recruitment and selection interviewing

NATIONAL IRISH BANK

10 December 2003

SCHEDULE III

“SUMMARY, CHANGES AT NIB SINCE 1998” – UPDATE TO APPENDIX 18 OF DRAFT

(PRESENTATION MADE TO THE INSPECTORS ON 10 DECEMBER 2003)

**APPENDIX 18 OF THE HIGH COURT INSPECTORS DRAFT REPORT
DATED 31 JULY 2003**

**ADDITIONAL INFORMATION BY WAY OF UPDATE
HIGHLIGHTED AS MARKED ON INSPECTORS APPENDIX**

APPENDIX 18

SUMMARY, CHANGES AT NIB SINCE 1998

At the Bank's request: the Inspectors in October 2000 attended a presentation from senior executives of the Bank on changes in organisation, management and procedures since the appointment of the Inspectors.

The inspectors were informed that many of these changes would have taken place as part of global developments in the National Australia Bank Group, but that there had been special emphasis on compliance issues in Ireland as a result of the news media reports of improper practice at NIB. Changes were outlined under a number of headings:

General

- The Board and senior management of the Bank have been re-organised.
- An early retirement scheme resulted in many managers aged 50 and over taking early retirement.
- All branch and business centre procedures manuals were reviewed, rewritten and reissued to branches between November 1999 and May 2000.
- Additional resources have been applied to training including refresher training on Group values and ethics - supplemented by the appointment of three compliance training managers (former internal audit staff), with the role of inspection, coaching and reporting findings to senior management.
- New customer complaints procedures were launched in September 2000; a booklet is now displayed in branches entitled "Resolving your complaints" outlining the Bank's procedures and setting out the role and address of the Banking Ombudsman.

DIRT exempt accounts

- Control of DIRT compliance, including the holding of records, was centralised in November 1998.
- The Bank's auditors in December 1998 compiled a new tax manual on all areas of taxation, including DIRT, sections of which were circulated to branches.
- A tax compliance manager has been appointed, responsible for co-ordinating all taxation initiatives in NIB.
- In May 1999, each branch was required to nominate a DIRT compliance supervisor as liaison with the central unit and as a local controller.
- Account opening procedures have been rewritten, and authorisation to assign tax exempt status is issued centrally, following review of documentation. **Branch staff are no longer able to open a tax exempt account without the authorisation of the central unit.**
- Intensive training on account opening, non-resident requirements and SSA procedures took place in July and August 1999.
- Ongoing compliance is monitored by the compliance training managers.
- Non-financial amendments to non-resident accounts are centrally monitored for risk indicators of return to residence.
- Revised instructions and guidance on the six-monthly branch confirmations on non-resident accounts were issued in July 2000.

- A EUR10,000 floor has been implemented for non resident deposits and all non resident declarations over this sum have been collated and audited for accuracy and technical completeness.
- The Bank agreed and paid a settlement to the Revenue of EUR6.66 million in October 2000. This covered the period from 06 April 1986 to 05 April 1999. In respect of DIRT liabilities further payments of EUR13,000 and EUR63,000 were made in April 2001 and January 2002 covering 06 April 1999 to 31 December 2001.

Financial Services

- New management appointments have been made, including the appointment of an Operational Risk and Compliance Manager who took over as Head of European Compliance in April 2000.
- The Bank has created a new team for selling wealth management products. All members of this sales team, its management, and many of the back office staff carry accreditation from the Life Assurance Association.
- The Compliance Manual, outlining all ~~pro~~ducts, procedures and competence standards for staff has been rewritten.
- ~~The complaint handling procedures have been upgraded.~~ In January 2001 the Bank put in place a customer complaints resolution scheme. This scheme is ongoing. To date EUR7.81 million has been accepted by complainants.
- Offshore insurance ~~pro~~ducts are no longer sold and the Financial Advice and Services Division (FASD) which sold the products has also ceased to exist.
- Current products have been examined for suitability and approval.
- A more detailed “factfind” has been introduced to establish the investment requirements of customers.
- Ongoing performance monitoring of investment advice in respect of new sales has been introduced.
- Staff remuneration is linked, inter alia, to compliance.
- There is additional emphasis on training and staff qualifications.

Special savings Accounts

- Branch procedures have been simplified.
- ~~The number of SSA products has been reduced.~~ SSAs were discontinued by legislation on 05 April 2000.
- ~~The SSA withdrawal process has been redesigned to include use of a multi-~~ For all existing SSAs a three part withdrawal form was introduced.
- The branch is required to review SSA withdrawals each day to ensure no unexpected SSA withdrawals appear.
- The 30 day notice period and transactions are processed by the Account Maintenance Service Centre.
- The Bank paid a settlement of EUR505,000 to the Revenue on 19 October 2000. This was acknowledged by the Revenue on 26 October 2000. This EUR505,000 formed part of the EUR6.66 million Revenue settlement outlined in the DIRT section above.

Interest adjustments

- Since November 1998, all quarterly interest charges have been pre-advised to personal customers.
- From August 1999, customers have been routinely advised where interest errors have occurred and the practice of retyping statements to hide such mistakes has been discontinued.
- Interest~~Interest~~ All proposed interest adjustments are shown separately on customer statements; ~~from February 2001 a more detailed advice will identify standard, and default charges and customers are advised of interest due before it is charged.~~
- All interest amend~~ment~~adjustments must be authorised by Area Managers and performed remotely from branches by the Bank's Account Administration centre.
- All underlying papers supporting adjustments are stored, for the required period at the Administration centre to answer any future customer queries.
- 483 refunds have been made to customers, which total EUR665,000 including multiplier.

Fee charging procedures

- A series of new specific tariffs for various ancillary services were agreed with the Director of Consumer Affairs in November 2002. The Administration time fee charge is now included in these tariffs for ancillary services.
- The Fees and Costing Manual has been rewritten, setting out clear policy and procedural guidelines in relation to the application of operating fees, and was distributed to branches in April 2000.
- Training workshops have been held for branch staff.
- Quarterly charging instructions are routinely issued, referring branch staff back to the procedures manual.
- Compliance with fee charging procedures is now audited by non branch staff.
- Redesigned fee notices and leaflets have been made available in branches.
- Since August 1999, all fee adjustments have been entered on a summary form ~~and overviewed by the branch manager and Area Manager, and copied to Head Office.~~ All proposed adjustments must be authorised by area managers and performed remotely from branches by the Bank's Account Administration centre.
- All fee adjustments are shown separately on customer statements and customers are advised of fees before these are charged.
- All underlying papers supporting adjustments are stored, for period required by statute, at the Administration centre to answer any future customer queries.
- All "end of period" amendments in excess of IR£10 are approved centrally.
- 953 fee refunds have been made to customers, which total EUR995,000 including multiplier.

SCHEDULE IV

SETTLEMENT DETAILS –

DEPOSIT INTEREST RETENTION TAX

AND

SPECIAL SAVINGS ACCOUNTS

DEPOSIT INTEREST RETENTION TAX – PAYMENTS TO REVENUE COMMISSIONERS

The Bank believes that it has settled its liabilities in respect of DIRT completely. Following Revenue Commissioners audits, the Bank made the following settlements:

PERIOD	AMOUNT
6 April 1986 to 5 April 1999	€6,700,000
1999/2000	€13,000
2000/2001	€7,000
Year ending 2001 (see below)	€63,000

DEPOSIT INTEREST RETENTION TAX- PROCEDURAL CHANGES

Control of DIRT compliance, including the holding of all records, was centralised in November 1998. In December 1998, the Bank's external auditors compiled a new tax manual on all areas of taxation, including DIRT, the relevant sections of which were circulated to branches. A tax compliance manager was appointed, responsible for co-ordinating all taxation initiatives in the Bank. In May 1999, each branch was required to nominate a DIRT compliance supervisor as liaison with the central unit and as a local controller. Account opening procedures were rewritten, and authorisation to assign tax exempt status is now issued centrally, following central review of documentation. Branch staff are no longer able to open a tax exempt account without the authorisation of the central unit. Intensive training on account opening, non-resident requirements and SSA procedures took place in July and August 1999. Ongoing compliance is monitored by the compliance training managers. Non-financial amendments to non-resident accounts are centrally monitored for risk indicators of return to residence. Revised instructions and guidance on the six-monthly branch confirmations on non-resident accounts were issued in July 2000.

In June 2001, a €10,000 floor was implemented for non-resident deposits. As a result of this, the non-resident DIRT-exempt population fell from 10,000 accounts to 2,500 accounts. Each of the 2,500 accounts were scrutinised by the Bank. 193 of them were re-classified, and an additional €63,000 payment was made to the Revenue Commissioners, in the normal DIRT return for the tax year ending 31 December 2001. The Revenue Commissioners are now aware of this payment. The Bank await confirmation that this issue is now settled.

SPECIAL SAVINGS ACCOUNTS - PAYMENTS TO REVENUE COMMISSIONERS

A settlement of €505,000 was made with the Revenue Commissioners on 19 October 2000 and acknowledged by the Revenue Commissioners on 26 October 2000. This settlement arose from the lack of documentation relating to the SSA declarations and the lack of documentation to demonstrate compliance with the notice period. This €505,000 forms part of the €6.7 million settlement with the Revenue Commissioners referred to in the DIRT section above.

SPECIAL SAVINGS ACCOUNTS – PROCEDURAL CHANGES

Since 1998, branch procedures have been simplified. No new SSAs could be opened on or after 6 April 2001, following from the 2001 Finance Act. For all existing SSAs, a three part withdrawal form was introduced. Intensive training on account opening, non-resident requirements and SSA procedures took place in July and August 1999. Each branch is required to review SSA withdrawals each day to ensure no unexpected SSA withdrawals appear. The 30 day notice period and transactions are processed by the Account Maintenance Service Centre.

SCHEDULE V**

NATIONAL IRISH BANK “FEES AND INTEREST REFUND PROGRAMME”

(PRESENTATION MADE TO THE INSPECTORS ON 28 JANUARY 2004)

* Figure on page 4 of Section I revised on 26 May 2004

+ Schedule V was further revised on 25 June 2004, as follows:

- Section II, paragraph 1.4;
- Section III, paragraph 1.1;
- Section III, paragraph 2;
- Chart entitled “*An overview of the fee refund proposal*”.

NATIONAL IRISH BANK

– FEES AND INTEREST REFUND PROGRAMME –

28 JANUARY 2004

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SECTION I

GENERAL

1 INTRODUCTION

From early 1998 the Bank's focus on interest and fees issues centered on the alleged practices identified in media reports. This involved focusing initially on the specific media allegations and branches identified. If this work indicated the likelihood of similar issues existing in other branches and time periods, the work was then extended to include investigations of those branches and other periods. To date, the Bank has made over 1,400 refunds of interest and fees to customers at a cost of €1.9 million as a result of that work.

The Joint Inspectors appointed by the High Court (the "Inspectors"), expressed opinions in their draft report (the "Draft Report") to the effect that the work undertaken to date by the Bank did not adequately address the historical deficiencies in practices and processes referred to in the Draft Report.

In light of the views expressed by the Inspectors, and on reconsidering the decisions underlying its previous approach, the Bank has devised a further programme of work and refunds on which it has sought independent verification. This document describes that programme.

The Bank believes that this programme is an appropriate response to the issues identified. The Bank believes that the programme demonstrates, beyond any doubt, its commitment to the highest standards of corporate responsibility.

2 BACKGROUND

The issues identified by the media and reviewed by the Inspectors and the Bank, relate to manual amendments applied to the computer-calculated fees and interest charges. The Bank is satisfied, and the Inspectors note, that no issues have been identified in respect of the actual computer calculation of these charges.

It is important to note that manual amendments to computer-calculated fees at quarter ends were an approved and necessary Bank practice during the period under investigation for applying charges in respect of a number of activities not logged and captured by the

computer system such as management time for loan applications and cash handling. In this context the amount referred to at Section II, 1.3 below in respect of fee amendments must not be misconstrued as quantifying the amount of non-validated charging. As explained below, manual amendments to computer-calculated interest at quarter ends were also an approved and necessary Bank practice during the period under investigation.

3 **PRINCIPLE BASED APPROACH**

The Bank is now adopting a principle of paying away¹ in respect of manual amendments to the computer-calculated charges. Effectively this is a principle whereby the Bank, where it cannot or decides not to attempt to validate manual amendments, or a portion of them, will refund all sums in respect of these amendments. In addition, the Bank will pay interest on all such sums to reflect the time value of money.

The Bank will only treat a manual amendment as validated if the manual amendment can be explained by reference to chargeable activities identifiable from existing Bank records. The Bank has adopted this approach because a considerable volume of activity for which changes could be levied are no longer visible to the validation process.

The Bank has also made a decision not to attempt to validate manual amendments in certain circumstances, described at Section II, 1.1 below. In respect of fees the Bank has set a threshold for manual amendments of €13, below which it will make automatic refunds. This threshold captures two-thirds of all manual amendments in respect of fees. The Bank expects the cost of this category of refund to exceed €4.5 million (including interest).

The fact that the Bank does not validate these manual amendments does not mean that they are actually overcharges. Rather, the Bank has adopted this policy of automatic refunds of manual fee adjustments less than or equal to €13 to economise on the costs of implementing the programme, such as the costs of researching the circumstances of individual manual adjustments.

In an overall context, especially in the circumstances now facing the Bank, paying away is a proportionate and principled approach. The result of adopting this approach is that

¹ This principle is also known as disgorgement.

the Bank will pay an amount equal to all of the manual amendments that have not been validated by a combination of direct refunds to customers and a final payment to charity.

The programme is described in further detail in Section II of this paper. Schedules 1 and 2 provide a diagrammatic description and more detail on the method and implementation of paying away.

4 EXTERNAL ASSISTANCE

The Bank has engaged the services of two major firms of external advisers to assist in developing and rolling out the programme on interest and fees.

Lexecon Limited, a firm of economic specialists with experience in complex customer settlement processes in a variety of jurisdictions, have endorsed the principle-based approach and advised on its appropriateness. In light of the remaining uncertainty surrounding the extent of the historical deficiencies identified, Lexecon have advised on the key principles underpinning the programme and are currently providing expertise in modelling and statistical sampling techniques.

In addition, Deloitte have been engaged to provide an independent review of the Bank's implementation of the programme and to report on their work.

5 REGULATOR

The Irish Financial Services Regulatory Authority has been kept informed of the overall shape and direction of the Bank's responses to these issues, and the Bank will be keeping the regulator fully briefed on progress which will include facilitating meetings between IFSRA and the two firms of external advisers.

SECTION II

THE PROGRAMME

1 FEES

The Bank's programme on fees will adhere to the principle of paying away described above.

The Bank has adopted the following approach to manual amendments to fees:

- Under €13 per quarter threshold

The Bank will carry out no validation work. It will make automatic refunds to customers of all such known amendments; where the customer cannot be traced, payment will be made to charity. The Bank will also make a payment to charity to cover an estimate of the amendments under €13 for which records no longer exist.

- Above €13 per quarter threshold

Lexecon will select a random sample of such amendments and the Bank will then research the circumstances of the amendments in the sample to estimate the average portion of such amendments that cannot be validated. This sample average will then be used in estimating the total amount to be paid away in connection with manual amendments above the €13 threshold.

1.1 Previous Approach

The Bank's initial work, as described in The National Irish Bank March 1999 Report on Fee and Interest Amendments, did not examine any amendments which added IR£3 or less to a fee. This threshold was set because the Bank chose not to devote resources to examining amendments which the Bank judged were highly likely to be justifiable because IR£3 represented, at an hourly charge of IR£10, less than 20 minutes of administration time over a three month period. The alternative approach, described above, now means that these charges will automatically be refunded.

1.2 New Threshold of Below €13

The Bank has decided to refund amendments below €13 automatically without any attempt to validate the amendment. This approach goes beyond what would be required under the paying away principle.

The approach will also address any possible improper charging of administration time or manual amendments applied for any other reason. Refunding all manual amendments under €13 does not mean that all of these amendments are overcharges. However, the high volume, and low value, of these amendments, would make an audit of these uneconomical.

Manual amendments under the €13 threshold will be dealt with in two ways, depending on whether records remain in existence or not, as follows:

1.2.1 Data available – Automatic Fee Refunds

Where a record exists of a manual amendment of €13 or less, (the rounded equivalent of IR£10), the amount of the manual amendment will be refunded to customers directly. Where the average value, during the period of investigation, of all known amendments on an account is under €13, all such amendments will also be refunded directly, including some which may exceed €13. As a consequence:

- Approximately two-thirds of the total known population of individual manual fee amendments during the period under investigation, approximately 200,000, will be dealt with by automatic refunds.
- Approximately 43,000 customers out of a population of circa 60,000² will receive full refunds of all their known amendments.

Interest at the relevant DIBOR/Euribor rates will be added to the amounts refunded.

² For the period being dealt with in this programme, November 1987 to May 1996, the Bank has records of approximately 60,000 individual accounts to which a manual fee amendment was applied at least once during the period.

1.2.2 Data not available – Payment to Charity

Where data are no longer available the Bank will set aside a further amount to be paid in respect of amendments below the threshold. The amount set aside will be based on modelling work to be completed by Lexecon.

Interest at the relevant DIBOR/Euribor rates will also be added to this additional amount. The total plus interest will be set aside for a payment to charity.

1.3 Cost of Refunds in this Category

The total cost of both of the above refunds in the below €13 category is expected to exceed €4.5 million (including interest).

1.4 Above €13 Threshold

The Bank has captured data in respect of over 100,000 manual amendments above the €13 threshold with a total value in excess of €10 million.

The Bank's programme in relation to manual amendments above the €13 threshold will involve the following steps:

- Lexecon will select a random sample of manual fee amendments over €13. The manual amendments selected by Lexecon will be evaluated by the Bank to determine the extent to which they can be validated from surviving records.
- Using the results of the sample audit work, Lexecon will calculate the proportion of manual fee amendments from the random sample that cannot be justified. This sample proportion will then be applied to the total population of known manual amendments above €13 to provide an estimate of the total value of non-validated fee amendments.
- Lexecon will decide whether it is necessary to perform more sophisticated statistical modelling to allow for the possibility that the proportion of unjustified amendments may have varied across branches and over time.
- This estimate of the total non-validated amendments falling within this category will then be set aside to cover individual refunds or payments to charity.

- Based on additional modelling work by Lexecon, the Bank will set aside a further amount to refund in the manner detailed to cover branches or quarters for which data are no longer available.
- Interest at the relevant Dibor/Euribor rates will be added to the combined totals to arrive at the Bank's total payment in respect of higher value amendments.
- This total amount, which represents transactions that cannot be allocated to an identified customer in respect of a named transaction, will be placed in an escrow account.
- All customer accounts impacted by fee amendments over €13, including those which were represented in the sample, will be reviewed in detail by the Bank. Where these amendments cannot be justified from surviving records, refunds will be made directly to the customers concerned, while any amount left after all customer payments have been made, will be paid to charity.
- Deloitte will provide an independent review of the criteria and evidence used to validate the sampled data, and report on the Bank's implementation of the sampling plan and its outcomes. A diagrammatic description of the various elements of the Bank's response to the fees issues is attached at Schedule 1.

1.5 Availability of Data

1.5.1 Background and Data Capture

The lapse of time, the volume of transactions and the gaps in critical records have impacted on the work on both fees and interest but have been more significant in relation to fees.

1.5.2 Data available

A major data collection exercise has been undertaken to capture the value of manual amendments to fees. This has involved using the surviving quarterly Fees to be Applied Reports and Fees Applied Reports, which are the key records of manual fee amendments. This data collection exercise has:

- Estimated that 75% of all possible data for the years under inspection is available to the Bank.

- Identified approximately 300,000 fee amendments from the available data (being 75%). These fee amendments total in excess of €12 million.

1.5.3 Data not available

A further exercise was then carried out to estimate the total population of all such fee amendments to include those in branches or quarters for which data no longer exist. Preliminary work by Lexecon estimates the total amount of manual fee amendments for the period under investigation is approximately €16 million. This represents approximately 25% of the Bank's total retail fee income over this period. Lexecon expects to refine this estimate further in the future using a variety of modelling techniques.

2 INTEREST

The interest programme is also based upon the principle described above and comprises two basic elements:

- Specific customer refunds.
- Sample-based refunds and payments to charity.

2.1 Validation of all end of quarter manual interest amendments

Specific customer refunds in respect of all end of quarter manual interest amendments will be established by the following:

- A comprehensive review will be carried out of all quarter end manual amendments to interest applied in all branches for all the quarters under investigation.
- The review will be sourced from the interest income account within the Bank's general ledger records of each branch.
- The review will cover all manual amendments to interest at quarter end dates during the period under investigation, i.e. approximately 11,000 transactions, an average of 4–5 per branch per quarter.
- The majority of such amendments will relate to charges for placing cheques in suspense.

- The exercise will address all such instances as well as amendments for any other reason.
- Each amendment will be validated by reference to available evidence against what the Bank could properly have charged as interest, and refunds will be made to the extent that any amendment cannot be validated.
- Interest at the relevant Dibor/Euribor rates will be added to each refund.
- Before specific customer refunds are made, the Bank will ensure that the customer had not already received an appropriate refund based on previous work carried out.
- Deloitte will be providing an independent review of the implementation.

2.2 Interest amendments at account closures

Sample-based refunds will be made in relation to manual amendments to interest on account closures. An extensive review of manual interest amendments applied on account closures at dates other than normal quarterly charging dates has already been carried out. This work:

- Covered approximately 50% of all such closures during the investigated period.
- Reviewed approximately 44,000 account closures.
- Identified interest amendments cannot now be justified from available records. These interest amendments total €33,000, which equates to an “error rate” of less than 1%.

The Bank will use the outcomes of this detailed review as a basis for estimating possible overcharges in the balance of manual interest amendments on account closures, which have not been reviewed in detail. Thus, the Bank intends to set aside a further €33,000 plus an amount representing the time value of money, and include this amount in the total payment by the Bank to charity.

A diagrammatic representation of all the above is included at Schedule 2.

SECTION III
DESCRIPTION OF ROLLOUT AND TIMELINES

1 DISCHARGE OF COMMITMENT

The Bank's total payment arising from the programme described in this paper is illustrated in the Schedules.

1.1 Refunds

The total amounts payable will be discharged in three tranches. The first is a series of specific customer refunds arising from the separate responses ('Tranche 1'). The second is a further series of specific customer refunds arising from the detailed review of all remaining customer accounts, i.e. those impacted by fee amendments over €13 ('Tranche 2'). The third will be a further payment to charity if there is a balance remaining after the Tranche 2 customer payments have been made ('Tranche 3').

The customer refunds in Tranche 1 will include:

- All specific interest refunds arising from the review of quarter end amendments together with any other quantified refunds from previous work (such as refunds arising from the review of account closures already carried out).
- All fee amendments below the €13 threshold to existing customers and former customers whose address details can be confirmed.
- A payment to charity in respect of the estimated fee amendments under €13 in periods for which data are no longer available and in respect of the estimate of possible interest overcharges at account closure.

Interest included in the refunds will, in all cases, be calculated up to the date of payment.

2 CUSTOMER ENQUIRIES

Although no action is required to be taken by customers under the programme, a customer contact line will be set up to help current and former customers register any concerns regarding fees and interest charges during the period 1988-1998. The contact line will also be available for former customers to confirm their current contact details.

3 TIMELINES

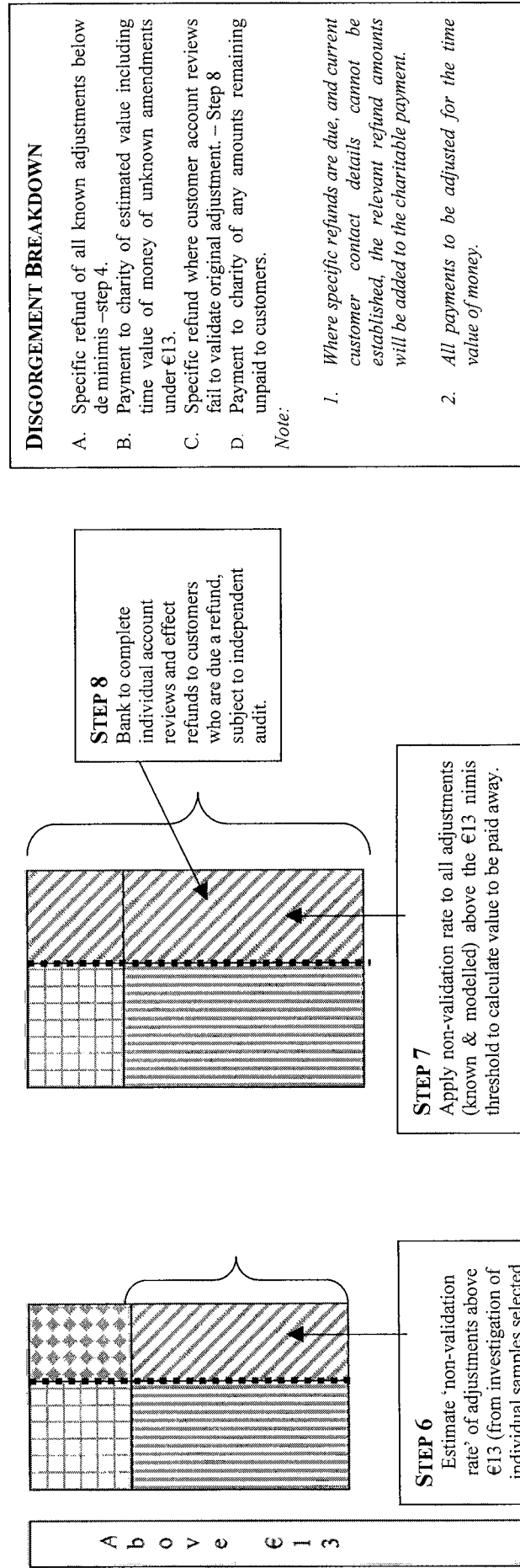
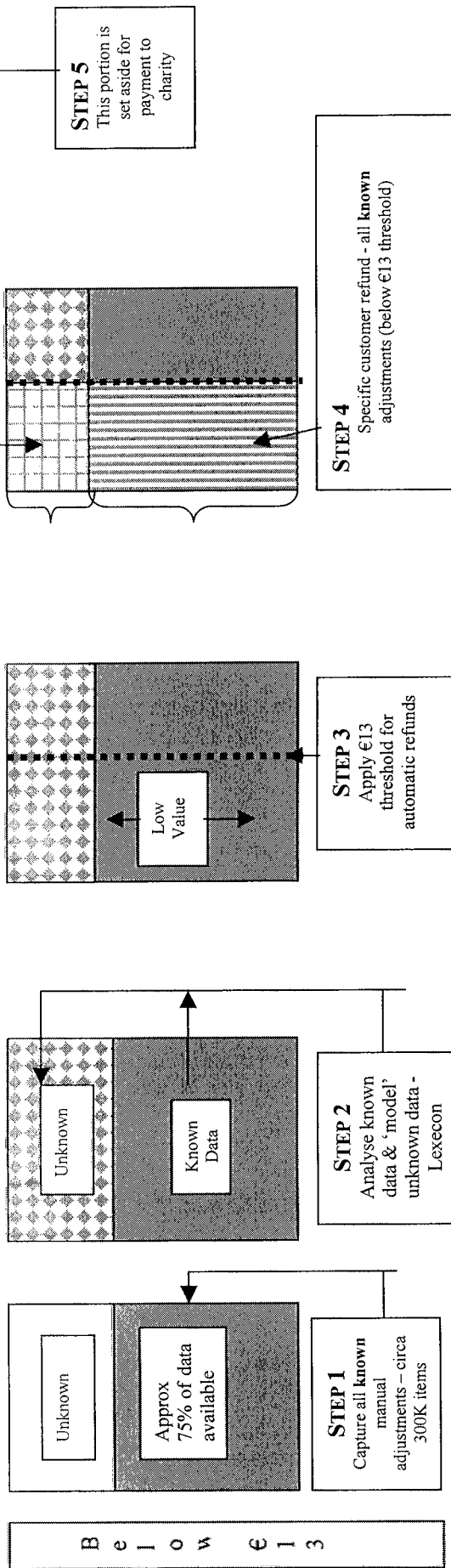
The Bank intends, as far as possible, to roll out the customer refunds as part of a single coordinated programme and to have Tranche 1 completed by 30 September 2004. Following completion of Tranche 1, the Bank expects that it will take a further year to complete Tranches 2 and 3.

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An overview of the fee refund proposal

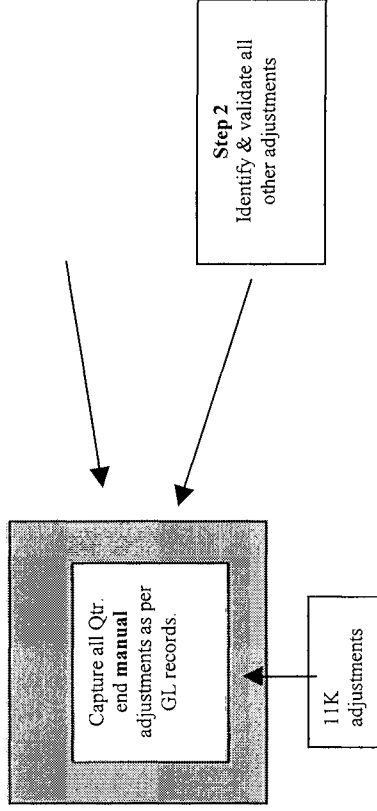
SCHEDULE 1



An overview illustration of the Interest Refund Programme

SCHEDULE 2

Quarter end adjustments to interest

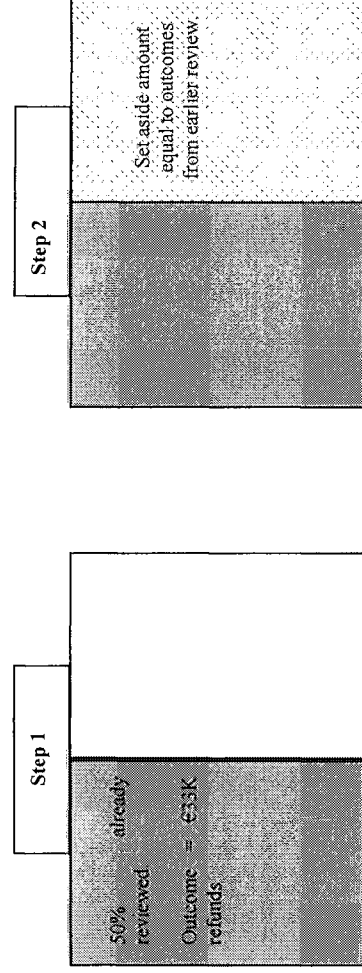


- Breakdown of amounts to be paid away**
1. Specific refund of all adjustments for 'cheque in suspense' charge not validated per qtr. end review.
 2. Specific refund re all other adjustments not validated per qtr. end review.
 3. Specific refund re overcharges arising from account closure review.
 4. Payment to charity of equivalent amount (€33K) from account closure review.

Note:

1. Where specific refunds are due, and current customer contact details cannot be established, the relevant refund amounts will be added to the charitable payment.
2. All payments to be adjusted for time value

Adjustment to interest on account closure



SCHEDULE VI

PAYMENTS TO CUSTOMERS AND PROCEDURAL CHANGES IN RELATION TO OFFSHORE INVESTORS' SETTLEMENT PROGRAMME

SETTLEMENT DETAILS – PAYMENTS TO CUSTOMERS

Following the emergence in 1998 of issues in respect of the sale of products provided by Clerical Medical International, Scottish Provident International and Old Mutual International, the Bank decided that the best approach would be to confront the issues raised and propose a programme of redress to deal with complaints by Irish resident customers.

In January 2001, the Bank wrote to 478 customers advising them of a process it had set up, by which they could make a claim in respect of complaints against the Bank and, if appropriate, receive compensation from the Bank. In establishing the process, the Bank has offered customers an alternative to litigation, avoiding the need for court proceedings. The Bank reviews the information received from each customer and assesses the amount due to the customer in order to place the customer in the position he/she was in prior to investing in an offshore product. It is important to note that the Bank does not address any previous tax issues which investors may have had prior to investing through the Bank. Any such issues would be a matter between the customer and the Revenue Commissioners.

To date, approximately €8.9 million has been paid out to customers under this process. A further €1.9 million worth of offers have been approved, and it is hoped these will be accepted by customers in the near future. As the process is ongoing, a further amount will be paid to customers in addition.

PROCEDURAL CHANGES

All offshore insurance policies were withdrawn from sale by the Bank in February 1998. The division which sold the policies has been reorganised and is under new management with experience in financial services compliance. All policies and procedures have been strengthened and updated to comply with the current regulatory framework in Ireland.

SCHEDULE VII

LIST OF REGULATORY AUTHORITIES WHO THE BANK WISH TO BE FURNISHED WITH THE HIGH COURT INSPECTORS' REPORT

Regulator	Jurisdiction
Irish Financial Services Regulatory Authority (IFSRA)	Ireland
Financial Services Authority (FSA)	UK
Australian Prudential Regulatory Authority (APRA)	Australia
Reserve Bank of New Zealand (RBNZ)	New Zealand
Office of the Comptroller of the Currency (OCC)	USA
The Federal Reserve (FED)	USA
The Financial Supervision Commission (FSC)	Isle of Man