

Irish Bank Resolution Corporation Limited
(in Special Liquidation)



Progress update report

5 May 2017

Important notice



This report has been prepared for the Minister for Finance following consultation with the Department of Finance and in response to a request for a detailed update report made under Section 17 (c) of the Ministerial Instructions issued on 7 February 2013.

Our work on Irish Bank Resolution Corporation Limited (In Special Liquidation) ("IBRC in SL") commenced on 7 February 2013 on the appointment of the Special Liquidators. This report covers the period 1 January to 31 December 2016 (unless otherwise stated) and is an update to the progress report issued on 27 May 2016.

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Nothing in this Report constitutes legal advice. Where legal issues are discussed, the information is only intended to be of a general nature and not a full review of the issues covered.

This engagement is not an assurance engagement conducted in accordance with any generally accepted assurance standards and consequently no assurance opinion is expressed.

Glossary of terms



a/c	Account	IT	Information Technology
ALG	A&L Goodbody	JDH	Joshua Dawson House
Anglo	Anglo Irish Bank	m	Million
Bn	Billion	NAMA	National Asset Management Agency
CBI	Central Bank of Ireland	NDA	Non Disclosure Agreement
The Commission	The Commission of Investigation	NTMA	National Treasury Management Agency
CSO	Central Statistics Office	ODCE	Office of the Director of Corporate Enforcement
DGS	Deposit Guarantee Scheme	PAYE	Pay As You Earn
DOF	Department of Finance	PSWT	Professional Services Withholding Tax
DPC	Data Protection Commissioner	Q	Quarter
DPP	Director of Public Prosecutions	RCT	Relevant Contracts Tax
DSAR	Data Subject Access Request	ROI	Republic Of Ireland
ELG	Eligible Liability Guarantee	SL	Special Liquidation
FCA	Financial Conduct Authority	SLA	Service Level Agreement
FX	Foreign Exchange	SLs	Special Liquidators
HR	Human Resources	SMU	Service Management Unit
IBRC	Irish Bank Resolution Corporation Limited	TME	Tracker Mortgage Examination
IBRC in SL/The Bank	Irish Bank Resolution Corporation Limited (in Special Liquidation)	US	United States
IBRC Act/The Act	Irish Bank Resolution Corporation Act 2013	VAT	Value Added Tax
IBRCAC	IBRC Assurance Company Limited		
INBS	Irish Nationwide Building Society		

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Eamonn Richardson Restructuring <i>Partner, Dublin</i> Tel: + 353 1 410 1344 Fax: + 353 1 412 1344 eamonn.richardson@kpmg.ie	

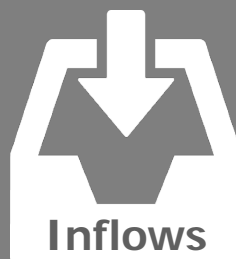
Executive Summary





Cash inflow and outflow summary (12 months to 6 February 2017)

Net customer loan and derivative receipts
Litigation settlement
Loan sale



Inflows

€84 m



Outflows

€393 m

Unsecured creditor interim dividend

Settlement of hedging derivative contracts

Costs of liquidation

Administrative expenses

NET CASH AT 6 FEBRUARY 2017



€1.919 bn

Tasks to completion



Over the past 12 months, the SLs have progressed the outstanding litigation and commenced payment of the first interim unsecured creditor dividend. A number of key tasks remain.



Liquidity management of €1.919 billion



On-going management of wind down process



Liquidate remaining subsidiaries



Manage remaining loan book of €3.7 billion



Sell remaining IBRC assets



Conclusion of Tracker Mortgage Examination



Continue to manage on-going litigation



Comply with Directions from Commission of Investigation



Complete creditor adjudication process

Executive summary



Area	Summary
Asset realisations	<ul style="list-style-type: none"> ■ Completed the sale of Project Delta, resulting in the transfer of all relevant data and security to the purchaser. ■ Sale of a substantial commercial asset located in the US by an IBRC subsidiary.
Finance	<ul style="list-style-type: none"> ■ Liquidity management of €1.9 billion. ■ Management of remaining assets on the balance sheet. ■ Manage hedging of Sterling and US dollar exposures. ■ Preparation and submission of updates and other reports to DOF, CBI and CSO. ■ Continued oversight of group rationalisation of subsidiaries and support in the orderly winding up or sale of these entities. ■ Oversight of the creditor adjudication process.
Regulatory, Operations and HR	<ul style="list-style-type: none"> ■ Continue to manage the remaining loan book of approximately €3.7 billion which contains a small number of connections with assets in various jurisdictions which remain with IBRC due to on-going litigation. ■ Loan Management Team has reduced from 8 to 5 as a number of agreed repayment plans and enforcement strategies have now been agreed. ■ All on-going litigation and enforcement strategies continue to be managed and progressed. ■ Continue to engage with borrowers to agree and implement full debt repayment proposals. ■ A total of 78 credit submissions were considered at Supervisory Committee bringing the total since the SL to 4,015. ■ Day to day operations management continues to reduce in line with wind down– ongoing support for Residual Loan Management, Data Subject Access Requests, requests for release of security, support to eDiscovery, remediation projects and unsecured creditor team. ■ Successful relocation of KPMG Team and remaining IBRC staff from Joshua House, Dawson Street to Kings Building, Church Street completed in August 2016. ■ There are currently 7 IBRC employees remaining as at February 2017. ■ The last remaining employee pension scheme was wound up in 2016.
IT	<ul style="list-style-type: none"> ■ Managed Services outsourcing project complete and contract negotiations concluded with IBRC and the chosen service provider in September 2016. Transition of all IT Services to the service provider was completed in November 2016. Governance and Service Delivery processes have been established and are now operating business as usual. ■ Remaining IBRC IT staff completed their employment at the end of September 2016, following successful skills and knowledge transfer to KPMG resources or to the IT Managed Services Provider. ■ Planned migration of IBRC/SL electronic data to a new storage platform by 31 December 2017 with overall approach agreed with the Office of the DPP. ■ Data migration project will be subject to a stringent migration strategy and will ensure the integrity and continued accessibility of IBRC/SL' s structured and unstructured electronic data.



Area	Summary
Creditor adjudication process	<ul style="list-style-type: none"> ■ Approximately 3,000 claims have been received. ■ 2,100 have been reviewed and adjudicated. The remaining 900 are being reviewed or have been reviewed and are being queried with the potential creditor. ■ The team are continuing to work with the work-stream dealing with potential interest overcharging. ■ There are a number of creditor claims where further legal or tax advice is being sought and these claims will be finalised when the advice has been received.
Legal	<ul style="list-style-type: none"> ■ 11 new sets of proceedings noted from 1 January to 31 December 2016. ■ On-going management of approximately 175 sets of legal proceedings including ongoing active and inactive cases. ■ Dealing with DPP requests and provision of documentation in the context of criminal investigations/prosecutions. ■ 25 sets of proceedings are concluded with some minor final issues to be dealt with. ■ Substitution is underway in 40 cases. ■ Responded to 35 DSARs in 2016.
Tracker mortgage examination ("TME")	<ul style="list-style-type: none"> ■ CBI issued a notice pursuant to Section 22 of the Central Bank (Supervision and Enforcement) Act 2013. ■ This required IBRC to comply with the CBI's TME. ■ A Core project team and Project governance has been established. ■ Plan for delivery submitted to CBI on 28 October 2016. ■ Data extraction process from the IBRC systems to determine the in scope population commenced. ■ Pilot projects performed for both INBS and Anglo loan books to validate proposed approach. ■ First submission made to CBI with preliminary in-scope population on 23 December 2016. ■ The TME is scheduled to complete by 31 May 2017. ■ Current estimates indicate that there are less than 50 impacted customers.



Area	Summary
Interest remediation project	<ul style="list-style-type: none"> ■ Project Commenced May 2016 with Phase 1 completed on 10 March 2017. ■ Phase 1 involved: <ul style="list-style-type: none"> ■ Identification of relevant population of potentially impacted customers. ■ Retrieval and manual review of approximately 200,000 documents to confirm whether loans were in/out of scope. ■ Approximately 95% of all impacted customers are now confirmed in scope, currently equates to approximately 6,500 customers with approximately 20,000 loans. ■ Development of Affidavit to seek Court Directions to confirm certain rules and assumptions within the Interest Overcharge refund rules and calculations. Court Directions confirmed on 5 December 2016. ■ Design, build and test of a Case Management Tool (CMT) to manage the workflow of remediation and communications activity; and ■ Significant level of external legal advice to support key decisions. ■ Project has now moved into Phase 2 which will involve: <ul style="list-style-type: none"> ■ Remediation and communication of refunds to relevant affected customers. This is due to commence in the coming months. ■ Engagement with NAMA and third parties who acquired loans from IBRC.
Commission of Investigation	<ul style="list-style-type: none"> ■ 3 further Directions were issued by the Commission to the SLs since the last report. ■ Approximately 8,908 documents (46,739 pages) have been produced and provided to the Commission to date. ■ A total of approximately €0.6 million plus VAT in time costs were incurred for the period 1 February 2016 to 31 March 2017. Legal costs for the SLs legal advisors for the same period amounted to approximately €0.1 million plus VAT. ■ The SLs will continue to comply with all Directions and continue to provide all possible assistance to the Commission in order to allow it to carry out its functions.
Dividend payment	<ul style="list-style-type: none"> ■ A 25% interim dividend commenced being paid to admitted unsecured creditors in December 2016. ■ A catch-up payment will be made on a quarterly basis for unsecured creditors who are admitted in the quarter. ■ It is still expected that the eventual unsecured creditor dividend will be in the range of 75% to 100% subject to a number of assumptions. ■ Unsecured creditors will be entitled to 2.8% interest on outstanding amounts up to the date of liquidation.



Area	Summary
Key tasks to completion	<ul style="list-style-type: none">■ Manage remaining loan book of approximately €3.7 billion and realise other assets.■ Continue to manage wind down of remaining operations.■ Liquidation of remaining subsidiary interests.■ Complete creditor adjudication process.■ Comply with Directions issued by the Commission of Investigation.■ Complete interest overcharge remediation project.■ Complete the TME.■ Continue to manage and support all Criminal, Civil, DSAR and Commission of Investigation eDiscovery requests made in IBRC.■ Resolve outstanding tax issues in Ireland and the UK.■ Continue to manage on-going litigation and any new litigation which may arise.■ Continue to liaise with the CBI and NTMA to clear the remainder of the deposit accounts for payment.■ Complete all statutory liquidation matters.

**Creditor
adjudication
process**



Creditor adjudication process: key highlights



- 1** The creditor adjudication process which began in September 2014, is ongoing and claims continue to be assessed.
- 2** Approximately 3,000 claims have been received in total of which 2,100 claims have been adjudicated.
- 3** An interim dividend payment of 25% to agreed creditors commenced in December 2016. There will be a catch-up payment on a quarterly basis as claims are adjudicated upon and agreed.
- 4** The remainder of claims have been reviewed and are in progress or they are being queried with the creditor.

Creditor adjudication process: overview



Key actions/achievements

- Letters were sent to all known unsecured creditors of IBRC seeking claims.
- Advertisements were placed in newspapers in Ireland, the UK and the US.
- A dedicated helpdesk and email box was set up and the email box continues to deal with queries and accept supporting documentation.
- Every single claim submission is reviewed by the unsecured creditor team. Given the diversity in the nature of claims, the unsecured creditor team consults widely with relevant IBRC staff to get further information and confirmations necessary in relation to claims.
- IBRC systems are utilised to obtain any available background documentation in support of the claim.
- Employee files were reviewed and details of employee unsecured claims were agreed for either rejection or admission as unsecured creditors. Letters were sent to all employees confirming the status of their claims.
- All creditors are notified in writing when their claim is accepted or rejected.
- Claimants are being contacted for further information to substantiate claims being considered for acceptance.
- Legal advice was taken on a number of claims to confirm that there is a legal basis for accepting a claim.
- The claims from the State/government/regulatory bodies have been reviewed and the majority of these claims have been accepted. We are still reviewing a number of smaller claims for these bodies.
- Subsidiary claims have been reviewed and a number of them have been accepted.
- An interim dividend of 25% commenced being paid to approved unsecured creditors in December 2016.

Dividend range

- The SLs' current best estimate of the dividend available for the eventual unsecured creditors is in the range of 75% to 100%. It is important to note that this is an estimate only based on current information and will be subject to change. The dividend range could be higher or lower depending on future events which are outside the SLs' control.
- It is expected that the exact dividend for unsecured creditors will not be known for a number of years, primarily as a result of the large level of litigation outstanding.
- The dividend range stated is based on a number of assumptions including but not limited to the following:
 - Satisfactory conclusion of the Quinn litigation against IBRC;
 - Satisfactory conclusion of all other current defendant litigation against IBRC;
 - No new material litigation being taken against IBRC;
 - No new material creditors attempt to submit a claim in the liquidation;
 - Resolution of IBRC plaintiff litigation;
 - Remaining assets realize current estimated values;
 - Satisfactory resolution of intercompany balances;
 - Successful distribution of remaining subsidiary assets to IBRC;
 - Satisfactory resolution to the Revenue Commissioner audit; and
 - Satisfactory resolution to technical tax issues with HMRC in the UK.

Creditor adjudication process: overview



Work remaining/Key future actions

- Continue to contact claimants for further information to substantiate claims being considered for acceptance.
- The SLs organised a team to assess the impact of a recent High Court decision regarding interest overcharging and they have been calculating the impact of this decision. This work is being co-ordinated with the process for adjudicating unsecured creditor claims.
- Notification of acceptance of claims to creditors where claims have been agreed by the unsecured creditors review team.
- Notification of rejection of claims where entitlement cannot be proven or the figure claimed has not been substantiated by the claimant.
- Continue to deal with requests for information and other enquiries received into the unsecured creditors email address and to the helpdesk.
- Continue to liaise with ALG and other professional advisors as required for advice and assistance in correct adjudication of claims.
- Continue to liaise with relevant State/governmental/regulatory bodies as appropriate in relation to claims.
- Liaising with tax advisors regarding the tax treatment of unsecured dividend payments.
- Liaising with IBRC legal team regarding the ongoing legal cases where settlements when finalized will be included as an unsecured creditor.
- Process further dividends as they are announced.
- There are a number of claims which relate to complex financial transactions and these claims are still the subject of review and analysis.

Legal
workstream





- 1** 11 new sets of proceedings noted since 1 January to 31 December 2016.
- 2** On-going management of approximately 175 sets of legal proceedings including ongoing active and inactive cases.
- 3** 25 sets of proceedings are concluded with some minor final issues to be dealt with.
- 4** Substitution is underway in 40 cases.
- 5** Dealt with 35 DSARs in 2016.

Legal workstream: overview



The legal workstream review and manage current litigation/legal cases taken by or against IBRC (in SL)

- IBRC in SL remains party to 175 legal cases.
- The figure above does not take account of all Quinn related litigation; miscellaneous financial leasing litigation and US foreclosure proceedings to which IBRC currently remains a party.

Ongoing management of over 175 legal cases

- The total headcount in Group Legal as at February 2017 is 4.

Group Legal staff count is 4

- The SLs have established the Defendant Litigation Case Management Team to exclusively manage 143 cases against IBRC/INBS.
- The SLs assess the merits of litigation cases being pursued and defended and have been actively attempting to reduce the number of cases by consent and mitigate the liability arising.

The SLs are managing over 143 defendant litigation cases



- There has been a significant reduction in the number of new proceedings noted since 2013.
- 11 new cases were issued since the date of the last report.
- This fall off in new litigation by and against IBRC in SL has been expected.

Significant reduction in new cases noted

- The SLs have dealt with over 485 DSARs since appointment.
- 35 of those DSARs were dealt with in 2016 and 30 in 2017

The SLs have dealt with a total of 65 DSARs in 2016 and to date in 2017

- As required under law, the SLs carried out an investigation into the conduct of each of those persons who acted as directors of IBRC within the twelve months preceding 7 February 2013.
- The SLs submitted their report on the conduct of the directors of IBRC to the ODCE and this is ongoing

The SLs investigated the conduct of the directors of IBRC and reported to the ODCE



Summary of key issues dealt with since the last progress report

- Defence of various proceedings including the mis-selling of SWAPS and investments, mismanagement, negligence, breach of contract and breach of duty.
- Engaged to secure cover from our insurers in respect of defendant litigation and counterclaims.
- Continued involvement in residual loan portfolio management including new debt recovery actions.
- Providing on-going assistance to the Office of the DPP in respect of on-going prosecutions.
- Substitution of various proceedings where underlying loans have been sold.
- Extensive work was carried out in relation to various Data Protection Issues including DSARs, DPC investigations and the undertaking of a compliance review of the General Data Protection Regulations and competing obligations of liquidator.
- Extensive work on NAMA residual issues comprising of substitution into proceedings, agreement in respect of foreign assets and providing assistance in terms of the power of attorneys, deed of release, deed of transfer of legal interest, statutory declarations and deed of transfer of security.
- Extensive interaction with unsecured claims team and the Section 6 Cases Project. This involves certain plaintiffs being notified of the alternative option of submitting an unsecured claim in the liquidation.
- 3 further Directions were issued by the Commission to the SLs since the last report. In particular Directions 8 and 9 relate to the setting of interest rates in IBRC.
- The SLs will continue to comply with all Directions and continue to provide all possible assistance to the Commission in order to allow it to carry out its functions.

**Tracker
Mortgage
Examination**



Tracker Mortgage Examination: key highlights



1

CBI issued a notice pursuant to Section 22 of the Central Bank Notice (Supervision and Enforcement) Act 2013 which required IBRC to conduct the TME in line with the Central Bank framework for conducting the examination.

2

Plan for Delivery submitted to the CBI on 28 October 2016.

3

TME is on target to complete by 31 May 2017.

4

Current estimates indicate that there are less than 50 impacted customers.

Tracker Mortgage Examination: overview



Overview of examination

- In December 2015, the CBI instigated a system wide review of tracker mortgage related issues. The Tracker Mortgage Examination (“TME”) requires all lenders to examine the extent to which they have been meeting their contractual obligations to their customers and their compliance with obligations under relevant consumer protection focused regulation.
- The Bank was written to at that time and subsequently received a Notice of Requirement to submit information pursuant to Section 22 of the Central Bank (Supervision and Enforcement) Act 2013.
- The SLs have considered the contents of the Notice, as against IBRC’s loans as at the date of the Special Liquidation, including Mortgage Loans issued by both Irish Nationwide Building Society (“INBS”) and Anglo Irish Bank Corporation Plc (“Anglo”).
- For the purpose of the TME and the project initiated in IBRC, the INBS and the Anglo originated loans will be assessed separately and separate projects are working concurrently in respect of both institutions.
- For the purposes of the Bank, given its Special Liquidation status, the scope of the examination is limited to those mortgage accounts which were either in existence or issued on or after 8 February 2007 (the “Relevant Mortgage Accounts”).
- In addition, the Relevant Period for the purposes of a review of any activity relating to the Relevant Mortgage Accounts is the period from 1 January 2002 to 31 December 2015.

Potentially impacted population

- The accounts in scope for the Tracker Mortgage Examination are as follows:

Estimate of potentially in scope accounts		
Scope	Loan book	Approximate number of accounts or subaccounts
Loans in issue on or after 7/2/2007	Anglo	7,841
Loans in issue on or after 7/2/2007	INBS	28,129

- The figures in the table are indicative only. Confirmation of the potentially impacted population will be available following final data extraction and out of scope testing which is nearing completion.
- The review is on-going but it is expected to complete by 31 May 2017.
- It is important to note that while an account may be in scope for the purposes of the TME, it does not necessarily follow that detriment has been suffered by the customer.
- The outcome of the TME is expected to confirm that certain loans are impacted but that the population actually impacted is expected to be less than 50 customers.

Tracker Mortgage Examination: issues, actions and achievements



Key actions/achievements

- Programme Governance and structure established including Steering and Working Group. Workstream Leads and team structures in place.
- Programme plan and workstream plans baselined.
- Plan submitted to CBI.
- Bi-monthly reporting required under Section 22 Direction submitted to the CBI on 23 December 2016 and 28 February 2017.
- Large sample of cases tested for both legacy INBS customers and legacy Anglo customers to validate proposed approach and understand fully the nuances of the loan books by reference to the TME.
- Detailed review of potentially impacted customers.

Key issues arising/risks/challenges

- Significant loss of corporate business and IT knowledge resulting in loss of understanding of legacy processes and data associated with impacted loans.
- Management of communication to borrowers impacted, third party loan purchasers and NAMA.

Work remaining / Key future actions

- Continue resource planning and on-boarding of resources for optimised teams to deliver plan.
- Continue bi-monthly reporting to CBI with final report for Phase 2 of review to be submitted to the CBI by 31 May 2017.
- Detailed design of Case Remediation and Communications workstream.
- Calculate redress for impacted customers and adjudicate on their unsecured claims.
- Appeals panel to be established.

**Interest
overcharging
remediation
workstream**



Interest overcharging remediation workstream: key highlights



- 1** Finalisation and closure of the Population ID and File Retrieval workstream.
- 2** Case Review workstream was completed in April 2017.
- 3** Design, build and test activities completed for substantive phase of Interest Overcharge Calculator (IOC). Build and test activities underway for final phase of IOC.
- 4** Design, build and test activities completed for the File Retrieval and Case Review Phases of Case Management Tool (CMT). Final build and test activities underway for the Customer Communication Phase of CMT.
- 5** Submission made for High Court direction on key programme challenges. Court direction was granted in December 2016.
- 6** Approach and detailed design underway for Case Remediation and Customer Communication.

Interest overcharging remediation workstream: summary of issues



Background:

- In proceedings entitled IBRC v John Morrissey, the High Court delivered a Judgment by Finlay-Geoghegan J. dated 29 October 2014. In that Judgment, the Court considered whether IBRC had incorrectly calculated interest due on Mr Morrissey's borrowings with IBRC.
- IBRC had applied an Actual/360 day year method of calculating interest due. The Court however found that this was not in accordance with the relevant Terms and Conditions attached to IBRC loan documents.
- Consequently, in general, 5 days additional interest per annum has been charged on impacted accounts.
- Any IBRC customers whose loan terms and conditions were similar may potentially be impacted by this issue.
- As a result, IBRC commenced a programme of remediation to identify and address any instances where customers were overcharged based on this Judgment.

Potentially impacted population

- The accounts potentially impacted by the issue identified by the Judgment fall within 2 categories:

Estimate of Potentially impacted customers and accounts		
Customer group	Customers	Loans
ROI loans open as at or since 7 Feb 2007	6,435	19,252
US originated loans open as at or since 7 Feb 2007	557	2,382
Overall	6,992	21,634

- The IBRC systems were unable to electronically identify which loans had terms and conditions that were similarly impacted.
- This necessitated a manual case review of all relevant loan accounts documentation to establish whether the relevant wording was present in the loan documentation for loans open as at or since 7 February 2007.
- Of the borrowers reviewed by Case Review to date, approximately 95% have been confirmed as being in scope/ impacted by the Judgment.

Interest overcharging remediation workstream: key actions, achievements and issues



Key actions/achievements

- Finalisation of the potentially impacted customer population workstream as data extraction from the core IBRC banking systems and testing has been completed. Potentially impacted population confirmed as 6,992 customers with 21,634 accounts requiring review.
- Finalisation and closure of the File Retrieval workstream as activities are completed including retrieval, storage and consolidation by borrower of all relevant loan documentation required for case review.
- The case by case review of retrieved relevant loan documentation to determine if the loans are impacted by the issue identified by the Morrissey Judgment. All relevant documentation has been reviewed and this workstream was completed in April 2017.
- Design, build and test of a purpose built Interest Overcharge Calculator ("IOC") has been completed. Design of the final phase completed with development and testing activities underway. The IOC has been developed to collate all relevant customer transactions on the Bank's various IT systems and calculate the amount of overcharged interest which has been paid during the relevant claim periods.
- Design, build and test activities completed for a Case Management Tool ("CMT") for the management of file retrieval and case review workflow activities. Build and test activities are underway for CMT functionality to produce customer letters and manage the workflow of customer remediation and communications activity.
- The SLs' applied to the High Court seeking court direction in relation to the significant challenges associated with the Interest Overcharging remediation programme and in particular, regarding the proposed methodology of calculating refunds. The High Court made an order in December 2016 confirming the approach proposed by the SLs.
- Approach and detailed planning is underway for communication of remediation amounts to customers.

Key Issues arising/ risks/ challenges

- Significant absence of IBRC corporate, business and IT knowledge resulting in gaps in understanding of legacy processes and documentation/ data associated with impacted loans.
- Completion of the file retrieval workstream due to the high volume of documents sourced, scanned, reviewed and consolidated across the three different document sources and the manual intervention and oversight required in the tracking and processing of retrieved documents.
- Court direction was sought to affirm the programme approach to significant challenges associated with the Interest Overcharging remediation programme particularly in relation to interest calculator rules.
- No existing system solution was available to carry out remediation activities, therefore a bespoke new system was developed.
- The IBRC loan portfolio has been either sold, transferred to NAMA or repaid fully. This resulted in increased complexity in designing the remediation approach.

Work remaining / Key future actions

- Closure of Case Review workstream.
- Completion of IT Build activity on the final CMT and the IOC.
- Business readiness activity for communication of remediation to customers including team setup, procedures, training etc.
- Communication of approach with NAMA and Third Party Purchasers.
- Notification to CBI on the final approach to be adopted for the communication and remediation of impacted customers.

**Commission of
Investigation
workstream**





Work carried out in 2016 and Q1 2017

- Over the course of 2016 the SLs and their legal advisors held a number of meetings with Judge Cregan and the Commission in relation to various matters and directions.
- The SLs have complied with all directions received to date and continue to assist the Commission with any requests it makes.
- In February 2016, an extensive request was received from the Commission for general discovery in relation to the Siteserv transaction which was further to information provided under Direction 3.
- On 8 March 2016, pursuant to Section 16 of the Commissions of Investigation Act 2004 Act, Direction 7 was issued by the Commission directing IBRC to furnish information exchanged relating to Siteserv and the CBI.
- Over 220 million items were stored on the mailbox archives within IBRC and a comprehensive eDiscovery exercise was carried out to ensure that all potentially relevant documents would be provided to the Commission.
- The relevant information requested was provided on 7 April 2016.
- In November 2016, the Commission also made requests in relation to providing details on interest rate setting policies in place in IBRC as well as requesting certain other information.

Costs

- Due to the complexity of the work a large amount of management time and senior resources were required in addition to the SLs spending significant amounts of time on these matters. Significant time was spent in early 2016 to deal with the requests received from the Commission.
- A total of approximately €0.6 million plus VAT in time costs were incurred for the period 1 February 2016 to 31 March 2017.
- Legal costs for the SLs legal advisors for the same period amounted to approximately €0.1 million plus VAT.

Future Work

- Based on our current understanding we do not envisage significant future work in relation to this workstream.
- We expect there to be future ad-hoc requests for information from the Commission and expect the SLs to be requested to attend meetings with the Commission.
- We do not expect costs going forward to be significant based on current information available to us and would expect 2017 time costs of the SLs' staff and their legal advisors to be significantly lower than those incurred during 2015 and 2016.

eDiscovery
workstream



eDiscovery workstream: key highlights



- 1** Focus on meeting Commission of Investigation requirements and complying with litigation eDiscovery timelines.
- 2** Collection of corporate knowledge and deployment of Information Map database to facilitate information identification (eDiscovery Scoping) and searching and mitigate loss of corporate memory through staff attrition.
- 3** Transition of eDiscovery Services from IBRC resources completed and dedicated team from KPMG in place to manage on-going eDiscovery requirements.
- 4** On going review of eDiscovery processes and procedures to improve eDiscovery quality, efficiency, and capacity.
- 5** Upgrade completed to the latest version of Clearwell eDiscovery environment to mitigate operational risk and improve performance and capacity.
- 6** Detailed planning completed for project to index unstructured electronic information.
- 7** Detailed planning completed with IT to mitigate risk of loss of access to legacy electronic information arising from retirement of electronic information storage environments.

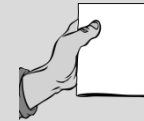
Discovery Activity



Support of 12 full electronic disclosures in support of litigation



Scoping and early case assessment for 25 litigation matters



Support for >25 general searches and requests for information



Support for 10 Legal review teams with 110 legal reviewers



We delivered 8,908 documents (46,739 pages) to the Commission of Investigation



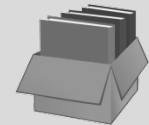
Management and repeated searching of more than 70Tb of electronic information



Processing of more than 2 Million electronic documents



Processing of more than 5.5 Million emails



Retrieval/searching of more than 11,500 archive boxes

Discovery workstream: overview



Workstream overview

- H1 focus on meeting requirements of Commission of Investigation with H2 focus on managing the eDiscovery caseload.
- Operational handover completed, from IBRC staff to dedicated KPMG team, of all management of eDiscovery services.
- On going review and improvements to eDiscovery processes and procedures to improve service quality, efficiency and capacity.
- Upgrade to the latest version of Clearwell eDiscovery environment to maintain software currency and mitigate operational risks to technology environments.
- End to end technology process developed for eDiscovery using leading industry tools from Veritas and Nuix.

Key issues arising/risks/challenges

- Loss of legacy staff knowledge and increasing reliance on historical information.
- Risk of loss of access to legacy electronic information arising from retirement of legacy information storage infrastructure.
- Prioritising discovery caseload.

Key actions/achievements

- Deployment of Information Map database to collect corporate knowledge and facilitate searching.
- Detailed mitigation plans developed with IT and investment commitment obtained for upgrade of electronic information storage infrastructure. Detailed plans developed and resource committed for the transition of legacy information to new environments.

Work remaining/Key future actions

- Incremental improvements to Information Map as additional sources of corporate knowledge are identified and linkages in information are established.
- Legally sound transition of legacy information from legacy information storage environments to new environments.
- Continue to manage and support all Criminal, Civil and DSAR requests made against IBRC.
- Index the IBRC's unstructured data (email and file share) to enable the turnaround of future Discovery and DSAR requests in a timely manner, while also facilitating enterprise search to compensate for the loss of legacy Business knowledge.
- On going process improvements across support to legal teams as part of discovery of information.
- Facilitate the retirement of legacy application and hardware environments and reduce costs of on-going support of information retention and access.
- Develop plan for long term document retention which is in compliance with legal and regulatory requirements.

**Tax
workstream**



Tax workstream: key highlights



- 1** Working to ensure that IBRC's tax affairs are managed effectively so that all relevant tax obligations are met on a timely basis.
- 2** Ongoing engagement with the Irish Revenue in relation to an open tax audit.
- 3** UK HMRC appeal hearing held in November 2016.
- 4** Advising on various borrower related tax matters.
- 5** Analysing the tax implications of winding up various Irish subsidiaries and the repatriation of capital from foreign subsidiaries.
- 6** Engagement with Receivers in respect of remaining properties and filing of rental returns.
- 7** Ongoing engagement with foreign tax authorities in relation to the tax position of the IBRC Group.



Overview

- IBRC is a complex organisation which gives rise to tax obligations under a very broad range of headings in a number of jurisdictions. The key tasks undertaken by the Tax workstream are described below.

Operation of IBRC's Irish tax function

- The SLs tax team has been working to ensure that IBRC's tax affairs are managed effectively in order that all relevant tax obligations are met on a timely basis. This includes:
 - Preparation and filing of Irish corporation tax returns for IBRC and 4 of its Irish subsidiaries;
 - Preparation and filing of tax information returns as required (encashment tax returns, return of payments to third parties, etc.);
 - Operation of the VAT tax regime (including related tax filings and payments for IBRC and 3 of its subsidiaries);
 - Operation of the PSWT & RCT regimes (including related tax filings and payments);
 - Preparation and attendance in respect of a HMRC appeal on a UK tax matter;
 - Operation of the PAYE regime; and
 - Engaging with the Revenue Commissioners in relation to an open tax audit on historic matters.

Asset disposals

- Analysis of the tax implications of US asset disposals; and
- Analysis of the tax implications of winding down various subsidiaries.

Work remaining/Key future actions

- Advising on the disposal of UK/US situate assets and repatriation of proceeds to Ireland.
- Ongoing Irish tax compliance obligations in respect of Corporation tax, VAT, PAYE, RCT, and PSWT.
- Preparation and filing of US federal returns and advice on cessation of taxable presence in USA.
- Resolution of UK technical tax issues.
- Addressing the winding up of subsidiaries and the distribution of remaining assets to IBRC.
- Management of tax issues related to assets under enforcement action in a range of countries including Ireland, the UK, the USA and the Czech Republic.
- Engagement with the Revenue Commissioners in relation to an open tax audit on historic tax matters.
- Advice in relation to various borrower related matters.



IBRC's US tax obligations

- Preparation and filing of the 2016 US federal tax return.

Asset recovery

- Analysis and review of the tax implications of loan enforcements.
- Addressing the complex tax obligations that arise for IBRC as mortgagee on taking possession of mortgaged property and on their ultimate realisation through sale or "Mortgage to Rent" transactions.
- Tax input into restructuring proposals.
- Advising on the tax implications of asset disposals (loans, etc.).
- Advising on overseas capital repatriation.

Costs and fees



Summary of Special Liquidation fees to 31 December 2016



The table below details the actual professional fees associated with the SL since the commencement of the SL on 7 February 2013 to 31 December 2016

Special liquidation professional and legal fees (gross fees)			
	35 month period to 31 Dec 15	12 month period to 31 Dec 16	47 month period to 31 Dec 16
€'000			
KPMG SL team			
- KPMG Ireland	86,787	32,004	118,791
- KPMG UK	8,362	128	8,490
- KPMG other	762	64	825
KPMG SL team total	95,911	32,196	128,106
KPMG migration	4,560	-	4,560
ALG	34,994	1,834	36,828
ALG - Commission work	213	93	306
Linklaters	19,230	762	19,992
Other legal advisors			
Arthur Cox	5,675	8	5,683
Byrne Wallace	2,720	-	2,720
Maples and Calder	2,874	-	2,874
Skadden, Arps, Slate, Meagher & Flom LLP	2,636	127	2,763
RDJ	513	-	513
PJ O'Driscoll	185	-	185
Other legal firms	-	39	39
Other legal advisors total	14,603	174	14,778
Professional advisors			
PwC	5,459	-	5,459
Valuer A	3,745	-	3,745
Savills	966	-	966
Property valuation fees	4,612	-	4,612
Deloitte	435	-	435
Eastdil	531	-	531
Merrills	1,593	-	1,593
Goodbody	675	-	675
Professional advisors total	18,017	-	18,017
Total	187,527	35,059	222,586

Notes

- 1 KPMG rates are based on NAMA rate cards for the relevant services. This is the total fee chargeable for the period. This is before a rebate of €5.0 million was agreed following discussions at the request of the Minister. The average number of KPMG staff working on the IBRC project was approximately 189 for the 12 month period to 31 December 2016 (approximately 175 for the 12 month period to 31 December 2015).
- 2 ALG rates are based on NAMA rate cards for the relevant services. This is the total fee chargeable for the period. This is before a rebate of €2.7 million which was agreed following discussions with the SLs and DOF.
- 3 Represents fee for legal work completed in relation to the Commission of Investigation undertaken by ALG.

The table below details the SL professional and legal fees net of the rebates agreed.

SL professional and legal fees analysis - gross vs net	
€000	47 month period to 31 Dec 16
SL related professional and legal fees (gross)	222,586
Rebates agreed:	
- KPMG	(5,000)
- ALG	(2,706)
- Linklaters	(298)
Total rebate	(8,004)
SL related professional and legal fees (net of rebate)	214,581

- Note: (a) The fees represented are exclusive of VAT and disbursements;
 (b) GBP fees have been converted at GBP1:€1.18 for the 14 month period to 31 March 2014 GBP1:€1.2512 for the 9 month period to 31 December 2014; GBP1:€1.37728 for the 12 month period to 31 December 2015 and GBP1:€ 1.22515 for the 12 month period to 31 December 2016; and
 (c) USD fees have been converted at USD1:€0.7485 for the 14 month period and USD1:€0.7613 for the 9 month period to 31 December 2014, USD1:€0.9011 for the 12 month period to 31 December 2015 and 0.904 for the 12 month period to 31 December 2016 .

Actual overheads analysis



Overheads analysis from 1 January 2016 to 31 December 2016				
€m	Notes	Actual	Budget	% Variance
Staff costs				
Salaries		2.10	2.45	(14.3%)
Pensions		0.14	0.04	0.0%
Contractors costs	1	1.78	1.42	25.6%
Liquidation related redundancy costs		0.11	0.18	(39.8%)
Other		0.02	0.05	0.0%
		4.15	4.13	0.5%
Administrative costs				
Legal and professional	2	16.68	16.15	3.2%
Computer expense		3.37	4.08	(17.6%)
Insurance		0.68	0.78	(13.5%)
Other		1.19	0.60	97.4%
		21.91	21.62	1.3%
Premises costs				
Rent and rates		2.19	2.22	(1.4%)
Other occupational costs		0.23	0.17	35.9%
		2.42	2.39	1.3%
Total before SL related costs		28.47	28.13	1.2%

Source: IBRC in SL management accounts

Notes

The table opposite details the general overhead costs of IBRC in SL for the period from 1 January 2016 to 31 December 2016. The principal matters to highlight are as follows:

- 1 Contractor costs were approximately €0.4 million higher than forecast due to additional IT resources required to assist with various projects including the TME for the CBI which commenced during the second half of the year and the interest overcharge remediation project.
- 2 Legal and professional fees mainly consist of fees incurred on the Quinn litigation, various legacy litigation matters and the various Commission of Investigation directions.

KPMG: workstream structure



The table below details the nature and scope of the work streams that comprise the SL engagement

Special Liquidation – KPMG work streams	
Work stream	Scope of work
Deal team	<ul style="list-style-type: none"> ■ Address post completion queries. ■ File review and collation of key sales documentation for all concluded sale projects. ■ Sale of other remaining assets.
Loan Management	<ul style="list-style-type: none"> ■ Management of remaining loan portfolios. ■ Deleveraging of the loan book (other than through loan sales) in an appropriate manner and in line with SL Guidelines. ■ Developing an appropriate plan to wind down the Loan Management function in a controlled manner as deleveraging is completed.
Finance, Deposits, Regulatory and compliance and operations	<ul style="list-style-type: none"> ■ Preparation of internal and external financial and regulatory reporting. ■ Liquidity and Foreign Exchange risk management. ■ Effective unwind of balance sheet assets not included in the Asset Realisation workstream and development of a value realisation strategy for the subsidiaries and joint ventures interests. ■ Oversight of operational functions in IBRC in SL including (1) Lending services and (2) Treasury operations. ■ Administration and oversight of the DGS and ELG scheme. ■ Liaising with relevant regulatory bodies and ensuring IBRC in SL is compliant with all regulatory and compliance requirements. ■ Ensuring appropriate governance structures are in place in accordance with CBI guidelines. ■ Manage creditor adjudication process. ■ Payment of the interim unsecured creditor dividend.
Legal	<ul style="list-style-type: none"> ■ Deal with legal issues arising in the course of the liquidation of IBRC including legacy issues. ■ Management of proceedings involving IBRC. ■ Recognition issues. ■ Management of Chapter 15 process. ■ Section 56 report and investigation.
HR/IT/Facilities	<ul style="list-style-type: none"> ■ Management of all HR and employee matters. ■ This workstream is also responsible for IT, Property, Facilities and the overall Project Management Office.
Taxation	<ul style="list-style-type: none"> ■ Effective management of IBRC tax affairs to ensure that: <ul style="list-style-type: none"> - it meets its tax obligations on a timely basis; - tax assets are realised; and - legacy tax issues are addressed.

KPMG: workstream structure



The table below details the nature and scope of the work streams that comprise the SL engagement

Special Liquidation – KPMG work streams	
Work stream	Scope of work
Interest Overcharging Remediation Project	<ul style="list-style-type: none"> ■ Remediate customer loan accounts that are deemed to have been overcharged interest, as identified by the High Court “Morrissey Case” ruling of October 2014. This includes: <ul style="list-style-type: none"> - Identification of customers that have been potentially overcharged; - Validation of the overcharge and calculation of the overcharge amount; and - Remediation of the customer’s account.
Tracker Mortgage Examination project	<ul style="list-style-type: none"> ■ Review Anglo and INBS loans accounts that are within scope of the TME, following a Notice of Requirement from the CBI to submit information pursuant to Section 22 of the Central Bank (Supervision and Enforcement) Act 2013. This includes: <ul style="list-style-type: none"> - Identification of customers that have been potentially impacted; and - Remediation of the customer’s account.
Commission of Investigation	<ul style="list-style-type: none"> ■ To comply with directions issued by the Commission of Investigation. ■ Compiling, collation and production of relevant documents as required under each direction.
eDiscovery	<ul style="list-style-type: none"> ■ Management and support of all Criminal, Civil, DSAR and Commission of Investigation eDiscovery requests made in IBRC. This would primarily include the following data sources: <ul style="list-style-type: none"> - Hard Copy Data; - File Share Data; - Email Data; and - Voice Data.

Principal legal advisors



The table below details the roles and responsibilities of the principal legal advisors engaged in the SL process.

Special Liquidation – Principal legal advisors		
	ALG	Linklaters
Deal Team	<ul style="list-style-type: none"> ■ Dealing with ad hoc queries raised by purchasers and IBRC in connection with the transfer of security over real estate. ■ Project management team resources. 	<ul style="list-style-type: none"> ■ Advice in relation to ad hoc queries arising in respect of the Rock and Salt portfolios.
Treasury, General Banking, regulatory	<ul style="list-style-type: none"> ■ Extensive advice on creditor claims regarding senior and subordinated financial bonds. ■ Ongoing swaps and derivatives advice, including in relation to the operation of and the requirements under swaps entered into by IBRC. ■ Ongoing banking and asset management advice. ■ Advice on regulatory matters. 	<ul style="list-style-type: none"> ■ Advice on the jurisdiction of the Financial Ombudsman Service and related advice.
Deposits and ELG	<ul style="list-style-type: none"> ■ Advice in relation to creditor claims relating to the Deposit Guarantee Scheme and the ELG. ■ Set-off analysis on claims under ELG. 	<ul style="list-style-type: none"> ■ Not applicable.
Employment and Pensions	<ul style="list-style-type: none"> ■ Employee termination / retention and related advice. ■ Employee claims as unsecured creditors. 	<ul style="list-style-type: none"> ■ Advice in relation to a bonus claim.

Principal legal advisors (continued)



The table below details the roles and responsibilities of the principal legal advisors engaged in the SL process.

Special Liquidation – Principal legal advisors		
	ALG	Linklaters
Legal and litigation	<ul style="list-style-type: none"> ■ Extensive advice on mis-selling/over-charging claims including obtaining High Court directions in relation to the methodology for calculation of over-charging claims. ■ Dealing with all litigation against SLs. ■ Managing certain existing litigation. ■ Chapter 15 in US and all related applications. ■ Managing and dealing with purchasers in relation to all applications for substitution and all litigation queries arising from sales process. ■ Advice on interaction with CBI in respect of tracker mortgage issues. ■ Working with English law advisors on various creditor claims. ■ Advising on dealing with issues connected with the Commission of Investigation set up. 	<ul style="list-style-type: none"> ■ Assisting with English law aspects of swaps mis-selling claims. ■ Advice in respect of various creditor claims made against IBRC. ■ Advice in relation to obligations of IBRC pursuant to certain bonds issued by Anglo Irish Bank Corporation plc. ■ Assistance in relation to the identification, and status of, plaintiff proceedings. ■ Assisting in relation to queries in respect of a taxation hearing.
Advice to SLs on miscellaneous issues	<ul style="list-style-type: none"> ■ Full range of legal advice in relation to various creditor claims. ■ Ongoing advice on foreign recognition. ■ Ongoing advice on IBRC Act and various Ministerial Instructions. 	<ul style="list-style-type: none"> ■ Advising on steps to release a charge in respect of property.
Northern Ireland	<ul style="list-style-type: none"> ■ General liquidation advice to the SLs. 	<ul style="list-style-type: none"> ■ Not applicable.



Cost management

- KPMG resourcing reviewed regularly:
 - workstream leads monitor workload and capacity. Resourcing amended as required to ensure efficient delivery of workstream to the liquidation;
 - monthly review of costs by workstream;
 - budgeted costs set for the liquidation process to 30 April 2017;
 - reviewed actual against plan and investigated variances; and
 - reviewed most efficient method of delivery project and used IBRC staff where appropriate.
- KPMG reviewed and monitored third party advisor costs:
 - certain legal advisors signed up to NAMA rate card and/or fixed cost pieces of work;
 - certain other advisors signed up to NAMA rate card;
 - certain other advisors engaged following a competitive tender process with fixed fee quotes;
 - regular review of third party costs against delivery of process to timeline and budget; and
 - review of costs against agreed fixed fees.
- KPMG updated DOF regularly:
 - reporting includes analysis of time spent by KPMG, ALG and Linklaters;
 - report on budgeted costs to 30 April 2017 issued to DOF;
 - costs discussed in update meetings with DOF; and
 - regular fee update reports issued to DOF as required.
- Costs managed and minimised where appropriate through the use of IBRC staff to support the winding up.

