

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

CONTENTS

	<u>Page No</u>
Reaction Paper	(1)
Index of Schedules	(6)
Schedule I	List of Communications between the Bank and the Inspectors since receipt of the Draft on 1 August 2003 (7)
Schedule II	“Policies and Controls in National Irish Bank as at December 2003 Relating to Matters under Investigation by High Court Appointed Inspectors” (9)
	Presentation made to the Inspectors on 10 December 2003
Schedule III	“Summary, Changes at National Irish Bank since 1998” - Update to Appendix 18 of Draft (26)
	Presentation made to the Inspectors on 10 December 2003
Schedule IV	Settlement Details – Deposit Interest Retention Tax and Special Savings Accounts (31)
Schedule V	“National Irish Bank Fees and Interest Refund Programme” (33)
	Presentation made to the Inspectors on 28 January 2004
Schedule VI	Payments to Customers and Procedural Changes in relation to Offshore Investors’ Settlement Programme (49)
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.

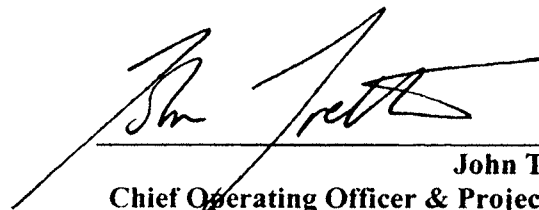
Area	Cost €m	Status	See Schedule
Revenue Audit DIRT/SSA Settlement	6.7	Paid	IV
Fees and Interest Refund Programme	1.9	Paid to date	V
Fees and Interest Refund Programme	<u>10.6</u> 12.5	Anticipated	V
Offshore Investors' Settlement Programme	8.9	Offers accepted	VI
Offshore Investors' Settlement Programme	<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

INDEX OF SCHEDULES

TO REACTION OF THE BANK DATED 24 MARCH 2004

SCHEDULE I	List of Communications between the Bank and the Inspectors since receipt of the Draft on 1 August 2003
SCHEDULE II	<p>“Policies and Controls in National Irish Bank as at December 2003 Relating to Matters under Investigation by High Court Appointed Inspectors”</p> <p>Presentation made to the Inspectors on 10 December 2003</p>
SCHEDULE III	<p>“Summary, Changes at National Irish Bank since 1998” - Update to Appendix 18 of Draft</p> <p>Presentation made to the Inspectors on 10 December 2003</p>
SCHEDULE IV	Settlement Details – Deposit Interest Retention Tax and Special Savings Accounts
SCHEDULE V	<p>“National Irish Bank Fees and Interest Refund Programme”</p> <p>Presentation made to the Inspectors on 28 January 2004</p>
SCHEDULE VI	Payments to Customers and Procedural Changes in relation to Offshore Investors’ Settlement Programme
SCHEDULE VII	List of Regulatory Authorities who the Bank wish to be furnished with the High Court Inspectors’ Report

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>
-----------------	--

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

CONTENTS

Page No

1	Policies and Controls Relating to DIRT	1
2	CMI – Offshore Insurance	4
3	Interest	8
4	Fees	9
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~~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~~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

CONTENTS

	Page No
Section I.....	4
General	4
1 Introduction	4
2 Background	4
3 Principle based approach.....	5
4 External Assistance.....	6
5 Regulator.....	6
Section II	6
Section II	7
The Programme.....	7
1 Fees.....	7
2 Interest	11
Section III	12
Section III	13
Description of Rollout and Timelines	13
1 Discharge of Commitment	13
2 Customer Enquiries	14
3 Timelines.....	14
Schedule 1: An overview illustration of the Fee Refund Programme	16
Schedule 2: An overview illustration of the Interest Refund Programme	16

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

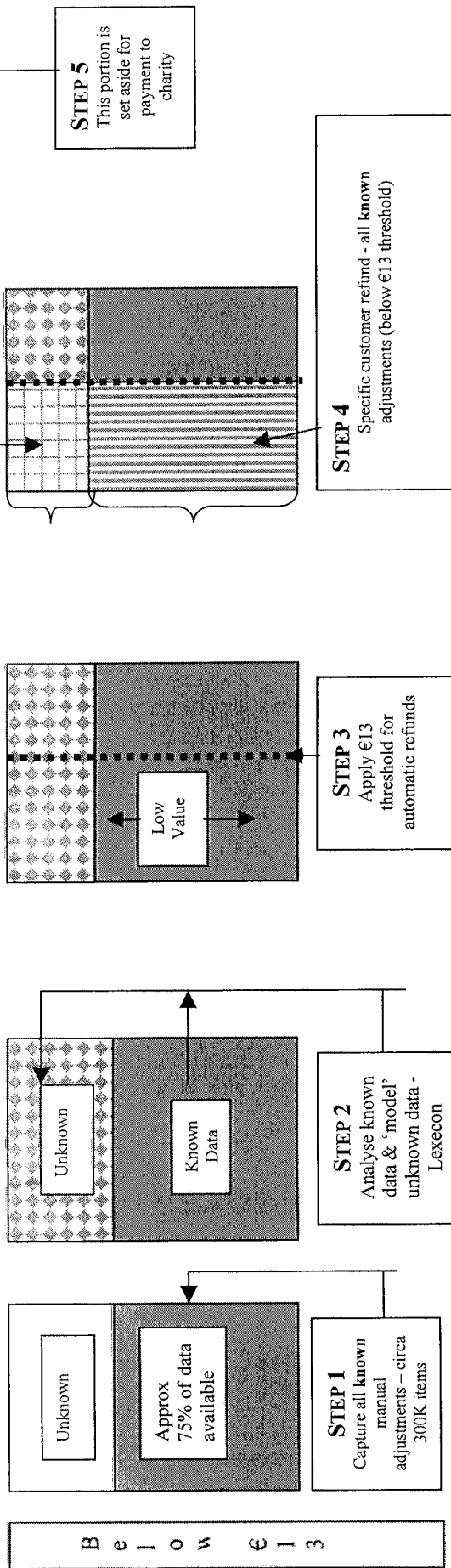
The Bank intends, as far as possible, to roll out the customer refunds as part of a single coordinated programme and to have Tranche 1 completed by 30 September 2004. Following completion of Tranche 1, the Bank expects that it will take a further year to complete Tranches 2 and 3.

NATIONAL IRISH BANK

28 JANUARY 2004

An overview of the fee refund proposal

SCHEDULE 1



DISBURSEMENT BREAKDOWN

- Specific refund of all known adjustments below de minimis – step 4.
- Payment to charity of estimated value including time value of money of unknown amendments under €13.
- Specific refund where customer account reviews fail to validate original adjustment. – Step 8
- Payment to charity of any amounts remaining unpaid to customers.

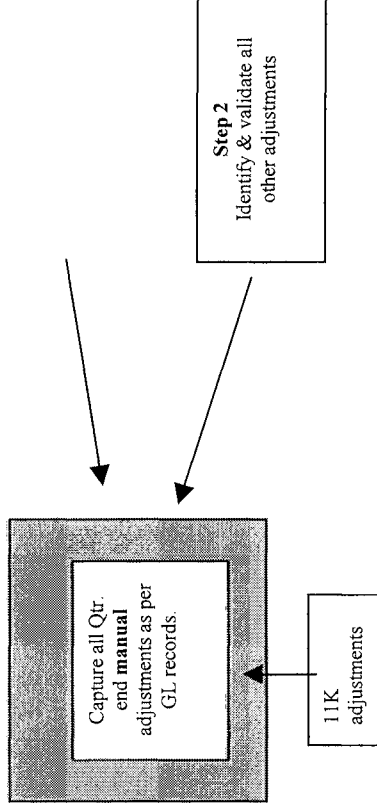
Note:

- Where specific refunds are due, and current customer contact details cannot be established, the relevant refund amounts will be added to the charitable payment.
- All payments to be adjusted for the time value of money.

An overview illustration of the Interest Refund Programme

SCHEDULE 2

Quarter end adjustments to interest

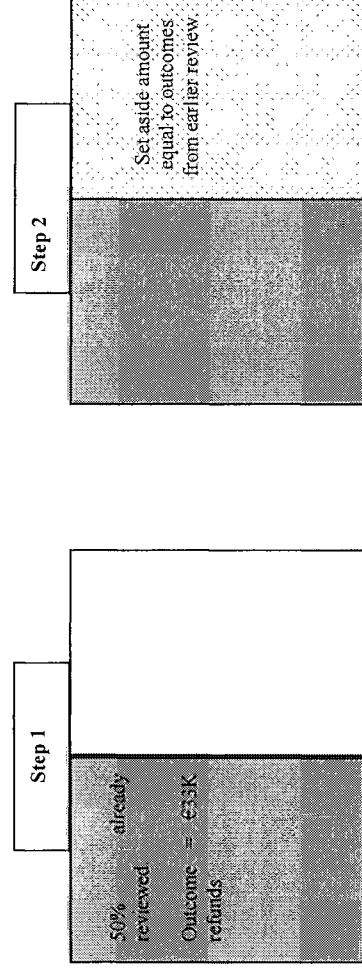


- Breakdown of amounts to be paid away**
1. Specific refund of all adjustments for 'cheque in suspense' charge not validated per qtr. end review.
 2. Specific refund re all other adjustments not validated per qtr. end review.
 3. Specific refund re overcharges arising from account closure review.
 4. 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