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Anglo Irish Bank 


Mr. John Moran,  
Head of Bank Restructuring,  
Department of Finance,  
Merrion Street,  
Dublin 2.

September 5, 2011

Dear John

I have noted your responses of August 12 to my notes on the outcome of our meeting of August 10.

There have, as you know, been a number of developments since then.

1. We have been through the second round of offers for the US book and have selected the buyers. The final stage of the operation is now under way. You will be aware that the result has exceeded our expectations. It has, I think, justified the way we designed the process  
  
While the result has exceeded expectations, it has not been at a level which would allow the Bank to write back provisions previously made. The result, we believe, is that we may be able to reduce the "final cost" of winding down the Bank to somewhere in the region of €25bn rather than in the lower part of the range of €29-34bn which we had previously envisaged. Thus, the "dividend" for the taxpayer about which you spoke to me some time ago is likely to take the form of a lower final cost with a capital return at the end of the process rather than a tangible payback this year.
2. We have begun to get to grips with the state of the INBS domestic mortgage book (not having been in a position to do a due diligence examination before acquisition). The position seems to be rather more problematic than we had been led to believe, and action is currently under way to clarify the nature and extent of the problem.
3. Public debate about issues of "debt forgiveness" for (some) domestic mortgage holders has been re-ignited. There is, as yet, no indication as to what the Government's intentions in this connection might be, but Minister Noonan placed some emphasis on the statement that the banks had been recapitalised on the basis of a calculation which included the conclusions of stress testing of the mortgage books. There is, therefore, some possibility that the final cost outcome of the IBRC wind-down will be above the €25bn ball-park figure quoted at 1 above.
4. You will have seen that Maarten Van Eden's letter of resignation (dating from before your assumption of your current responsibilities in the Department) has emerged in the context of Simon Carswell's book about Anglo. I have complete sympathy for Maarten's views and I believe that his analysis is fair and accurate.



5. It seems to me, as an interested observer, that there is a considerable distance to go to find effective resolutions to a whole series of issues in the two "pillar" banks and that the search for solutions in those cases will continue to be a concern long after there is clarity about the general shape of the way forward for IBRC.
6. I am far from convinced that we are anywhere near the emergence of a rational set of policy responses to the overall Eurozone problem. I think it only realistic to expect that further challenges lie ahead for the Irish Government and the banks. It seems certain that there will be challenging implications for the Irish banking landscape.

In view of the above, it really seems to me that arguments about the size of the IBRC's GEXCO and the number of direct reports to the CEO, the shuffling of an effectively-performing Board (half of the members of which have been in place for less than 18 months) and a Departmental disposition to engage in micro-management (about which the Financial Regulator has reservations) all smack of "fiddling while Rome burns".

In addition, I really cannot see how a person in your position and with your range of responsibilities could have the time to devote to making an effective and sustained contribution, as a member, to the work of the Board of an institution falling within your remit.

*[In the course of previous conversations, you expressed concern about the number of Board meetings. I have pointed out to you that the other members of the Board would be the first to object if they thought that I was convening meetings unnecessarily frequently. I understand separately that the Central Bank, which had previously intimated a concern that meetings need to take place frequently enough to deal adequately with the situation, more recently wondered if matters were not perhaps being unnecessarily escalated by management to the Board. It turns out that this later view was based on "perceptions" and hearsay rather than on any analysis of the Board's activity. I understand that, having been made aware of the detail of matters treated at the meetings, the CB accepts that the circumstances justified the meetings.]*

*Since September 2010, 25 "ad hoc" meetings have been held, in addition to the normal monthly meetings of the Board. Not all of these meetings were "single issue" meetings. In a number of cases, most members of the Board participated by teleconference.*

- *6 were principally or largely concerned with issues relating to the [REDACTED]*
- *5 were concerned with issues arising in connection with the transfer of deposits and NAMA bonds from the Bank and with issues arising in connection with the integration of INBS.*
- *Three were concerned with issues relating to the US book.*
- *All of these meetings were concerned with issues properly classified as "Matters reserved to the Board".*
- *On a number of occasions, the Board dealt with issues decided on that same day by either the Audit Committee or the Risk and Compliance Committee (given the fact that there are currently 6 Directors including the CEO, it is not unusual for the whole Board to be present at a Committee meeting).*



- *3 meetings were principally concerned with issues arising from questions of possible events of default.*

*The number of meetings is unusually high. This is principally due to the fact that the Bank is going through a challenging period of change. The need for meetings should reduce substantially when a clear path of restructuring has been agreed. It is clear, however, that as the planned evolution proceeds, further structural adjustments will be required: these will need Board attention, possibly beyond the scope of the regular pattern of monthly meetings.]*

**Conclusion.**

I propose that we proceed as follows.

- a) Draw up a new Relationship Framework to replace the 2009 version.** This should clearly set out the responsibilities of the management and Board of the Bank as a regulated and separate legal entity. It should provide for a clear set of procedures for the exchange of information between the Bank and the Department, taking account of the Financial Regulator's prerogatives. It should provide for timely responses in both directions. It should set out clearly the Shareholder's objectives and a clear set of procedures for periodic assessment of progress towards their achievement. These periodic assessments should examine the further structural changes required or facilitated by the wind down process.
- b) Proceed with the appointment of [REDACTED] to the Board.** The Financial Regulator has consented to the appointment and **the Bank has been awaiting confirmation of the Minister's agreement since early May.** This appointment is targeted specifically at building capacity to deal satisfactorily with the work-out of the UK book. There are strong reasons to believe that further delay will prejudice this essential addition.
- c) Appoint [REDACTED] to the Board.** This appointment will bring valuable institutional memory from INBS to assist in dealing with the domestic mortgage book.
- d) Agree a procedure for reducing the size of the Board as the wind down proceeds.**

These steps are urgently required to allow the management and Board to follow up on the substantial progress that has been made to date. I commend them to the Minister as a practical and productive way forward.

Yours sincerely,

Alan Dukes,

Chairman.

## Patrick Leonard

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**From:** Alan Dukes <AlanDukes@ANGLOIRISHBANK.ie>  
**Sent:** 10 August 2011 15:16  
**Subject:** Meeting outcome  
**Attachments:** Outcome of discussion between A.docx

John,

Herewith a note on the outcome of our discussion this morning, for your observations.

It has since struck me to wonder whether there might not be a retired senior person from DoF/CBI/NTMA who might be suitable to join the Board in your stead (just a thought).

Alan.

**Outcome of discussion between A. Dukes (AD) and J. Moran (JM), August 10, 2011.**

1. "Day 2" Operating Model and Overall Organisation agreed, with the qualification that Internal Audit reports directly to CEO and Board (at the insistence of FR). **Note: "Day 2" is September 1, 2011.**
2. [REDACTED] appointment to be proceeded with **(this now requires Minister's sign-off, all other steps having been completed).**
3. A new NED with particular experience in bank restructuring (possibly with Middle East/Asian experience/connections) to be appointed to Board.
4. JM to be appointed to Board.
5. Noel Cawley to be transferred to AIB Board.
6. Number of Board members to be reduced by one at each annual reporting date from 2012 on.
7. **Documentation of selection process for second round of bidding on US book:** AD and management to review documentation process with a view to the preparation of an account suitable for inclusion in a Memorandum to Government preparatory to a Cabinet decision on the final recommendation on sale. Legal advisors to be asked to advise on this basis.
8. AD to review process of communication between DoF and Bank and revert quickly to JM with proposals.

AD.

10/08/11.

## Patrick Leonard

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**From:** Michael Torpey <MTorpey@ntma.ie>  
**Sent:** 15 August 2011 11:06  
**Subject:** FW: Meeting outcome

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**From:** Marion Ryan  
**Sent:** 15 August 2011 10:32  
**To:** Michael Torpey  
**Subject:** FW: Meeting outcome

FYI

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**From:** Moran, John [mailto:John.Moran@finance.gov.ie]  
**Sent:** 12 August 2011 19:11  
**To:** 'Alan Dukes'  
**Cc:** Marion Ryan  
**Subject:** RE: Meeting outcome

Dear Alan

Thank-you for your time this week. I think we made a lot of progress as it seems so did the team from NY at the same time which is very good news.

Regarding your notes, I wanted to come back to you:-

- 1 Agreed as a compromise although I would reiterate that we have questioned the need for four business line exco members although the idea might be that once the US business is out of the way this could be further reduced to just a direct report on the UK and one on Ireland.
- 2 I shall progress this on our side as soon as Min Noonan returns. Do I have an official letter somewhere requesting our approval with [REDACTED] CV etc.? With holidays, it is a little tough to source stuff.
- 3 I shall send you over one or two CVs from our panel.
- 4 Agreed – I shall progress with the CB to see what they need from me in terms of their approvals. Since I was already approved by them for Zurich and police cleared already for their own process last year, I am hopeful it might not be too long a process. I shall not likely make the aug 24 meeting but perhaps you could progress the appointment there so that I can then do the formalities with the CB in time for the one shortly thereafter. I believe that they need to see an approval by the board contingent on their clearance.
- 5 I shall discuss with Kevin and Minister to make sure that they would be okay with this idea
- 6 Can we keep 6 as something which is the ideal but to be reviewed each year. We might see reason to change this as we see what happens to the wind-down plan.
- 7 You I think understand what we need – obviously the selection is only most sensitive if the highest price result is not the right one for other reasons.

I may not speak to you again before I leave on holidays, but do not hesitate to call me if you need me during the two weeks. There is a lot still going on and I am there to support you.

Regards

John

John,

Herewith a note on the outcome of our discussion this morning, for your observations.

It has since struck me to wonder whether there might not be a retired senior person from DoF/CBI/NTMA who might be suitable to join the Board in your stead (just a thought).

Alan.

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