



AIB Statement 27 May 2004
27th May 2004

As already announced an independent investigation into certain foreign exchange charges made by AIB has been established. The investigation will also cover any other pricing issues, which may arise as part of the comprehensive trawl AIB is carrying out of pricing throughout its product range. It is planned that this investigation will conclude in mid June following which announcements regarding its findings will be made.

A separate issue was brought to IFSRA's attention by AIB in early September 2003. Following an agreed process with IFSRA, this was investigated thoroughly in the meantime and the results of the investigation have been considered by the board of AIB and submitted to IFSRA.

In late August 2003, the Managing Director of AIB Investment Managers Ltd (AIBIM), a subsidiary of AIB, was made aware of a former client relationship between it and a British Virgin Island investment company, Faldor Ltd and alerted the senior management and Board of AIB. This relationship was formed in 1989 and ceased in 1996. The funders and beneficiaries of Faldor were five former senior executives of AIB and the funds were managed by AIBIM.

Initial inquiries by AIB into the origins and activities of Faldor, which indicated possible tax evasion, resulted in AIB Group Compliance immediately contacting IFSRA and agreeing the terms of reference for an investigation to be undertaken. The investigation was to ascertain all the facts surrounding the relationship between AIBIM, Faldor and the former senior executives, including an examination of internal control issues

- IFSRA specifically requested that the investigation also examine whether or not there were vehicles similar to Faldor at that time or subsequently
- whether or not any current or former senior executives of AIB had offshore accounts and
- whether any taxation issues arose.

The investigation found

- The amount of funds in Faldor was approximately €750k.
- There was no similar vehicle to Faldor
- There was a breach of taxation law in relation to Faldor
- There was no evidence that AIBIM clients were disadvantaged to the advantage of Faldor
- Faldor appears to have been favoured to the extent of € 48,000 at the expense of AIBIM in-house accounts and inappropriate deal allocation practices.
- Two former and three current senior executives had tax issues in relation to accounts entirely unconnected to Faldor relating to periods ending in 1998. In respect of the three current executives the average amount of untaxed monies was less than €16k each.

Arising out of these findings AIB and IFSRA agreed the terms of reference for a further investigation supervised by Mr Maurice O'Connell, former Governor of the Central Bank of Ireland.

This investigation examined:-

- Certain historic deal allocation practices in AIBIM and whether any may have disadvantaged clients of AIBIM or the firm itself and also to recommend what redress, if any, might be required.
- AIB Group's procedures in respect of the allocation of shares to senior executives of the AIB Group in Initial Public Offerings. (A transaction in Faldor involving an allocation of shares in an Initial Public Offering to Faldor had been identified in the first investigation).
- Whether reasonable assurance could be given that the governance arrangements currently in operation across AIB Group would properly address issues of this nature should they recur.

The follow-up investigation found that :-

- Good deal allocation practices and standards have been in place in AIBIM since 1997 and have remained in place.
- There was no case where it was established that clients of AIBIM were advantaged to the disadvantage of other clients. However, unacceptable deal allocation practices relating to nine transactions in the period 1991 to 1993 were identified in the case of two specialist trusts amounting to a total of €174,000. Payments amounting to €330,000 to include compensation for the lapse of time involved, be made to the clients. AIB is in touch with the trustees about this matter.
- No legislation was in force at the time governing deal allocation in the period 1989 to 1996. But the practices uncovered in the matter referred to above were unacceptable.
- In relation to initial public offerings there was no evidence that allocations were made other than at arms length.

There are taxation consequences arising from some of the practices identified in the investigation. These amount to approximately €800,000 including tax, interest and penalties which AIB will underwrite.

All of the above investigations have now been concluded and results have been submitted to the Board of AIB, which considered them at its meeting of 18 May last. The results have also been submitted to IFSRA.

The Revenue Commissioners and other appropriate regulatory authorities and statutory bodies have been informed of all relevant matters.

AIB cannot, for legal reasons, identify the individuals involved.

Appropriate disciplinary action is underway within AIB.

The Chairman of AIB, Mr Dermot Gleeson stated:

"I received this information, as I received the news of the foreign exchange charges issue, with dismay. This is a reaction which I know is widely shared throughout the whole of AIB up to Board level.

"A number of the practices disclosed were completely unacceptable.

"As Chairman of AIB, I am resolved to insist upon high standards of probity and compliance throughout the organisation.

"High standards are what the 25,000 people who work in AIB, most earnestly desire. It is no more than our customers, shareholders, employees and regulators are entitled to expect."

Mr Michael Buckley, AIB Group Chief Executive, said:

"The practices uncovered have no place in AIB.

"The leadership behaviours I expect of senior management in AIB are clear. I am determined that they will be maintained and validated through a regular accountability process.

"I am happy that the historic, unacceptable deal allocation practices in AIBIM identified in the investigations are a thing of the past and had, by 1997, been replaced by the good practices and standards that remain in place."

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