



An Roinn Airgeadais  
Department of Finance

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30 September 2011

Mr Alan Dukes  
Chairman  
Anglo Irish Bank Corporation Limited  
Connaught House  
1 Burlington Road  
Dublin 4

Dear Alan

Further to your letter, dated 5 September, I set out below responses to a number of the points you raise:

Lower capital requirement

I am very happy to note the lower estimated capital required, and hope that this estimate can be reduced further as the Bank's balance sheet reduces. This should involve the return of surplus capital to the Shareholder when appropriate.

INBS residential mortgage book

When we first discussed the matter, I noted with concern your preliminary observations about the quality of the INBS Book, repeated in your letter of 5<sup>th</sup> September. You may be aware that the Banking Unit in the Department sought a meeting with the Bank on this subject on August 25<sup>th</sup>, which was declined. The governance of such interaction between us, and other matters, is reflected in the existing relationship framework. I would therefore appreciate it if you could make sure that your management team understand that, if it is deemed appropriate by the Department, such meetings are to be facilitated. On our side, we shall try and be understanding also to the competing priorities in terms of scheduling of same.

To move this important issue along, I would appreciate it if you could provide an initial assessment of the nature, extent, and possible impact of perceived problems with the residential mortgage book. Given that this book was the subject of PCAR earlier this year you will understand that this is a sensitive and important issue for both the Department and the Minister.

Expert group on mortgage arrears

The Department is awaiting the initial output of the expert group on mortgages which the Minister convened to explore possible initiatives by month end. Your concerns about the potential impact of this review on the provisioning levels on the INBS book are noted but



hopefully the later comments by the Minister and the Government when considered along with the statement you quote from the Minister will help in reaching conclusions about the IBRC wind-down capital cost.

#### Resignation letter of MvE

I have not yet had time to read in full Mr Carswell's book or the extracts from MvE's letter. Mike may already have told you that Maarten himself wrote to me in April to share some views and, inter alia, expressed his happiness that he had heard I had put the topic of more speedy deleveraging on the table with some urgency to the remaining management of the bank.

#### Governance

I am not sure that you intended to leave in your bracketed text which dealt mainly with Central Bank discussions which I have not separately verified. In any event, in the interest of good governance, since you raise them in your letter, I would like to point out that:

- As I explained, I also would have believed issues might be un-necessarily dealt with at Board level;
- The Central Bank as I understand, have a preference, as would we, for attendance at meetings in person and your note worryingly says in a number of cases "most members participated by teleconference"; and
- Your note suggests that it is not unusual for the CEO to be present at Audit Committee meetings which we would strongly discourage.

#### Board membership

You should rest assured that I also find time to consider the more macro challenges facing the banking sector and the country.

I would prefer though that alignment of interest between the State as shareholder and your management's views might take place more easily as it would consume less of my time. However, in the light of so many conflicts between the views of the State (and its advisors) and your management, I have felt the need to give full and ample time to you, and your management, to understand your point of view and the rationale for you reaching these contrary views.

I believe it is also very unhelpful for discussions of variations in the future strategy of the bank to be taking place in public before being finalised between your management and my team. I would ask that you and your team bear this in mind. We remain fully available to you for discussions of this type.

Any other ideas you might have to ease this situation would be more than welcomed. I have expressed the view to Mike, for example, that we need to move to a situation where only one advisor is providing views to both the Bank and the State which should alleviate the situation.

#### Operating model and GEXCO

In our previous conversations we had agreed an operating model for Anglo consistent with the 31 July 2011 proposals. You yourself spoke to me by reference to the "Day 2 model". Mike Aynsley has since provided yet another amended organisational structure as approved by the Board on 25 August 2011 and which, I understand, became effective on 1 September (see figure 1 attached).

The amended interim organisation structure both increases the number of GExCo members and adjusted the direct reports to the chief executive. As you know, our experienced advisors were strongly of the view these should all be reduced speedily (to aid effective and efficient decision-making). I had to short-circuit our discussion and agreed to a somewhat expanded team despite their advice. Except with respect to the internal audit matter you explained to me, I had certainly not expected these further unilateral changes.

While you may feel that this is micro management, it is important to the Shareholder that this and other commitments made between you and I to move things along are respected.

I would ask that you re-commit to the agreed 'target operating model' we discussed (see figure 2 attached - adjusted to move internal audit, as requested by the Central Bank) and ensure it is implemented as soon as possible. Could you let me know the proposed implementation date?

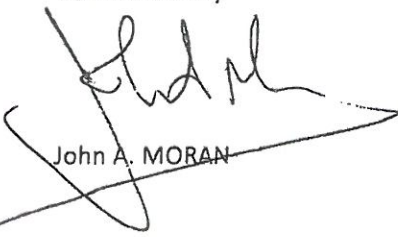
I am setting up meetings with two of the candidates for board membership with strong restructuring experience who have emerged through our process to confirm that they remain interested. At the same time, perhaps you could provide for our consideration your deadlines for Board reduction as we discussed?

Relationship framework

We are currently working on a revised relationship framework which we will share with you when the drafting is finalised.

I look forward to hearing from you.

Yours sincerely



John A. MORAN

cc  
Minister for Finance  
Michael Torpey  
Danny Buckley

Figure 1: Anglo's Day Two Operating model, approved by Board on August 25

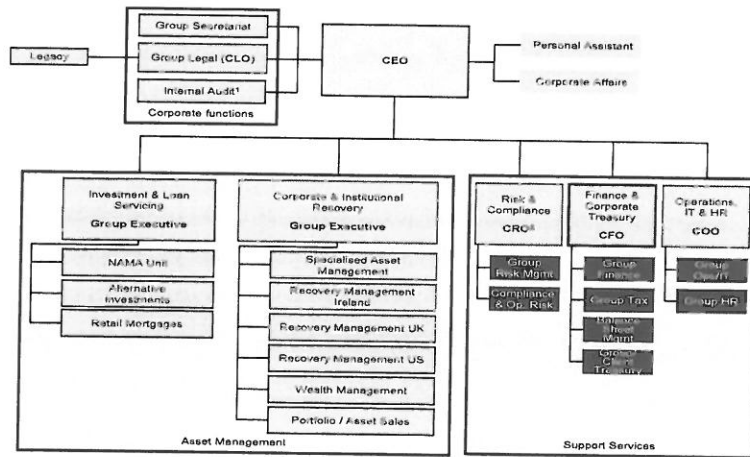


Figure 2: Anglo's Target Operating model, approved by Board on July 31

