

**MASON HAYES & CURRAN INDEPENDENT REVIEW FOLLOWING
DR. LAWRENCE TOMLINSON'S REPORT ENTITLED "*BANKS'
LENDING PRACTICES: TREATMENT OF BUSINESSES IN DISTRESS*"**

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Glossary of Terms and Acronyms

Acronym	Detail
APP	Asset Purchase Proposition
ARM	Assistant Relationship Manager
BRG	Business Restructuring Group
BRGI	Business Restructuring Group Ireland
CBI	Central Bank of Ireland
CRU	Corporate Restructuring Unit
CSRF	Credit Strategy and Review Forum
EWI	Early Warning Indicator
FCA	Financial Conduct Authority
GRG	Global Restructuring Group
GRGI	Global Restructuring Group Ireland
IBR	Independent Business Review
KPI	Key Performance Indicator
MGS	Master Grading Scale
PAU	Property Advisory Unit
PCM	Primary Case Manager
PD	Probability of Default
PER	Problem Exposure Review

PIB	Project Implementation Board
PMDF	Performance Management and Development Forms
PPFA	Property Participation Fee Agreement
RBS	The Royal Bank of Scotland plc
RCRI	RBS Capital Resolution Ireland
REAM	Real Estate Asset Management
RM	Relationship Manager
RMP	Relationship Manager Platform
RTS	Return to Satisfactory
SCR	Strategy Credit Review
SIG	Strategic Investment Group
SLS	Specialised Lending Services
SME	Small and Medium Sized Enterprise
TTC	Through the Cycle
UBIL	Ulster Bank Ireland Limited
WR	West Register
WRI	West Register Ireland

1. Introduction

- 1.1 On 25 November, 2013, Dr Lawrence Tomlinson, then Entrepreneur in Residence at the UK Department for Business Innovation and Skills published a report entitled “*Banks’ Lending Practices; Treatment of Businesses in Distress*” (the “**Tomlinson Report**”). This report dealt with the lending practices of UK banks to Small and Medium Sized Enterprises (**SMEs**). The most serious allegation (the “**Principal Allegation**”) made was that a division of Royal Bank of Scotland (**RBS**), the Global Restructuring Group (**GRG**), was guilty of “*systematic and institutional behaviour*” in artificially distressing otherwise viable businesses and thereby putting such businesses “*on a journey towards administration, receivership, and liquidation*”.¹
- 1.2 RBS commissioned Clifford Chance LLP to conduct an independent review of the Principal Allegation. The independent review was completed in April 2014 and the report was subsequently published.
- 1.3 Separately, an RBS Independent Lending Review by Sir Andrew Large recommended that “*a forensic enquiry to substantiate or refute serious accusations that had been made*” should be carried out.
- 1.4 In early 2014, a decision was taken by Ulster Bank Ireland Limited (**UBIL**) that an independent review should be undertaken in the Republic of Ireland into the relevance of the Principal Allegation to the corresponding division, namely the Global Restructuring Group Ireland (**GRGI**)². The Terms of Reference are set out at **Appendix 1**. These had been notified to Central Bank of Ireland (“**CBI**”) in advance of their being finalised. Under the Terms of Reference, Mason Hayes & Curran (**MH&C**) was mandated to review the Principal Allegation and to review the relevant

¹ For the purposes of this report, references to “administration” are treated as reference to examinership under the Companies (Amendment) Act 1990, as amended.

² While GRGI was responsible for loans and customers in both the Republic of Ireland (“**ROI**”) and Northern Ireland (“**NI**”) this review is concerned with ROI only and any reference to GRGI or any figures quoted must be read in this context.

policies and practices within UBIL. This was to be done through conducting interviews, targeted documentation sampling, and data analysis. We were also asked to make recommendations about steps, if any, that UBIL should implement as a result of this review.

1.5 Certain further issues, described as “*targeted issues*” are set out in the Terms of Reference, to the extent that they might be relevant to the Principal Allegation. These issues require us to:

1.5.1 *Identify criteria (and underlying governance) by which companies enter restructuring or business support, including any written policies, and evaluate how transparent these are to customers;*

1.5.2 *Consider specific examples of loan to value ratios being reassessed, breaches of covenant being asserted by UBIL and instances where removal or change of facilities have immediately led to a customer being moved into GRGI;*

1.5.3 *Review any available quantitative data and examples of breaches which have not resulted in default;*

1.5.4 *Investigate how conflicts are managed (relationship between valuers and UBIL, West Register Ireland (“WRI”, an UBIL subsidiary³);*

1.5.5 *Review specific examples identified where UBIL has imposed an increase in margin and fees;*

1.5.6 *Investigate the use of Independent Business Reviews (IBRs) and valuers (and their associated terms of reference) in GRGI; and*

³ Section 6, paragraph b of the Tomlinson Report refers to businesses alleging that properties were undervalued by UBIL to allow businesses to be distressed and assets purchased by West Register at a discounted price.

1.5.7 *Determine how external firms are chosen and appointed to undertake IBRs.*

1.6 Finally, we were asked to take into account the impact of any “*profit driven approach*” culture within GRGI (as described in Section I of the Tomlinson Report).

2. Executive Summary

Overview of Methodology

- 2.1 A detailed description of the methodology adopted by us is set out in Section 3 of this Report. Broadly speaking, it involved the following:
- 2.1.1 An analysis of customer complaints; this involved identifying all customers who had already made complaints to UBIL / GRGI relating to issues arising in the Tomlinson Report and seeking to make contact with them, so that they might meet with us if they were prepared to do so;
 - 2.1.2 Publishing a notice on the UBIL website inviting other customers to make contact with MH&C;
 - 2.1.3 A specific whistleblowing mechanism relating to the Principal Allegation was put in place for UBIL staff in a further effort to identify any customers who may have been treated unfairly;
 - 2.1.4 Contact with CBI to ensure that any complaints it had received relating to the Tomlinson Report had been forwarded to UBIL and/or MH&C; and
 - 2.1.5 Finally, we sought to engage with Dr. Lawrence Tomlinson. We invited him to participate in the process and requested that he provide us with the names of any UBIL customers who had contacted him directly. Alternatively, we requested that he contact those customers and ask that they would engage in this process.

- 2.2 Using accepted statistical sampling methods⁴, we randomly selected files from a customer database provided to MH&C by UBIL. Such sampling was representative in terms of the geographical regions covered, industry sectors, and the various types of borrowing. MH&C also sought copies of the files relating to the customers who had made complaints to UBIL in order to determine their relevance to the various allegations in the Tomlinson Report. Finally, we added to the initial samples of files sought, further files pertaining specifically to the involvement of WRI (a subsidiary of UBIL responsible for managing and acquiring real estate assets representing the underlying security of distressed and defaulted loans) and Recoveries (a separate unit within GRGI responsible for insolvency appointments). This involved reviewing almost 140,000 pages of customer files.
- 2.3 We interviewed 16 members of Senior Management in GRGI and UBIL to form an understanding of the overall manner in which business was conducted and how the GRGI policies were formulated, implemented and executed.
- 2.4 We interviewed 23 Relationship Managers (**RMs**), being the GRGI employees who dealt directly with the various customers while they were within GRGI. Many of the 39 interviewees had also worked in mainstream banking prior to their transfer to GRGI.
- 2.5 We reviewed the relevant policies and documents (comprising approximately 600 pages) pertaining to GRGI.
- 2.6 We also procured certain data and statistics from UBIL as to the functioning of GRGI over the relevant period.

⁴ Squeglia, N. L. *Zero Acceptance Number Sampling Plans*, Fifth Edition, ASQ Quality Press, 2008.

Summary of Findings

- 2.7 The focus of this Report is on SMEs. UBIL has used the standard European Union definition⁵ of an SME as:

“... any entity engaged in an economic activity, irrespective of legal form (i.e. corporation, partnership, sole trader, etc) which employs fewer than 250 persons and whose annual turnover does not exceed €50 million or whose annual balance sheet does not exceed €43 million.”

The vast majority of these customers borrowed sums ranging from €1 million to approximately €25 million from UBIL and, ultimately, their cases were transferred into a section of GRGI known as Business Restructuring Group (**BRGI**). The period under review mirrors the economic crisis in this country, and covers the years 2008 – 2013 (inclusive).

- 2.8 Substantial differences in business lending practices clearly emerge from the histories of GRG and GRGI. These may be summarised under the following headings:

2.8.1 GRGI began its operations in late 2008. It experienced exponential growth, both in terms of the number of customers transferred and the increase in its resources over the following four years.

2.8.2 The proportion of loans in GRGI relating to commercial property was approximately 76%, (compared to 57% in GRG). The economic crash in Ireland was much more severe than in the UK, rendering the disposal, or even the valuation, of real property assets practically impossible in those years.

⁵ EU Recommendation 2003/361.

- 2.8.3 Customer groups and banking arrangements were typically complex in Ireland due to the prevalence of joint borrowings and the close business and family relationships between different customers and customer groups. These were known as connections⁶.
- 2.8.4 Corporate borrowing in Ireland often involved significant personal recourse against promoters of the companies involved.
- 2.8.5 In Ireland, customers typically borrowed from several banks rather than one.
- 2.8.6 The average value of a customer's loan within BRGI was significantly greater than in BRG(UK).

Principal Allegation

- 2.9 We found no evidence to substantiate the Principal Allegation made in the Tomlinson Report that GRGI engaged in “*systematic and institutional behaviour*” in artificially distressing otherwise viable businesses and thereby putting businesses “*on a journey towards administration, receivership, and liquidation.*” On the contrary, the evidence strongly suggests that GRGI's driving policy was to manage its customers “Through the Cycle” (TTC)⁷. Overall, GRGI sought to keep faith with the customer, provided that it viewed the customer's business as viable and was receiving cooperation. Invoking insolvency remedies against trading businesses was done only as a last resort.

⁶ A connection can be defined as : A group of distinct borrowers managed by a particular relationship manager as one distinct borrower group by virtue of joint borrowings, shared business relationships, and/or personal or family relationships between the borrowers.

⁷ TTC is an approach taken to debt portfolio management to allow time in order to maximise recovery potential. The approach was predicated on assets being held, with a long term view, pending recovery in either the underlying market fundamentals or in the individual asset/business connection.

2.10 The various detailed processes engaged in by GRGI and its subsidiary units are set out below. The GRGI Customer Charter committed to seeking to restructure with its customers and outlined its aims as supporting and reaching an acceptable outcome for both the customer and UBIL. If restructuring facilities could not be agreed, GRGI committed to working with the customer to explore other options. In a detailed plan submitted to CBI in September 2012, the bank confirmed that:

“the ultimate aim of all UBIL engagements with distressed SMEs is to return the enterprise to viability, using a wide range of resolution options, with formal recovery actions an option of last resort.”

2.11 The processes by which most customers were transferred into GRGI did not admit of the possibility of singling out certain customers for invidious treatment. Rather, the majority of customers were transferred across in blocks because of their inability to fulfil their core borrowing obligations. Further protection for the customer was ensured by subsequent processes and checks within GRGI.

2.12 The parlous state of the Irish economy in the relevant period meant that there was no market for any distressed assets seized by UBIL. In all the circumstances, the bank’s principal strategy of managing customers “Through the Cycle” of the economic crash was in the best interests of both the customer and UBIL.

2.13 A closer examination of those cases which were moved on into Recoveries, including trading businesses and the acquisition of property assets through WRI bears this out.

2.14 The statistics provided at **Appendix 2** show the overall volume of the GRGI portfolio increased in the years 2011 – 2013, proving that there had been no real movement overall in debt reduction.

Targeted Issues

2.15 We have arrived at the following conclusions regarding the various targeted issues identified in the Terms of Reference:

2.15.1 *Identify criteria (and underlying governance) by which companies enter restructuring or business support, including any written policies, and evaluate how transparent these are to the customer.*

The various criteria and policies affecting the transfer of customers into GRGI are explained in detail later in this Report. We also examine how transparent these policies were to the customers involved and whether matters could have been improved. For the reasons outlined in this Report, we do not believe that any issues relevant to the Principal Allegation arise.

2.15.2 *Consider specific examples of loan to value ratios being reassessed, breaches of covenant being asserted by UBIL and instances where removal or change of facilities have immediately led to a customer being moved into GRGI.*

In the 32 customer files examined by us, we could not find any such breaches of covenant being relied upon by UBIL as the sole or main basis upon which to transfer customers into GRGI. Nor did we find instances where the removal or change of facilities had immediately led to a customer being moved into GRGI. These issues were also explored in interviews with GRGI staff. A detailed analysis is set out in Sections 4 and 5.

2.15.3 Review any available quantitative data and examples of breaches which have not resulted in default.

A large degree of forbearance was shown by GRGI management towards various breaches of covenant and defaults of loan conditions by customers.

2.15.4 Investigate how conflicts of interest are managed (relationship between valuers, UBIL, and West Register Ireland (WRI)).

We have explored conflict management in terms of both valuers engaged by UBIL and the operations of WRI. WRI did not have an extensive role in Ireland because of the moribund nature of the Irish property market for many years. A limited number of properties were acquired by WRI which we have examined in some detail. This is dealt with in Section 10. Valuers, for the same reason, did not feature large in the operations of GRGI over the relevant period. Rather, the bank took the view that, in a rapidly falling market, there was no useful purpose to be served in commissioning valuations. We are satisfied that no practical issues relevant to the principal allegation arose.

2.15.5 Review specific examples identified above where UBIL has imposed an increase in margin and fees.

This did not present as an issue on the files we reviewed. The RMs we interviewed took the view that, in circumstances where the vast majority of borrowers were unable to service their loans, in terms of both principal and interest payments, there was no reality to seeking to impose additional fees or margins. To do so would serve only to increase indebtedness and render the customer's position even less viable.

2.15.6 Investigate the use of IBRs and valuers (and their associated terms of reference) in GRGI and determine how external firms are chosen and appointed to undertake IBRs.

Independent Business Reviews (**IBRs**) were used in an effort to gain an independent expert assessment of the viability of a customer's business and the overall economic circumstances in their relevant sector. From our review of the evidence, such IBRs were rarely commissioned in Ireland, mainly because of the shortage of actual trading businesses. The use of valuers was not prevalent for the reasons outlined in Section 6.

3. Methodology

- 3.1 Our review comprised reviewing relevant policies and practices within UBIL, conducting interviews, targeted documentation sampling, and data analysis. An important part of this exercise was the review of specific customer experiences. This involved analysing the files of those customers who had already made complaints to UBIL and encouraging further customer who might wish to make complaints to come forward and contact us.

The Review of Individual Customer Files

- 3.2 At the outset, we requested that UBIL provide us with a list of all the customers comprised in GRGI as of 31 December, 2013⁸. The bank duly provided us with a list of 1,965 connections. These were identified by name, level of borrowing, region or division of GRGI involved. We then sought to determine the number of files we should review in order to achieve a proper analysis of the overall files and to prove or disprove the Principal Allegation and the impact on the relevant Targeted Issues. Using internationally accepted statistical sampling methods, we decided that the appropriate number of files to sample was approximately 20. In addition to this number were customers who had contacted us directly or made a complaint to UBIL on a Tomlinson related issue and who wished to have such complaint reviewed by us. Finally, as our review progressed, we thought that it would be helpful to concentrate specifically on those trading companies which had been dealt with in Recoveries and placed into receivership, and those customers who had transactions involving WRI. This brought the total number of files reviewed by us to 32.

⁸ This excluded connections within the Corporate Restructuring Unit (CRU), which was outside the scope of our review because of the generally high value of the customers' loans dealt with by such unit.

- 3.3 To deal properly with privacy issues, we entered into a formal agreement with UBIL whereby, as data controller, UBIL provided us with a copy of each customer's file, which we received as UBIL's data processor, so that we might examine the same, limited to the purposes of this review.
- 3.4 Each file was then examined by a member of a dedicated file review team. Typically, files ran to many hundreds of pages, but some ran into the thousands. At the end of that exercise, a review was undertaken with a supervising team member to determine the relevance of any issues discovered to the allegations under review.
- 3.5 The provision of files involved copying the hard file as maintained by the RM and printing off any electronic file also maintained. Such files contained a large amount of correspondence with the customer and correspondence internally within the bank. The files also contained loan approvals, security reviews, minutes of meetings held, property valuations, independent business reviews where they existed, and much other material. The files were probatively very important, in that, while some may not have always been complete, generally they provided a very comprehensive, contemporaneous account of the customer's dealings with the bank. This in turn ultimately allowed us to assess each file in terms of the allegations made in the Tomlinson Report.
- 3.6 Where any documentation was identified as missing from a file, an enquiry was made of UBIL seeking to obtain any relevant documents. Where necessary, an interview was scheduled with the RM who had dealt with the matter, to clarify what information was omitted and explain any issues remaining.

Customer Interviews

- 3.7 We requested that the bank write to each customer who had made a complaint directly to UBIL which could be related to issues raised in the Tomlinson Report. We requested that the bank advise the customers of our involvement in this review and that should the customer wish to speak with us, he should contact us. A dedicated email address was established for that purpose and other contact details were also provided. Such customers were advised that their decision on whether to participate would have no impact on their relationship with the bank. UBIL wrote to such complainants, together with a further 7 customers whose files we had reviewed, inviting them to make contact with us. Fifteen customers received such letters from UBIL. Three customers responded to this invitation and attended a meeting with us, during which they articulated their concerns and complaints as to how they had been treated within GRGI.
- 3.8 We sought to contact other customers directly. This was done by placing a notice on the UBIL website advising them of our appointment and providing contact details so that customers might contact us directly and on an entirely confidential basis. No response was received from members of the public on foot of this notice. UBIL's IT department confirmed that the relevant business banking webpage recorded 383,671 hits over approximately nine weeks when such notice appeared.
- 3.9 A whistleblowing notice was placed on the UBIL employee intranet, inviting UBIL staff to contact us on an entirely confidential basis if they felt that customers had been treated unfairly or in a manner relevant to our review. No responses to the whistleblowing notice were received.
- 3.10 A total of 5 customers made direct contact with us. This was done following press comment relating to our appointment and before we had received our Terms of Reference. We advised these customers of our anticipated involvement in this review and that we would contact them

again once the Terms of Reference had been formalised. Such contact was duly made. A representative of a sixth customer contacted us during the process.

- 3.11 Two of such customers were outside the scope of this review and accepted that this was the case. One of these customers indicated that their complaint was not related to the Tomlinson Report and the other was never in GRGI. A third customer was amongst the 8 UBIL complainants referred to at 3.7. The fourth customer indicated that, although he had some historical issue with GRGI, matters were resolving themselves. The fifth customer contacted MH&C on a number of occasions but used an assumed name and would not give any contact details. The sixth customer and their representatives participated fully in our review.
- 3.12 We made contact with CBI to ensure that no further complaints had been received by it which would be relevant to our review. We were informed that there were none such.
- 3.13 We corresponded with Dr Tomlinson inviting him to meet with us and asking whether he would encourage those UBIL customers who, according to press reports, had made contact with him when he visited Belfast in the course of his investigation, to engage with us. Dr Tomlinson advised us that he was not in a position to assist our review, essentially because of the ongoing Financial Conduct Authority (**FCA**) investigation in the UK. We wrote again asking whether he would be prepared to encourage the customers involved to contact us directly. Dr Tomlinson replied to the effect that, unfortunately, he felt that he could not assist in that regard.
- 3.14 At the outset, we made a presentation to GRGI management in Dublin and to others throughout the country (by means of teleconference) explaining how we proposed to conduct the review. We explained that a whistleblowing notice would be placed on the employee intranet and asked any member of management who had any concerns about the

operation of GRGI in the relevant years to contact us in confidence. Again, there was no response to such request.

- 3.15 Of the 8 customers who had made complaints directly to UBIL / GRGI, 3 could not be regarded as within the scope of the allegations made in the Tomlinson Report (their complaints relating to issues not dealt with by Dr Tomlinson). We examined the remaining 5 files and met with the 3 customers who were prepared to meet with us.
- 3.16 We accept that the customers who made complaints and/or who met with us, genuinely believed that they had been unfairly treated by UBIL and that, had the bank continued to support them, their businesses would have survived. However, having considered such complaints in detail, reviewed the files, and considered any issues raised with the relevant RMs in each case, we are of the view that the Principal Allegation and Targeted Issues were not substantiated. By way of example, in one case, the customer claimed that he was unaware that his case had been transferred into GRGI. However, the file confirmed that letters had been sent from the relevant RMs to the customer advising him formally of such transfer. Further, a number of meetings with the customer had taken place, involving both the original RM and the RM from GRGI, who subsequently came to deal with the case.
- 3.17 We met with another customer who had a number of complaints. One of such was that they believed that their loans had been wrongly called in by GRGI. It was clear from our examination of the files that the loans had been called in following the receipt of legal advice by the Bank. However, it was also clear from the file and our interviews that such decision was reversed within a short period of time and a restructuring of the debt was negotiated and agreed with the customer and their representatives. We found that the Bank had not properly communicated with the customer and had not maintained adequate files but we did not find any evidence to support the principal allegation.

3.18 We sought to render our file analysis and review of policies and procedures and relevant data even more robust. By seeking further files where WRI had become involved and files of trading companies placed into receivership, we believed that we were looking at the core of the allegations made in the Tomlinson Report. Rather than engaging in a general review, we were now concentrating on “pinch points” or areas where, if true, we were most likely to find evidence of the Principal Allegation.

GRGI Interviews

3.19 Following our initial presentation to GRGI staff, we then interviewed all relevant serving senior GRGI executives and other senior management in UBIL. We had been provided with a high level briefing of GRGI’s operations and corporate structure at the outset. We were therefore able to identify the individuals we needed to interview. We conducted 18 such interviews. A list of the interviews, the title of the interviewee, and the date of same is set out at **Appendix 3**. Such interviews typically lasted 1.5 – 2 hours and were very detailed, ranging from the interviewee’s background in banking and UBIL in particular, to his involvement within GRGI and the various roles he had fulfilled. The questions also covered the interviewee’s understanding of various policies and procedures, how these were implemented by him and his staff, how customers came to be transferred to GRGI, customers’ treatment within that division, and ultimately how customers could exit GRGI. Finally, we explored with each interviewee the relevance, as he saw it, of the Tomlinson Report. Following such interviews, a detailed note of same was provided to the interviewee so that he might verify its accuracy and factual content.

3.20 Further interviews were undertaken with every relevant RM who had dealt with the particular files reviewed by us. Twenty three RMs were interviewed in 16 interviews. We followed a similar process to that described in 3.19. Such interviews tended to be more specific. The interview concentrated on the particular file we had examined and the file

reviewer was able to pose any questions or seek appropriate confirmations from the RM involved. Sometimes requests were made for specific documents which may have been missing from the files. Finally, at the end of every interview, the general relevance of the Tomlinson Report was addressed with each RM.

Review of Policies / Documents

3.21 From our early interviews with senior GRGI executives, we were able to identify certain policies and procedures relevant to the operation of GRGI. On the establishment of GRGI in 2008, most of the initial policies had been adopted from their UK counterpart. A list of such policies and other relevant documents is set out in **Appendix 4**. Twenty-four documents comprising some 600 pages were examined by us. The relevant documents were circulated to the file review team in MH&C in order that their review would be properly informed.

Data Analysis

3.22 As our understanding of the detailed processes involved in GRGI developed, we sought to extrapolate certain figures relevant to its operations so that we might gain an overall appreciation of its workings and consider whether any of the allegations referred to in our Terms of Reference could be substantiated. This involved:

3.22.1 An extrapolation of figures from RBS / UBIL for the Republic of Ireland only showing details of the total number of cases admitted to GRGI, when these transfers had occurred, and the relevant resources available during that period;

3.22.2 Obtaining details of the GRGI loan portfolio and its breakdown in terms of sector / type of lending;

3.22.3 Obtaining details of the operation of WRI and the number of property acquisitions it had entered into and the value of same;

3.22.4 Obtaining details of the trading companies placed into receivership by the Recoveries section of GRGI; and

3.22.5 Obtaining details of the overall financial position of GRGI / WRI.

3.23 We believed that the benefit of a high level overview was to assist in either substantiating or refuting the allegations made by reference to hard data, in circumstances where few individual complainants had come forward.

4. GRGI

- 4.1 Given the complexity of the various structures described in this section and the multiplicity of acronyms involved, we have provided for ease of the reader, a glossary of relevant terms and acronyms used.
- 4.2 Unlike RBS in the UK, UBIL did not have the biggest share of lending to SMEs in Ireland. In 2008, UBIL had approximately 14% of market share of lending to SMEs. RBS had established Specialised Lending Services (**SLS**), a forerunner to GRG, in 1992 so that it might form a specialised unit within the bank responsible for dealing with financially distressed commercial customers. As of December 2013, GRG managed a worldwide portfolio of approximately £44 billion, employing over 1,000 people, and managing more than 10,000 cases. In the 20 odd years of its existence, it acquired vast experience in working with distressed commercial borrowers seeking to rehabilitate businesses and ideally restore them to the main bank. Because of the very diverse nature of the portfolio managed in the UK and worldwide by RBS, an expertise was developed in the various industry sectors such as: retail, healthcare, business services, property, infrastructure, food and drink.
- 4.3 GRGI, in its previous form Specialised Lending Services (**SLS**) was established in 2003 as a very small operation engaged in restructuring problem SME and corporate debt. In early 2009, it was re-branded as GRGI, which was then dealing with the very rapid growth in problem credit cases due to the global financial crisis. In the training material provided to its staff, its mission statement was expressed as: *“to undertake positive and active management of the Bank’s problem lending portfolio.”* The Head of GRGI had dual reporting lines to the Global Head of GRG and the Chief Executive of Ulster Bank Group. The rationale behind such dual reporting was to allow it to leverage off the experience and resources of the RBS group.

In its training material, which evolved over the period under review, the five business objectives adopted by GRGI were expressed to be:

4.3.1 Minimise impairment;

4.3.2 Manage capital;

4.3.3 Reduce intergroup funding;

4.3.4 Return to satisfactory; and

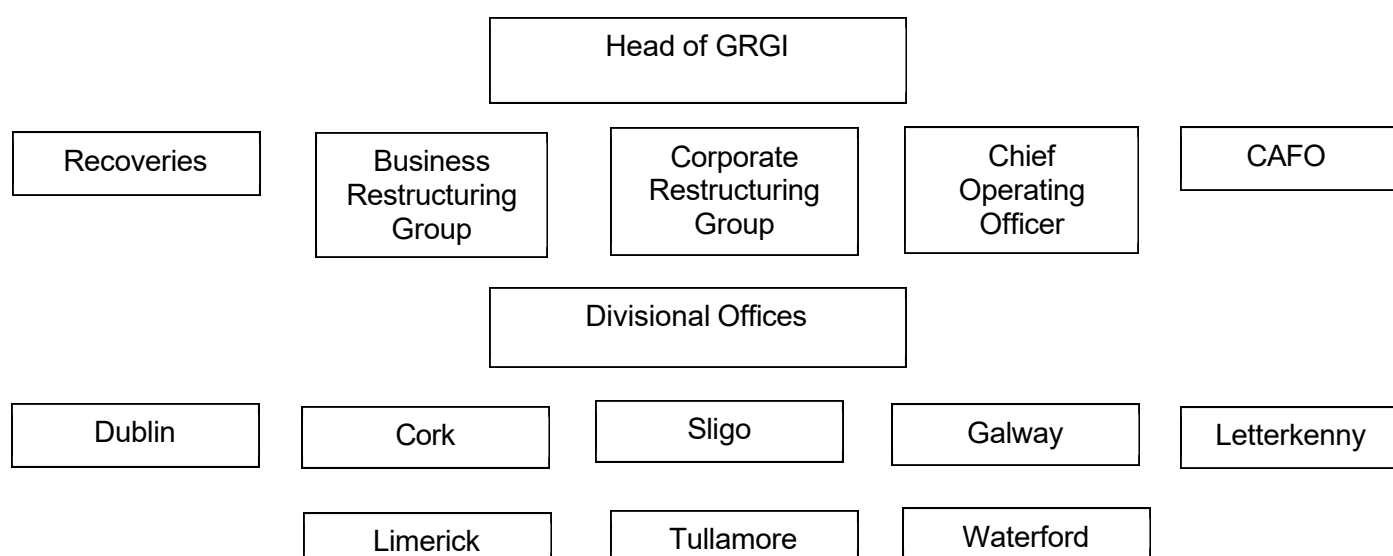
4.3.5 Reduce costs.

4.4 In the principal training manual provided to GRGI staff, the values of the bank and unit were expressed as follows: *“We exist to serve customers. We earn their trust by focusing on their needs and delivering excellent service.”*

4.5 In many of the interviews we conducted with senior GRGI executives, we were told that the “motto” of the group, as adopted from GRG, was *“Restore, Refresh and Rejuvenate.”*

4.6 In other words, GRGI saw its role as trying to support businesses whose borrowings were distressed and if possible, to seek to rehabilitate the business and return it to normal banking. This is described in UBIL/GRGI documentation as “Return to Satisfactory” (**RTS**).

4.7 The composition of GRGI is set out in the following table:



4.8 Each of the Divisional Offices was resourced with Directors, Senior Relationship Managers, Relationship Managers (**RMs**), Assistant Relationship Managers (**ARMs**), and other support staff. By the end of its operations in December 2013, 248 employees were employed in GRGI, managing over 2,000 cases with a portfolio value of more than €14 billion. Many customers had more than one borrowing relationship with UBIL and these are described in this Report as “connections”.

4.9 The progress from mainstream bank into GRGI is best described in the chart reproduced at **Appendix 5**.

4.10 The process began with how UBIL identified and classified potentially distressed SME borrowers. Such framework was provided by the UBIL Problem Credit Management Policy. Lending criteria in UBIL main bank were governed by a range of sector specific policies. While there were a number of such policies, the bank’s loan book had significant exposure to the commercial property sector. RMs working within the main bank regularly reviewed their customers’ loans. Evidence of distress such as making late payments, excesses, or requests for additional or restructured credit facilities was treated as an early warning indicators (**EWI**) on the

Relationship Manager Platform (**RMP**) operating system. Businesses might also be subject to external pressures such as poor market conditions, adverse company announcements, and filing late financial statements.

- 4.11 Probability of Default (**PD**) ratings were assigned based on a risk rating system and the latest available audited financial information. Assessments were comprehensive and were based on information relating to the particular trading history of the customer, its business, and key staff. A Master Grading Scale (**MGS**) is another term for PD. An impairment assessment must be made for MGS/ PD cases with a grading of 27. An overview of the relevant PD grades and associated watch categories is set out on the table reproduced at **Appendix 6**.
- 4.12 In addition to the PD ratings and watch categories, there were certain triggers which required the transfer of such customer's loan, if it exceeded €1.2 million, to a specialist arrears team. If the PD grade was greater than or equal to 24, (i.e. "watch red"), then the relevant RM in main banking had no option but to transfer the loan.
- 4.13 The conventional route for transfer to GRGI was through the "watch process." This is a standard credit risk management feature within banks generally where cases are categorised into various categories such as amber, red, and black as described in **Appendix 6**. In a relatively small number of cases, customers were transferred directly from main bank to Recoveries when GRGI could perform no useful role in terms of business turnaround.
- 4.14 Following the credit assessment of a case and its grading, the Specialised Relationship Management unit took responsibility for the management of certain cases categorised as "watch" cases or migrating towards watch status under the Problem Credit Management policy. If the watch status of those cases worsened, they would meet the criteria for transfer to GRGI, provided the debt level was above the amount managed by GRGI

(over €1.2m). The unit also had the remit to return customers to mainstream banking, if the difficulties which had been identified had been resolved with the customer through more active management and interaction with the bank.

- 4.15 A group known as the Credit Strategy and Review Forum (**CSRF**) was established by UBIL to mirror the process in RBS. Cases were selected for presentation based on their risk (PD) rating, or if other specific issues emerged. CSRF would typically sit once a month and comprised representatives from GRGI, Credit, and Specialised Relationship Management. The RM dealing with the customer made a detailed presentation at these meetings and a decision was then taken as to whether the case should be admitted at that stage to GRGI. Sometimes such a decision would be deferred and the case might come for consideration before CSRF on two or three occasions before a final decision would be made. The fact that cases went through the CSRF process more than once supports the view that there was not “*systematic and institutional*” misbehaviour.
- 4.16 Policy required that the customer be advised once transferred to GRGI. A new RM within GRGI was designated and such person typically was either working in the region where the customer carried on business or, alternatively, had experience in the relevant sector.
- 4.17 A handover meeting was then arranged between the outgoing RM, the GRGI RM, and the customer. A checklist was then to be prepared by the outgoing RM so that the GRGI RM had all the relevant up-to-date information available to him. Following the meeting with the customer, which sometimes took place in the customer’s own business premises, the recommended policy was that the customer would receive a letter confirming the change in circumstances.
- 4.18 Within 90 days of such transfer, GRGI policy stipulated that the case should be reviewed by the Strategy Credit Review (**SCR**). Unlike the

CSRF (which had to make a decision as to whether the customer should be transferred to GRGI), the SCR was purely about strategy. It comprised members of senior management of GRGI and also Senior Relationship Managers and occasionally staff members from the UK who could bring the benefit of their expertise. A presentation was made by the relevant RM in a detailed set format, outlining their recommendations in respect of the business involved. All loans under GRGI control were subject to formal SCR review on a quarterly, bi-annual, or annual basis (dependent on the level of the loan). Loans with an exposure of more than €6 million were to be reviewed at least quarterly. This limit was reduced in March 2012 so that all connections with an exposure of greater than €2.4 million were required to be reviewed quarterly. The chair of the SCR panel had discretion to extend the review period, depending upon the individual circumstances of the case.

- 4.19 Much preparatory work was done by the RM in conjunction with the customer and also, where appropriate, with specialised units within the bank, such as the Property Advisory Unit (**PAU**) (established in July 2011 to provide advice on property matters) and the Strategic Investment Group (**SIG**) (again established in 2011 and used occasionally to advise on managing equity portfolios and upside instruments).
- 4.20 While carrying out our file review exercise, we read very many reports created by RMs for the purposes of SCRs and minutes of such meetings where these reports were discussed. We were impressed by the detail involved, the care taken to review the customer's overall situation, and the various options being adopted by the RM and supported by SCR to work with the customer.
- 4.21 Typical options considered by SCR in such report/review were:
- The provision of short term capital and/or an interest moratorium where the view was that cash flow issues were short term in nature;

- Sale of non-core assets;
- Customer appointment of asset managers;
- Customer appointment of sector specialists as consultants to the business;
- Right-sizing of debt relating to viable business based on sustainable cash flows;
- Restructuring of debt;
- Consensual exit / sale of assets;
- Transfer to Recoveries for exit through formal insolvency process;
and
- Personal insolvency.

4.22 In a very small number of cases, GRGI was prepared to engage in further lending to customers. This was only where it made clear commercial sense to do so, such as advancing money to a developer where an estate was practically complete and a guarantee could be offered on sales of the remaining properties. As the GRGI statistics at **Appendix 2** show, such new lending was very limited in nature. A number of GRGI executives we interviewed told us how they were obviously reluctant to “*throw good money after bad*” but they saw themselves as making further finance available to customers in appropriate cases in the following ways: renewing or extending loan facilities, or providing stocking loans to trading businesses on a rolling basis.

- 4.23 The role of Senior Relationship Managers, RMs, or ARMs within GRGI, as opposed to normal commercial banking, is worthy of examination. As GRGI evolved and acquired additional resources to deal with its rapidly increasing workload, its RMs developed an expertise similar to that of their colleagues in the UK. Teams with expertise in particular industry sectors were developed. The ratio of customers to RM (in its various forms) of approximately 11:1 was far lower than that in (main) UBIL bank and allowed for much greater interaction between the customer and the RM. We were told that many customers valued this support and found it helpful to their businesses; others undoubtedly found such heightened scrutiny intrusive. RMs, working as part of a team, were obliged to complete regular case reviews and to report to the head or director of their division on a regular basis.
- 4.24 A formal forbearance policy existed within the bank, which outlined the bank's policies for temporary or permanent concessions to a customer experiencing financial stress. The policies specific to GRGI included: debt for equity swaps, debt forgiveness, capitalisation of arrears, upside in lieu of debt forgiveness, and standstill agreements. The policy was expressed to apply to all business and credit areas, excluding Recoveries which did not grant such forbearance.
- 4.25 GRGI's assets were taken on by RBS Capital Resolution Ireland (**RCRI**), with effect from 1 April, 2014. Such assets were transferred to RCRI under existing RM teams, except sub €1.2 million cases which are outside the RCRI parameters. These assets did remain on the UBIL Balance Sheet. Such cases have been transferred back to the management of SRMs.
- 4.26 Given the reference in the Tomlinson Report to a "*profit driven approach*" culture within GRGI, we thought it would be helpful to look at financial data for GRGI over the relevant period and to examine whether GRGI had managed to generate any surplus or profits. When one takes into account

operating costs and the level of impairment to the overall portfolio, GRGI operated in a considerable loss making position for the period under review.

5. Bulk Transfers – “Lifts and Shifts”

- 5.1 A significant difference between the UK experience of GRG and the Irish experience in GRGI was the manner in which most cases came to be transferred into GRGI. This occurred by means of three bulk transfers in March 2009, October 2009, and May 2011. By December 2013, the number of connections whose cases had been transferred to GRGI was approximately 2,140. Staff levels had grown from less than 10 people in early 2008 to approximately 248. Such growth is best understood by reference to the graph reproduced at **Appendix 7**. There was a sharp spike in the number of cases admitted to GRGI in May 2011, comprising approximately 700. This can be compared to the experience of GRG in the UK where there was a more gradual intake, which had commenced at least 18 months earlier.
- 5.2 Following its establishment and the deepening of the economic crisis in Ireland in early 2009, GRGI increasingly became aware of the depth of the problem facing UBIL and its customers. As the recession deepened and all aspects of the SME economy suffered, a large proportion of the bank’s SME loan book was not functioning and the process of transfer into GRGI had to be accelerated. This was to ensure overall compliance and the need to align with UBIL’s Problem Credit Management Framework. A series of exercises was carried out by UBIL to identify relevant cases.
- 5.3 In late 2010, certain infrastructural weaknesses were identified by the bank including failing to proactively identify potential problem credit cases when they should have been transferred at an earlier stage into GRGI, not always effectively managing cases in GRGI through not checking compliance with covenants, and not submitting cases on time to SCR and Problem Exposure Review (**PER**). In several cases, discretionary or even mandatory triggers which would have required the transfer of a connection from mainstream banking into Specialised Relationship Management or GRGI were not acted upon. In one file we reviewed, a

receiver had been appointed by a third party in March 2008. Notwithstanding that this was a mandatory trigger within GRGI's policies for the transfer of such customers to GRGI, such transfer did not take place for almost two and a half years.

- 5.4 These issues reflected the huge challenges facing GRGI in the bulk transfers of cases it had received at that stage and the insufficient staff resources it then had. The number of cases in GRGI had increased from 58 in 2008 to some 636 by the end of 2009. The total value of loans involved had increased almost tenfold, from just over €880 million to €8.8 billion.
- 5.5. The issues described at 5.3 above were immediately addressed through the establishment of a GRGI Transformation / Impaired Asset Transfer Programme which was run by an Executive Steering Group (**ESG**) and a Planning Implementation Board (**PIB**). These groups were established to conduct a detailed evaluation of the GRGI structure then pertaining and its resourcing requirements. Various options were considered to facilitate case transfers, including:
- 5.5.1 A phased approach based along the conventional path from UBIL main bank to GRGI as described in Section 4;
- 5.5.2 A "Big Bang", being a migration of all qualifying cases at a set time into GRGI; and
- 5.5.3 A "Lift and Shift" which provided for the transfer of staff (RMs) with cases into a GRGI management structure.
- 5.6 The "Lift and Shift" approach was adopted, as it brought with it the benefit of transporting with the cases those RMs who had dealt with the customers when they were in the main bank and who were therefore very familiar with their situation. This had the added advantage of optimising GRGI resources at that time. However, it brought with it the disadvantage,

from the bank's perspective, of RMs who had a long history with their customers and, therefore, might lack objectivity, or, at least, who found it difficult to convey to such customers the new realities of their distressed loans.

- 5.7 As GRGI evolved and various deficiencies were addressed, recommended practice came to mirror that in GRG and cases were re- assigned to new RMs who had no historical links with the customer.
- 5.8 In 2011, a further 850 cases (approx.) were transferred in effectively one block. The net effect of these three bulk transfers / "Lifts and Shifts" was that in excess of 1,400 connections had been transferred to GRGI through this process out of a total of approximately 2,140 connections in GRGI at the end of 2013.
- 5.9 We found that, in a relatively small number of cases, no handover checklist had been completed, despite the recommended guidelines to this effect. We also found, on some files, that formal letters had not been written to the customer by either or both the outgoing RM in the main bank and the GRGI RM. While it would have become apparent to any customer very quickly that they were now under a new regime in GRGI and subject to more review and interaction with their RM than they were used to in the main bank, it is regrettable that GRGI, in many cases, did not comply with its own recommended procedures. In circumstances of such non-compliance, the transfer of customers from business banking into GRGI was not individualised or as transparent as it should have been. This matter is again dealt with later in this Report at Section 11, Employees and Resources.
- 5.10 However, once within GRGI, each of these cases was subject to the same rigorous involvement and reporting by RMs and supervision by SCR as cases which had been individually transferred through the conventional path. The first such review always took place within 90 days of the case

being transferred and one of the functions of SCR was to satisfy itself that the case was an appropriate one to be dealt with by GRGI.

- 5.11 Having examined, in considerable detail, both the principle behind the establishment of the bulk transfer policy and its implementation, we believe that the various issues identified above do not constitute any support for the Principal Allegation made in the Tomlinson Report. By the very nature of such bulk transfers, the bank did not single out customers or viable businesses for invidious treatment.
- 5.12 Our review of the individual cases that were the subject of such bulk transfer to GRGI showed that, if anything, these customers should have been transferred to GRGI much earlier, as they satisfied the qualifying criteria and should have been identified by Credit Watch and sent for consideration to CSRF, as described above. Insofar as procedures regarding such bulk transfers were concerned, the failure, in some instances, to apply such procedures did not go to the substantive issue of whether such cases should have been transferred to GRGI.

6. Independent Business Reviews / Valuers

- 6.1 In interviews held with senior GRGI executives, we were told that IBRs were undertaken in the earlier years of GRGI. Their benefit was seen as limited, in that they provided, at best, a “snapshot in time” of the business and, given the overall nature of the economy, which at that stage was deteriorating quickly, they were seen as having little practical value.
- 6.2 Occasionally, IBRs were commissioned from certain accountancy firms that were seen as having an expertise in a particular sector. One GRGI director described to us a case in the hospitality sector where following the completion of the IBR, the customer continued to use the services of that particular firm as they considered its advice very helpful in the running of the business.
- 6.3 PAU also formed part of GRGI and its services were available, as required, to all UBIL staff engaged in distressed SME case management. The team comprised external secondees, employed by various firms who provided valuation and surveying services. They provided support in a number of ways including:
- 6.3.1 Having discussions with UBIL RMs in relation to issues arising on property cases and also advising on a high level basis;
 - 6.3.2 Providing specific strategic and valuation advice;
 - 6.3.3 Issuing standard report scope templates in an effort to ensure that all external property reports received were in a standard format;
 - 6.3.4 Assisting in instructions to external firms for non-standard property-related reports, including: valuation, strategy, condition surveys, and sales and letting instructions; and

- 6.3.5 Ensuring that consistent property advice was provided in a timely fashion.
- 6.4 The commissioning of formal property valuations from external firms was done occasionally but not on any widespread basis. SRMs and managers saw such valuations as having limited benefit, given the volatile and deteriorating nature of the Irish property market, where there was effectively no market for the purchase of any property assets. SRMs and RMs seemed to have had discretion as to which firms they engaged, from the panel referred to below, for the purpose of such reports. Typically, in Dublin, one of the leading valuers was engaged, or a firm seen as having a particular sectoral experience.
- 6.5 We sought a list of all those advisors who had provided professional services to GRGI, whether through the provision of property valuations or IBRs. We were provided with a composite list of all professional services providers. Initially in Ireland, 215 firms were used nationwide. These firms included: accountants, architects, valuers, business consultants, surveyors, engineers, planning advisors, retail consultancy firms, and insolvency service providers.
- 6.6 Subsequent reviews of this panel identified an issue regarding the lack of a documented policy in GRGI to govern the appointment of professionals. Not all of such service providers were approved RBS suppliers. During 2011, an approved professional panel matrix was prepared and the number of suppliers reduced to just over 100. These included approximately 15 estate agents, 28 insolvency practitioners, and 16 receivers. From the evidence available to us, it seems that work was divided evenly among the relevant practitioners, most of whom were very well-known in their fields. On the basis of the evidence available to us, we do not consider that any conflicts of interest arise insofar as valuers and IBR providers are concerned.

7. Fees / “Upsides”

- 7.1 In principle, it was open to GRGI to generate additional revenue or “upsides” by:
- 7.1.1. Charging further fees, such as management fees; and/or
 - 7.1.2. Entering into Property Participation Fee Agreements (**PPFAs**); and/or
 - 7.1.3. The bank acquiring ownership of certain shares in the customer company or some other non-cash instruments (debt for equity swaps).
- 7.2 We examined a policy document entitled “Fee Charging Guidelines” issued in March 2012 which stated, *“given that the vast majority of GRGI customers are unable to service their facilities, we generally look at charging additional fees as opposed to a margin increase in return for continued forbearance.”*
- 7.3 Such fees could include monitoring fees, stepped up fees, and back end (tail end) fees. GRGI agreed with CBI that such fees could be charged to customers provided that the fees were individually negotiated as between GRGI and the customer, the negotiation and outcome were clearly documented, and the fees should not apply to what were described as micro-enterprises (defined by CBI as having fewer than ten employees and a turnover of less than €2 million). We could find no evidence of the imposition of any such fees on the 32 files examined by us.
- 7.4 It was common for many loan agreements to contain a provision allowing the bank to apply additional or default interest in the event of a customer being in default of the terms and covenants in their loan agreement. In accepting a loan offer, a customer effectively enters into a contract, accepting whatever conditions may be attached. We saw no evidence of

the bank seeking to impose interest, save as provided in the loan agreement entered into by the bank and its customer.

- 7.5 A PPFA is a fee agreement by which the bank matches its risk and return by reference to the value/increase in value of a property. Continued bank forbearance/support enables the customer to benefit from an uplift in the property value with the bank sharing. . They are used in situations where a bank is continuing to provide forbearance, has agreed to write off amounts owing or is continuing to provide facilities which fall outside risk appetite.
- 7.6 Their implementation involved the Strategic Investment Group. The function of such group, which was established in July 2011, was to provide restructuring solutions which could include debt-equity swaps. They provided support in a number of areas:
- 7.6.1 The taking of equity and other upsides to secure a level of return commensurate with risk;
 - 7.6.2 Managing portfolios of equities and other upside instruments; and
 - 7.6.3 The investment of new capital using individualised hybrid mezzanine / equity products.
- 7.7. In our interviews with GRGI executives, we were told that, in practice, PPFAs were rarely used. From data obtained by us, it appears that 62 PPFAs were entered into between 2008 and 2013. We saw 6 of such agreements on the files reviewed by us. The legal framework was relatively complex and required considerable input from advisors acting for GRGI and separate advisors acting for the customer. Many GRGI executives felt that such arrangements were beneficial from the customer's point of view.

In one of the files we reviewed, the customer had entered into an agreement whereby a payment representing 80% of the amount by which the market value of the property exceeded the customer's indebtedness to the Bank would be paid in the event of any sale of the property or on the expiry of the loan facilities. In that particular case both parties accepted that at the date of the agreement the value of the property was less than half the customer's indebtedness and by the time the loan facility had expired the property was still in negative equity so that the PPFA had no practical effect.

- 7.8 The imposition of margins and fees did not present as an issue in our review. None of the customer complaints reviewed by us raised any issue in relation to fees. From the many interviews we conducted with SRMs, RMs, and other more senior GRGI staff, we were told that there was absolutely no reality to the bank seeking to impose fees or charges on customers who were not even in a position to service their primary obligations under their loans. To do so would only have exacerbated the overall situation, both from the customers' perspective and that of the bank.

8. Departing GRGI

- 8.1 From a practical point of view, the main ways in which a customer could leave GRGI were:
- 8.1.1 Repaying the loan or banking it elsewhere;
 - 8.1.2 Returning to Satisfactory (**RTS**) in main bank; or
 - 8.1.3 Entering the Recoveries unit.
- 8.2 From the files examined by us and the interviews conducted, we learned of only 2 examples of a customer either repaying their loans or banking elsewhere. This is understandable given the credit crisis in Ireland during the relevant years and the very weak state of the economy.
- 8.3 RTS was the ideal aspired to by both GRGI and GRG. Unfortunately, in Ireland, this appears to have happened in very few cases. From statistics provided by UBIL, 4 connections made the transition from BRGI in 2013, 2 in 2012, and no data is available in respect of 2011. The comparative figures for the UK in the same years were 759, 742, and 629. This disparity must be put in context; in the UK, it seems that many customers within GRG were viable trading businesses which were capable of being returned to normal banking. However, the typical customer in GRGI was carrying a significant level of property-related debt and, because of the overall state of the property market and ever falling values, such cases did not lend themselves to rehabilitation.
- 8.4 A customer was in a position to RTS if it managed to reduce its PD rating to a satisfactory level and it received positive reports from its Senior Relationship Manager. This could be achieved through a successful restructure, improved financial performance or debt repayment. The case would then come for review in the standard way before the SCR and, if the Credit Sanctioner was satisfied, it would be earmarked as a suitable case to make the transition back to main banking. Generally, such cases

were effectively given a probationary period of six months and provided all was still well, the case would then return to main banking.

9. Recoveries

- 9.1 As the progress chart at **Appendix 5** shows, ultimately if cases were to exit GRGI and had not done so as described at 8.1 above, the only option remaining was that of being transferred to Recoveries.
- 9.2 Within GRGI, Recoveries sat as a separate unit. Initially, it was a very small unit comprising some 9 people. As of 31 December, 2013, it was managing 455 connections, most of these having been referred from other units in GRGI, and employing 36 people.
- 9.3 Its principal remedies were the traditional insolvency alternatives of: securing judgment against individual customers/companies, appointing receivers either to fixed assets or trading companies, liquidating companies, and settlements.
- 9.4 As most of the connections transferred to Recoveries were made up of property-related developments or property investments, the remedy most frequently chosen, in circumstances where it had not been possible to effect a settlement with the customer, was that of appointing a receiver. Time and again in interviews with GRGI staff, we were told that receivership represented the worst outcome for everyone concerned. The perception was that a forced sale of a property asset could suppress its value, and the professional fees involved represented a significant outlay. The preferred solution for the bank was to work out some form of debt reduction with the customer through consensual sales, partial repayment, or some other means.
- 9.5 Liquidations were rarely utilised unless the customer itself sought to appoint a liquidator or one might be appointed by another creditor. The appointment of a liquidator by another creditor often acted as a catalyst for the bank to appoint a receiver.

- 9.6 The role of a receiver is to manage the asset involved and secure its value, ultimately through sale, and in doing so, to secure the best value for the asset and thereby maximise the possibility of repaying the loan. GRGI originally seems to have used a large panel of receivers but this was later reduced. On occasion, the bank utilised specialists as required in certain circumstances. Often customers themselves would request the appointment of a receiver or, alternatively, consent to the appointment of one by the bank. If the customer was actively trying to sell the property itself and the bank was satisfied it was receiving full cooperation, it would facilitate such process and not appoint a receiver. This is borne out by our examination of relevant files in the file sampling review conducted by us. In cases where a receiver was appointed by the bank without the consent of the customer, the customer's reaction might best be described as one of resignation.
- 9.7 It is open to any customer to challenge the appointment of a receiver. We saw only two instances where a customer actively challenged the appointment of a receiver. High Court proceedings were recently instituted in one case, which proceedings are still ongoing. In the other case, proceedings were withdrawn.
- 9.8 GRGI executives stated that they rarely appointed receivers to trading companies and would only do so as a last resort. The view was taken that, commercially, if the bank were to do this, the business' value as a going concern would be seriously affected. Reputational damage would be caused to the business and the loss of jobs was also a genuine concern. In such circumstances, the bank would do a cost/benefit analysis and only if the company was in danger of collapse or the bank's security was otherwise in jeopardy, would a receiver be appointed. This could happen in situations where the company had serious cash flow difficulties, was not in a position to pay its creditors or where there had been some form of third party creditor action.

- 9.9 Given the Principal Allegation in the Tomlinson Report (that the bank had systemically distressed otherwise viable businesses and put them “*on a journey towards administration, receivership, and liquidation*”), we believed it would be instructive to analyse those trading companies actually placed into receivership by GRGI over the relevant period. Figures for insolvency appointments for 2013 and 2012 were 117 and 100 respectively. These represented approximately 5% of the total number of connections.
- 9.10 When one analyses receiverships of trading companies, 48 appointments of receivers were made in the relevant period for loans under €10 million. Of these 48 receiverships, 9 were consensual. A further 13 were triggered by other events including: winding up petitions being presented by third parties, a liquidator appointed to the company, or the Revenue petitioning to wind up. As regards the balance, in most of the cases, the trigger for appointment was described as being unsustainable trading, a failed restructuring, key customers or suppliers refusing to continue to trade, or lack of information being provided / engagement by the customer.
- 9.11 A further 11 receivers were appointed to trading companies whose debts to UBIL exceeded €10 million. Of these, 3 were consensual appointments, 2 involved a prior appointment of a liquidator, and the remaining 6 were due to differing circumstances such as cash flow pressures or an “event of default” such as a repayment default, the appointment of a liquidator, or poor trading performance.
- 9.12 An analysis of data provided to us in respect of transfers from Business Restructuring Group Ireland (**BRGI**) to Recoveries shows that no cases were transferred in 2008, 2009, or 2010. In 2011, 36 cases were transferred; in 2012, 142 cases; and in 2013, 94 cases. Such cases taken as a percentage of the then total case population within GRGI represent for the respective years the following figures: 2.5% (2011), 8.7% (2012), and 5.8% (2013). These figures, in our view, clearly establish that there

was no significant migration of cases from BRGI to Recoveries and suggest strongly an overall policy of containment.

- 9.13 It is our considered view that the statistics referred to above disprove the Principal Allegation and that the vast majority of cases were being maintained within GRGI and not being placed “*on a journey towards administration, receivership, and liquidation.*” Furthermore, our file review did not disclose evidence of any viable businesses being forced into insolvency by GRGI.

10. West Register

- 10.1 West Register Ireland (**WRI**)⁹ began its operations in 2011, being a wholly-owned subsidiary of UBIL. The entity sat outside the main GRGI structure, as the table at paragraph 4.7 shows. The head of WRI reported directly to the Global Head of West Register (**WR**).
- 10.2 WR was established in 1992. Many of its policies and procedures were adopted in Ireland and a detailed policies and procedures manual was published in January 2012. In Ireland, only two companies were established; West Register (Property Realisations) Limited and West Register (ROI) Limited. WRI activities related to distressed loans and sought to create additional value in the asset through its active management, the ultimate aim being to exit once market conditions were more suitable.
- 10.3 From interviews we learned that the original philosophy in the UK had been to ensure that there was a market for the property, so that the bank's secured asset would not be undervalued. The ideal scenario was described as WR being the under-bidder on a property by just £1. In other words, it would have underpinned the value of the asset but not actually acquired it. When WRI was first launched, there was an expectation in GRGI generally that it would acquire a large number of properties, in what was then a very inactive market. This proved not to be the case and WRI, as can be seen from the figures below, completed only a modest number of transactions.
- 10.4 The WRI manual runs to 64 pages and provides for detailed processes as to how bids are to be made on properties and acquisitions effected. Broadly speaking, matters would commence with WRI being contacted by an RM within GRGI, or perhaps the PAU, to advise that a particular property was coming to the market. WRI would only become involved if

⁹ While WRI functioned in both the Republic of Ireland ("ROI") and Northern Ireland ("NI") this review is concerned with ROI only and any reference to WRI or any figures quoted must be read in this context.

external sales agents had been appointed and the property was being actively marketed for sale. Generally, such sales were consensual and the customer was fully aware of WRI's involvement.

- 10.5 An Asset Purchase Proposition (**APP**) was prepared by the relevant case manager for consideration by the WRI Board. It contained a great amount of detail about the property involved including its purchase price, the level of indebtedness secured, description, yield, and overall potential. It set out an intended asset strategy and a proposed purchase price. It provided an overall decision rationale and proposed business plan. Typically, this might include obtaining a development planning permission or carrying out certain improvements to the property, seeking to manage the existing tenants, looking to optimise rent roll on future rent reviews, and ultimately looking to exit through sale. It provided a summary cash flow based on projected costs and rental income and ended by requesting certain facilities.
- 10.6 If approved by the Board, a bid letter then issued to the selling agent. This was in the standard "*subject to contract*" format familiar to property lawyers and estate agents. It was effectively a formal bid for the property, subject to legal and surveying matters being in order and the requisite finance being obtained.
- 10.7 We were told that it was the invariable policy of WRI to make one bid only on a property and, in the event of that bid not being the highest, the exercise was still considered successful if it helped to promote an active market and another, higher bid was made by a third party. In one transaction we examined, a property had been offered for sale and WRI was initially outbid by three other parties. None were able to complete the sale and the option to purchase in those circumstances reverted to WRI which acquired the property on foot of its original bid.
- 10.8 For the short period it was active in the market, WRI acquired 16 properties with a total acquisition value of €43.35 million. Of such

acquisitions, 9 were consensual and the remainder were acquired from receivers. Those consensual acquisitions included 1 which had been purchased “off-market” and 5 which had been acquired either from a borrower following competitive bidding, a public marketing campaign, or from a receiver following the same process. Three properties were acquired from the same customer through what was described as a consensual off-market purchase with the price determined by an independent valuer. In that case, the customer had agreed with the bank that various properties be sold as part of a restructuring in order to write down debt. It was agreed that a purchase of such properties would be made by WRI, whereby the purchase price was to be determined by a Red Book¹⁰ open market valuation prepared by a leading valuer.

- 10.9 In the corresponding years (2008– 2013), WR bought properties from 166 BRG customers in the UK. Relative to the overall activity of GRGI, WRI did not have a significant profile and did not engage in the purchase or disposal of secured property to any significant extent.
- 10.10 Some 15-18 months after its establishment there was an overall change of strategy within GRG though the announcement of the creation of Real Estate Asset Management (**REAM**). In June 2013, given the growing focus on real estate asset management, REAM was separately established as an asset management platform. It had the objective of providing asset management services, providing real estate advice to customer and administrators, irrespective of whether the Bank took direct legal ownership of the assets. The name ‘Real Estate Asset Management’ reflected the change in strategic focus.
- 10.11 An analysis of WRI’s profit and loss account for the short time it was in existence shows that it operated at a loss since no disposals were made by it in the period under review. There are still WRI legal entities holding WRI acquired assets. The assets are being managed in line with the

¹⁰ Royal Institute of Chartered Surveyors (RICS) Professional Standards, 2012.

RCR de-leverage strategy introduced in 2014. We understand that a number of these assets are currently actively under sale. Four of such properties have been sold. The price achieved on the sale of each property was significantly greater than that paid by WRI on acquisition. Such prices clearly reflected the market improvement in late 2013/2014 and asset management strategies adopted by WRI. However, when one takes into account the operational costs associated with ownership and the costs of disposal, UBIL has still suffered a material loss on each of these disposals, in terms of the original loan advanced by it to the customer to finance the acquisition of the property.

- 10.12 The Tomlinson Report refers to businesses alleging that properties were undervalued by RBS to force businesses into distress so that their assets would be purchased by WR at a discounted price. Our Terms of Reference require us to investigate how conflicts (of interest) are managed as regards WRI. Such risk of conflict, or at least the perception of same, was recognised by WRI and its detailed policies and procedures contain sections dealing with how the integrity of the bid process might be maintained. These provided that the relevant primary case manager (**PCM**) should “*bid blind for a property with no knowledge of external bids.*” WRI was allowed to bid only once for a property. This was to ensure that a fair price was submitted and that the bank could not be accused of self-dealing, thus preserving the integrity of the bid process and not discouraging the external market from submitting bids.
- 10.13 Guidelines were provided as to the information that a GRGI RM might provide to the PCM. This included details of the customer’s debt and security package and the level of provisioning and any defects in security, even if these were not being disclosed to other bidders. On the face of it, this would appear to have given WRI a competitive advantage over other bidders. However, it was clearly relevant to WRI, which was funding any proposed purchase with UBIL money, to know the level of current indebtedness. Arguably, it should not be material to any external third party bidder to know the indebtedness of the property owner, as the

market value of the property should be capable of being determined objectively, without reference to the owner's personal financial circumstances. While protocols were established in June 2012 as to the access to network folders and systems in GRGI by WRI staff, prior to that there was general access for all staff to all information on network folders.

- 10.14 Certain GRGI executives we interviewed believed that there could be a perception of conflict of interest on the part of customers or the general public, in that GRGI / WRI could be involved on both sides of the same transaction. Many customers within GRGI were operating under considerable financial and emotional stress. The fact that both entities operated out of the same premises, albeit on separate floors, did not help such perception of a conflict of interest. However, the reality of the situation, as established by the data highlighted above, is that WRI did not play any significant role in property acquisitions and we saw no evidence of customers being prejudiced by any perceived conflicts.

11. Employees and Resources

- 11.1 There was a huge growth in the number of employees in GRGI from early in 2008 to the end of 2013. The bank faced great logistical difficulties in recruiting suitably qualified and experienced staff to deal with the large case load which had migrated into GRGI, principally in 2009 – 2011. The inflow of cases through the conventional watch process continued apace throughout the following years, albeit at a much slower rate. Initial ratios of customers to RMs (in their various forms) in GRGI were in the order of 25:1 or greater. It was stated bank policy that these should be brought in line with GRG ratios of 11:1 and this was achieved during 2011.
- 11.2 The evolution of GRGI in terms of its case load and resources can best be explained by reference to the table reproduced at **Appendix 8**.
- 11.3 There was a high level of interaction between RMs and their customers. We were often told by RMs in interviews how most of their daily activities were taken up with monitoring and supporting their customers' trading to ensure that they were operating within their sanctioned limits and also providing what was effectively an advisory service to them, because of their level of experience. Some RMs described how up to 30% of their working day could be occupied with just one customer who had a particularly challenging business, principally involving cash flows. RMs were provided with a very large volume of policies, procedures, and documents which they were required to implement in a short timeframe. As updates issued, there was a subtle shift in the response and conduct required from RMs and courses of action that were initially described as "*recommended*" became "*desirable*", and in some cases, eventually "*mandatory*". This had the potential to cause confusion amongst RMs as to whether they were obliged to carry out certain aspects of policy, such as sending notification letters or compiling checklists.
- 11.4 All of this required an elaborate training programme. New employees were provided with a detailed induction programme and there was

on-going training and updates for established staff. Templates and precedents of various checklists and sample correspondence were made available on the intranet site, as were the relevant policies and procedures, which, of necessity, were very detailed.

- 11.5 As already described in Section 5, certain weaknesses in GRGI management controls were identified in late 2010. These included GRGI not maintaining adequate training records for new employees and existing staff.
- 11.6 An agreed action plan was immediately put in place so that all GRGI RMs would receive specific RMP training. A full training database was established and individual management delegated the responsibility of maintaining training records and reporting on this to the COO. The issues referred to at 11.5 above were eliminated over time.
- 11.7 We obtained sight of a training timetable for the period October 2011 to October 2013. This set out the variety of courses provided to GRGI staff, some of which were “*mandatory*” and others “*advised*”. They were countrywide and covered topics including: recoveries and restructuring, credit process, upsides, capital management, and “*managing difficult conversations*.”
- 11.8 In the course of interviewing RMs, we formed the view that, overall, there was a good level of appreciation of the requirements of GRGI’s written policies and procedures. On the file examination conducted by us, in certain cases, letters had not been written to customers formally advising them of their transfer to GRGI, in accordance with recommended practice. Some of the RMs we interviewed were not aware that there was a standard template of such letter provided in the relevant handbook and available to download from the intranet. Because of the fact that, in the relatively early stages of GRGI’s operations, many RMs came across from UBIL main bank with the file, in the “lift and shift” process already described, this may have caused confusion amongst certain customers as

to what exactly such transfer entailed. However, only one customer amongst the complaints reviewed by us, made such a claim and in that case, we found on that file a letter informing the customer of such transition.

11.9 Based on our review, it is probable that, at a time when hundreds of cases were being transferred *en masse* into GRGI, many customers were not formally written to in accordance with recommended practice. However, within a short space of time when their case came for review before the SCR and a new, much more intense relationship developed with their RM, it would have become apparent to any customer that their banking relationship had now moved to a different level.

11.10 We have considered the issue of whether GRGI staff members were financially incentivised in any way to deal oppressively with customers in the manner alleged in the Tomlinson Report. We examined Performance Management and Development Forms (**PMDF**) for GRGI staff over the period 2009 – 2013. These were detailed documents similar to those used in all large organisations which sought to review whether employees had achieved key objectives in certain areas, assigned ratings based on such reviews, and sought feedback from employees in relation to their own performance and future objectives. In the 2010 **PMDF** there was a specific business goal objective of seeking to “*minimise loss by achieving 10% reduction in exposure across [the] portfolio.*” A further specified business goal was described as “*enhancing revenue opportunities, focusing on upside instruments – minimum x PPFAs to be completed by year end.*” Further business goals were put under the heading of “*restore/restructure rejuvenate/return to good bank*”. These were specified as being formally to restructure debt for all customers and to “*return profitable core relationships, where appropriate back to the bank for future growth.*”

- 11.11 However, in subsequent years, such specific objectives were changed and described in very general terms pertaining to the employee's financial contribution, their portfolio management, relationship management, staff and self-management and data maintenance. Further objectives ranged from seeking to maintain acceptable service, achieving zero justifiable complaints, enhancing team spirit and complying with the bank's various policies and procedures.
- 11.12 As with any Key Performance Indicator (**KPI**) such objectives should be linked to the business strategy of the organisation and be achievable. It appears to us that as the realisation grew within GRGI that no meaningful debt reduction of the portfolio could be achieved, this became reflected in the individual KPIs.
- 11.13 Bonuses were paid to a small minority of employees and were modest in nature. We therefore could find no evidence of any "*profit driven approach culture*" within GRGI in the context of employee incentivisation.

12. Conclusions and Recommendations

- 12.1 This independent review required MH&C to consider the most serious allegation made in the Tomlinson Report, namely that RBS (UBIL) through its GRGI division was culpable of “*systematic and institutional behaviour*” in artificially distressing otherwise viable businesses and through that putting (such) businesses on “*a journey towards administration, receivership and liquidation.*” This is described as the Principal Allegation. In the course of our review we found no evidence to substantiate the Principal Allegation.
- 12.2 On the contrary, it is clear from our review of policies and procedures, and the many interviews conducted by us with executives and RMs, that the actual policy of GRGI was, insofar as was possible, to return businesses to viability. As events transpired and the realities of the dire economic situation manifested themselves to the bank and its customers, it became clear that most of these businesses were not capable of rehabilitation, in that the value of their properties on the loan book and the income they generated had sunk to levels where there could be no real prospect of ultimately redeeming the loan or servicing the debt. The overall policy of GRGI then became one of containment or managing customers “Through The Cycle.” We found more than ample evidence to support the existence and implementation of such a policy and we are satisfied that GRGI believed that this policy was both in the best interest of its customers and the bank.
- 12.3 The file review exercise conducted by us showed no abuses such as those alleged to have occurred.
- 12.4 A separate analysis of the overall statistics for the operation of GRGI supports the proposition that cases were not worked through the system or pushed on into either Recoveries or WRI. Rather, the overall figures show that the value of the portfolio and the number of customers within GRGI increased.

For these reasons, we are satisfied that we have found no evidence to support the Principal Allegation.

12.5 Insofar as the various Targeted Issues are concerned, to the extent that they are relevant to the Principal Allegation, our findings are as follows:

12.5.1 *Identify criteria (and underlying governance) by which companies enter restructuring or business support, including any written policies, and evaluate how transparent these are to customers;*

We have detailed the many policies and procedures which applied to GRGI and its operation. By and large these processes were very detailed and adopted from a system which had been operational in the UK for some time. However, in Ireland, customers were identified for transfer at a much later stage, and then most of them were transferred to GRGI as part of a bulk transfer, causing significant problems in terms of resources. It is our view that, in all of the circumstances, RMs did their best in very difficult circumstances and generally showed a great level of forbearance to the customers involved. We identified some shortcomings in the execution of standard GRGI policy and compliance with its procedures; however, we believe that, ultimately, the processes were transparent to customers. Every customer within GRGI was subject to regular review by the SCR and reporting by the relevant RM. This helped to ensure that, in the first instance, the customer had been properly transferred to GRGI and the various qualifying criteria met.

12.5.2 *Consider specific examples of loan to value ratios being reassessed, breaches of covenant being asserted by UBIL and instances where removal or change of facilities have immediately led to a customer being moved into GRGI;*

In the 32 customer files reviewed by us, all but 2 involved failure by customers to meet their repayment obligations under their loans resulting in their transfer to GRGI. We could not find any examples of the removal or change of facilities leading immediately to the transfer of such customer to GRGI. From the evidence available to us, loan-to-value ratios were not reassessed by the bank, as the reality of the matter was that the severe fall in property values in Ireland between 2008 – 2012 had a universal, huge negative impact on all property loans. The vast majority of cases that were transferred to GRGI involved customers either not having serviced their loans, or it becoming apparent to both the customer and the bank that a situation would arise imminently when the customer could no longer service the loans. We were advised by GRGI executives whom we interviewed that, if other breaches of covenants existed, they were ignored by the bank, largely because of the dire overall situation of the customer's loan.

12.5.3 *Investigate how conflicts are managed (relationship between valuers and UBIL, West Register (an UBIL subsidiary));*

We are satisfied that no practical issues arise in this context relevant to the Principal Allegation. A panel of professional advisors, including valuers, was maintained by the bank and, at various times, the services of different firms were used. Formal valuations were rarely commissioned. Insofar as WRI is concerned, there were detailed policies and procedures established from the outset in an effort to maintain the integrity of the bid process, once it became involved. For the reasons explained in this Report, WRI never became an active player in the Irish market, acquiring only 16 properties. However, despite detailed policies seeking to manage any conflict of interest, there was always the appearance of a potential conflict, given that the bank could effectively be on two sides of the same transaction, the

fact that WRI had some limited access to a customer's financial information and that it operated out of the same premises.

12.5.4 *Review specific examples identified where UBIL has imposed an increase in margin and fees;*

We are satisfied that the subject of fees or “upsides” was not an issue. The preponderance of evidence based on file reviews and interviews with GRGI staff was to the effect that, typically, customers were so far in default of their primary obligations under their loans, the bank saw no point in seeking to impose additional margins or fees. This would only have worsened the situation, both from the perspective of the customer and the bank, in having to make additional provisions for already seriously distressed loans.

12.5.5 *Investigate the use of IBRs and valuers (and their associated terms of reference) in GRGI and determine how external firms are chosen and appointed to undertake IBRs.*

IBRs were rarely commissioned in Ireland for the reasons already explained. When they were, GRGI staff had access to an extensive panel of service providers where they could choose a firm with the appropriate qualifications and/or regional experience. A similar situation arose in relation to valuers. We have not found any evidence in this regard which supports the Principal Allegation.

A “Profit Driven Approach Culture”

12.6 Having reviewed thousands of file documents, conducted lengthy interviews with GRGI management and RMs, having carried out an analysis of extensive financial data, and carefully considered the complaints of customers, we are firmly of the view that no evidence of any

“profit driven approach culture” such as that suggested by Dr. Tomlinson existed within GRGI.

Recommendations

12.7 As part of our Terms of Reference, we were asked to consider making specific recommendations. Given that GRGI and WRI both effectively no longer exist, and that RCRI and REAM currently manage their assets, it is difficult to make practical recommendations. The period examined by MH&C in this review was an extraordinary time in the life of the bank, its customers, and Ireland’s economy. We do however recommend that when setting up a specialised unit such as GRGI, the bank have regard to the following:

12.7.1 A comprehensive training system should be in place from the outset so that both induction programmes for new starters and a rolling education programme are available to all employees; and

12.7.2 Management should ensure that there is an alignment of policies, procedures, and training manuals so that what is required from those employees implementing the policies, is clear and unambiguous. Management should also ensure that the full scope of these documents is communicated from the outset and on an ongoing basis.

PROJECT COVE TERMS OF REFERENCE

1. Purpose

This document sets out the terms of reference for a review by an external law firm (the 'Independent Review') into the principal allegation (see paragraph 2 below) made by Lawrence Tomlinson in a report entitled "*Banks' Lending Practices Review: Treatment of Businesses*" (the "Tomlinson Report").

2. Scope

The Independent Review will be undertaken by Mason Hayes & Curran. Mason Hayes & Curran will review the most serious allegation made in the Tomlinson Report, namely that RBS, through its GRG division, was culpable of 'systematic and institutional'¹¹ behaviour in artificially distressing otherwise viable businesses and through that putting businesses 'on a journey towards administration, receivership and liquidation'¹² (the 'Principal Allegation'). Mason Hayes & Curran will review the relevant policies and practices within Ulster Bank Ireland Limited ("UBIL") through conducting interviews and targeted documentation sampling and data analysis. Mason Hayes & Curran will make recommendations about steps, if any, that UBIL should implement as a result of its review.

Mason Hayes & Curran in reviewing the Principal Allegation in the Tomlinson Report, will consider the recommendation at section 6, paragraph 3 (the 'Relevant Recommendation') in the RBS Independent Lending Review by Sir Andrew Large ('the Large review') 'a forensic inquiry to substantiate or refute serious accusations that have been made'.

An initial project plan is appended to these Terms of Reference.

3. Reporting

Stephen Bell, Chief Risk Officer, UBIL will:

- oversee the Independent Review.

¹¹ Sections 3 and 4 (pages 5 and 6), section 5 (page 10) and section 6 (page 14) of the Tomlinson Report

¹² Section 3, sub-paragraph 1 of the Tomlinson Report

- receive and consider advice from Mason Hayes & Curran on any issues identified during the Independent Review

Stephen Bell will be supported by the UBIL Legal team. Mason Hayes & Curran will report to Stephen Bell. Mason Hayes & Curran will not take instructions directly from any business group within UBIL, the RBS equivalent of which is referred to in the Tomlinson Report, unless the instructions are confirmed by Stephen Bell or the UBIL General Counsel.

Mason Hayes & Curran's Independent Review will remain confidential and will be subject to legal advice privilege and/or litigation privilege. UBIL may choose to waive such privilege over the final Independent Review report (or an executive summary/key findings) if required.

Mason Hayes & Curran will report the results of its Independent Review to Stephen Bell and will then present to the Chairman of the Board/CEO/Group Board/Board Risk Committee. The findings of the Independent Review will also be provided to the CBI.

4. **Resourcing**

The Independent Review will be conducted solely by Mason Hayes & Curran and will be coordinated by partner, Emer Gilvarry. All resourcing will be provided by Mason Hayes & Curran and any other legal service provider or professional services provider to whom Mason Hayes & Curran outsources work.

Mason Hayes & Curran undertakes work for the UBIL GRG Division, in common with many firms on UBIL's legal panel. Mason Hayes & Curran staff that have substantial ongoing or historical relationships with GRG will not be involved in the Independent Review. Mason Hayes & Curran will implement information barriers to ensure that it does not obtain confidential information which has been given to Mason Hayes & Curran in its capacity as legal advisers to GRG.

Appendix 1 to Project Cove Terms of Reference: Initial Project Plan

1. **Steps:**

- (a) **Project management workstream:** agree project plan, timelines and cost estimate

(b) **Tomlinson Report workstream**

- (i) Consider a relevant sample of examples of specific customer experiences. Identification of such customers will be conducted by Mason Hayes & Curran and drawn from (i) customers that have contacted either Mason Hayes & Curran or UBIL with Tomlinson related complaints or issues (ii) customers who have responded to a notice on the UBIL website which explains the investigation into the Principal Allegation, the timeframe and how to engage; (iii) customers identified through the internal whistle blowing mechanism to be established as a mechanism for UBIL staff to report information that they deem relevant to the investigation into the Principal Allegation and (iv) any customers identified through the course of the Independent Review
- (ii) Assess the evidence provided in the Tomlinson Report in support of the Principal Allegation
- (iii) Through targeted interviews of UBIL staff (and to the extent of engagement through (i) above, UBIL customers) and data analysis, assess the substance of the Principal Allegation

(c) **Resolution workstream**

- (i) Draft report including recommendations
- (ii) Final report to be delivered as soon as practicable with a provisional target date of []

2. **Limitations and omissions**

This report may result in specific recommendations. Accordingly, absent access to fact-specific materials through Dr Lawrence Tomlinson,, Mason Hayes & Curran will not focus on anonymised examples, anecdotes or unattributed evidence in the Tomlinson Report or otherwise.

3. Targeted issues list in assessing the Principal Allegation

To the extent relevant to the Principal Allegation:

- (i) Identify criteria (and underlying governance) by which companies enter restructuring or business support, including any written policies, and evaluate how transparent this is to customers
- (ii) Consider specific examples of loan to value ratios being reassessed, breaches of covenant being asserted by UBIL and instances where removal or change of facilities has immediately led to a customer being moved into GRG.
- (iii.) Review any available quantitative data and examples of breaches which have not resulted in default
- (iv.) Investigate how conflicts are managed (relationship between valuers and UBIL, West Register (an UBIL subsidiary))¹³
- (v.) Review specific examples identified through paragraph 1 above where UBIL has imposed an increase in margin and fees
- (vi.) Investigate use of IBRs and valuers (and their associated terms of reference) in GRG
- (vii) Determine how external firms are chosen and appointed to undertake IBRs

Mason Hayes & Curran will take into account the impact of any 'profit driven approach' culture within GRG (as described in Section 1 of the Tomlinson Report).

¹³ Section 6 paragraph b of the Tomlinson Report refers to businesses alleging that properties were undervalued by UBIL to allow businesses to be distressed and assets purchased by West Register at a discounted price.

Appendix 2

GRGI KEY STATISTICS

	2011	2012	2013
New Money Lent €000s	€190k	€1,643k	€364k
Connections Returned to Satisfactory	N/A	2	4
Insolvency Appointments*	N/A	100	117
Insolvency Appointments % Connections	N/A	5%	5%
Number of Connections	1,696	1,992	2,141

* Insolvency Appointments in ROI not available in 2011

Appendix 3

LIST OF GRGI SENIOR MANAGEMENT INTERVIEWS

TITLE	DATE OF INTERVIEW
COO, GRGI	1 July 2014
Director BRG South & Limerick	7 July 2014
Director BRG Midlands	7 July 2014
Director BRG	8 July 2014
Head of BRG	8 July 2014
BRG West	10 July 2014
Head of Recoveries	11 July 2014
Director GRGI East	24 July 2014
Head of GRGI	25 July 2014
Head of Corporate Restructuring	29 July 2014
Director, GRGI	7 October 2014
COO, GRGI	9 October 2014
RCR Consultant (former Senior Advisor, GRG Global)	25 November 2014
RCRI Director (formerly CRU)	1 December 2014

LIST OF UBIL (NON GRGI) SENIOR MANAGEMENT INTERVIEWS

TITLE	DATE OF INTERVIEW
Head of West Register, Ireland	15 July 2014
Director Credit Risk SME	25 July 2014
Wholesale Chief Credit Officer	20 August 2014
Wholesale Chief Credit Officer	3 December 2014

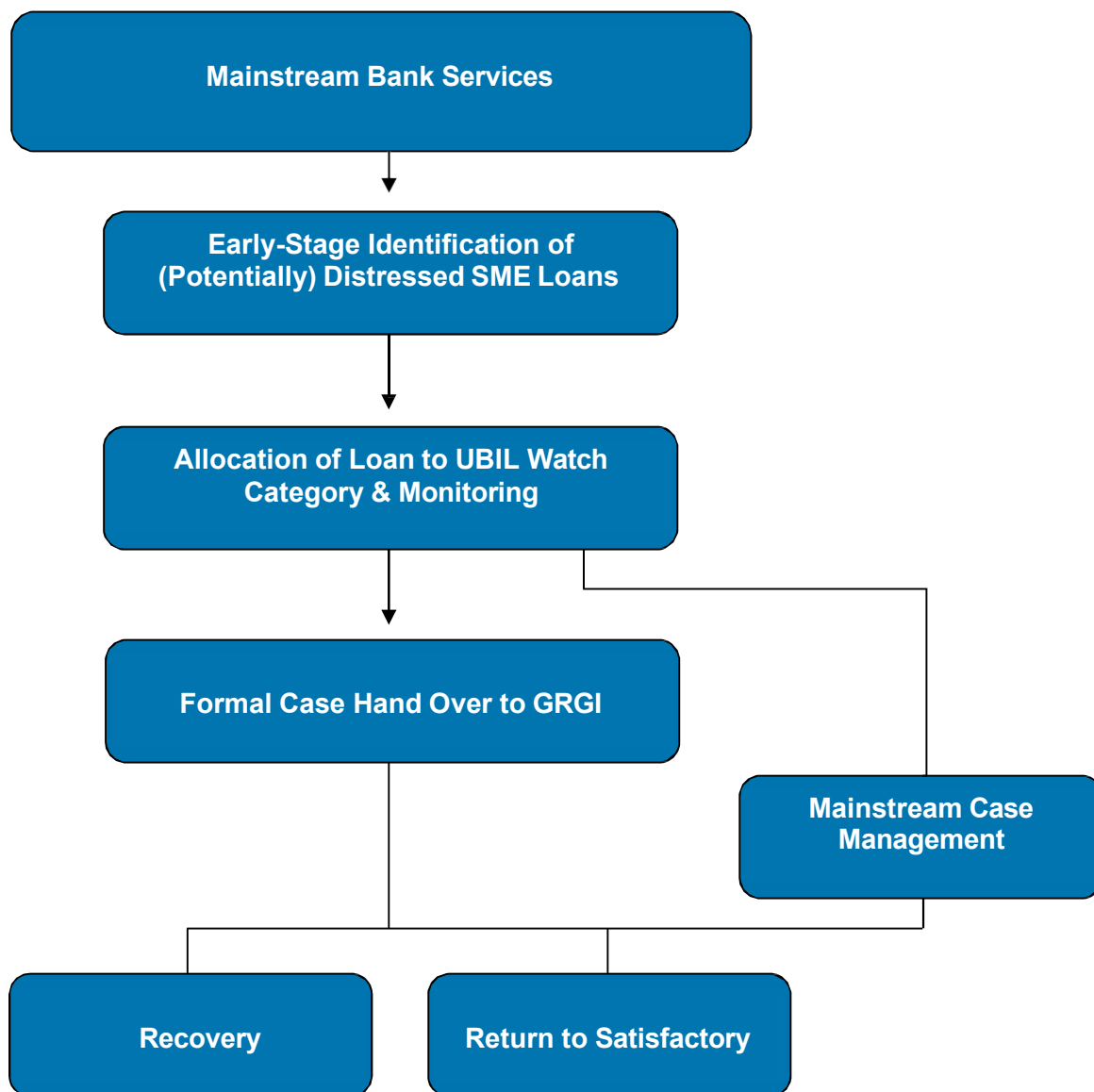
Appendix 4

LIST OF RELEVANT POLICIES AND DOCUMENTS

1. Terms of Reference for Credit Strategy and Review Forum
2. Terms of Reference for Strategy Credit Review
3. West Register
 - West Register Training Manual Great Britain and Ireland
 - Irish Insert for West Register Policy and Procedures Manual
 - West Register (Ireland) Policies and Procedures Manual
4. Problem Credit Management Framework (2009 -2013)
5. Credit Watch Policy
 - Appendix 1: Specific Credit Watch Actions
 - Appendix 2a - EPDM Guidance and Triggers
 - Appendix 2b - LQE Triggers
 - Appendix 3 - GRG Ireland triggers
 - Appendix 4 - Credit Watch Reporting Requirements
 - Appendix 5 - Glossary of Key Terms
6. Credit Policy Governance Framework
7. Forbearance Policy
8. Controlling Unit Policy
9. RBS Group Policy Identifying and Managing Client Risk
10. Credit Risk Mitigation

- 11. SLS Ireland Triggers**
- 12. Handover Checklist (2008, 2010, 2011)**
- 13. Handover Procedures (May 2013)**
- 14. Handover Checklist (7 June 2013)**
- 15. Handover Checklist (November 2013)**
- 16. GRG Ireland Handover Process (November 2013)**
- 17. GRGI Change Programme Terms of Reference – GRGI Operating Platform Enhancement and Impaired Asset Transfer (25 February 2011)**
- 18. GRGI Change Programme Final – GRGI Impaired Asset Transfer Terms of Reference (24 January 2011)**
- 19. Introduction to GRGI (18 July 2013)**
- 20. Induction Programme**
- 21. Various Residential Sector Risk Policies**
- 22. Various Care Homes Sector Risk Policies**
- 23. Various Hotel Sector Risk Policies**
- 24. Fee Charging Guidelines**

CHART DEPICTING PROGRESS FROM MAIN BANK TO GRGI



Appendix 6

PD GRADES AND WATCH CATEGORIES

Portfolio	Performing		Low Quality Exposure (Watch List)		
Category	Consider Early Warning	Early Warning	Watch Performing		Non-Performing
			Amber	Red	Black
PD Guide	PD 19	PD 20-21	PD 22-23	PD 24-26	PD 27

SME loans assigned to a “watch” category are considered to have a potential or defined weakness that requires close attention. The watch category is further split as follows:

Watch-Amber:

A ‘Watch-Amber’ loan is defined as having potential weaknesses that require attention. If left uncorrected, these potential weaknesses may result in an inability to service their obligations to UBIL.

Watch-Red:

A ‘Watch-Red’ loan is defined as having well defined weaknesses that require attention. If left uncorrected, these weaknesses will result in an inability to service their obligations to UBIL.

Watch-Black (Non-Performing):

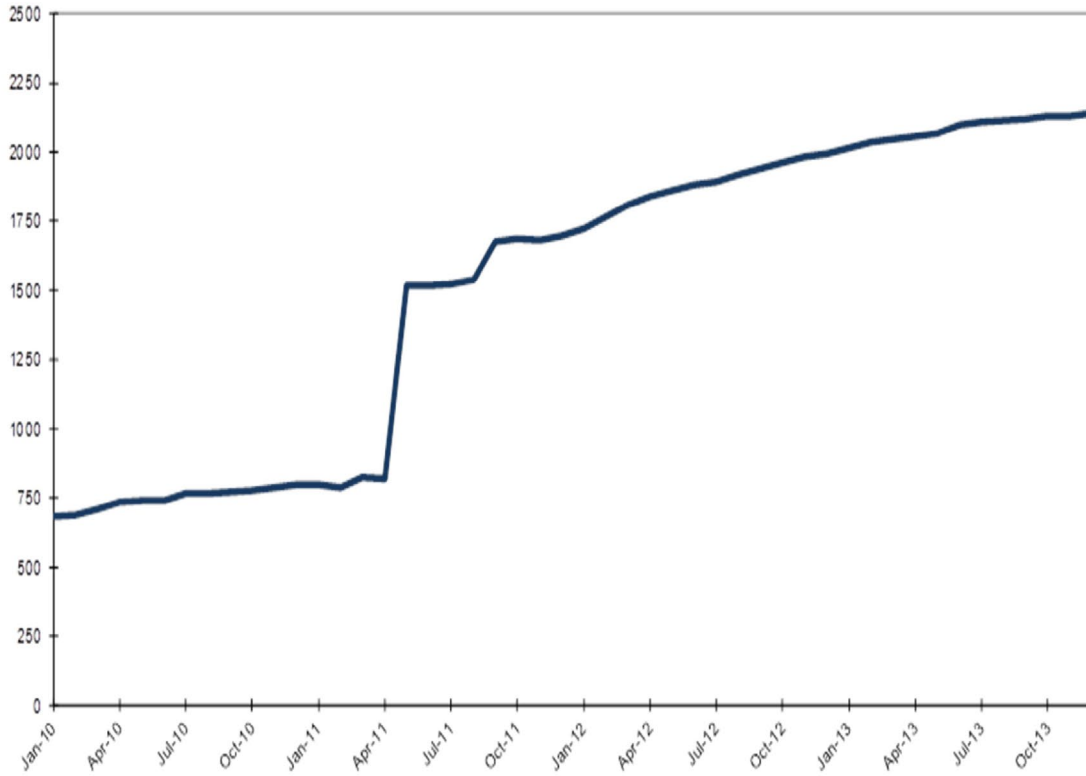
A ‘non-performing’ loan is a credit facility where an impairment event has occurred and that is not earning income as the full payment of principal and interest is no longer anticipated, principal or interest is 90 days or more overdue or the maturity date has passed and payment in full has not been made. This watch category is also referred to as Risk Elements in Lending (**REIL**).

The SME loan PD grades, combined with other triggers, form the basis of RM referrals to UBIL specialist arrears teams.

Appendix 7

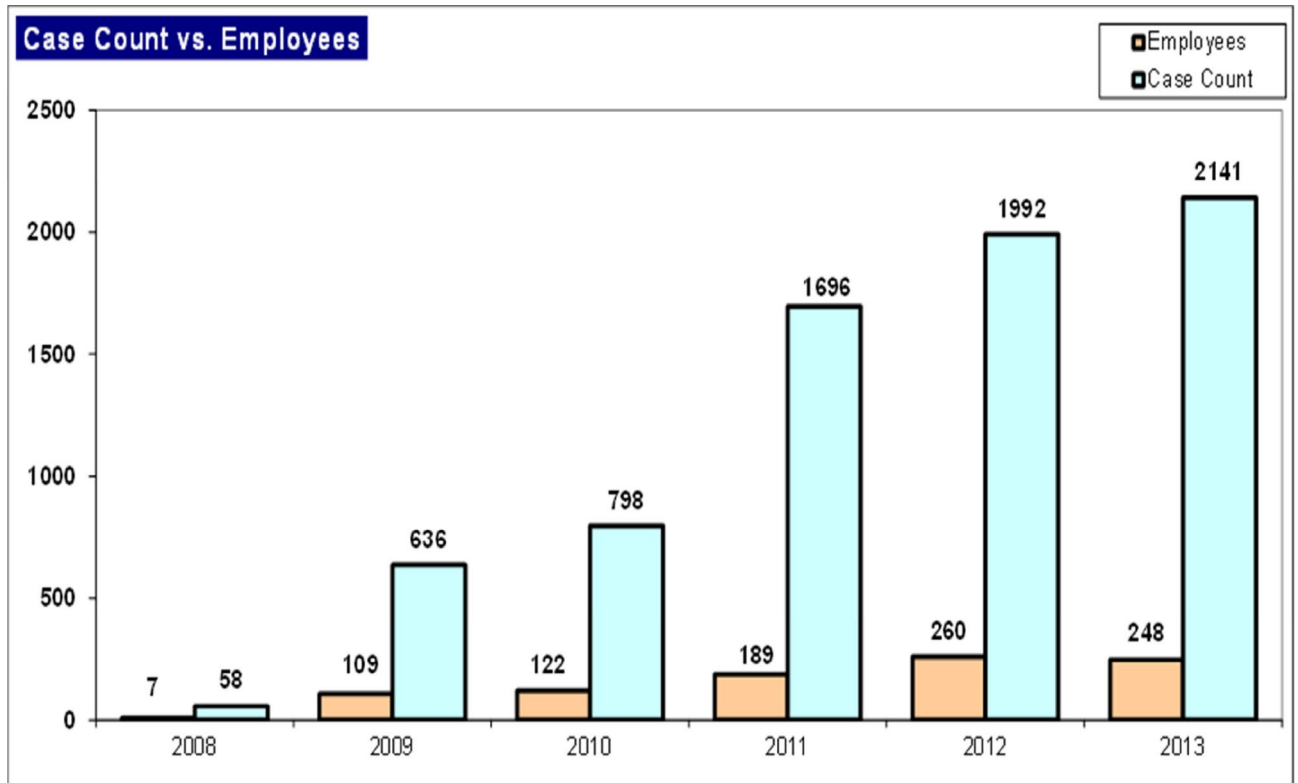
GRGI GROWTH

Case Count



Appendix 8

GRGI EMPLOYEE / CASES BAR CHART



Note: Staff numbers include support staff who also provide support to GRG NI