



TUARASCÁIL ón gComhchoiste Fiosrúcháin i dtaobh na Géarchéime Baincéireachta

An tAcht um Thithe an Oireachtais
(Fiosrúcháin, Pribhléidí agus Nósanna Imeachta), 2013

REPORT of the Joint Committee of Inquiry into the Banking Crisis

Houses of the Oireachtas
(Inquiries, Privileges and Procedures) Act, 2013

Volume 1: Report
Volume 2: Inquiry Framework
Volume 3: Evidence

IBRC: Core Book 39

January 2016

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THEME: B1

Effectiveness of banks' board governance,
client relationships and business models

LINE OF INQUIRY: B1a

Composition, skills and experience of the
board and board subcommittees

Anglo Irish Bank Corporation plc

Stephen Court	Tel: +353 6162000	Fax: Banking +353 6162481
18/21 St Stephen's Green	Telex: 91734 SWIFT:AngolE2D	Fax: Treasury +353 6162467
Dublin 2	Website: www.angloirishbank.com	Fax: Personal Deposits +353 6162483
Ireland		Fax: Personnel +353 6162488

27th August, 2003.



To Board Members

I enclose Barry Herriott's Memorandum following his Board Review. Generally speaking this study reflects a Board successfully fulfilling its obligations. There are, however, a number of issues raised which the Board should reflect on.

At our next Board Meeting there will be an opportunity for a brief discussion on this paper, but in any event it my intention to discuss this paper when I next meet the Directors individually, which will be before Christmas.

I would like to take this opportunity to thank everyone for participating in this review.

Kind regards.

Yours sincerely,


Peter C. Murray
Chairman

Memorandum

To: Mr. Peter Murray, Chairman, Anglo Irish Bank ('Anglo').

From: Barry Herriott, Management Consultant.

Copy: Mr. Michael Jacob, Senior Independent Director, Anglo Irish Bank.

Subject: Board Review 2003.

Date: 28 July 2003.

Background

When asked by the Chairman to undertake this exercise, the writer enquired why a company with Anglo's enviable record of performance needed to question any aspect of its management, either at Board or Executive levels. In response Senior Independent Director Michael Jacob answered that even in the best of times a 'fine tuning' type review that could prompt debate might be worth while.

The writer met with eleven members of the Board for about one hour or more, during which time various topics were discussed, some coming from a list provided by the Chairman in his briefing letter and others which arose from the discussions themselves. The writer executed the work objectively, but with a positive sentiment towards Anglo, there being no attempt to look for issues just for the sake of justifying the review process; neither was there any attempt to fully explain Anglo's success, as a study of the latter would be a major project well beyond the scope of this 'snapshot' approach.

This memorandum presents the output of the discussions with Directors as collective observations rather than quotes from individuals and these are presented in no particular order of importance other than that observations made in response to topics in the Chairman's 'checklist' appear first. An attempt to interpret the data comes next under the heading 'Commentary', and this is followed by Summary / Conclusions.

Observations / Chairman's List

- Number of Board meetings? - Most Directors were comfortable except for one NED who suggested that maybe one or two less meetings might lighten the load on the Executive
- Intra Board relationships? - As good as it gets now, but not so previously, with the present favourable climate attributed to the constructive working relationships promoted and sustained by the current Chairman and the CEO.

- Quality of information for Board meetings? - Most were happy with content, relevance and timeliness, although there seemed to be an underlying sentiment that 'something undefined' was missing from the meetings - Strongly expressed minority view that the 'board pack', although excellent and complete in its own right, may be in a format which fails to ignite debate on important issues and that it might be beneficial if the format could be adjusted in some way to make it equally relevant to bankers and non-bankers alike, e.g. if inference drawn from the data were presented as commentary or opinion, Directors might feel challenged and might therefore engage more actively in debate. - Another minority view focused on the need for Board access to independently generated intelligence on matters affecting Anglo's external business environment including economic commentary, competition and benchmarking data. - Yet another minority view questioned Anglo's claim that it is a 'people organisation', of some significant size and growing, but doesn't have a 'strategic hr' input at Board level.
- Agenda? - All Directors were happy, and in any event they felt this to be a matter which can be adjusted without any procedural change.
- Length of meetings? - Most Directors content with the present arrangements.
- Lunches? - Apart from their valuable social dimension, most Directors thought them a useful extension of the Board meeting where NEDs could get clarification on issues that arose earlier.
- Big issues addressed? - Mixed views on this topic. - Some Directors believe that the Executive has the capability to deal with all issues, even big ones, others seem not quite so sure. - Many express a frustrating need for more debate on strategic issues. (See Commentary below)
- Away meetings? - All enthusiastic about these meetings, mainly because NEDs are exposed to 'level 3' management and this gives to them comfort concerning succession in the Executive. Ostensibly about strategy but this tends to be an extrapolation of current three year goals / business plans based on the current 15% targeted growth model which works so well, and seems programmed to continue.
- Strategy meeting? - Whereas most Directors viewed this recent innovation as being good in concept by providing a forum for Directors to engage in 'real' strategic and directional debate, most thought that this first attempt didn't quite live up to expectations. Most agree that another attempt should be made but using some different format.
- Size and mix of Board? - Most Directors were comfortable with the current position; - One thought there should be an American member; - One thought there should be one more Executive Director.
- Chairman's Dinners? - Current series seen to work very well whereas similar events with the previous chairman didn't work; - Most Directors view the dinners as a valuable briefing opportunity by the CEO rather than a forum for debate.
- Committees? - All the Board Committees are seen to function very well with the only criticism arising over delays experienced in the Audit Committee; - Suggestions were made that the Nominations Committee should deal with the CEO succession issue sooner rather than later.
- Facilities for NEDs? - A non issue.

Observations / Other

- In the recent past, the First Active acquisition was seen as the most important issue to come to the Board and because of a serious dysfunction the opportunity was lost to Anglo; if a situation of equivalent magnitude emerged how would the Board perform?
- In the immediate future the CEO succession was seen as the most important issue with some Directors believing that Anglo has sufficient resource within itself, but others not quite so sure, believing that an outsider might bring new vision to the leadership going forward.
- Past and current Anglo performance is seen as excellent, but in what is seen as a benign business environment; how would it perform in a downturn or survive a major shock?
- Anglo is seen as having 'grown up', as now being 'systems driven' and with real depth in good management, so much so that it could survive a major shock.
- Anglo relies too much in its own internally generated intelligence, which could constrain its view of itself and its place in the wider world.
- Anglo limits its geographical reach and effectiveness by having nationality and gender bias in senior management recruitment /deployment.
- Anglo has a strong entrepreneurial culture with much devolved decision making and empowerment but, as it has become larger, inefficiencies in communication have emerged which may require enhanced management information systems.

Commentary

- Anglo has a well established and robust business model which, in its core corporate lending activity, is based on a simple and conservative service offering focused on a niche market sector which can coexist /compete with larger more broadly based banks. This model is capable of easy migration to other geographies and of sustaining growth at current levels with little change in strategic direction
- Anglo pursues a straight forward market development strategy which generates growth by 'capturing' new clients individually through competitive effort or in clusters through loan book acquisition
- Anglo's other main product offerings are treasury and wealth management, the latter being leveraged on established client relationships in the core business
- Anglo has a vibrant entrepreneurial and people centred culture which reflects the leader's own personality and influence on the management selection and people development processes since he joined the bank.
- Anglo appears to be 'programmed' to double in size every three years, to the satisfaction of all stake holders; most Directors believe this will continue to happen unless the business model changes dramatically due either to realising some major opportunity or suffering a serious external shock.

- Most Directors, including all the Executive Directors feel that Anglo has ‘come of age’ as a company, has developed systemised management processes and has enough depth in management talent to sustain current growth levels, or in the worst case scenario, to survive.
- So what’s to debate at Board meetings or strategy away days when the Anglo business works so well? The spectrum of sentiment on this issue was wide, with people at one end seeming to be unconvinced about the value of initiatives / debate which question the status quo; (maybe a touch of the ‘not invented here’ syndrome?) and those at the other end, who fully acknowledge the success of the business, but yet feel frustrated by the lack of opportunity to challenge the current thinking and contribute more / feel more connected to Anglo’s success; (almost as if the empowerment / ownership that everybody lauds so much missed some Directors as it ‘moved south’ through the rest the organisation).

Summary

Acknowledging its sustained performance over such a long time, the Board of Anglo has clearly excelled in fulfilling its obligations to all its stakeholders; it is hoped that the issues raised by this review may be helpful to ‘fine tuning’ Board practice; the writer wishes to thank all those who cooperated so fully in the execution of the interviews.

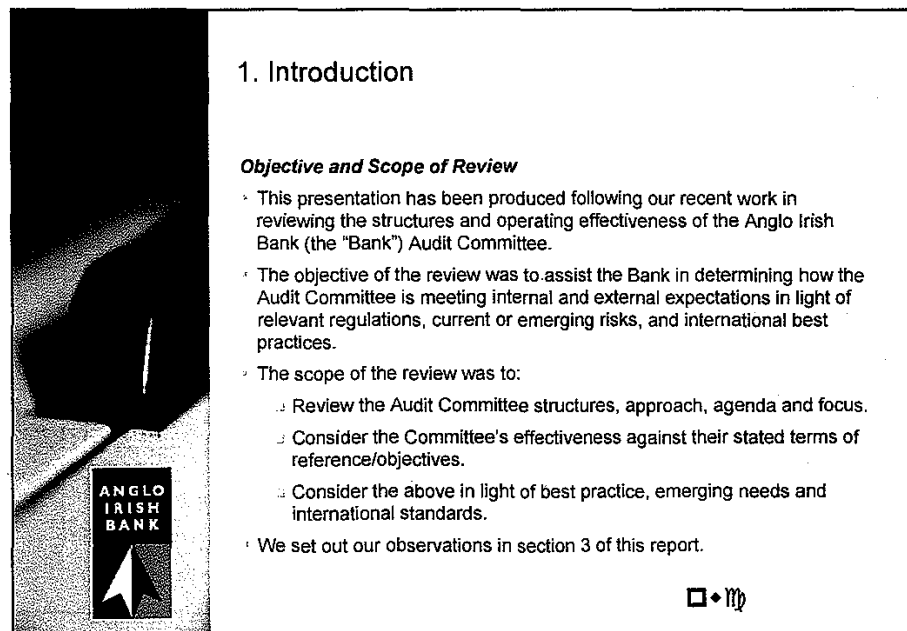
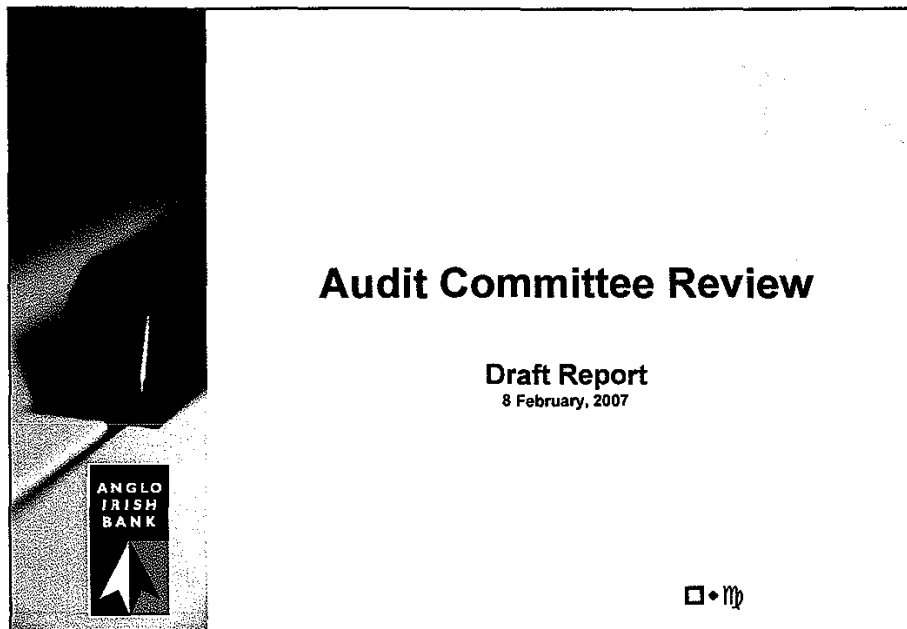
Conclusions

As with any company, Anglo’s Board is an integral part of its management structure and has, apart from specialised regulatory and risk control functions, primary roles to

- (a) Appoint an ‘Executive’, and to
- (b) Create conditions which maximise the ‘Executive’s’ potential to perform.

Debate without focus, or for its own sake, is usually futile and not very satisfying. Given the expressions of frustration about opportunities to contribute to Anglo’s success going forward, the writer suggests the following initiatives, which might help to generate more rewarding debate and engagement:

- Develop the ‘board pack’ by adding commentary / opinion in a format capable of inviting challenge; the current ‘pack’ may be too oriented towards routine / tactical and not enough towards strategic decision making ?
- Use the upcoming CEO succession to revisit Anglo’s vision and ideal leader profile; maybe widen the debate beyond the Nominations Committee?
- Have another ‘strategy day’ sometime soon, and in tandem with the succession process, with the purpose of challenging the current business model and beliefs; maybe invite an internationally recognised management expert to facilitate the session(s)? The writer can suggest some names for consideration, if requested.



1. Introduction - continued

Review Approach

- In assessing the Audit Committee, our approach focused on:
 - Meeting with the Chair of the Audit Committee to agree scope and approach;
 - Meeting with selected members of the Audit Committee, Board, and senior management team in order to explore the responsibilities of the Committee, working practices and the perspectives of those interacting with the Committee.
 - Reviewing the activities of the Committee in the light of governance requirements and our experiences across the Irish and international financial services industry.
 - Reading selected minutes and records of the Committee.

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2. Summary Conclusions

- The Audit Committee structures, approach, agenda and focus are broadly appropriate to the needs of the Bank and the stated duties of the Committee as set out their agreed terms of reference. ✓
- Committee performance is effective and aligns with most aspects of best practice frameworks. ✓
- The complexity of the Bank in terms of:
 - Scale of operations
 - Risk profile
 - Compliance/regulatory requirements
 - Financial reporting standards
 places increasing pressure on the Committee and this is reflected in:
 - the extent of time inputs required by Committee members
 - the need for regular updates on financial and regulatory is *Handwritten Annotation/Irrelevant* 2
 - the requirement to ensure the Banks risk, compliance and control frameworks adapt to wider good practices, and
 - the need to ensure IA resources and focus are consistently matched to the needs of the Bank

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- ②
- ③
- ④
- ⑤

2. Summary Conclusions - continued

On that basis we have highlighted some points in the following section for consideration by the Committee and which would continue to align the Committee's activities with developing good practices. Key points of note include:

- ✓ ① The need for timely succession planning for the Audit Committee Chairman in order to facilitate smooth transition at relevant time of change.
- ✓ ② As complexity of financial reporting, Bank operations and the overall risk profile continues to increase, consider the addition of relevant and appropriate Banking sector experience to the Committee.
- ✓ ③ Review the current Terms of Reference and consider removal of the detailed points of focus. While these points are good practice, they do raise a "compliance" risk for the Committee.
- ④ Given the Audit Committee's duty of "oversight" of the risk and compliance frameworks/processes, ensure that Committee members are given a full briefing on the Bank's risk and compliance frameworks (including regulatory compliance) and how they are implemented across the group.
- ⑤ Review the Bank's internal control framework in light of lessons learned from Sarbanes-Oxley experiences in US globally with particular emphasis on the areas of fraud risk and IT controls.





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3. Audit Committee – Structure and Operation

Strengths

- ✗ Consists only of non-executive directors – all with extensive business experience.
- ✗ Clear understanding of role and responsibilities.
- ✗ Evidence of independence and attitude of openness. Openness theme echoed across Board and management teams.
- ✗ Clear commitment and work appetite evident across the Committee.
- ✗ Strong knowledge of the Bank culture, risk profile and operations evident amongst members.
- ✗ Detailed terms of reference that includes clear definition of duties in line with best practice.
- ✗ One member with specific financial expertise, but all financially literate based on wider business experience and cumulative knowledge and experience of the Bank.
- ✗ Clear annual planning of agenda and adequate frequency/duration of meetings
- ✗ Detailed minutes recorded demonstrate evidence of agenda coverage and consideration and resolution of agenda items.
- ✗ Induction briefings provided for new members.
- ✗ Annual performance self-assessment now carried out.
- ✗ Reporting by Audit Committee to the Board is well received and considered to be at appropriate level of detail.



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3. Audit Committee – Structure and Operation

Areas for Consideration

- ② Succession planning for Committee Chairman needs to be considered at an early stage to facilitate smooth transition at relevant time of change.
- ⑦ As complexity of financial reporting and Bank's operations and risk profile continues to increase, the addition of relevant Banking sector experience to the Committee would be expected.
- ④ A key consideration for future appointments should include the "available time" concept – as the Bank and Committee has benefited significantly from commitment and time input of the current Chairman.
- ⑦ The current Terms of Reference, while clearly setting out the duties of the Committee, also include detailed points of focus. While these points are good practice, they do raise a "compliance" risk for the Committee. Consideration should be given to removing these from the formal Terms of Reference and including them in separate Committee briefing material or guidance.
- ⑩ Consider the Bank's position on the "appropriate term of office" for both Committee members and the role of Chairman.



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3. Audit Committee – Financial Reporting

Strengths

- ② Designated financial expert on the Committee
- ② Committee spoke highly of management briefings/updates on financial position, reporting developments (e.g. IFRS preparation).
- ② Committee also felt that operational/geographic updates throughout the year supported their understanding of the financial performance/results. A particular focus on key risk areas (e.g. treasury/derivatives etc) is important to members.
- ② Committee demonstrated willingness to challenge, raise issues and deal with detail of increasingly complex financial reporting.





3. Audit Committee – Financial Reporting

Areas for Consideration

- Continue process of regular Committee briefings and include, where appropriate, additional external briefings on financial reporting/regulatory issues from sector experts. Briefings addressing emerging risk areas/operations that impact on financial reporting and controls are particularly important.



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3. Audit Committee – Internal Control

Strengths

- Strong understanding of Bank's operations amongst experienced Committee members is evident and is important to the Committee's understanding of risk and control environment.
- Briefing on internal control given in London by Finance team was highly relevant, provided very good insights and was well received.
- Committee felt that Bank culture of openness means that control incidents are raised to Committee's attention where appropriate.
- Audit recommendations are discussed in detail with management, management responses are considered for appropriateness and closure is tracked.
- Committee meets jointly with Risk & Compliance Committee on occasion and receives updates on key risk issues.


3. Audit Committee – Internal Control

Areas for Consideration

- ① Increase visibility of Audit Committee "oversight" of the risk and compliance frameworks/processes through formal review of Risk & Compliance Committee reporting and consideration of impact on internal control, internal audit focus and financial reporting.
- ② Ensure completion of development and implementation of appropriate group wide Whistleblowing policy and process.
- ③ In conjunction with Internal Audit, review the Bank's internal control framework in light of lessons learned from Sarbanes-Oxley experiences in US/globally. Particular issues to assess include:
 - the extent and quality of financial monitoring and oversight controls;
 - the period end close and consolidation processes;
 - how fraud risk is assessed and addressed by existing fraud policies, fraud risk assessment process, antifraud controls and internal audit fraud coverage
 - the adequacy of current IT controls in light of commonly used IT control frameworks such as COBIT/ITIL

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3. Audit Committee – Risk and Compliance

Strengths

- Risk and Compliance Committee in place and viewed as operating effectively.
- Audit Committee has periodic joint sessions with the Risk & Compliance Committee.
- Audit Committee receives periodic updates/briefings on key risk areas from management.





3. Audit Committee – Risk and Compliance

Areas for Consideration

- In light of the Committee's responsibility to "assess the role and effectiveness of the group compliance and risk management functions in the overall context of the company's internal control framework":
 - All new Committee members should be given a full briefing on the Bank's risk and compliance frameworks (including regulatory compliance) and how they are implemented across the group. Briefing should set out how:
 - Risks/compliance requirements are identified across the Group;
 - Actions or control processes to mitigate risks/achieve compliance are agreed;
 - Responsibility for actions/controls is allocated; and
 - Action/control completion is reported and monitored.
 - Continue the practice of regular management briefings to the Committee on key risk areas.

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3. Audit Committee – Internal Audit

Strengths

- High regard amongst Committee for Walter and Internal Audit (IA) team. Feel significant step up has been made in performance of IA and level of assurance provided.
- Standard and depth of reporting seen as appropriate for needs of the Committee.
- Firm belief that IA "calls it as it sees it" and no filtering of issues by management.
- Status tracking process for Critical Issues raised is positive and overall belief is that IA issues are taken seriously by management and resolved in a timely manner.
- Separate, private meetings held between Chairman and Head of IA allows for raising of issues if required.



3. Audit Committee – Internal Audit



Areas for Consideration

- 12. Continue to assess adequacy of IA skills/resources. Particular mention was made of the need for recruitment/access to additional IT audit skills. This issue is of particular note in light of the widespread experience on Sarbanes-Oxley projects of poor/very poor standards of IT controls when assessed against an appropriate IT control framework. ✓
- 13. As noted above, ensure fraud risk is specifically considered as part of the IA planning process. Carrying out a separate Fraud Risk Assessment for the group would support this need. ✓
- 14. Audit Committee should carry out formal annual assessment of IA based on achievement of agreed objectives and plans for the year. ✓
- 15. Consider use of summary reports from Internal Audit on emerging risks, trends in audit findings and opinion on overall control environment. ✓

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
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3. Audit Committee – External Audit

Strengths

- Positive view across the Committee on strength of audit partner and service levels received.
- Audit planning presentations to the Committee by E&Y are comprehensive and address audit approach, risk and judgment areas and areas of emphasis.
- Committee meet privately with audit partner at least annually.

3. Audit Committee – External Audit

Areas for Consideration

- 20 Undertake annual review of performance of external audit. Review should take account of both the Audit Committee's direct interaction with the audit team and also the assessment of the Bank's finance teams who interact with the broader audit team. Several frameworks for reviewing the performance of external audit are widely available.


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		Needs Improvement	Acceptable	Excellent	Comments
Board Effectiveness					
1.	The board is committed to being held accountable by shareholders and the public:	-	2	11	- Significant focus at board and senior management level
2.	The board does what is best for the Company and shareholders regardless of other pressures:	-	2	11	
3.	The board focuses on activities that help the Company maximise shareholder value:	-	2	11	<ul style="list-style-type: none"> - The Board maintains a balance between the short and long term view - The Board fosters strong culture and values - Agenda is driven by the exes. It is rare for the NEDs to raise particular issues for debate
4.	Board members can articulate the Company's business strategy:	-	4	9	<ul style="list-style-type: none"> - I don't think there would be unity on this point - The Company's strategy is simple and has remained unchanged over time



Master Scoresheets

A – Board Evaluation: Full Board

5.	The board has critiqued, questioned and approved the Company's business strategy, plans & budgets:	1	4	8	<ul style="list-style-type: none"> - Yes, it considers what would happen if there were strong growth, likely growth, low growth, stress and extreme stress - I don't find the board particularly challenging - We should look more closely at the geographies, markets and products and our very long term strategy - Those NEDs who have visited local operations will be better informed
6.	The board fosters high Company performance consistent with the business model:	-	1	12	<ul style="list-style-type: none"> - it is a performance based culture - the board looks at key metrics such as cost income ratio, return on equity, loan growth and funding
7.	The board culture encourages candid communication and rigorous decision-making:	-	2	11	<ul style="list-style-type: none"> - high regard for execs who are highly competent - Mutual respect - One worries that as NEDs we don't add much value - It would be welcomed if the NEDs were prepared to ask difficult questions - The Chair sets an open and honest tone

Master Scoresheets

A – Board Evaluation: Full Board

8.	The board monitors compliance with legal and regulatory requirements:	-	3	10	<ul style="list-style-type: none"> - Corporate governance is taken very seriously - Heavy workload for Audit & Risk Committees - This has not been high on our agenda
9.	The board is organised and/or prepared to handle a crisis situation:	4	4	5	<ul style="list-style-type: none"> - There is no formal plan in place. Reactions are instinctive when crisis strikes - An exercise in simulating a catastrophic episode would be worthwhile - This has been seriously tested recently - We need to move up a gear



		Negative	Neutral	Positive	Comments
10.	The board had the following impact on the Company this year:		1	12	<ul style="list-style-type: none"> - NEDs bring different perspectives to the table - The board as a unit is not an impediment to getting things done - Strong on governance, strategic direction, support and counsel for David and others
11.	The board's greatest contribution to the Company this year was:	<p>Mutual respect</p> <p>Governance and direction</p> <p>Understanding and support of executives</p> <p>Consistency of approach irrespective of market conditions</p> <p>To allow management to get on with the job in hand and not to meddle</p> <p>To challenge in a positive and measured way</p> <p>Board encouraged management to be aware of changing economic circumstances</p>			
Board Structure		Needs Improvement	Acceptable	Excellent	Comments



Master Scoresheets

A – Board Evaluation: Full Board

12.	We have the right number of directors on the board:	1	6	6	<ul style="list-style-type: none"> - We could do with an exec on treasury side - Someone non Irish with a risk profile - Recent US experience - An outsider with fresh ideas
13.	We have the appropriate range of skills, experience and knowledge on the board (specify any gaps):	4	3	6	<ul style="list-style-type: none"> - We need someone with a legal background - We need another woman to redress the gender imbalance - We need a NED on the Treasury/Banking side - Banking, City, Capital Markets - A generalist - US experience - An international board director - Someone with property experience
14.	The mix of executive and non-executive directors is appropriate to the company:	-	7	6	<ul style="list-style-type: none"> - ability matters not the number of directors - There is a high ratio of execs on board but this is relevant to our business - We need one more Exec Director



Master Scoresheets

A – Board Evaluation: Full Board

15.	Sufficient time and opportunity is allowed for non-executive directors to meet independently:	-	2	11	- The NED dinners are very useful
16.	The committee structure is appropriate to company needs:	-	2	11	
17.	The distribution of business considered by committees vs. the board is appropriate:	-	4	9	
18.	Committee reports give the appropriate amount of information to the board:	-	2	11	
19.	The process for the selection of new directors is appropriate:	3	4	5	<ul style="list-style-type: none"> - Room for improvement re: exec appointments - Getting better but was too loose - Selection process is rather mysterious - The board is too conservative, inward looking and familiar



Master Scoresheets

A – Board Evaluation: Full Board

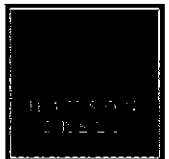
20.	There is an induction process for new directors and sufficient on-going training as appropriate:	6	2	5	<ul style="list-style-type: none"> - No - Could be more professional, formal and structured - We take things for granted because we have grown up with the bank. Being a PLC director is very different from being a senior manager
21.	The process for evaluating board and director performance is appropriate:	4	5	4	<ul style="list-style-type: none"> - woefully superficial till now - not in terms of director evaluation - Informal but could do with being more systematic
22.	The board has an effective succession planning process in place:	6	3	4	<ul style="list-style-type: none"> - more training/induction needed - more visibility needed around talent management and processes - We haven't looked at this - Succession planning for NEDs is an area for improvement
23.	The process and rules for re-nomination are appropriate:	-	6	6	<ul style="list-style-type: none"> - Much clearer and more clinical now - No they are not - Should be an expectation that directors serve 2 three year terms - If I'd had an induction, I might know what these rules are



Master Scoresheets

A – Board Evaluation: Full Board

24.	The number of board meetings is appropriate:	-	3	10	
25.	Meeting agenda and papers are satisfactory and sent out in good time:	-	3	10	
26.	Board agenda include only what is appropriate:	2	2	9	- no opportunity to influence agenda and suggest topics for debate
27.	Presentations to the board are of uniformly high quality:	-	2	11	- if I were an NED, I'd want to see hard copies of the presentations which are only done verbally
28.	Enough time is allowed for important discussions:	-	1	12	



Master Scoresheets

A – Board Evaluation: Full Board

29.	The views of shareholders are properly conveyed to the board:	1	5	7	<ul style="list-style-type: none"> - we try to do this via the analysts - we don't do this at all - <i>this could be formalized and better articulated</i> - a detailed report is made following shareholder meetings - Willie's report is very clear and concise
30.	The board assesses operational risks (eg crisis management):	2	2	9	<ul style="list-style-type: none"> - no-one seems worried about the risk of us all flying together
31.	Are there any areas of the board's work which cause you unease:	<p>No – 11 Yes – 2</p> <ul style="list-style-type: none"> - Increasing complexity of accounting and reporting requirements - Preparing for and managing the unexpected 			

Additional Comments:



Master Scoresheets

B – Board Evaluation: Chairman

		Needs Improvement	Acceptable	Excellent	Comments
1.	Understands fully the role and responsibilities of a listed company Chairman:	-	-	12	- the SID and one other NED talked to shareholders to see if they had a problem with Sean becoming Chair. If they had thought it a bad idea, he would not have stayed as Sean is not one to impose himself on others.
2.	Has good knowledge of the business and the Company:	-	-	12	
3.	Understands senior management roles clearly:	-	-	12	
4.	Ensures that the timetable of Board and Committee meetings is appropriate:	-	2	10	
5.	Ensures that Board members have appropriate opportunities to input to Board agenda:	1	2	9	<ul style="list-style-type: none"> - this is implicit but could be formalized - he is very diligent and respectful. He encourages contributions from all board members



6.	Ensures that there is adequate time available for discussion at Board meetings:	-	1	11	<ul style="list-style-type: none"> - Sean is on the margin in this respect – sometimes he will kill a conversation if it is wandering off course and will bring the debate back to where he wants it to be
7.	Ensures that Board decisions are adhered to:	-	-	12	<ul style="list-style-type: none"> - he looks for consequences of action points - he has a good, respectful but challenging relationship with the CEO - he does this through David
8.	Is independent-minded:	-	4	8	<ul style="list-style-type: none"> - yes - he is also open-minded and willing to change his mind - by the nature of his personality he is independent-minded but I have yet to see evidence of a major challenge of the CEO. Perhaps this is done behind closed doors. - yes, he is more aligned with the NEDs than the Executives now - it is not possible to score an "excellent" here - he made the transition from CEO to Chair very well - The independent directors can be in awe of him, he behaves independently but he can't be independent



Master Scoresheets

B – Board Evaluation: Chairman

9.	Is collegiate and treats others with respect:	-	1	11	- he can't be everyone's best friend
10.	Exercises initiative and demonstrates sound judgment:	-	-	12	
11.	Is incisive and gets to the heart of matters:	-	1	11	
12.	Is appropriately detailed and decisive:	-	2	10	- he pays too much attention to detail - Sean can deliberately tolerate ambiguity which is very impressive. He is not overly detailed - I thought he would meddle but he didn't
13.	Is candid and honest, and willing to push back when necessary:	1	-	11	- Sean always wants to be sure the right thing is done



Master Scoresheets

B – Board Evaluation: Chairman

14.	Makes appropriate time commitment:	-	1	11	- he gives enormous time to Anglo Irish responsibilities
15.	Is prepared at meetings:	-	-	12	
16. A	This Chairman's unique contribution to the Board is:				<ul style="list-style-type: none"> - his experience and exceptional knowledge as the bank's founder and inspiration - sets an open and honest tone - encourages active debate - his energy, drive and motivation - lets management to do their job and provides only support and guidance - sets a lovely light tone and uses humour to great effect - keeps people informed of developments between meetings - listens to everything that is said – or not said - makes it easy for people to ask the dumb question - respectful but challenging



<p>B</p>	<p>This Chairman's greatest contribution during the year was:</p>			<ul style="list-style-type: none"> - in-depth knowledge of the Irish market – the business community, the deals, the players and people in general - courageous and prepared to make tough decisions about people he has worked with - offers wise counsel - ensures the business of the board is complete and that there is clarity around decisions - ensures the best interests of the bank are taken into account - ensuring that all views are aired and that the board works as a unit - being the Chairman and resisting the temptation to play the role of the CEO at a time of difficulty for the bank - his measured approach in difficult times - management of credit risk - management of the public perception of the bank - moving meetings towards more of a business discussion on a strategic level - being a superb mentor for David - being a real person of unbelievable humanity and integrity - providing appropriate leadership during summer
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C	The one thing I would most like to ask the Chairman to do differently is:				<p>2007 and setting a serious tone</p> <ul style="list-style-type: none"> - Assertive handling of one of our large shareholders - Allowing management to do their job and offering no intervention on day-to-day matters - I would prefer a little more discussion at board level on our strategy going forward - to give more feedback to the execs on issues on which the NEDs would like more coverage - I would like Sean to maximize our potential to influence policy and attitudes in Ireland. He could be a Peter Sutherland figure but he prefers the one-on-one discussions rather than opining about broader issues on a more global platform - To be more of an internal ambassador within the bank, eg meeting new recruits and promoting the bank's culture and values. Also to do more outside Ireland – eg Davos. - Take the board out of its comfort zone - I would like more regular, informal contact with the Chair and more social interaction with the board – eg a retreat or an away day where we don't talk about business - He could allow conversations to wander more instead of bringing them back to where he wants them to be
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Master Scoresheets

B – Board Evaluation: Chairman

					<ul style="list-style-type: none">- Visit the overseas offices more often- Sean wears his heart on his sleeve and can be too open with people at times
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Additional Comments:



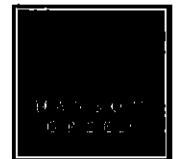
		Needs Improvement	Acceptable	Excellent	Comments
1.	Committee members have the right skills and background for the company's current requirements:	1	-	5	- Would definitely help to have someone on the board with risk experience
2.	The committee has the right number of members and meetings:	-	1	5	
3.	Members have sufficient input into committee agenda, and material is sent out in good time:	1	-	5	- it would be useful to look at our diaries at the start of the year to plan when to meet up in the course of the year
4.	The committee has a healthy culture that encourages candid communication and rigorous decision-making:	-	-	6	
5.	Meetings are well run and time is used effectively:	-	-	6	



Master Scoresheets

C – Board Evaluation: Audit Committee

6.	The committee is effective in monitoring the company's internal control systems and interaction with external auditors:	-	1	5	extensive focus on internal audit reports
7.	Members have adequate access to external auditors without management present:	-	1	5	
8.	Members know what to ask external auditors to ensure that all accounting and financial reporting requirements are met in full:	-	-	6	- previously it was felt that issues were not flagged early enough before the final audit was signed off by the Audit Committee. Now all issues are flagged a month before the accounts are due to be signed off
9.	The committee refers controversial decisions to the Board for review:	-	-	5	- Limited examples of this - This rarely happens but a full report to the board is given following each meeting
10.	The committee considers recurring annual issues at appropriate times of the year:	-	-	5	



Master Scoresheets

C – Board Evaluation: Audit Committee

11.	The committee is involved in determining the company's accounting and financial reporting policies and ensures that they meet regulatory requirements:	-	-	6	- in a reactive way
12.	The committee keeps up to date with changes in accounting standards and reporting requirements affecting the company:	-	-	5	- this is a difficult area for non-accountants - the committee spends a lot of time understanding the changes in such policies
13.	The committee is kept up to date with legal and financial issues affecting the company's pension funds and assesses its liability regularly:	1	1	4	- this is rarely discussed
14.	Induction processes for new members of the committee are effective:	2	3	1	- I had a two hour induction - this probably needs to be improved
15.	The Audit Committee's Terms of Reference are adequate and reflect actual committee practice:	-	-	6	

Additional Comments:



- The major challenge is staying clued in to the technical aspects sand advanced reporting and yet not allowing science to blind us to the underlying realities
- It is very challenging because of the complexity of issues, processes and the sheer volume of work.
- members engaged well, prepare well and get to grips with the issues
- there is a good relationship with the external auditors and lively debate in meetings
- The committee works well and takes its duties seriously – rightly so



		Needs Improvement	Acceptable	Excellent	Comments
1.	The committee members have the right skills and background for the company's current requirements:	-	1	4	- the committee is seen as important and takes itself seriously
2.	The committee has the right number of members and meetings:	-	2	3	- we could do with a second annual meeting
3.	Members have sufficient input into committee agenda, and material is sent out in good time:	-	2	3	
4.	The committee has a healthy culture that encourages candid communication and rigorous decision-making:	-	-	5	
5.	Meetings are well run and time is used effectively:	-	-	5	



6.	The committee has adequate time to consider significant proposals:	-	2	3	
7.	Members have adequate access to external consultants without management present:	1	-	4	
8.	Members know what to ask independent advisers to ensure that the recommendations of the committee are appropriate to the needs of the company and have access to relevant market data:	-	-	5	
9.	Members are kept abreast of trends and issues affecting remuneration:	1	1	3	
10.	The committee refers controversial decisions to the Board for review:	-	1	3	



11.	The committee considers recurring annual issues (eg salary reviews and bonus arrangements) at appropriate times of the year:	-	-	5	
12.	The committee is involved in determining the company's remuneration policies:	-	2	3	
13.	The committee is effective in monitoring implementation of the remuneration policies:	1	-	4	- full transparency at senior executive level and delegated authority down the line
14.	The committee effectively links remuneration policies and plans to the company's business goals:	-	1	4	
15.	Induction processes for new members of the committee are effective:	3	-	1	- Main board induction only



16.	The Remuneration Committee's Terms of Reference are adequate and reflect actual committee practice:	-	-	5	
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Additional Comments:

- I am concerned about the heavy workloads shouldered by committee members generally



		Needs Improvement	Acceptable	Excellent	Comments
1.	Committee members have the right skills and background for the company's current requirements:	1	1	4	- Ned is the former Chair of Audit and Lar is an experienced business adviser. The only reservation is to have a generalist as Chair
2.	The committee has the right number of members and meetings:	-	2	4	- the Risk agenda has always been given considerable amount of time on an annual basis. The balance of executives v non-executives is good.
3.	Members have sufficient input into committee agenda, and material is sent out in good time:	-	2	4	- members regularly request special items - there are very comprehensive packs
4.	The committee has a healthy culture that encourages candid communication and rigorous decision-making:	-	-	6	- this has always been in the case in my view
5.	Meetings are well run and time is used effectively:	-	1	5	



6.	The committee is equipped to deal with the risks and challenges facing the board:	1	2	3	<ul style="list-style-type: none"> - I have reservations about my own skills set and have advised the nominations committee to bear this in mind in future - They don't have the experience to deal with the issues
7.	Risk can be assessed and managed prudently and effectively within the management framework:	-	1	5	
8.	There is an ongoing and effective process for identifying, evaluating and managing significant risk:	-	-	6	
9.	The risk management system is robust and defensible:	-	1	5	
10.	There are specific arrangements to manage, monitor and report to the board on risks of particular importance (eg fraud):	-	-	6	



11.	The committee is capable of responding quickly to evolving risks to the business (internal and external):	-	1	5	- the committee didn't have a special meeting when the credit crisis occurred. We have no serious issues or problems – there was no need to change direction or do anything differently. David met with the NEDs over dinner on a couple of occasions and they were happy.
12.	There is clear understanding by the board as to which risks are acceptable:	-	3	3	
13.	The committee refers controversial decisions to the Board for review:	-	-	6	- always, but only if it were warranted
14.	The committee considers recurring annual issues at appropriate times of the year:	-	-	6	
15.	The induction process for new members of the committee is effective:	2	4		- OK – but only OK - It is quite informal but the executives are at the end of a phone if needed by the NEDs

Additional Comments:



Master Scoresheet

F – Board Evaluation: Nominations Committee

		Needs Improvement	Acceptable	Excellent	Comments
1.	Committee members have appropriate skills and background for the company's current requirements:	-	-	5	
2.	The committee has the appropriate number of members and meetings:	-	3	2	- possible additional planning meeting
3.	Members have sufficient input into committee agenda, and material is sent out in good time:	2	1	2	- this has not been good but already a marked change since change of chair - members have no input but papers are sent out in good time
4.	The committee has a healthy culture that encourages candid communication and rigorous decision-making:	1	2	2	- this has not been good but already a marked change since change of chair
5.	Meetings are well run and time is used effectively:	-	3	2	- this has not been good but already a marked change since change of chair



Master Scoresheet

F – Board Evaluation: Nominations Committee

6.	The committee refers controversial decisions to the Board for review:	-	2	3	- this has only arisen once and we deliberated forever over the choice and still got it wrong!
7.	The induction process for new members of the committee is effective:	5	-	-	- there is none
8.	The majority of committee members are independent non-executive directors:	-	-	5	
9.	The committee is trusted by the board to lead the process for key appointments:	-	1	4	- could be looked at - as a statement of fact it cannot be challenged but I'm not sure that is the question - yes – it oversaw David's appointment
10.	The committee regularly reviews the size, structure and composition of the board (including knowledge, skills and experience):	1	3	1	- we should do this annually - we could stand a relatively benign examination of the board in this respect but not a deep one. We don't spend enough time examining our needs. We tend to look for individuals rather than to determine specific skills required



Master Scoresheet

F – Board Evaluation: Nominations Committee

11.	The committee creates role descriptions for particular appointments based on this evaluation:	4	1	-	- this is largely done through discussion – skills gaps on the board are identified and candidates are considered who might fulfill the requirement
12.	There is transparency as to the way in which board appointments are made and explanations provided in the absence of a search or selection process:	1	2	2	
13.	The committee is objective in determining criteria for appointments:	2	1	2	
14.	The committee is objective in making decisions regarding appointments:	-	1	4	- it is based on what the board needs – cultural fit is very important – the ability to interact in a non-aggressive way
15.	The committee considers candidates from a wide range of backgrounds and efforts are made to look beyond the “usual suspects”:	1	4	-	- this is true of individuals sought outside the Irish market but it is more difficult in Ireland where individuals in the business community are well known to each other - A bit inconsistent but again this is getting better



Master Scoresheet

F – Board Evaluation: Nominations Committee

16.	The committee keeps the board informed during appointment processes:	-	1	4	<ul style="list-style-type: none"> - Through the Chairman - Informally, yes
17.	The committee ensures the board's buy-in to recommendations regarding important appointments:	-	1	4	
18.	The time commitment required for non-executives is reviewed annually by the committee:	2	-	3	
19.	Full consideration is given to succession planning and specific challenges/opportunities facing the company to ensure that individuals appointed to the board have the appropriate skills and expertise:	-	2	3	



Master Scoresheet

F – Board Evaluation: Nominations Committee

20.	Performance evaluation is used to assess whether non-executives are spending enough time to fulfill their duties:	2	2	1	- Once a year
21.	The leadership needs of the board are regularly reviewed (both executive and non-executive) to ensure that the company competes effectively in the marketplace:	1	4	-	
22.	Recommendations are made to the board in terms of succession, reappointment and re-election of directors in a timely fashion:	-	1	4	

Additional Comments:





THEME: B1

Effectiveness of banks' board governance,
client relationships and business models

LINE OF INQUIRY: B1c

Quality of business model setting process

MEMO - HIGHLY CONFIDENTIAL**To: The Board****From: Willie McAteer, Matt Moran****Date: 30 January 2007****Re: Perception of Anglo Irish Bank in equity markets and rating of our stock****1. Purpose**

The purpose of this memo is to consider investors attitude towards the Bank and specific matters raised by Gary McGann, which can be summarised as follows:

- Current and potential future attitude of investors to Anglo performance;
- Potential for re-rating of our stock; and
- Management's ability to influence rating and what can be done to best position the Bank to command a premium.

Also included at Appendix 1 is a summary IR Report for 2006.

2. Executive summary

- Anglo used to trade at up to a 40% discount to Irish, UK and European Banks until around 2003. Since then the Bank's rating has grown gradually to a point where it commands a premium of 20 – 30% against market. As the premium has been achieved analyst recommendations have changed purely on valuation grounds. There are now 8 Buys, 6 Holds & 1 sell on the stock (2004 - 9 Buys, 1 hold) reflecting the view by some that much of the growth is now priced into the stock – see back page.
- Performance is clearly the key driver of the stock. Growth expectations and delivery to those expectations has significantly out stripped other players. Another important aspect is trying to consistently manage shareholder and analyst relations.
- Our less diversified business adds additional inherent risk versus a universal player. Consequently in a depressed market our premium may reduce/dissipate.
- It is essential we effectively manage transition from super high growth bank to slower but strong relative growth to peers.
- Knowledge and understanding of our story in the market is key. Over medium to long term this should deliver value to shareholders.

3. Background

Positive momentum to rating in past 4 years

Historically, Anglo has traded at a 10-25% discount on a P/E basis to the Irish Banks. This began to reverse in 2002/03 where Anglo secured a rating to trade consistently 20% - 40% higher than other Irish Banks on a 1 year forward P/E basis. This evolution can be seen in Diagram 2 / 2a.

The same trend also holds when viewed against the UK and European Bank's sector where we (and the Irish sector in general) traded at a discount until mid-2004. Since Anglo, and to a lesser extent the other Irish banks, have largely traded at a premium given the perceived growth prospects. See Diagram 1.

Factors influencing positive re-rating

There are a number of factors which have influenced the positive re-rating:

- Consistent performance of Anglo – 5 year Compound EPS growth of 34%
- Size of Bank – leaving small cap arena (>€2bn market cap) opens up potential investor base
- Related to the above, increased liquidity in stock allows more funds to participate
- Consistent access to management every 6 months
- Perceived depth of management team – the market has met with upwards on 15 senior people over the past three years
- Consistent & focused strategy
- Increased analyst coverage – 15 analysts now covering the stock compared to 7 in 2003. Coverage has also given us access to major sector conferences
- Strength of Irish economy
- Benign and stable interest rate environment
- Strong returns in property sector

4. Stock performance – past 18 months

- In Q3 2005 and Q1 2006 equity markets performed strongly (ISEQ + 17% - Nov 05 to Mar 06). Anglo also performed strongly during this period but did not significantly outperform the market (+ 17%).

- From Apr to Jul 06 equity markets fell. Anglo's share price during this period fell at faster rate than the market. (ISEQ -7% Anglo -16%). Anglo's share price during this period performed more in line with 'growth' stocks.
- On a P/E basis in the early part of the year Anglo traded at a relative stable premium to the banking sector. This fell during the period Apr to Jul 06 and has subsequently recovered in line with Anglo share price (Diagram 4). Currently c.20% versus European sector average.
- During this period on a relative P/E basis the Irish Market as a whole declined slightly versus UK and Europe. (Diagram 5).

Anglo trades at a higher beta to other Banks and accordingly when the market contracted mid-2006, our stock fell by more than the market. Two key factors in this are:

- Macro impact - In what was perceived to be a potential turning point in the economic cycle, there was a flight from periphery markets like Ireland, Greece, Turkey to the larger, more defensive and established markets i.e. UK, US, etc.
- From an Anglo specific basis - our less diversified business would be considered higher risk than a universal player in a downturn. This was compounded by the tightening in property market yields. The growth driving the premium in our rating would be less achievable.

More recently, on the back of a strong trading statement in September and very strong results released in December, the stock has strengthened 50% from its summer lows. Management undertook a significant number of meetings with investors through September given the number of broker events surrounding the Ryder Cup and this helped reinforce our growth potential.

5. Banks & High Growth – not always a happy marriage

“High growth banks seldom die of old age!” (Mohammad Rhostom, Portfolio Manager, Brown Brother Harriman, referring to our growth). Clearly growth implies risk for a bank – more so than for other sectors given the risk is maintained on your balance sheet for years following the inception of a loan.

A key balancing act for us to impress upon the market is that Anglo's growth is delivered in a measured and conservative manner, without loosening our credit standards.

6. Investor Relations Strategy

Our IR goals and strategy are very simple.

Ensure the market fully understands how and why the bank has delivered superior returns for our shareholders – and more importantly, why this can continue (albeit at a slower growth trajectory) for the future.

We achieve this by:

- Effectively managing growth expectations & delivering on EPS
- Regular meetings with key investors – goal to meet twice annually
- Inviting investors to see a broad spread of the Bank's leadership team to demonstrate strength in depth
- Increased and improved understanding of the business with sell side analysts/brokers
- Widen shareholder base – strive to meet 20% new people/houses on each major roadshow, participate in relevant equity conferences, etc

Clearly, there will be a period of transition when the Bank's current out performance of market growth levels moderates. We will work to ensure that this occurs in a graduated manner.

The market is relatively efficient over the medium and longer term. If we execute our growth and deliver on our IR strategy, the Bank will deliver value to shareholders.

Investor Conferences – 2006 & 2007**2006**

1. Davy Irish Equity Conference – NY 6/01/2006
2. Morgan Stanley European Banks Conference – London 22/03/2006
3. IFRS Presentation to Analysts – London 27/03/2006
4. UBS Global Banks Conference -16/05/2006
5. Davy Irish Equity Conference – London 18/05/2006
6. Goodbody Banks workshop – 1/06/2006
7. Merrion Irish Equity Conference – London 20/07/2006
8. Goodbody Irish Equity Conference – 21/09/2006
9. KBW European Banks Conference – London 19/09/2006
10. Merrill Lynch Banking & Insurance Conference- London 3/10/2006

2007 – Provisional list

1. Davy Irish Equity Conference – NY 5/01/2007
2. NCB Irish Equity Conference – 22/03/2007
3. Davy – Private Client Conference – Dublin 22/03/2007
4. Morgan Stanley European Banks Conference – London 27/03/2007
5. Goodbody Equity Conference – London 1/05/2007
6. Goldman Sachs Equity Conference – Lisbon 10/06/2007
7. Davy Irish Equity Conference – London -18/05/2007
8. UBS Financial Services Conference – 14/05/2007
9. Merrill Lynch Banking & Insurance Conference – London 4/09/2007

Equity Investor Relations Summary Report 2006

Appendix 1

Investor Activity

2006 was our most active year in the equity markets. The placement of 5% ordinary shares was a key milestone raising €410 million of new equity capital. Other points of not include:

- We undertook 904 meetings with 410 institutional investors since Jan 06
- 40 sessions were held with sell side analyst/brokers
- Coverage was initiated by five major investment houses – Dresdner Kleinwort, ING, UBS, ABN and Credit Suisse. We are now actively covered by 15 analysts.
- Attendance at 10 major banking conferences in Ireland, UK and USA.
- Depth of management and access to Anglo has been a key strategy. In excess of 20 individuals partook in IR activity this year, including; David Drumm, Willie McAteer, Tony Campbell, Tom Browne, Declan Quilligan, Pat Whelan, Matt Moran, Owen O'Neill, Fiachre O'Neill, Gordon Parker, Paul Brophy, Paul Doyle, Gareth Thelander, Eddie Byrne, Jim Springham, David Hanley, Conor Cahilane, John Bowe, Bernard Daly, Brian Linehan, Maureen Harris and others.
- Introduction of trading statement into our reporting cycle
- Live Dublin/London simulcast of our preliminary 2006 results across the web. This facilitated live worldwide access to our results presentation.
- Continued expansion of our shareholder base and the geographic mix of shareholders.
- Receipt of the IR awards including 'Best overall investor relations of an Irish large cap quoted company'

2006 year-end Roadshow

The key positives highlighted by investors were:

- Level of loan growth - 45% during 2006 and in particular the continued strong performance by the Irish book.
- Record €8.7bn of WIP at year end and the expectation of a strong performance for 2007.
- Strong cost performance with cost to income ratio improving to 26.5% and the fact that income growth outpaced cost growth by 11% - 'positive jaws'

The key issues raised by investors were

- Sustainability of our current growth rates.
- Impact of rising interest rates
- Slowdown in the global property market and the compression in rental yields.

Diagram 1

Banking Sector P/E versus Market P/E - '03 - '06

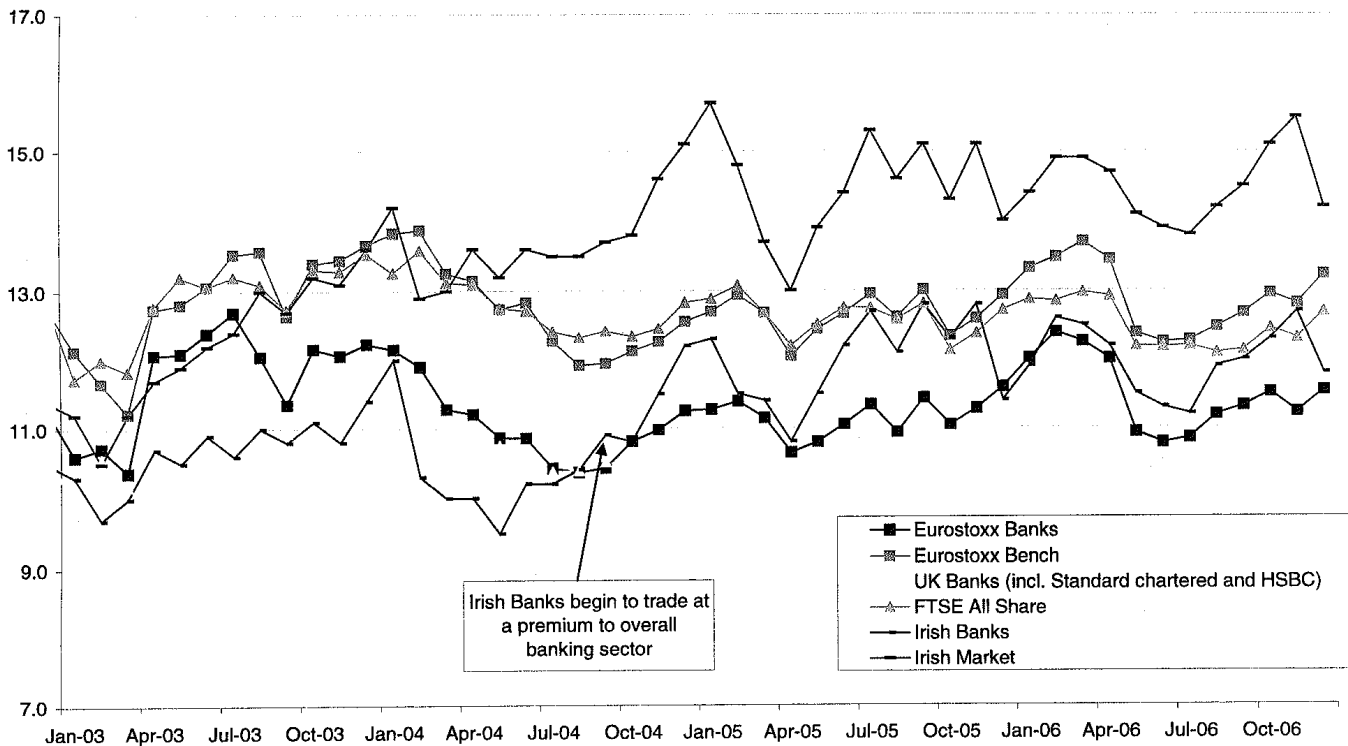


Diagram 2

Irish Banks P/E history (absolute values) - '00 to '06

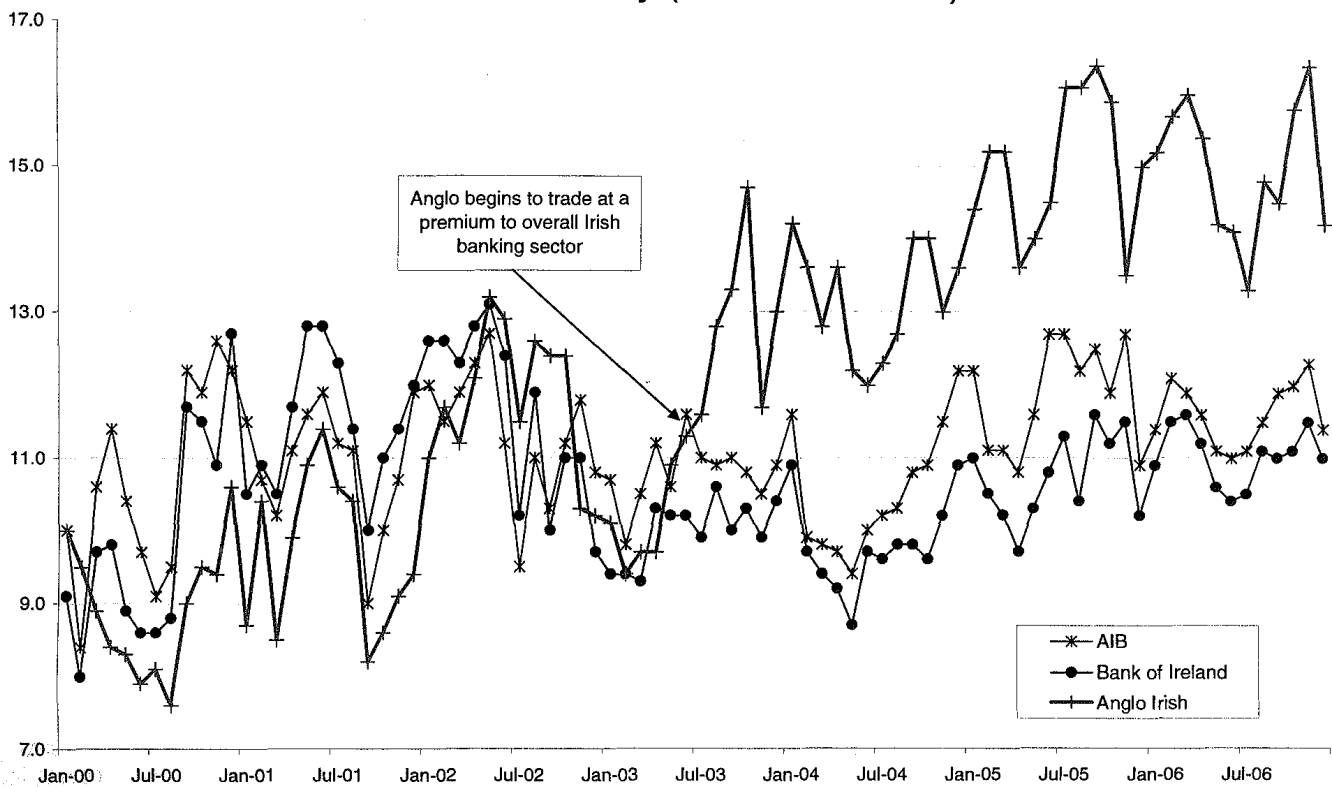


Diagram 2A

Anglo P/E relative to Irish Banks - '00 to '06

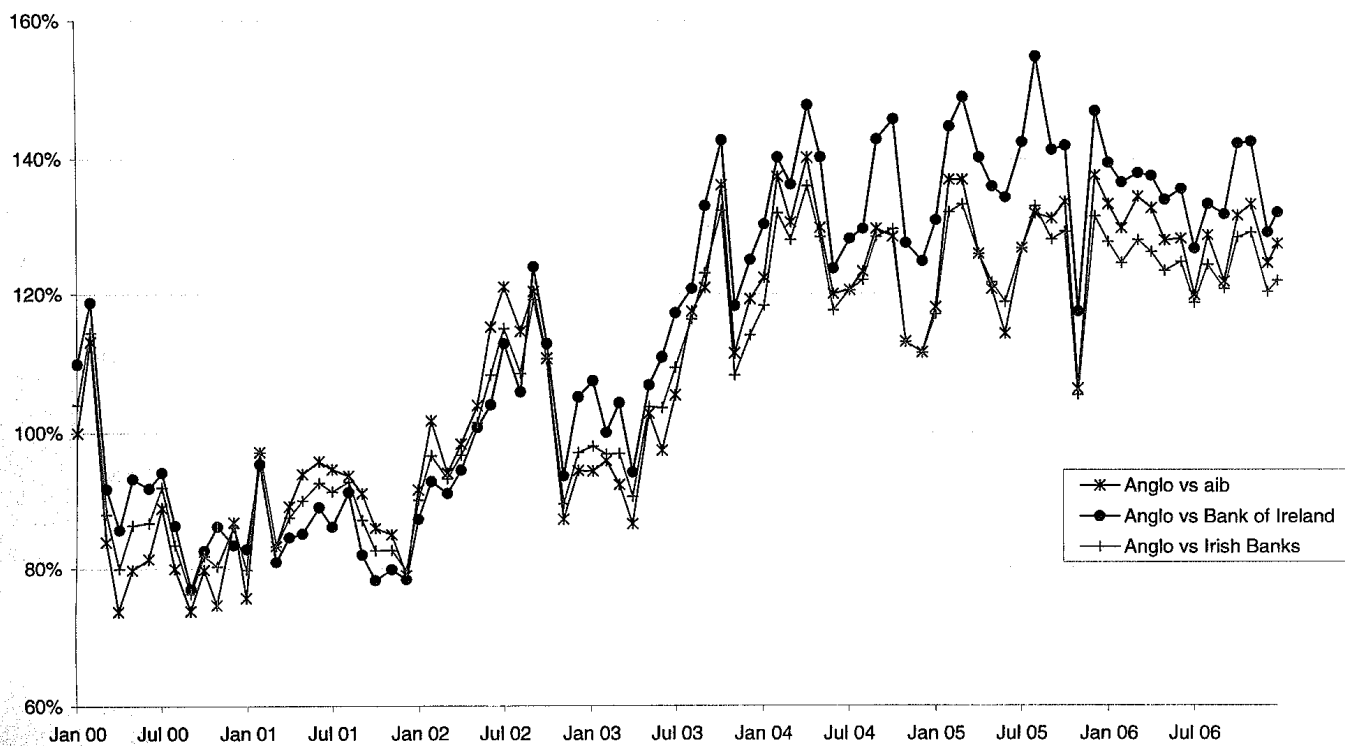


Diagram 2B

Anglo P/E relative to Banking Sector - '00 to '06

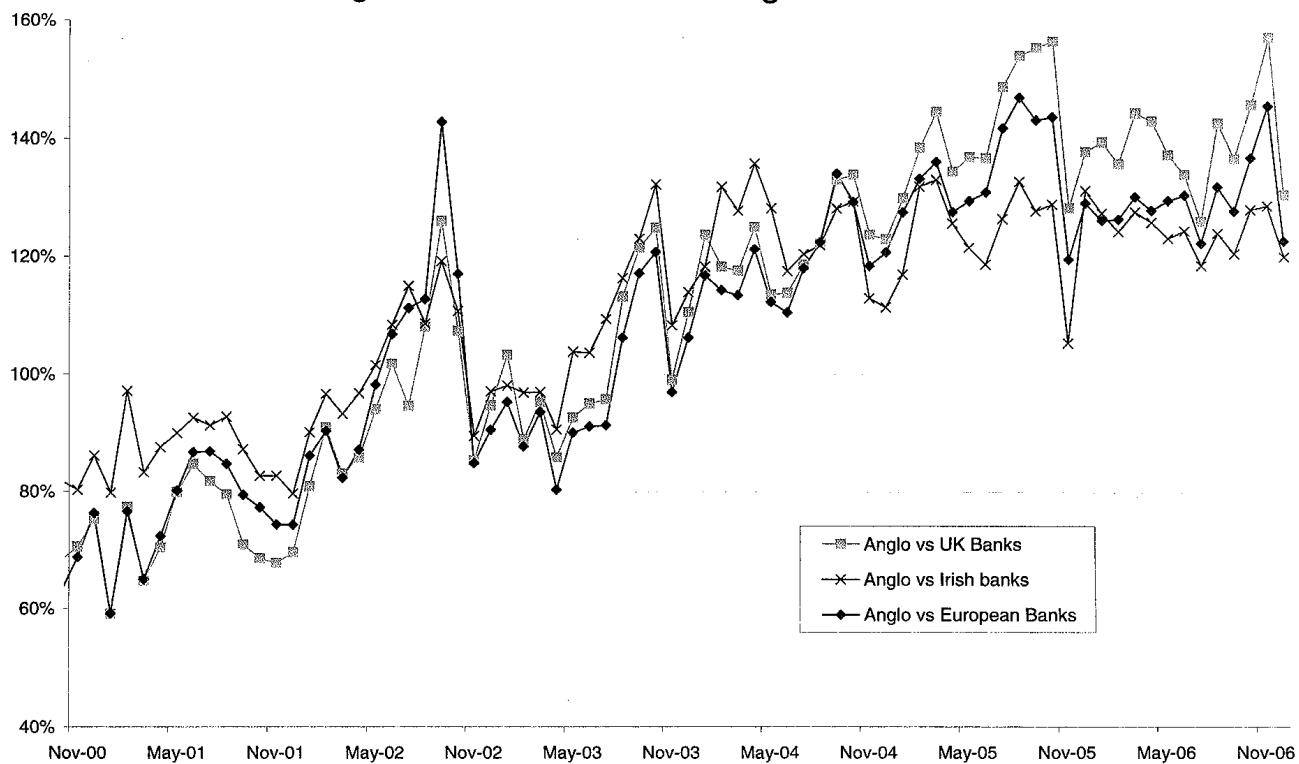


Diagram 3

Anglo P/E versus Market P/E - '03-'06

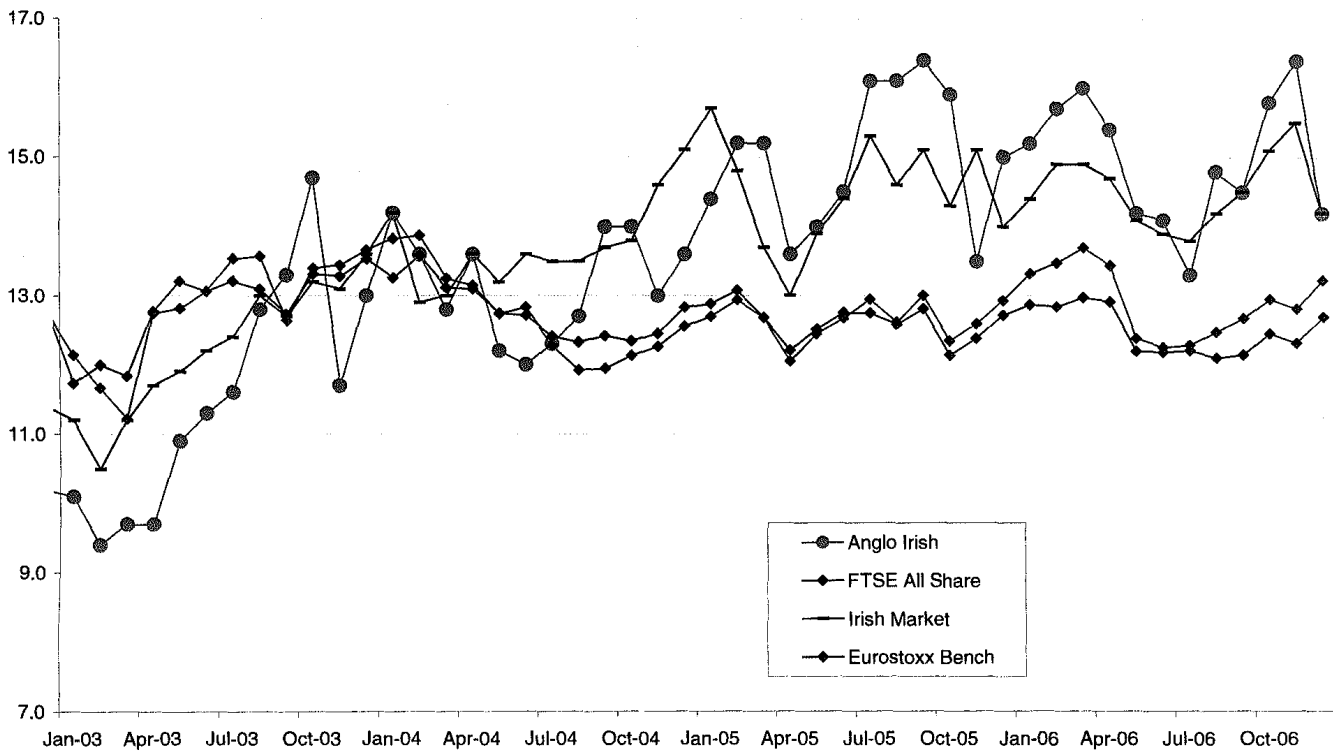


Diagram 4

Anglo P/E vs Market 2006

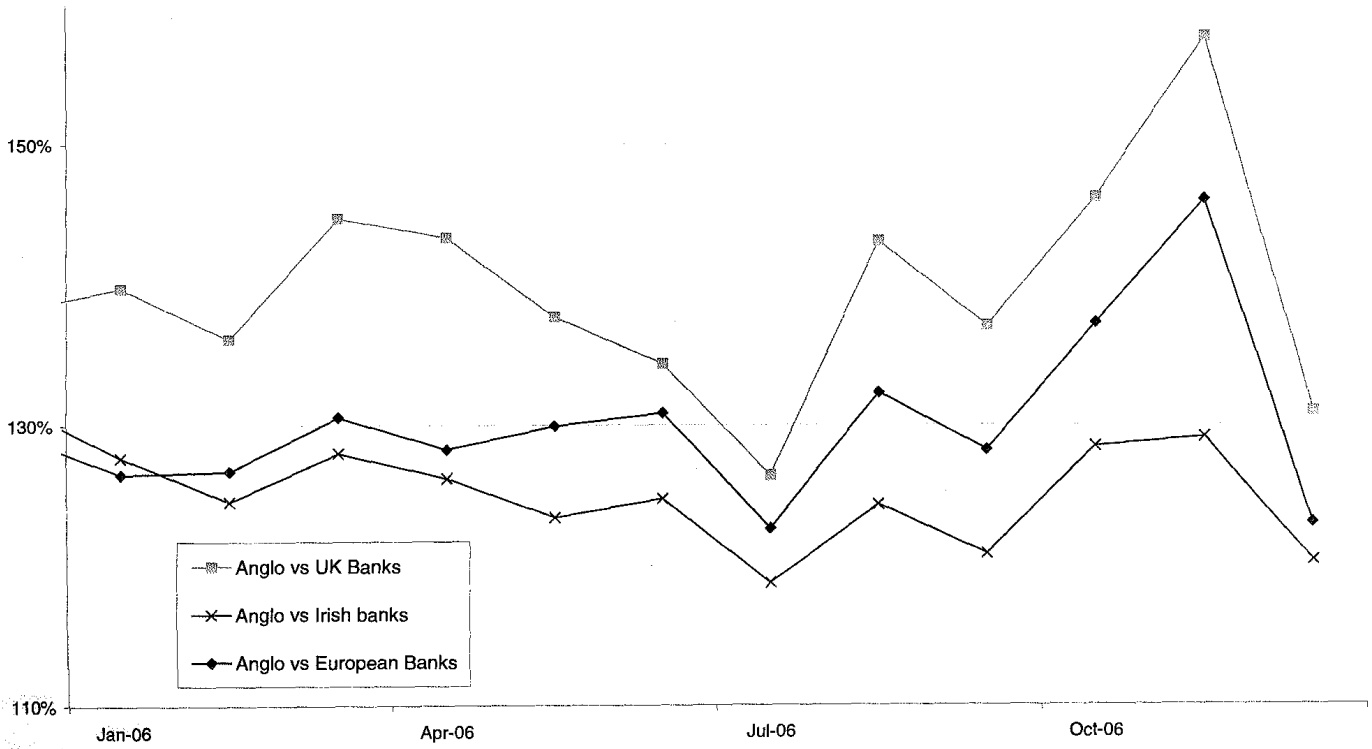
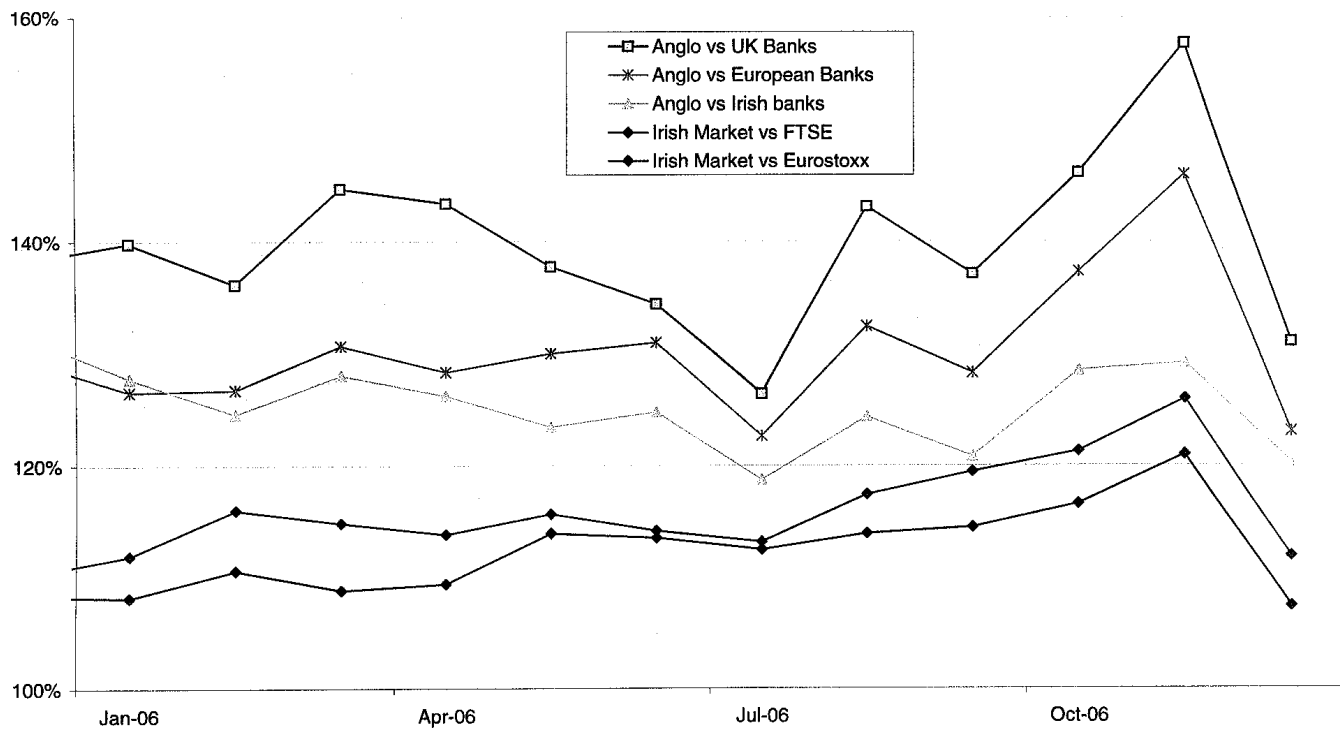


Diagram 5

2006 -Anglo P/E vs Industry & Irish Market P/E vs Market



Analyst Ratings Summary - Jan 2007

Broker	Status	Coverage date	Last Report	2004				2005				2006				2007				Current price target	
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
ABN	Active	Jul-06	Jul-06																		
Bear Stearns	Ceased Q3 05	Nov-03	Jan-04																		
BNP	Ceased Q4 05	Sep-03	Mar-04																		
Credit Suisse	Active	Sep-06	Sep-06																		
Dresdner Kleinwort	Active	Dec-06	Jan-07																		18.00
Davy	Active	Pre-2001	Nov-06																		
Fox-Pitt Kelton	Active	Pre-2001	May-06																		
Goldman Sachs	Active	Jun-05	Jul-06																		
Goodbody*	Active	Pre-2001	Dec-06																		16.85
HSBC	Ceased Q4 06	Nov-05	Nov-05																		
ING	Active	Dec-06	Dec-06																		16.32
KBW	Active	Sep-04	Dec-06																		17.25
Lehman Bros.	Active	May-05	Dec-06																		17.60
Merrill Lynch	Active	Jun-03	Dec-06																		
Merrion	Active	Pre-2001	Aug-06																		
Morgan Stanley	Active	Dec-02	Jun-06																		
NCB	Active	Pre-2001	Jan-07																		16.80
UBS**	Active	Apr-06	Dec-06																		15.70
Avg																				16.93	

Summary

Buy	9
Hold	1
Sell	0
Total	10

9	9	9	9	8	10	11	10	7	7	10	9	8	0	0	0
1	0	1	1	2	2	1	2	4	5	3	5	6	0	0	0
0	0	0	0	0	0	0	0	0	0	1	1	1	0	0	0
10	9	10	10	10	12	12	12	11	12	14	15	15	0	0	0

Notes
 * Goodbody operates 4 grades - buy, add, reduce, sell. Add rating is treated as a hold.
 ** UBS operates 6 grades - 2 at each level (buy,sell,hold). We are ranked in the higher hold category

Downgrades (Morgan Stanley / NCB) purely on valuation grounds following strong share price rally in Q1 2007.

01/02/07

Draft Business Plan Summary

Five Years 2009 - 2013

November 2008

Draft & Highly Confidential

Executive Summary



Anglo strategy to deal with issues

Highly capital generative business model – the Bank's strong net interest margins, low interest rate basis risk and industry leading operational efficiency, ensure the strongest loss absorption capability of any player in the sector. Accordingly, the Bank will continue to be profitable and grow its capital base organically in each of the years 2009-2013.

New external equity - although the Bank will continue to grow its capital base each year going forward, we recognise fully the new market requirements. Therefore, we are working with a major global investment bank to assist us in the process of raising additional equity and/or preference share capital from external sources. We believe that, similar to the €1bn of new equity raised over the past 30 months, this will be achieved and together with profit retentions, will secure the Bank's access to funding markets and significantly strengthen the Group's liquidity.

Building funding franchises – we will develop new and existing funding franchises, across diverse products and markets, generating over €40bn of net new funding over the next five years.

Enhancing liquidity – in addition to incremental capital and funding, the Bank will further enhance its position by converting lending assets into securities which allows us to generate additional liquidity via central banks and external third parties.

Risk management & lending – the Bank will focus new lending, in a controlled manner, to assist SME customers, thereby protecting asset quality and capital whilst supporting the Irish economy.

Anglo Irish Bank Overview



- In 2008, Anglo Irish Bank generated profits, after specific but before general provisions, of €1.3bn.
- The Bank's profitability and capital base have not been eroded by any material structured credit related losses, which have been the key reason for capital destruction in the UK, European and global banking markets in 2007 and 2008. This is because we do not engage in capital market or any high risk trading activities.
- We expect, and are prepared for, very difficult recessionary economic environments over the next two to three years. Notwithstanding this, we are confident that given the nature of our business model and appropriate pricing and management of risk, the Bank will continue to generate strong profits and capital.
- We believe that Anglo Irish Bank will be the most profitable and capital generative of all publicly quoted financial institutions in Ireland over the five year period.

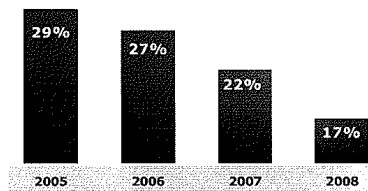
Strengths of Business Model



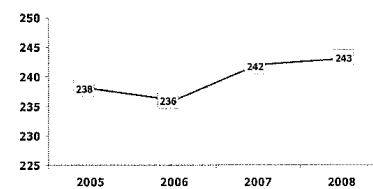
Business model & profitability

- Proven business model with strong record of profitability and capital generation over the past three decades.
- Strong geographic diversification with established lending business in Ireland, UK and USA.
- Risk exposure well diversified to service sectors of chosen economies which ultimately underpin the servicing of our loans. Some 75% of our loan book relates to investment activities with long term contractual cashflows.
- Disciplined and consistent approach to pricing of risk, sufficient to absorb impairment through the economic cycle.
- Minimal interest rate basis risk as lending assets are priced off market interest rates at cost plus defined margin (i.e. no tracker type asset exposure).
- Highly efficient and market leading cost to income ratio below 17%, further enhances profitability and loss absorption qualities of business model.
- Business model generates predictable, annuity type income streams.
- Lower risk organic model with no higher risk M&A driven growth.

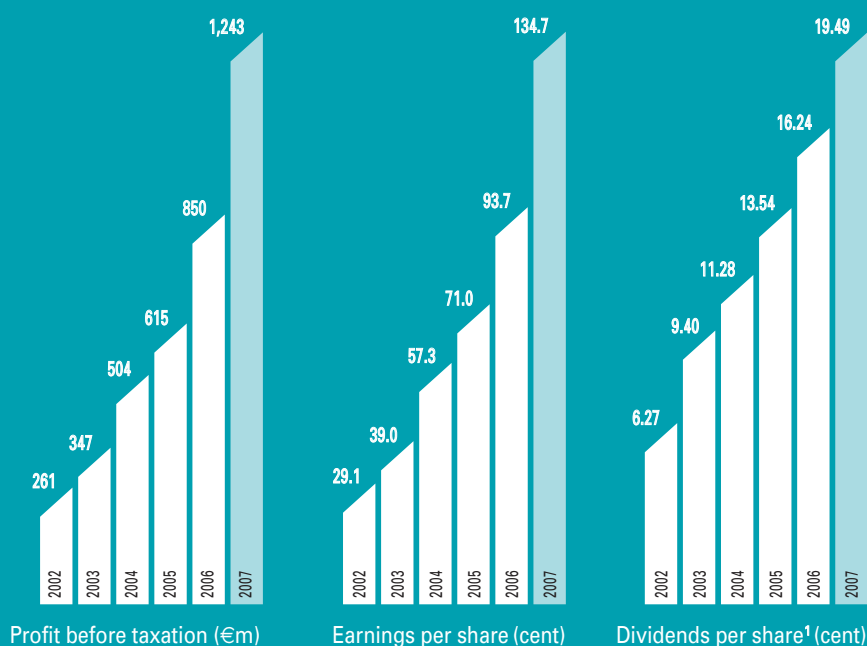
Improving cost to income ratio



Total lending margin (bps)

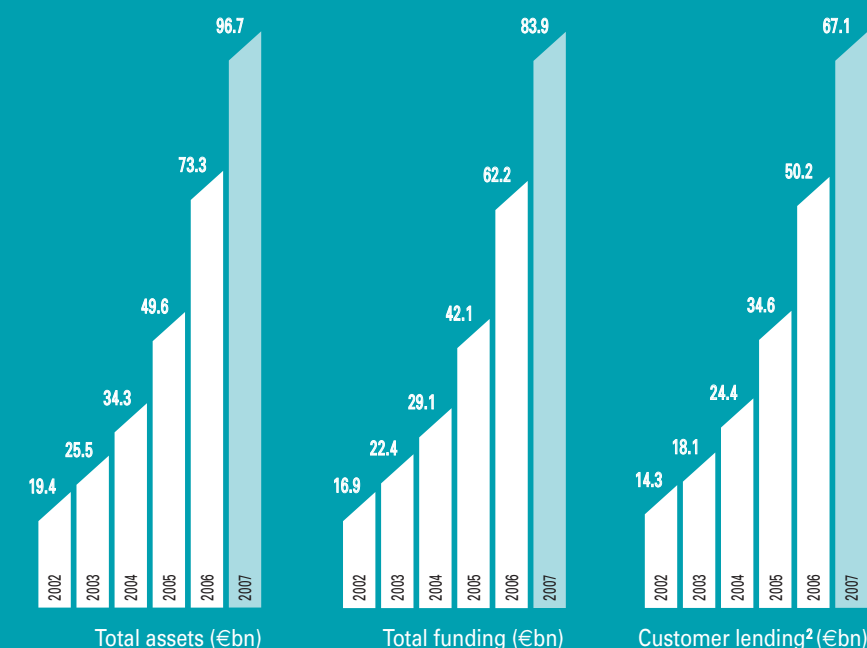


// Delivering excellent performance across all divisions with growth in earnings per share of 44% //



¹ Includes proposed final dividend
² Includes funding provided to customers of Anglo Irish Assurance Company under investment contracts and also securitised loans

The basis of numbers in the financial highlights are as follows:
2006 to 2007 - IFRS
2005 - Pro-forma IFRS
2002 to 2004 - Irish GAAP





THEME: B1

Effectiveness of banks' board governance, client relationships and business models

LINE OF INQUIRY: B1d

Adequacy of board oversight over internal controls to ensure risk is properly identified, managed and monitored

Factors behind the acceleration of loan losses by Anglo management (1 of 2)

- Management have identified a number of “changes” since 31 March 2009 to explain the exponential growth in estimated loan loss provisioning in the intervening period:
 1. **Change in executive management team**
 - The majority of the Interim Management Team has since been replaced by external appointments. This has included a new Group CEO, Group Head of Finance, Chief Risk Officer and Head of Corporate Development.
 - We understand that these changes have facilitated an ongoing change in culture in the Bank. In addition many senior lenders have either resigned or been replaced, allowing a more “independent” review of many of the larger loan relationships. Existing lenders have also adopted a more independent/realistic view, particularly in light of the NAMA collateral valuations.
 - Impaired loans have increased as follows (% of gross book in brackets):

– September 2008:	€1.0 billion (1.4%)
– March 2009:	€10.7 billion (15.0%)
– November 2009:	€18.7 billion (26.2%)
– December 2009:	€34.5 billion (48.3%)
 - However the lack of apparent timeliness of credit grading would appear to remain a significant issue and should be a concern for the Board.
 2. **Change in the application of the accounting definition of impairment**
 - IAS 39 sets out two main criteria for the recognition of a loan loss impairment:
 - There must be objective evidence of impairment; and
 - If it is determined that there is evidence of impairment, then a discounted cash flow must be completed to determine the level of the impairment provision required.
- While IAS 39 sets out a range of “triggers” for what is deemed to be evidence of impairment, there is still a significant range of what could be deemed (or interpreted) to be evidence of impairment.
- At the time of the Project Stephen work (May 2009), there were a number of loans where we indicated there was clear evidence of impairment but Anglo felt that the loans were still performing. Key to this was a belief by Anglo management that interest roll-up, even at high LTVs, was a normal aspect of the Anglo “business model”.
- In cases such as this where Anglo management did not believe there was evidence of impairment (as the loan was still “performing”) they did not complete discounted cash flows and as a result there was no loss at that time. At that time these decisions were being taken, largely, by the lenders that promoted these loans.
- The new management team has driven a more bottom-up approach to loan appraisal and DCF testing, coupled with a more realistic approach to collateral valuation.
- The new management team has also discovered that the scale of the deficiency in the underlying security, legal documentation, title, etc. is worse than originally envisaged and there was a massive over-reliance on personal guarantees under the previous management.
- 3. **Continued decline in Irish economic sentiment**
 - In the last 18 months there has been a well documented crash in both the Global and Irish economies. The speed, extent and impact of this decline has been unprecedented.
 - The bulk of Anglo’s lending is to the Irish economy (c.61% of the total book). However the real risk lies in the concentrated exposure to property-backed and development lending.
 - Ireland accounts for c.71% of the total Anglo land & development book of c.€18 billion.
 - The Bank’s categorisation of non-development lending as “Investment, Business Banking & Other” fails to properly highlight the dominance of property-backed lending in the overall Anglo book.

Executive Summary

Project Legacy • Limited Scope Review of FY09 Loan Loss Impairments

3

The information above should be read in conjunction with the paragraph on prospective financial information in the scope and process section.

Factors behind the acceleration of loan losses by Anglo management (2 of 2)

- The Irish economy continues to be challenged by the economic downturn, particularly the impact of the unwind of the bubble allowed to build in construction and related property development and speculation.
- Whilst management state that the market has fallen further since March 2009, we would argue that these same conditions existed at 31 March 2009 but failed to be properly appreciated or accepted by Anglo management at the time. This included a (then) undue reliance on uncertified and dated net worth statements for key borrowers.
- Sentiment in the UK has improved, albeit mainly evident from December 2009 to March 2010, with some larger transactions and disposals (including Ballymore) actually being achieved.

4. Collateral values

- A delayed acceptance by many of the lending teams of the impact of the downturn has now led to a sharp reduction in estimated collateral values as part of the December 2009 impairment testing. The NAMA collateral valuations, in particular, have highlighted to lenders the true extent of the decline.
- Again it is arguable this is simply a delayed acceptance of the prevailing reality at the time (e.g. March 2009).
- However it is important to note that some important factors have served to further negatively impact sentiment in the intervening period:
 - NAMA. Many of the larger Anglo exposures are in the Tranche 1 transfers (each of the top 10 borrowers have large exposures to Anglo, most of whom straddle more than one Anglo connection). The impact of NAMA is further highlighted overleaf.
 - A continued effective freeze of the Irish banking market. Development sites against which Anglo lent are now mothballed, with little prospect of work-out in the short term. Historically Anglo would have lent the required funds to develop the majority of these projects.
 - [Redacted]
 - The imposition of the windfall tax on Irish zoning gains (although the practical impact of this may prove to be relatively limited).

- [Redacted]
- Significant impairments on exposures secured solely on share portfolios which have now reduced significantly in value.

5. Discontinuation of interest roll up

- At H1-09 and end FY08 Anglo argued strongly that restructured loans (where additional interest roll up was being granted) were not displaying evidence of impairment, stressing that this was the Anglo "business model". As already noted this negated (in the Bank's mind) the need to formally consider impairment.
- Anglo has now formally changed its lending policy, discontinuing an extensive policy of allowing interest roll-up. Instead Anglo is seeking to move to interest only or amortising arrangements on such loans. However by definition the already stressed borrower has little chance of complying with the new cash flow requirements.
- While the practice had become common for development finance across the main Irish banks, the scale of interest roll-up was allowed to become particularly significant in Anglo, placing the book under even greater stress. This same stress existed at 31 March 2009.

6. Poor quality lending decisions and underlying security

- Anglo continues to identify underlying issues with the quality of its loan book, even ignoring the undue dependence on property-backed lending.
 - [Redacted]
 - Lending against Anglo products and bonds [Redacted]
 - Non-perfected security, including [Redacted]
 - Security ranking behind material senior debt, including [Redacted]

Section 71

Executive Summary

Project Legacy • Limited Scope Review of FY09 Loan Loss Impairments

The information above should be read in conjunction with the paragraph on prospective financial information in the scope and process section.

Assess the loan as low
 risk right grading ~~low~~
 low

Significant accounting and auditing issues (cont'd)

<p>Maintenance of credit quality and the appropriateness of loan provisioning</p>	<p>Given current market conditions, there is an increased likelihood that borrowers will be unable to repay loans. Should there be a default on a loan there is an additional risk that the collateral securing the loan is insufficient. Provisioning is an area of judgment and estimation, and depends on many factors such as general economic conditions, collateral values, the timing of cash flows and other external factors.</p> <p>Factors which we considered include loans in arrears of contract, assessment of the source of repayment of cash flows, performance of the project funded, collateral valuation and loan to value ("LTV") covers, restructuring activities, stress in relation to the obligor, credit grading of the facilities and any credit committee and management comments.</p>	<p>We performed both controls testing and substantive procedures around the specific provisioning process.</p> <p>Our controls testing focused on the credit review process and the classifying of exposures as lower quality but not impaired and impaired in accordance with the credit grading policy. We concluded that the credit review process is robust and that there are strong controls around the process. We noted the role of Group Risk is complemented by strong risk consciousness in general amongst the lending teams.</p> <p>Our substantive audit procedures were designed and executed to ensure there were no material unidentified impaired loans at the year end. Our procedures focused on larger loans and connected party exposures and the sectors which have been most depressed in the current economic climate. Specifically, these procedures included:</p> <ul style="list-style-type: none"> ➤ (A) A review of the top twenty regulatory relationships with the Bank. ➤ (B) A review of all individual loan facilities greater than €50m. ➤ (C) A review of a sample of loan facilities, for which recoverability was dependent on collateral realisation, (specifically the focus was on development loans as these were perceived to possess an inherently higher risk profile given current economic circumstances).
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Note:
 - Valuation mostly lost or early loss
 - Verbal updates

(2)

(A) 18Y.
 (B) 44.5Y.
 (C) 66Y.

→ still ongoing

a lot of loans "too early to say" - APRS focus, but undoubtedly

Development bank, but some duplication

STRICTLY PRIVATE AND CONFIDENTIAL

RISK MANAGEMENT REPORTING

FOR THE MONTH OF JULY

August 2008

1. CREDIT RISK MANAGEMENT

1.1 OVERALL SUMMARY:

	<i>Loan Book</i>	<i>IL Bal</i>	<i>IL as % of Book</i>	<i>Watch Balance</i>	<i>Watch as % of Book</i>
July	71,327	409.3	0.57%	1,831.6	2.57%
June	70,186	414.0	0.59%	1,495.8	2.13%
Increase/ Decrease	+1,141	<4.7>	<0.02%>	+335.8	+0.44%

All figures above are in €m unless otherwise stated.

Notwithstanding the above increase to the Watch list, the asset quality across the Group remains satisfactory.

1.2 IMPAIRED LOANS:

<i>Feb 08</i>	<i>Mar 08</i>	<i>April 08</i>	<i>May 08</i>	<i>June 08</i>	<i>July 08</i>
€386.0m	€357.7m	€362.0m	€361.5m	€414.0m	€409.3m
0.55%	0.52%	0.52%	0.52%	0.59%	0.57%

The Group IL balance decreased by €4.7m to €409.3m during the month. 36 cases with balances over €2.0m (see attached) have a combined exposure of €362.4m (88.5% of total ILs).

The Group IL balance decreased by €4.7m to €409.3m during the month. 36 cases with balances over €2.0m (see attached) have a combined exposure of €362.4m (88.5% of total ILs).

Monthly movement analysis:

	€m
June	414.0
July	<u>409.3</u>
Decrease in Impaired Loans	<u><4.7m></u>

Comprising:

Additions to the IL	+20.4
Net movements in Existing Balances	<24.4>
Balances written off	<u><0.7></u>
	<u><4.7m></u>

Additions to the IL

The following cases were added to the IL during July:

<i>Name</i>	<i>Amount</i>	<i>Sector</i>	<i>Cause</i>
	<i>€m</i>		
	13.8	Resi	Concern over cashflow / valuation
<i>customer confidentiality</i>	3.5	Resi	Concern over profitability of development
	3.0	Resi	Decline in value of property
Miscellaneous	0.1		
Total	+20.4m		

1.5 EXCEPTIONS TO GROUP LENDING CREDIT POLICY

Exceptions to Group Lending Credit Policy are reported on a monthly basis. The exceptions are presented at a group and geographic level.

The movement in the % of exceptions in the past six months is set out below:

Feb 08	March 08	April 08	May 08	June 08	July 08
26%	28%	28%	28%	28%	42%

The percentage increase in exceptions for July is primarily due to lenders applying a 20% discount to security values. This has resulted in an increase in the overall level of Loan to Value exceptions.

Below highlights the exceptions for the month of July.

Overall Summary for July 2008:

<u>Group</u>	
<i>No. of Credits Approved</i>	151
<i>Exceptions to Credit Policy</i>	64
<i>% of Total Credits</i>	42%

Breakdown by region:

<u>Lending Ireland</u>	
<i>No of Credits Approved</i>	125
<i>Exception to Credit Policy</i>	59
<i>% of Total Credits</i>	47%

<u>UK Lending</u>	
<i>No. of Credits Approved</i>	19
<i>Exception to Credit Policy</i>	2
<i>% of Total Credits</i>	11%

<u>North America Lending</u>	
<i>No. of Credits Approved</i>	7
<i>Exception to Credit Policy</i>	3
<i>% of Total Credits</i>	43%

5. CAPITAL & LIQUIDITY RISK MANAGEMENT

5.1 FINANCIAL REGULATOR (FR) CAPITAL RATIO'S

Attached overleaf are the estimated ratios showing Risk Weighted Assets, Capital analysis of Tier 1, 2 and 3 and relevant Capital Adequacy ratios, for July 2008.

		Including year to date profits
Core Tier 1 ratio (4% limit)	5.88%	6.34%
Tier 1 ratio (4.75% Limit)	8.43%	8.89%
Total Capital ratio (9.5% Limit)	11.55%	12.01%

The Single customer exposure and the Aggregate of large exposure limits have been met for quarter end, 30th June 2008 (submitted quarterly).

As mentioned before the Single Sector Exposure CB Limit is 200% of our own funds; the Banks exposure to the Real Estate / Renting and Business sector is 587.88% of own funds. The Connected Sector Exposure CB Limit is 250% of own funds; the Bank's exposure to the Real Estate, Renting & Business and Construction Sectors (Connected Sectors) is 631.68%. This is effectively a technical excess, as it does not take into account the groupings at the cashflow/tenant level, which in effect shows the true sectoral exposure. This issue will be addressed when the new Temenos System is implemented. FR are aware of this excess in limits, as these figures have been reported to the Central Bank for several years through the quarterly Central Bank Regulatory reporting process.



THEME: B2

Effectiveness of banks' credit strategies and risk management

LINE OF INQUIRY: B2a

Appropriateness of property-related lending strategies and risk appetite

ANGLO IRISH BANK CORPORATION plc (the "Bank")

Minutes of the Risk and Compliance Meeting held in Stephen Court, First Floor Boardroom, 18/21 St. Stephen's Green, Dublin 2 on Thursday 24th May 2007 at 2pm

Present: Fintan Drury **Chairman**
Lar Bradshaw
Ned Sullivan

In attendance: Natasha Mercer **Secretary**
Tom Browne
Matt Cullen
William McAteer
Eugene Murray
Fiachre O'Neill
Declan Quilligan
Walter Tyrrell
Pat Whelan

Retirement: The Chairman, on behalf of the Committee noted the significant contribution of Michael Jacob during his tenure as the Committee Chairman. The Chairman also welcomed Ned Sullivan as a member of the Committee.

Minutes: The minutes of the Risk & Compliance Committee Meetings, held on 24th April and 9th May 2007, which had been circulated to the Directors, were approved and signed.

ALCO Update: The minutes of the ALCO meeting held on 17th April 2007, were noted by the Committee.

Matt Cullen provided an update to the Committee on a number of matters including:

- Interest Rates - we remain bearish in our outlook for interest rates and are positioned for higher market rates in Sterling and Euro.
- The Bank's liquidity position continues to improve.

Monthly Risk Management Report:

The monthly Risk Management Report for the month of April 2007, dated May 2007 was noted by the Committee.

Pat Whelan updated the Committee on progress and the movements in Impaired Loans and Watch Cases during April. In the month, Impaired Loans reduced by €10m from asset disposals. The Watch List increase of €40m relates primarily to the

[Redacted]

Customer Confidentiality

Kalamazoo - 32576.000

Chairmans Initials

[Handwritten signature]

The details and circumstances relating to the Trade Book breach together with the outcome were reviewed and discussed. Also, it was noted that the controls in this area are working effectively.

Six monthly update on Risk Management Plan:

The semi-annual update on the Group Risk Management plan for the period 1st October 2006 to 30th September 2007 was noted by the Committee.

Compliance Matters:



Inquiry/Investigation

Governance Matters:

Review of the Risk & Compliance Committee:

It was agreed by the Committee that Moody's 'Best Practice for a Board's role in Risk oversight' document would be used as a framework/template, initially for an internal review of the Risk & Compliance Committee, following which, a decision will be made regarding an external review of the Committee.

Internal Capital Adequacy Assessment Process (ICAAP):

It had been recognised by the Committee at their last meeting, that certain elements of the ICAAP are of such importance as to merit separate consideration, as a prelude to their inclusion in the ICAAP document. Accordingly, and as agreed at that meeting, two elements of the ICAAP had been circulated to the Committee members and attendees in advance of the meeting:

- The Bank's Risk Appetite statement, and
- The suggested revision to the Bank's Minimum Capital Ratio Requirements

Paper on the Bank's Risk Appetite:

The Committee reviewed and considered the paper on the Bank's Risk Appetite. The paper detailed the main risks to which the Bank is

Chairmans Initials

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exposed and outlined the acceptable tolerance levels for each of these risks, both strategically, and within each of the Group's business areas.

The Committee considered and approved, with minor changes, the document on the basis that it represented a comprehensive statement of the level of exposure and the nature of risk acceptable to the Group.

**Suggested Revision
To Anglo's minimum
Capital Ratio
Requirements:**

This paper dealt with the question of a suggested reduction in the Group's Minimum Regulatory Capital Requirements.

The Committee reviewed and considered the proposal and in particular the key reasons for the Group's suggested reduction in Minimum Regulatory Capital, namely

- The Group has constantly held a surplus over the minimum regulatory capital requirements, thereby creating a significant buffer in the event of any unanticipated and sudden losses in the Group.
- The high propensity of the Group to generate significant new internal capital equity each year due to the
 - maintenance of strong average gross lending margins
 - low cost/income ratios
 - loan loss provision track record

Following consideration, the proposal in the paper was approved on the basis of the very compelling arguments outlined therein.

**Presentation on
Anglo's Development
Lending Exposure,
Ireland:**

Owen O'Neill, Director, Lending Ireland, joined the meeting and circulated the Lending Ireland monthly Development Report dated 30th April 2007. In essence, this Report provides a summary cashflow for all Ireland based lending relating to property development (split between pre sales, no pre sales, and pre lets) and land (split between unzoned, zoned without planning and zoned with planning) by business division. Other areas highlighted during the presentation were:

- Residential development accounts for 67% of development overall.
- Exposure to zoned land without planning primarily relates to the Bank's Top 10 customer relationships with whom the Bank has a long and satisfactory track record.
- It was noted that the exposure to unzoned land was not significant.

The Chairman thanked Owen for his very informative presentation and suggested that a similar presentation should be given to the Board at a later stage.

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Chairmans
Initials

**Presentation
Operational Risk
Policies &
Procedures:**

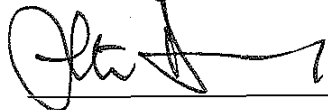
Justin Lynch, Manager, Operational Risk, joined the meeting and provided an overview to the Committee of the proposed Operational Risk policy, which has been designed to illustrate clearly, the policy and guidelines of the Bank in relation to operational risk management. Following discussion, the Operational Risk policy was approved by the Committee.

The Chairman thanked Justin for his presentation.

**Any Other
Business:**

The next meeting of the Committee is scheduled to take place on Friday 29th June 2007 at 9am.

The meeting then concluded.

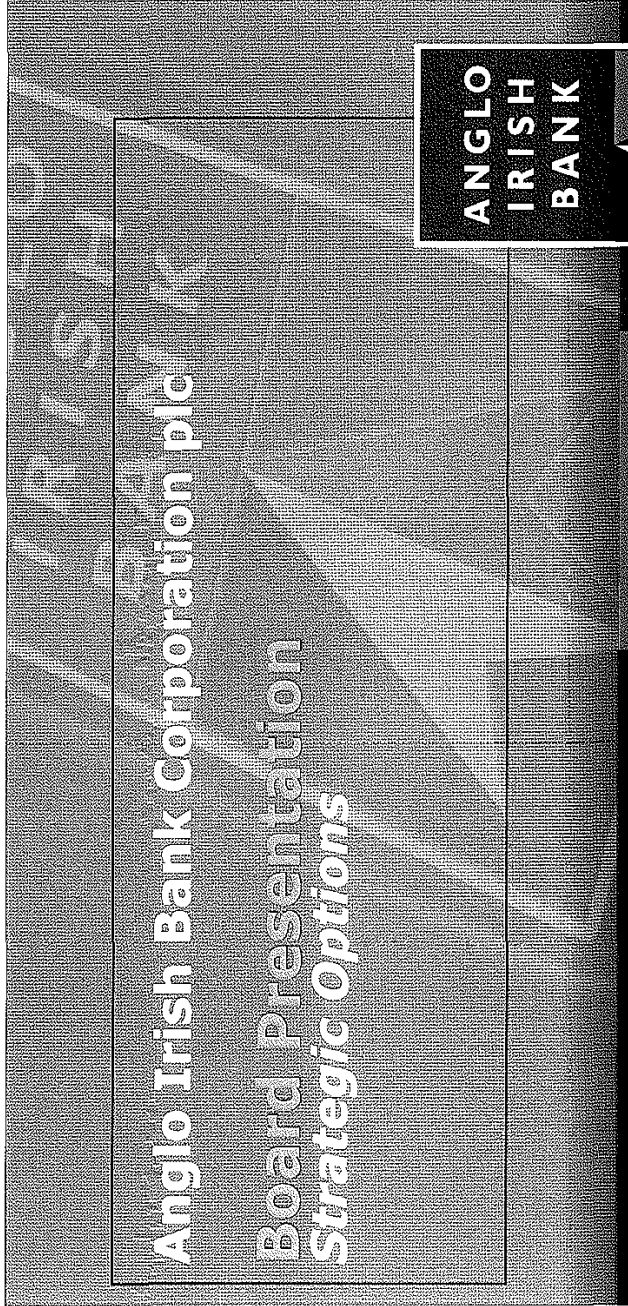
 Chairman

21 June 2007 Date

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Chairmans
Initials





David Drumm
26 September 2008

Background

- **Massive de-leveraging of Financial System**
- **Separation of survivors and others**
- **Future access to Capital Markets is key**
- **Short term stress vs what's best long term?**

Re-think of Business Models



Issues for Anglo

Cause:

- **Market perception:**
 - **"Single A", "Monoline", Irish Bank with concentration risk in Commercial Real Estate.**
 - **Not a "national champion" - nor "Too big too fail"**

Effect:

- **Wholesale markets closed at present.**
- **Customer funding inadequate given changed market conditions leading to intense competition. Price no longer a differentiator.**
- **Will Anglo be able to access term markets in future?**



Strategic Options

- 1. Go it alone**
- 2. Consolidation in Ireland**
- 3. Sell to a foreign player**



1. *Go it Alone*

- **Anglo is profitable and Capital accretive with compelling organic growth potential**
- **Changes in environment favour traditional relationship-based "Balance Sheet" lenders**
- **Question is ability to fund: short and long term (Consider Asset sales and Equity raise)**
- **Immediate liquidity support from Government is essential**
- **Long term question of access to Capital Markets**



2. Consolidation in Ireland

- **Sell to AIB or BOI?**
or
- **Merge with Irish Life & Permanent**

IL&P:

- **Complimentary business – increases competition in Ireland.**
- **Too Big to Fail – “National Champion”**
- **Merger gives platform for significant Government Funding assistance**



3. *Sale to a Foreign Bank*

- **Very difficult to execute in this market and timescale**
- **Names considered include:**
 - **Danske (Deal with NIB)**
 - **Hypo RE**
 - **Sberbank (Russia)**
 - **Wells Fargo**
 - **GE**
 - **RBC (Canada)**
 - **TD Bank (Canada)**
- **Also meeting various P.E. firms**



Case for Anglo/IL&P Merger

- **Creation of significant larger scale bank, core to Irish Financial System**
- **Far better placed in funding markets**
- **Potential for positive ratings momentum, heads off risk of downgrades**
- **For Shareholders: Reduction of risk through diversification**
Value added through synergies revenue (80%) + Cost (20%)
- **Limited integration Risk**



Case Against Anglo/IL&P Merger

- 1. Dilution of growth potential with acquisition of slower growth business**
- 2. Anglo culture vs commoditised, unionised IL&P**
- 3. Management Distraction**
- 4. Loss of Focus**



Structural Concerns

1. Funding:

Loan to Deposit Ratio:

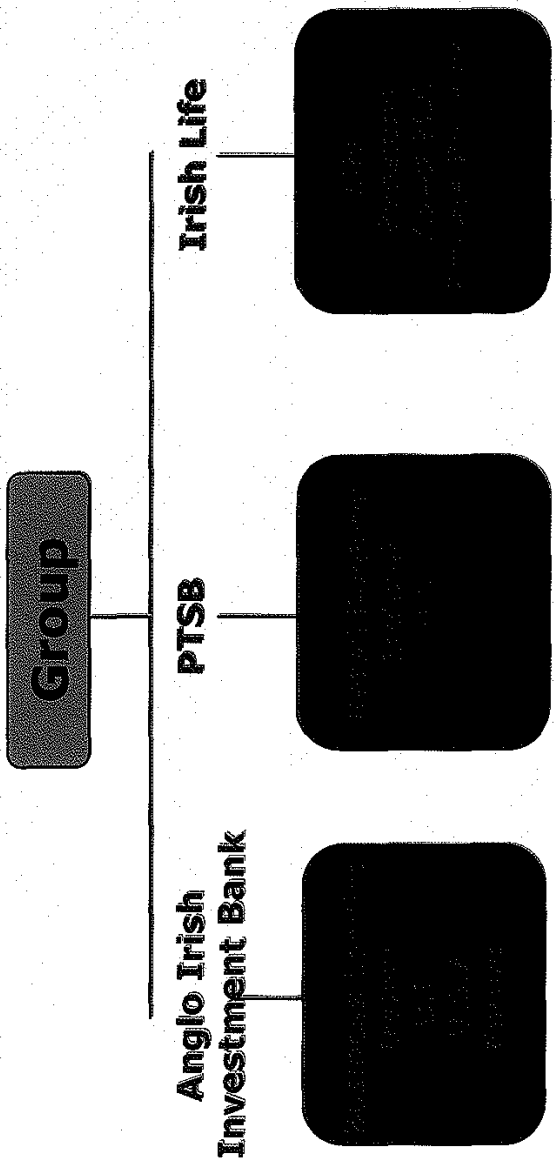
- **Anglo** **160%**
- **IL&P** **300%**
- **Combined** **180%**
- **Requires "removal" of tranche of IL&P assets into OBS structure with Government "wrapper" to enable sale of bonds as quasi "Gilts" into Market**

2. Capital:

- **Combined equity tier one is strong at 7%**
- **Deal could be used as opportunity to raise new equity.**



"Anglo Irish Life & Permanent Plc"



- Anglo Retail Savings ⇒ PTSB (Pricing Power)
- PTSB Comm Lending ⇒ Anglo
- Reduce Central Costs
- Central Treasury Function

Business Mix:

Business	66%
Insurance	15%
Retail	8%
WMD	6%
Treasury	5%
Total	100%



Anglo/IL&P: Advantages

- **ILP wholesale Funding/Margin pressures alleviated by Anglo high margins**
- **Anglo's lack of core deposit franchise and branch network addressed**
- **Creates a "National Champion" Banking Group**
- **Highly complimentary businesses – no competition issues (not true of AIB/BOI as alternatives)**
- **No branch closures or other consolidation issues**
- **Synergy potential in central functions**



LENDING IRELAND



DEVELOPMENT REPORT

30TH APRIL 2007



Executive Summary:

Lending Ireland development balances have increased by €350m to €9.55bn, representing a 3.81% increase from last month.

Land balances have increased by €241m from last month. Land remains at 55% of total development exposure, (unchanged) as a percentage from last month.

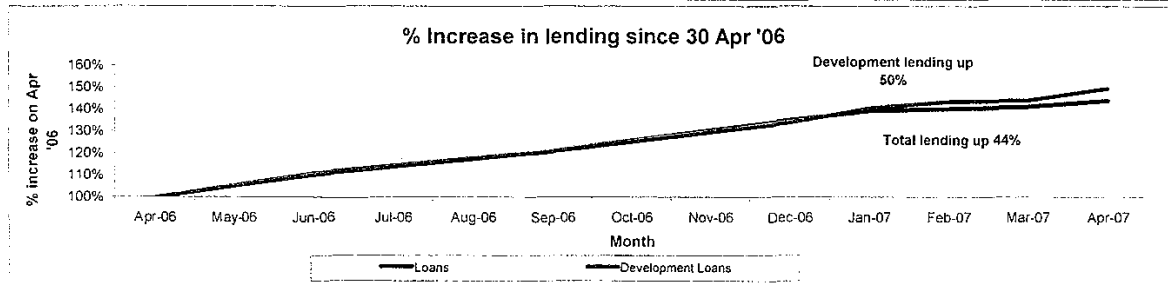
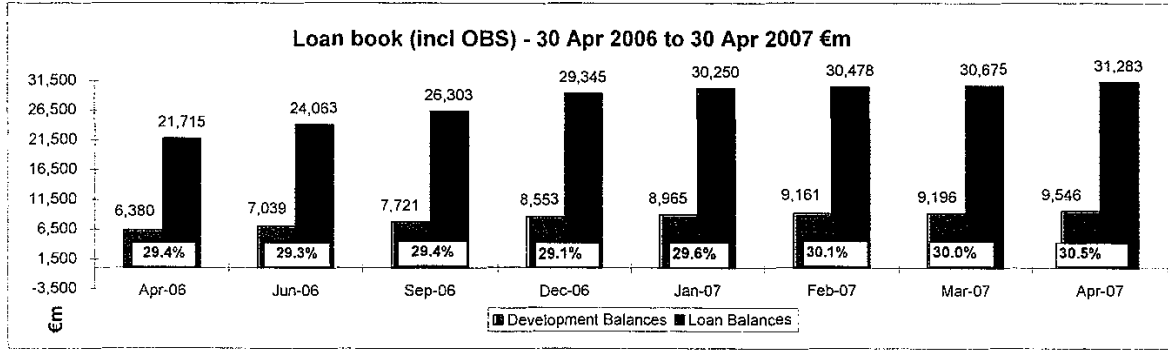
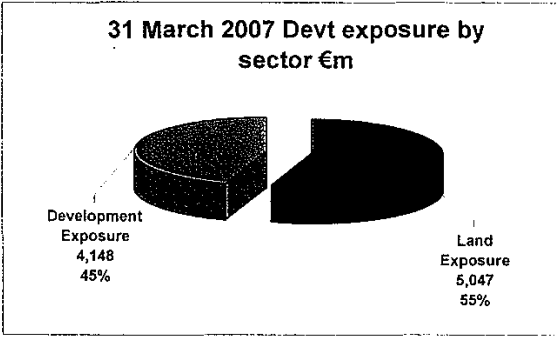
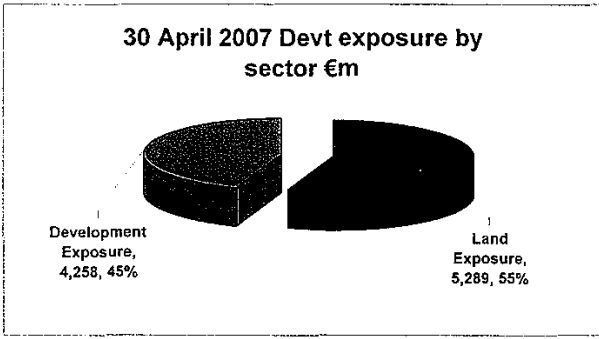
Construction balances have increased by €109m from last month. Construction remains at 45% of total development exposure, (unchanged) as a percentage from last month.

Development as a percentage of total Lending Ireland balances have increased from 30% at 31 March 2007 to 30.5% at 30 April 2007.

	Apr-07		Mar-07		% change
	€m	% split	€m	% split	
Land exposure	5,289	55%	5,047	55%	5%
Development exposure	4,258	45%	4,148	45%	3%
Total land/development exposure	9,546		9,196		4%

Total Loan Book:
(Including O.B.S, I.D & Leasing)
Devt as % of Total Loan Book

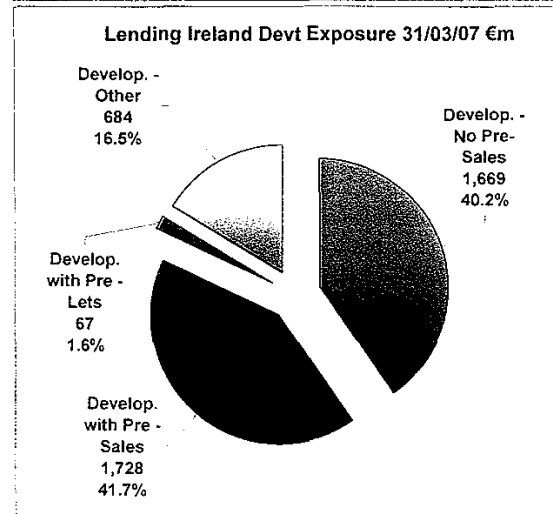
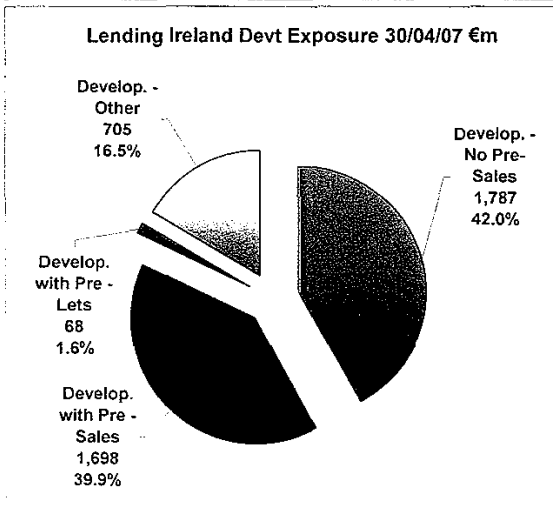
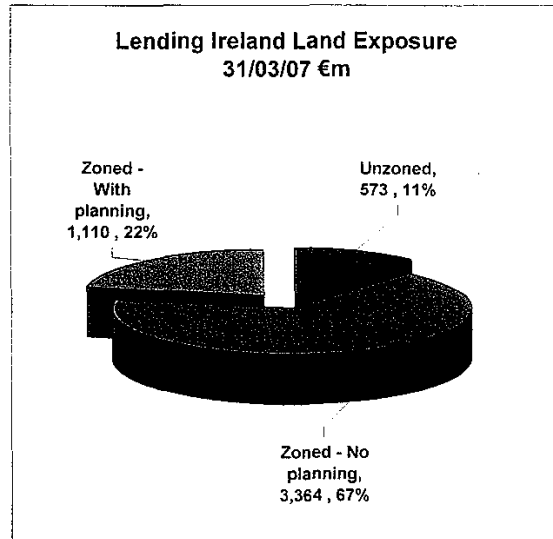
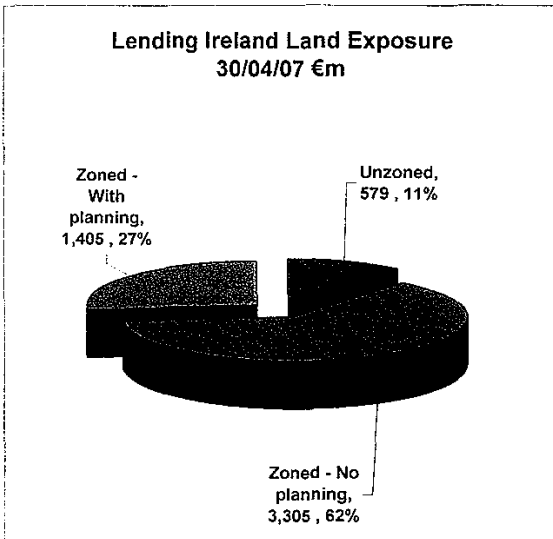
	€m	litigation privil...	€m	%
Total Loan Book	31,283		30,675	2%
Devt as % of Total Loan Book	30.5%		30.0%	2%





Land / Development Balances (excluding foreign exposure) compared to last month

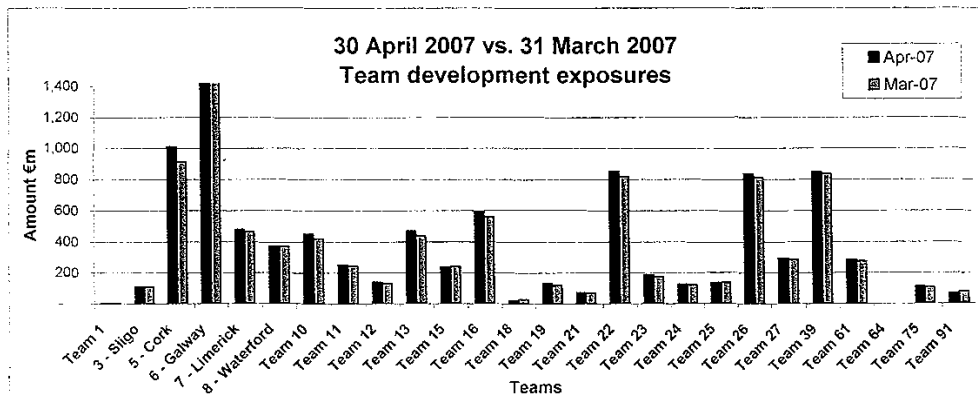
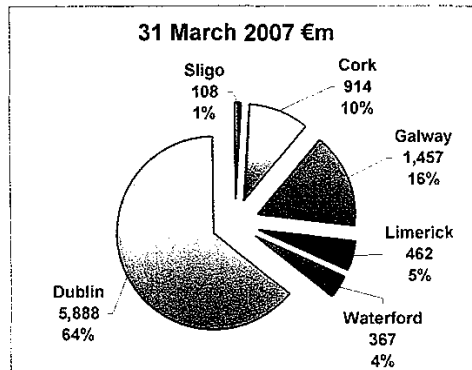
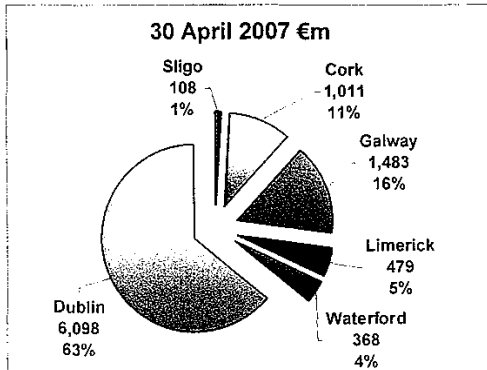
Executive Summary:	Apr-07 €m	Mar-07 €m	Movement €m	% Change:
Unzoned	579	573	7	1%
Zoned without planning	3,305	3,364	-60	-2%
Zoned with planning	1,405	1,110	295	27%
Total Land Exposure:	5,289	5,047	241	5%
Development No Pre-Sales	1,787	1,669	118	7%
Development with Pre - Sales	1,698	1,728	-31	-2%
Development with Pre - Lets	68	67	1	2%
Development - Other	705	684	20	3%
Total Development Exposure:	4,258	4,148	109	3%
TOTAL LAND / DEVELOPMENT	9,546	9,196	351	4%





Development Exposure by Area Office (excl foreign exposure) compared to last month

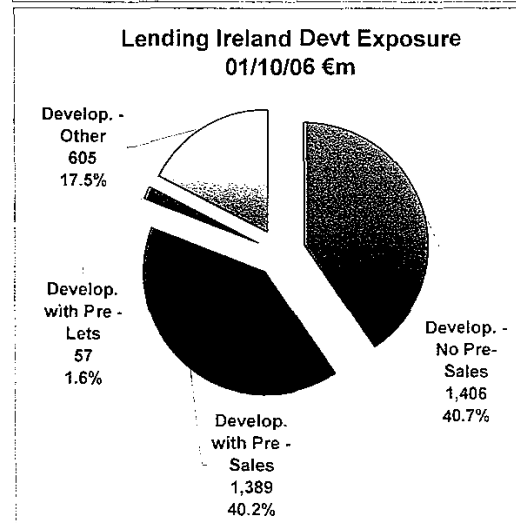
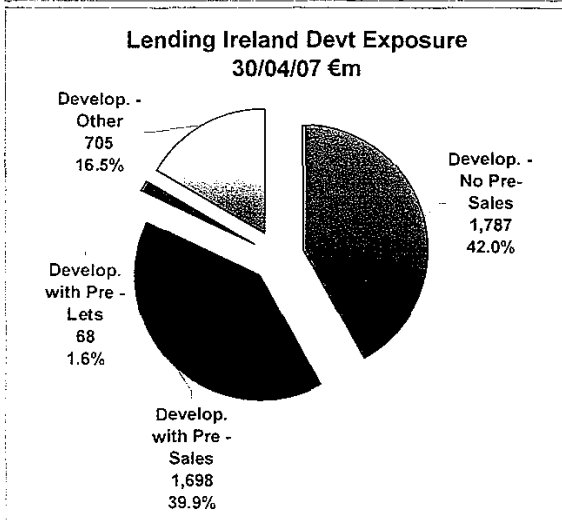
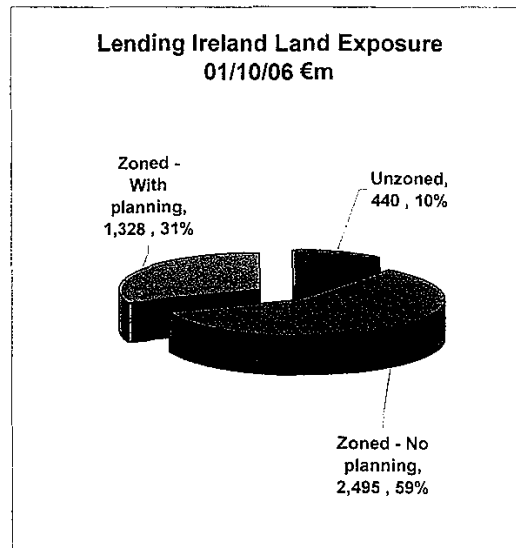
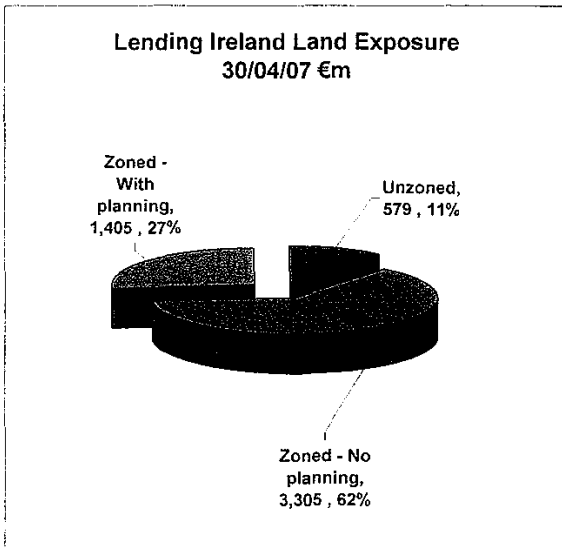
Team	Apr-07 €m	Mar-07 €m	Movement €m	% Change:
Sligo	108	108	0	0%
Cork	1,011	914	97	11%
Galway	1,483	1,457	26	2%
Limerick	479	462	17	4%
Waterford	368	367	1	0%
Total Area Offices	3,449	3,307	141	4%
Dublin	6,098	5,888	209	4%
Total development exposure:	9,546	9,196	351	4%
Total Loan Book:	30,018	29,650	368	1%
Total Devt as % of Loan Book:	31.8%	31.0%	0.8%	~
Total Loan Book: (Including O.B.S, I.D & Leasing)	31,283	30,675	608	2%
Total Loan Book: (Including O.B.S, I.D & Leasing)	30.5%	30.0%	~	~





Land / Development Balances (excluding foreign exposure) compared to Beginning of Financial Year 01 October 2006

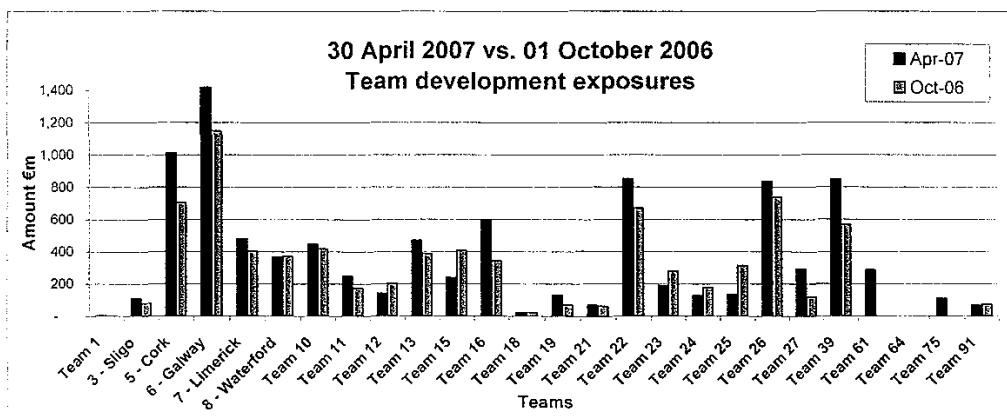
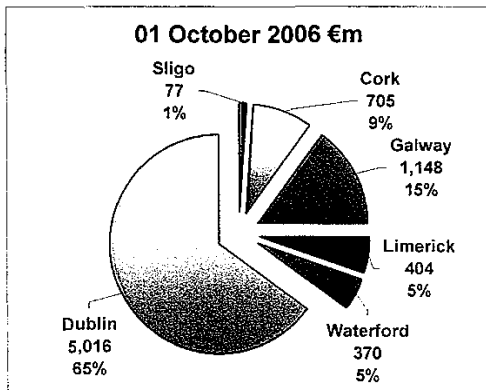
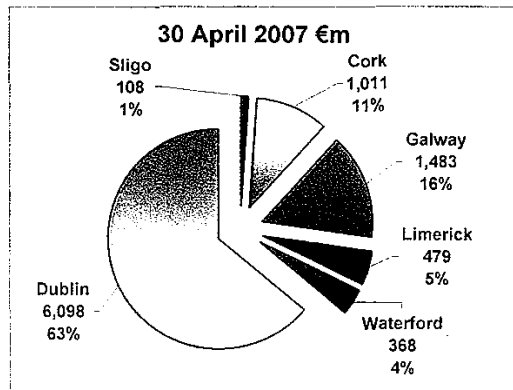
Executive Summary:	Apr-07 €m	Oct-06 €m	Movement €m	% Change:
Unzoned	579	440	139	32%
Zoned without planning	3,305	2,495	809	32%
Zoned with planning	1,405	1,328	76	6%
Total Land Exposure:	5,289	4,264	1,025	24%
Development No Pre-Sales	1,787	1,406	381	27%
Development with Pre - Sales	1,698	1,389	309	22%
Development with Pre - Lets	68	57	11	20%
Development - Other	705	605	100	16%
Total Development Exposure:	4,258	3,457	801	23%
TOTAL LAND / DEVELOPMENT	9,546	7,721	1,826	24%





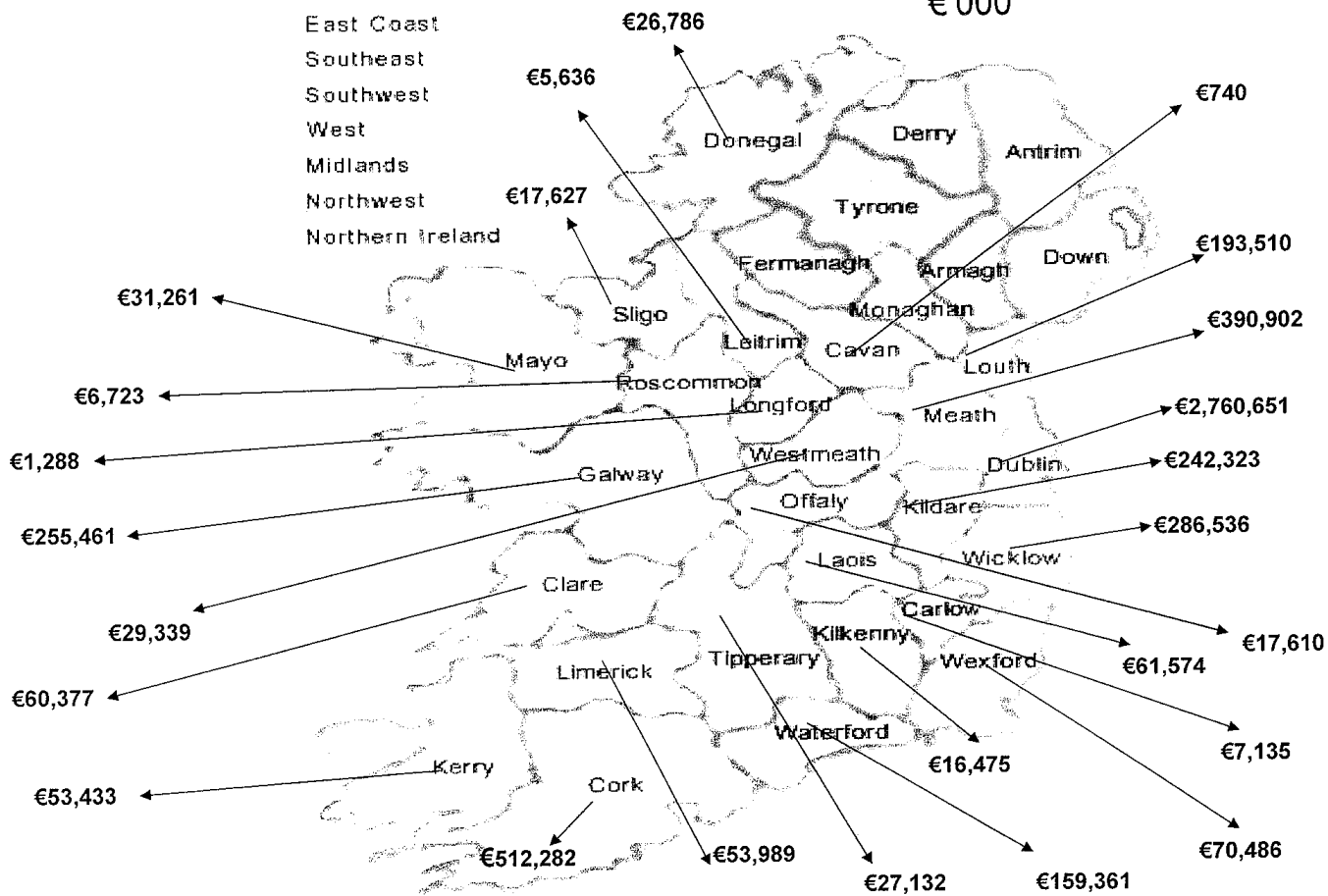
Compared to Beginning of Financial Year 01/10/06 (excluding foreign exposure)

Team	Apr-07 €m	Oct-06 €m	Movement €m	% Change:
Sligo	108	77	31	40%
Cork	1,011	705	306	43%
Galway	1,483	1,148	335	29%
Limerick	479	404	74	18%
Waterford	368	370	-	~
Total Area Offices	3,449	2,705	746	28%
Dublin	6,098	5,016	1,081	22%
Total development exposure:	9,546	7,721	1,828	24%
Total Loan Book:	30,018	25,262	4,756	19%
Total Devt as % of Loan Book:	31.8%	30.6%	1.2%	~
Total Loan Book: (Including O.B.S, I.D & Leasing)	31,283	26,303	4,980	19%
Total Loan Book: (Including O.B.S, I.D & Leasing)	30.5%	29.4%	~	~

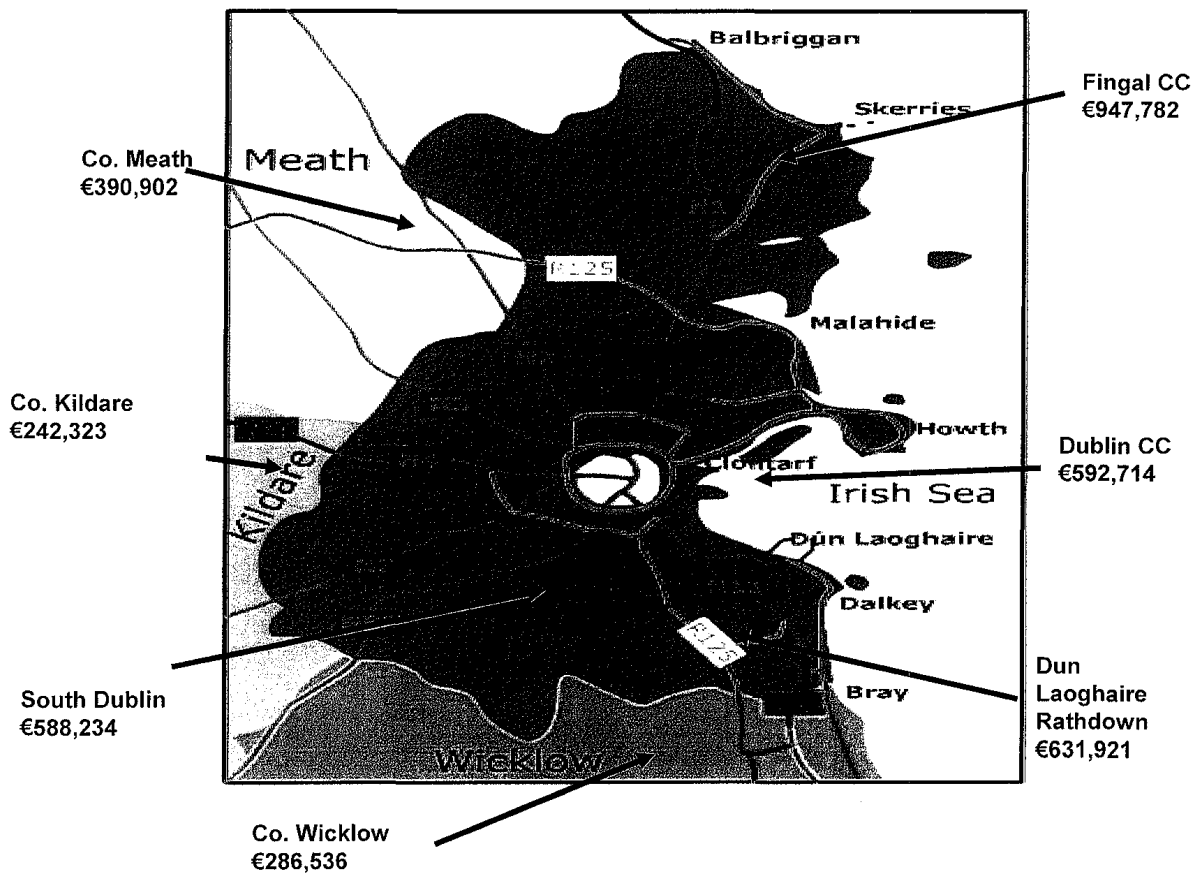


Total Drawn Land Balances - €5.29bn
Loans by Location as at 30/04/07

€'000



Total Land Balances in Greater Dublin Area & Mid East
 as at 30/04/07 - €3.68bn (70% of €5.29bn total land exposure)





Lending Ireland Development Report

Apr - 07

TEAM 3: SLIGO CLIENT ANALYSIS							
Total Lending Exposure: <i>As at: 30-Apr-07</i>	Limit:		Difference: €'000	Balance:		Difference: €'000	
	Apr-07 €'000	Mar-07 €'000		Apr-07 €'000	Mar-07 €'000		
Unzoned Land	€833	€833	€0	€833	€833	€0	
Zoned Land Without Planning	€30,257	€30,057	€200	€25,345	€26,134	-€789	
Zoned Land with Planning	€22,221	€20,900	€1,321	€8,592	€8,449	€143	
Total Land Exposure:	€53,311	€51,790	€1,521	€34,770	€35,416	-€646	
Development No Pre-Sales	€32,246	€29,103	€3,143	€11,159	€11,821	-€662	Sum Of A
Development with Pre - Sales	€78,858	€80,051	-€1,193	€59,982	€60,671	-€689	Sum Of B
Development with Pre - Lets	€0	€0	€0	€0	€0	€0	Sum Of C
Total Development - Other	€5,750	€0	€5,750	€2,000	€0	€2,000	Sum Of D
Total Development Exposure:	€116,854	€109,154	€7,700	€73,141	€72,492	€649	
<u>Development - (A) Residential:</u>							
Residential UnSold	€27,266	€24,123	€3,143	€8,653	€9,321	-€668	A
Residential Pre -Sold	€66,548	€67,741	-€1,193	€55,668	€55,753	-€85	B
Total	€93,814	€91,864	€1,950	€64,321	€65,074	-€753	
<u>Development - (B) Retail:</u>							
Retail Let	€0	€0	€0	€0	€0	€0	C
Retail Unlet	€4,680	€4,680	€0	€2,506	€2,500	€6	A
Retail Pre -Sold	€12,010	€12,010	€0	€4,314	€4,918	-€604	B
Total	€16,690	€16,690	€0	€6,820	€7,418	-€598	
<u>Development - (C) Office:</u>							
Office Let	€0	€0	€0	€0	€0	€0	C
Office Unlet	€300	€300	€0	€0	€0	€0	A
Office Pre -Sold	€300	€300	€0	€0	€0	€0	B
Total	€600	€600	€0	€0	€0	€0	
<u>Development - (D) Other:</u>							
- Industrial	€5,750	€0	€5,750	€2,000	€0	€2,000	
Total	€5,750	€0	€5,750	€2,000	€0	€2,000	D
- Hospital	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
- Hotel	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
- Pubs	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
- Creche, Car Parks, Windfarms Etc	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
TOTAL LAND / DEVELOPMENT	€170,165	€160,944	€9,221	€107,911	€107,908	€3	

Produced by:

Banking M.I Team



Lending Ireland Development Report

Apr - 07

TEAM 5: CORK CLIENT ANALYSIS							
Ireland Based Lending Only: As at: 30-Apr-07	Limit:		Difference: €'000	Balance:		Difference: €'000	
	Apr-07 €'000	Mar-07 €'000		Apr-07 €'000	Mar-07 €'000		
Unzoned Land	€41,464	€41,810	-€346	€40,839	€41,632	-€793	
Zoned Land Without Planning	€572,542	€571,256	€1,286	€537,360	€442,906	€94,454	
Zoned Land with Planning	€136,195	€123,686	€12,509	€119,410	€114,810	€4,600	
Total Land Exposure:	€750,201	€736,752	€13,449	€697,609	€599,348	€98,261	
Development No Pre-Sales	€181,020	€173,990	€7,030	€122,096	€123,746	-€1,650	Sum Of A
Development with Pre - Sales	€126,066	€123,707	€2,359	€115,329	€118,190	-€2,861	Sum Of B
Development with Pre - Lets	€0	€0	€0	€0	€0	€0	Sum Of C
Total Development - Other	€90,030	€90,347	-€317	€75,662	€72,381	€3,281	Sum Of D
Total Development Exposure:	€397,116	€388,044	€9,072	€313,087	€314,317	-€1,230	
Development - (A) Residential:							
Residential UnSold	€153,800	€148,158	€5,642	€109,250	€111,249	-€1,999	A
Residential Pre -Sold	€122,830	€121,971	€859	€113,436	€116,848	-€3,412	B
Total	€276,630	€270,129	€6,501	€222,686	€228,097	-€5,411	
Development - (B) Retail:							
Retail Let	€0	€0	€0	€0	€0	€0	C
Retail Unlet	€10,805	€8,424	€2,381	€8,420	€7,567	€853	A
Retail Pre -Sold	€1,894	€1,517	€377	€1,136	€1,123	€13	B
Total	€12,699	€9,941	€2,758	€9,556	€8,690	€866	
Development - (C) Office:							
Office Let	€0	€0	€0	€0	€0	€0	C
Office Unlet	€16,415	€17,408	-€993	€4,426	€4,930	-€504	A
Office Pre -Sold	€1,342	€219	€1,123	€757	€219	€538	B
Total	€17,757	€17,627	€130	€5,183	€5,149	€34	
Development - (D) Other:							
- Industrial	€16,533	€16,688	-€155	€12,315	€10,922	€1,393	
Total	€16,533	€16,688	-€155	€12,315	€10,922	€1,393	D
- Hospital	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
- Hotel	€49,320	€49,320	€0	€44,359	€43,361	€998	
Total	€49,320	€49,320	€0	€44,359	€43,361	€998	D
- Pubs	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
- Creche, Car Parks, Windfarms Etc	€24,177	€24,339	-€162	€18,988	€18,098	€890	
Total	€24,177	€24,339	-€162	€18,988	€18,098	€890	D
TOTAL LAND / DEVELOPMENT	€1,147,317	€1,124,796	€22,521	€1,010,696	€913,665	€97,031	

Produced by:

Banking M.I Team



Lending Ireland Development Report

Apr - 07

TEAM 5: CORK CLIENT ANALYSIS						
Foreign Exposure: As at: 30-Apr-07	Limit:		Difference: €'000	Balance:		Difference: €'000
	Apr-07 €'000	Mar-07 €'000		Apr-07 €'000	Mar-07 €'000	
Unzoned Land	€0	€0	€0	€0	€0	€0
Zoned Land Without Planning	€42,349	€42,349	€0	€40,944	€40,556	€388
Zoned Land with Planning	€57,479	€57,479	€0	€58,382	€57,611	€771
Total Land Exposure:	€99,828	€99,828	€0	€99,326	€98,167	€1,159
Development No Pre-Sales	€0	€0	€0	€0	€0	€0 Sum Of A
Development with Pre - Sales	€116,632	€116,632	€0	€32,601	€30,521	€2,080 Sum Of B
Development with Pre - Lets	€0	€0	€0	€0	€0	€0 Sum Of C
Total Development - Other	€0	€0	€0	€0	€0	€0 Sum Of D
Total Development Exposure:	€116,632	€116,632	€0	€32,601	€30,521	€2,080
Development - (A) Residential:						
Residential UnSold	€0	€0	€0	€0	€0	€0 A
Residential Pre -Sold	€116,632	€116,632	€0	€32,601	€30,521	€2,080 B
Total	€116,632	€116,632	€0	€32,601	€30,521	€2,080
Development - (B) Retail:						
Retail Let	€0	€0	€0	€0	€0	€0 C
Retail Unlet	€0	€0	€0	€0	€0	€0 A
Retail Pre -Sold	€0	€0	€0	€0	€0	€0 B
Total	€0	€0	€0	€0	€0	€0
Development - (C) Office:						
Office Let	€0	€0	€0	€0	€0	€0 C
Office Unlet	€0	€0	€0	€0	€0	€0 A
Office Pre -Sold	€0	€0	€0	€0	€0	€0 B
Total	€0	€0	€0	€0	€0	€0
Development - (D) Other:						
- Industrial	€0	€0	€0	€0	€0	€0
Total	€0	€0	€0	€0	€0	€0 D
- Hospital	€0	€0	€0	€0	€0	€0
Total	€0	€0	€0	€0	€0	€0 D
- Hotel	€0	€0	€0	€0	€0	€0
Total	€0	€0	€0	€0	€0	€0 D
- Pubs	€0	€0	€0	€0	€0	€0
Total	€0	€0	€0	€0	€0	€0 D
- Creche, Car Parks, Windfarms Etc	€0	€0	€0	€0	€0	€0
Total	€0	€0	€0	€0	€0	€0 D
TOTAL LAND / DEVELOPMENT	€216,460	€216,460	€0	€131,927	€128,688	€3,239

Produced by:

Banking M.I Team



Lending Ireland Development Report

Apr - 07

TEAM 5: CORK CLIENT ANALYSIS							
Total Lending Exposure: As at 30-Apr-07	Limit:		Difference: €'000	Balance:		Difference: €'000	
	Apr-07 €'000	Mar-07 €'000		Apr-07 €'000	Mar-07 €'000		
Unzoned Land	€41,464	€41,810	-€346	€40,839	€41,632	-€793	
Zoned Land Without Planning	€614,891	€613,605	€1,286	€578,304	€483,462	€94,842	
Zoned Land with Planning	€193,674	€181,165	€12,509	€177,792	€172,421	€5,371	
Total Land Exposure:	€850,029	€836,580	€13,449	€796,935	€697,515	€99,420	
Development No Pre-Sales	€181,020	€173,990	€7,030	€122,096	€123,746	-€1,650	Sum Of A
Development with Pre - Sales	€242,698	€240,339	€2,359	€147,930	€148,711	-€781	Sum Of B
Development with Pre - Lets	€0	€0	€0	€0	€0	€0	Sum Of C
Total Development - Other	€90,030	€90,347	-€317	€75,662	€72,381	€3,281	Sum Of D
Total Development Exposure:	€513,748	€504,676	€9,072	€345,688	€344,838	€850	
Development - (A) Residential:							
Residential UnSold	€153,800	€148,158	€5,642	€109,250	€111,249	-€1,999	A
Residential Pre -Sold	€239,462	€238,603	€859	€146,037	€147,369	-€1,332	B
Total	€393,262	€386,761	€6,501	€255,287	€258,618	-€3,331	
Development - (B) Retail:							
Retail Let	€0	€0	€0	€0	€0	€0	C
Retail Unlet	€10,805	€8,424	€2,381	€8,420	€7,567	€853	A
Retail Pre -Sold	€1,894	€1,517	€377	€1,136	€1,123	€13	B
Total	€12,699	€9,941	€2,758	€9,556	€8,690	€866	
Development - (C) Office:							
Office Let	€0	€0	€0	€0	€0	€0	C
Office Unlet	€16,415	€17,408	-€993	€4,426	€4,930	-€504	A
Office Pre -Sold	€1,342	€219	€1,123	€757	€219	€538	B
Total	€17,757	€17,627	€130	€5,183	€5,149	€34	
Development - (D) Other:							
- Industrial	€16,533	€16,688	-€155	€12,315	€10,922	€1,393	
Total	€16,533	€16,688	-€155	€12,315	€10,922	€1,393	D
- Hospital	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
- Hotel	€49,320	€49,320	€0	€44,359	€43,361	€998	
Total	€49,320	€49,320	€0	€44,359	€43,361	€998	D
- Pubs	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
- Creche, Car Parks, Windfarms Etc	€24,177	€24,339	-€162	€18,988	€18,098	€890	
Total	€24,177	€24,339	-€162	€18,988	€18,098	€890	D
TOTAL LAND / DEVELOPMENT	€1,363,777	€1,341,256	€22,521	€1,142,623	€1,042,353	€100,270	

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Lending Ireland Development Report

Apr - 07

TEAM 6: GALWAY CLIENT ANALYSIS

Ireland Based Lending Only: As at: 30-Apr-07	Limit:		Difference: €'000	Balance:		Difference: €'000	
	Apr-07 €'000	Mar-07 €'000		Apr-07 €'000	Mar-07 €'000		
Unzoned Land	€84,130	€77,103	€7,027	€73,510	€70,609	€2,901	
Zoned Land Without Planning	€368,462	€348,204	€20,258	€328,416	€333,972	-€5,556	
Zoned Land with Planning	€235,886	€229,522	€6,364	€179,406	€171,416	€7,990	
Total Land Exposure:	€688,478	€654,829	€33,649	€581,332	€575,997	€5,335	
Development No Pre-Sales	€341,749	€333,585	€8,164	€206,671	€189,276	€17,395	Sum Of A
Development with Pre - Sales	€638,307	€599,779	€38,528	€513,702	€514,863	-€1,161	Sum Of B
Development with Pre - Lets	€47,766	€47,007	€759	€39,294	€38,123	€1,171	Sum Of C
Total Development - Other	€156,913	€156,913	€0	€142,406	€138,743	€3,663	Sum Of D
Total Development Exposure:	€1,184,735	€1,137,284	€47,451	€902,073	€881,005	€21,068	
Development - (A) Residential:							
Residential UnSold	€229,814	€235,071	-€5,257	€142,643	€131,216	€11,427	A
Residential Pre -Sold	€577,931	€541,550	€36,381	€460,522	€462,047	-€1,525	B
Total	€807,745	€776,621	€31,124	€603,165	€593,263	€9,902	
Development - (B) Retail:							
Retail Let	€35,066	€34,307	€759	€30,098	€29,759	€339	C
Retail Unlet	€80,569	€68,121	€12,448	€38,315	€32,871	€5,444	A
Retail Pre -Sold	€60,376	€58,229	€2,147	€53,180	€52,816	€364	B
Total	€176,011	€160,657	€15,354	€121,593	€115,446	€6,147	
Development - (C) Office:							
Office Let	€12,700	€12,700	€0	€9,196	€8,364	€832	C
Office Unlet	€31,366	€30,393	€973	€25,713	€25,189	€524	A
Office Pre -Sold	€0	€0	€0	€0	€0	€0	B
Total	€44,066	€43,093	€973	€34,909	€33,553	€1,356	
Development - (D) Other:							
- Industrial	€38,023	€38,023	€0	€30,337	€28,073	€2,264	
Total	€38,023	€38,023	€0	€30,337	€28,073	€2,264	D
- Hospital	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
- Hotel	€82,890	€82,890	€0	€81,749	€80,158	€1,591	
Total	€82,890	€82,890	€0	€81,749	€80,158	€1,591	D
- Pubs	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
- Creche, Car Parks, Windfarms Etc	€36,000	€36,000	€0	€30,320	€30,512	-€192	
Total	€36,000	€36,000	€0	€30,320	€30,512	-€192	D
TOTAL LAND / DEVELOPMENT	€1,873,213	€1,792,113	€81,100	€1,483,405	€1,457,002	€26,403	

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Banking M.I Team



Lending Ireland Development Report

Apr - 07

TEAM 6: GALWAY CLIENT ANALYSIS						
Foreign Exposure: As at: 30-Apr-07	Limit:		Difference: €'000	Balance:		Difference: €'000
	Apr-07 €'000	Mar-07 €'000		Apr-07 €'000	Mar-07 €'000	
Unzoned Land	€0	€0	€0	€0	€0	€0
Zoned Land Without Planning	€24,000	€24,000	€0	€25,042	€24,417	€625
Zoned Land with Planning	€0	€0	€0	€0	€0	€0
Total Land Exposure:	€24,000	€24,000	€0	€25,042	€24,417	€625
Development No Pre-Sales	€0	€0	€0	€0	€0	€0 Sum Of A
Development with Pre - Sales	€0	€0	€0	€0	€0	€0 Sum Of B
Development with Pre - Lets	€0	€0	€0	€0	€0	€0 Sum Of C
Total Development - Other	€0	€0	€0	€0	€0	€0 Sum Of D
Total Development Exposure:	€0	€0	€0	€0	€0	€0
<u>Development - (A) Residential:</u>						
Residential UnSold	€0	€0	€0	€0	€0	€0 A
Residential Pre -Sold	€0	€0	€0	€0	€0	€0 B
Total	€0	€0	€0	€0	€0	€0
<u>Development - (B) Retail:</u>						
Retail Let	€0	€0	€0	€0	€0	€0 C
Retail Unlet	€0	€0	€0	€0	€0	€0 A
Retail Pre -Sold	€0	€0	€0	€0	€0	€0 B
Total	€0	€0	€0	€0	€0	€0
<u>Development - (C) Office:</u>						
Office Let	€0	€0	€0	€0	€0	€0 C
Office Unlet	€0	€0	€0	€0	€0	€0 A
Office Pre -Sold	€0	€0	€0	€0	€0	€0 B
Total	€0	€0	€0	€0	€0	€0
<u>Development - (D) Other:</u>						
- Industrial	€0	€0	€0	€0	€0	€0
Total	€0	€0	€0	€0	€0	€0 D
- Hospital	€0	€0	€0	€0	€0	€0
Total	€0	€0	€0	€0	€0	€0 D
- Hotel	€0	€0	€0	€0	€0	€0
Total	€0	€0	€0	€0	€0	€0 D
- Pubs	€0	€0	€0	€0	€0	€0
Total	€0	€0	€0	€0	€0	€0 D
- Creche, Car Parks, Windfarms Etc	€0	€0	€0	€0	€0	€0
Total	€0	€0	€0	€0	€0	€0 D
TOTAL LAND / DEVELOPMENT	€24,000	€24,000	€0	€25,042	€24,417	€625

Produced by:

Banking M.I Team



Lending Ireland Development Report

Apr - 07

TEAM 6: GALWAY CLIENT ANALYSIS							
Total Lending Exposure: <i>As at:</i> 30-Apr-07	Limit:		Difference: €'000	Balance:		Difference: €'000	
	Apr-07 €'000	Mar-07 €'000		Apr-07 €'000	Mar-07 €'000		
Unzoned Land	€84,130	€77,103	€7,027	€73,510	€70,609	€2,901	
Zoned Land Without Planning	€392,462	€372,204	€20,258	€353,458	€358,389	-€4,931	
Zoned Land with Planning	€235,886	€229,522	€6,364	€179,406	€171,416	€7,990	
Total Land Exposure:	€712,478	€678,829	€33,649	€606,374	€600,414	€5,960	
Development No Pre-Sales	€341,749	€333,585	€8,164	€206,671	€189,276	€17,395	Sum Of A
Development with Pre - Sales	€638,307	€599,779	€38,528	€513,702	€514,863	-€1,161	Sum Of B
Development with Pre - Lets	€47,766	€47,007	€759	€39,294	€38,123	€1,171	Sum Of C
Total Development - Other	€156,913	€156,913	€0	€142,406	€138,743	€3,663	Sum Of D
Total Development Exposure:	€1,184,735	€1,137,284	€47,451	€902,073	€881,005	€21,068	
<i>Development - (A) Residential:</i>							
Residential UnSold	€229,814	€235,071	-€5,257	€142,643	€131,216	€11,427	A
Residential Pre -Sold	€577,931	€541,550	€36,381	€460,522	€462,047	-€1,525	B
Total	€807,745	€776,621	€31,124	€603,165	€593,263	€9,902	
<i>Development - (B) Retail:</i>							
Retail Let	€35,066	€34,307	€759	€30,098	€29,759	€339	C
Retail Unlet	€80,569	€68,121	€12,448	€38,315	€32,871	€5,444	A
Retail Pre -Sold	€60,376	€58,229	€2,147	€53,180	€52,816	€364	B
Total	€176,011	€160,657	€15,354	€121,593	€115,446	€6,147	
<i>Development - (C) Office:</i>							
Office Let	€12,700	€12,700	€0	€9,196	€8,364	€832	C
Office Unlet	€31,366	€30,393	€973	€25,713	€25,189	€524	A
Office Pre -Sold	€0	€0	€0	€0	€0	€0	B
Total	€44,066	€43,093	€973	€34,909	€33,553	€1,356	
<i>Development - (D) Other:</i>							
- Industrial	€38,023	€38,023	€0	€30,337	€28,073	€2,264	
Total	€38,023	€38,023	€0	€30,337	€28,073	€2,264	D
- Hospital	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
- Hotel	€82,890	€82,890	€0	€81,749	€80,158	€1,591	
Total	€82,890	€82,890	€0	€81,749	€80,158	€1,591	D
- Pubs	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
- Creche, Car Parks, Windfarms Etc	€36,000	€36,000	€0	€30,320	€30,512	-€192	
Total	€36,000	€36,000	€0	€30,320	€30,512	-€192	D
TOTAL LAND / DEVELOPMENT	€1,897,213	€1,816,113	€81,100	€1,508,447	€1,481,419	€27,028	

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Lending Ireland Development Report

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TEAM 7: LIMERICK CLIENT ANALYSIS						
Ireland Based Lending Only:	Limit:		Difference:	Balance:		Difference:
	As at:					
30-Apr-07	Apr-07	Mar-07	€'000	Apr-07	Mar-07	€'000
	€'000	€'000	€'000	€'000	€'000	€'000
Unzoned Land	€13,583	€15,149	-€1,566	€2,966	€4,518	-€1,552
Zoned Land Without Planning	€94,634	€111,251	-€16,617	€90,980	€106,403	-€15,423
Zoned Land with Planning	€96,675	€71,349	€25,326	€58,654	€39,595	€19,059
Total Land Exposure:	€204,892	€197,749	€7,143	€152,600	€150,516	€2,084
Development No Pre-Sales	€279,308	€299,693	-€20,385	€162,333	€154,732	€7,601
Development with Pre - Sales	€137,314	€136,812	€502	€108,712	€104,804	€3,908
Development with Pre - Lets	€300	€300	€0	€0	€0	€0
Total Development - Other	€71,536	€71,536	€0	€55,134	€52,208	€2,926
Total Development Exposure:	€488,458	€508,341	-€19,883	€326,179	€311,744	€14,435
<u>Development - (A) Residential:</u>						
Residential UnSold	€145,565	€165,950	-€20,385	€105,765	€105,343	€422
Residential Pre -Sold	€116,213	€115,711	€502	€94,951	€92,592	€2,359
Total	€261,778	€281,661	-€19,883	€200,716	€197,935	€2,781
<u>Development - (B) Retail:</u>						
Retail Let	€300	€300	€0	€0	€0	€0
Retail Unlet	€122,668	€122,668	€0	€50,895	€44,396	€6,499
Retail Pre -Sold	€21,101	€21,101	€0	€13,761	€12,212	€1,549
Total	€144,069	€144,069	€0	€64,656	€56,608	€8,048
<u>Development - (C) Office:</u>						
Office Let	€0	€0	€0	€0	€0	€0
Office Unlet	€11,075	€11,075	€0	€5,673	€4,993	€680
Office Pre -Sold	€0	€0	€0	€0	€0	€0
Total	€11,075	€11,075	€0	€5,673	€4,993	€680
<u>Development - (D) Other:</u>						
- Industrial	€7,750	€7,750	€0	€4,378	€4,180	€198
Total	€7,750	€7,750	€0	€4,378	€4,180	€198
- Hospital	€3,400	€3,400	€0	€1,923	€1,828	€95
Total	€3,400	€3,400	€0	€1,923	€1,828	€95
- Hotel	€41,657	€41,657	€0	€38,342	€36,185	€2,157
Total	€41,657	€41,657	€0	€38,342	€36,185	€2,157
- Pubs	€1,729	€1,729	€0	€875	€875	€0
Total	€1,729	€1,729	€0	€875	€875	€0
- Creche, Car Parks, Windfarms Etc	€17,000	€17,000	€0	€9,616	€9,140	€476
Total	€17,000	€17,000	€0	€9,616	€9,140	€476
TOTAL LAND / DEVELOPMENT	€693,350	€706,090	-€12,740	€478,779	€462,260	€16,519

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Lending Ireland Development Report

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TEAM 7: LIMERICK CLIENT ANALYSIS						
Foreign Exposure: As at: 30-Apr-07	Limit:		Difference: €'000	Balance:		Difference: €'000
	Apr-07 €'000	Mar-07 €'000		Apr-07 €'000	Mar-07 €'000	
Unzoned Land	€0	€0	€0	€0	€0	€0
Zoned Land Without Planning	€0	€0	€0	€0	€0	€0
Zoned Land with Planning	€14,375	€14,375	€0	€13,531	€13,531	€0
Total Land Exposure:	€14,375	€14,375	€0	€13,531	€13,531	€0
Development No Pre-Sales	€6,475	€6,475	€0	€5,129	€5,038	€91 Sum Of A
Development with Pre - Sales	€22,805	€22,805	€0	€19,427	€18,958	€469 Sum Of B
Development with Pre - Lets	€0	€0	€0	€0	€0	€0 Sum Of C
Total Development - Other	€0	€0	€0	€0	€0	€0 Sum Of D
Total Development Exposure:	€29,280	€29,280	€0	€24,556	€23,996	€560
<u>Development - (A) Residential:</u>						
Residential UnSold	€6,475	€6,475	€0	€5,129	€5,038	€91 A
Residential Pre -Sold	€22,805	€22,805	€0	€19,427	€18,958	€469 B
Total	€29,280	€29,280	€0	€24,556	€23,996	€560
<u>Development - (B) Retail:</u>						
Retail Let	€0	€0	€0	€0	€0	€0 C
Retail Unlet	€0	€0	€0	€0	€0	€0 A
Retail Pre -Sold	€0	€0	€0	€0	€0	€0 B
Total	€0	€0	€0	€0	€0	€0
<u>Development - (C) Office:</u>						
Office Let	€0	€0	€0	€0	€0	€0 C
Office Unlet	€0	€0	€0	€0	€0	€0 A
Office Pre -Sold	€0	€0	€0	€0	€0	€0 B
Total	€0	€0	€0	€0	€0	€0
<u>Development - (D) Other:</u>						
- Industrial	€0	€0	€0	€0	€0	€0
Total	€0	€0	€0	€0	€0	€0 D
- Hospital	€0	€0	€0	€0	€0	€0
Total	€0	€0	€0	€0	€0	€0 D
- Hotel	€0	€0	€0	€0	€0	€0
Total	€0	€0	€0	€0	€0	€0 D
- Pubs	€0	€0	€0	€0	€0	€0
Total	€0	€0	€0	€0	€0	€0 D
- Creche, Car Parks, Windfarms Etc	€0	€0	€0	€0	€0	€0
Total	€0	€0	€0	€0	€0	€0 D
TOTAL LAND / DEVELOPMENT	€43,655	€43,655	€0	€38,087	€37,527	€560

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Lending Ireland Development Report

Apr - 07

TEAM 7: LIMERICK CLIENT ANALYSIS							
Total Lending Exposure: <i>As at:</i> 30-Apr-07	Limit:		Difference: €'000	Balance:		Difference: €'000	
	Apr-07 €'000	Mar-07 €'000		Apr-07 €'000	Mar-07 €'000		
Unzoned Land	€13,583	€15,149	-€1,566	€2,966	€4,518	-€1,552	
Zoned Land Without Planning	€94,634	€111,251	-€16,617	€90,980	€106,403	-€15,423	
Zoned Land with Planning	€111,050	€85,724	€25,326	€72,185	€53,126	€19,059	
Total Land Exposure:	€219,267	€212,124	€7,143	€166,131	€164,047	€2,084	
Development No Pre-Sales	€285,783	€306,168	-€20,385	€167,462	€159,770	€7,692	Sum Of A
Development with Pre - Sales	€160,119	€159,617	€502	€128,139	€123,762	€4,377	Sum Of B
Development with Pre - Lets	€300	€300	€0	€0	€0	€0	Sum Of C
Total Development - Other	€71,536	€71,536	€0	€55,134	€52,208	€2,926	Sum Of D
Total Development Exposure:	€517,738	€537,621	-€19,883	€350,735	€335,740	€14,995	
<u>Development - (A) Residential:</u>							
Residential UnSold	€152,040	€172,425	-€20,385	€110,894	€110,381	€513	A
Residential Pre -Sold	€139,018	€138,516	€502	€114,378	€111,550	€2,828	B
Total	€291,058	€310,941	-€19,883	€225,272	€221,931	€3,341	
<u>Development - (B) Retail:</u>							
Retail Let	€300	€300	€0	€0	€0	€0	C
Retail Unlet	€122,668	€122,668	€0	€50,895	€44,396	€6,499	A
Retail Pre -Sold	€21,101	€21,101	€0	€13,761	€12,212	€1,549	B
Total	€144,069	€144,069	€0	€64,656	€56,608	€8,048	
<u>Development - (C) Office:</u>							
Office Let	€0	€0	€0	€0	€0	€0	C
Office Unlet	€11,075	€11,075	€0	€5,673	€4,993	€680	A
Office Pre -Sold	€0	€0	€0	€0	€0	€0	B
Total	€11,075	€11,075	€0	€5,673	€4,993	€680	
<u>Development - (D) Other:</u>							
- Industrial	€7,750	€7,750	€0	€4,378	€4,180	€198	
Total	€7,750	€7,750	€0	€4,378	€4,180	€198	D
- Hospital	€3,400	€3,400	€0	€1,923	€1,828	€95	
Total	€3,400	€3,400	€0	€1,923	€1,828	€95	D
- Hotel	€41,657	€41,657	€0	€38,342	€36,185	€2,157	
Total	€41,657	€41,657	€0	€38,342	€36,185	€2,157	D
- Pubs	€1,729	€1,729	€0	€875	€875	€0	
Total	€1,729	€1,729	€0	€875	€875	€0	D
- Creche, Car Parks, Windfarms Etc	€17,000	€17,000	€0	€9,616	€9,140	€476	
Total	€17,000	€17,000	€0	€9,616	€9,140	€476	D
TOTAL LAND / DEVELOPMENT	€737,005	€749,745	-€12,740	€516,866	€499,787	€17,079	

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Lending Ireland Development Report

Apr - 07

TEAM 8: WATERFORD CLIENT ANALYSIS							
Total Lending Exposure: <i>As at: 30-Apr-07</i>	Limit:		Difference: €'000	Balance:		Difference: €'000	
	Apr-07 €'000	Mar-07 €'000		Apr-07 €'000	Mar-07 €'000		
Unzoned Land	€11,951	€11,951	€0	€11,945	€11,938	€7	
Zoned Land Without Planning	€165,750	€197,896	-€32,146	€134,640	€167,507	-€32,867	
Zoned Land with Planning	€93,495	€59,604	€33,891	€86,448	€51,665	€34,783	
Total Land Exposure:	€271,196	€269,451	€1,745	€233,033	€231,110	€1,923	
Development No Pre-Sales	€85,034	€86,273	-€1,239	€54,038	€55,140	-€1,102	Sum Of A
Development with Pre - Sales	€79,368	€80,930	-€1,562	€67,895	€67,960	-€65	Sum Of B
Development with Pre - Lets	€46,000	€46,000	€0	€2,537	€2,406	€131	Sum Of C
Total Development - Other	€16,790	€16,790	€0	€10,324	€9,942	€382	Sum Of D
Total Development Exposure:	€227,192	€229,993	-€2,801	€134,794	€135,448	-€654	
<u>Development - (A) Residential:</u>							
Residential UnSold	€63,021	€64,080	-€1,059	€51,943	€52,480	-€537	A
Residential Pre -Sold	€76,243	€77,805	-€1,562	€65,721	€65,610	€111	B
Total	€139,264	€141,885	-€2,621	€117,664	€118,090	-€426	
<u>Development - (B) Retail:</u>							
Retail Let	€45,007	€45,007	€0	€2,537	€2,406	€131	C
Retail Unlet	€21,893	€21,983	-€90	€2,095	€2,470	-€375	A
Retail Pre -Sold	€0	€0	€0	€0	€0	€0	B
Total	€66,900	€66,990	-€90	€4,632	€4,876	-€244	
<u>Development - (C) Office:</u>							
Office Let	€993	€993	€0	€0	€0	€0	C
Office Unlet	€120	€210	-€90	€0	€190	-€190	A
Office Pre -Sold	€3,125	€3,125	€0	€2,174	€2,350	-€176	B
Total	€4,238	€4,328	-€90	€2,174	€2,540	-€366	
<u>Development - (D) Other:</u>							
- Industrial	€6,138	€6,138	€0	€2,026	€2,019	€7	
Total	€6,138	€6,138	€0	€2,026	€2,019	€7	D
- Hospital	€5,477	€5,477	€0	€5,477	€5,477	€0	
Total	€5,477	€5,477	€0	€5,477	€5,477	€0	D
- Hotel	€2,940	€2,940	€0	€2,780	€2,405	€375	
Total	€2,940	€2,940	€0	€2,780	€2,405	€375	D
- Pubs	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
- Creche, Car Parks, Windfarms Etc	€2,235	€2,235	€0	€41	€41	€0	
Total	€2,235	€2,235	€0	€41	€41	€0	D
TOTAL LAND / DEVELOPMENT	€498,388	€499,444	-€1,056	€367,827	€366,558	€1,269	

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Lending Ireland Development Report

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ALL DUBLIN TEAMS: CLIENT ANALYSIS							
<u>Ireland Based Lending Only:</u> As at: 30-Apr-07	Limit:		Difference: €'000	Balance:		Difference: €'000	
	Apr-07 €'000	Mar-07 €'000		Apr-07 €'000	Mar-07 €'000		
Unzoned Land	€575,517	€590,292	-€14,775	€449,356	€443,408	€5,948	
Zoned Land Without Planning	€2,706,912	€2,929,291	-€222,379	€2,187,782	€2,287,544	-€99,762	
Zoned Land with Planning	€1,471,368	€1,207,116	€264,252	€952,155	€723,985	€228,170	
Total Land Exposure:	€4,753,797	€4,726,699	€27,098	€3,589,293	€3,454,937	€134,356	
Development No Pre-Sales	€1,764,392	€1,691,245	€73,147	€1,230,827	€1,134,331	€96,496	Sum Of A
Development with Pre - Sales	€968,047	€1,046,119	-€78,072	€832,089	€861,757	-€29,668	Sum Of B
Development with Pre - Lets	€54,490	€54,490	€0	€26,522	€26,522	€0	Sum Of C
Total Development - Other	€636,074	€636,787	-€713	€419,025	€410,880	€8,145	Sum Of D
Total Development Exposure:	€3,423,003	€3,428,641	-€5,638	€2,508,463	€2,433,490	€74,973	
<u>Development - (A) Residential:</u>							
Residential UnSold	€1,277,630	€1,145,207	€132,423	€947,802	€874,567	€73,235	A
Residential Pre -Sold	€802,289	€876,082	-€73,793	€715,313	€745,819	-€30,506	B
Total	€2,079,919	€2,021,289	€58,630	€1,663,115	€1,620,386	€42,729	
<u>Development - (B) Retail:</u>							
Retail Let	€14,400	€14,400	€0	€13,860	€13,860	€0	C
Retail Unlet	€227,868	€281,630	-€53,762	€122,671	€112,024	€10,647	A
Retail Pre -Sold	€45,329	€48,499	-€3,170	€42,027	€39,712	€2,315	B
Total	€287,597	€344,529	-€56,932	€178,558	€165,596	€12,962	
<u>Development - (C) Office:</u>							
Office Let	€40,090	€40,090	€0	€12,662	€12,662	€0	C
Office Unlet	€258,894	€264,408	-€5,514	€160,354	€147,740	€12,614	A
Office Pre -Sold	€120,429	€121,538	-€1,109	€74,749	€76,226	-€1,477	B
Total	€419,413	€426,036	-€6,623	€247,765	€236,628	€11,137	
<u>Development - (D) Other:</u>							
- Industrial	€109,068	€105,525	€3,543	€60,764	€61,842	-€1,078	
Total	€109,068	€105,525	€3,543	€60,764	€61,842	-€1,078	D
- Hospital	€53,661	€58,661	-€5,000	€52,692	€51,976	€716	
Total	€53,661	€58,661	-€5,000	€52,692	€51,976	€716	D
- Hotel	€423,185	€420,801	€2,384	€276,643	€269,027	€7,616	
Total	€423,185	€420,801	€2,384	€276,643	€269,027	€7,616	D
- Pubs	€3,682	€3,682	€0	€1,727	€1,343	€384	
Total	€3,682	€3,682	€0	€1,727	€1,343	€384	D
- Creche, Car Parks, Windfarms Etc	€46,478	€48,118	-€1,640	€27,199	€26,692	€507	
Total	€46,478	€48,118	-€1,640	€27,199	€26,692	€507	D
TOTAL LAND / DEVELOPMENT	€8,176,800	€8,155,340	€21,460	€6,097,756	€5,888,427	€209,329	

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ALL DUBLIN TEAMS: CLIENT ANALYSIS							
Foreign Exposure: As at: 30-Apr-07	Limit:		Difference: €'000	Balance:		Difference: €'000	
	Apr-07 €'000	Mar-07 €'000		Apr-07 €'000	Mar-07 €'000		
Unzoned Land	€36,840	€36,840	€0	€30,830	€30,829	€1	
Zoned Land Without Planning	€230,676	€56,098	€174,578	€35,983	€37,549	-€1,566	
Zoned Land with Planning	€193,089	€193,447	-€358	€93,755	€95,437	-€1,682	
Total Land Exposure:	€460,605	€286,385	€174,220	€160,568	€163,815	-€3,247	
Development No Pre-Sales	€391,304	€364,647	€26,657	€243,306	€233,228	€10,078	Sum Of A
Development with Pre - Sales	€195,850	€201,045	-€5,195	€172,372	€169,067	€3,305	Sum Of B
Development with Pre - Lets	€2,000	€2,000	€0	€0	€0	€0	Sum Of C
Total Development - Other	€332,390	€170,649	€161,741	€91,378	€89,685	€1,693	Sum Of D
Total Development Exposure:	€921,544	€738,341	€183,203	€507,056	€491,980	€15,076	
Development - (A) Residential:							
Residential UnSold	€238,009	€217,508	€20,501	€105,390	€94,238	€11,152	A
Residential Pre -Sold	€194,670	€199,865	-€5,195	€171,192	€167,887	€3,305	B
Total	€432,679	€417,373	€15,306	€276,582	€262,125	€14,457	
Development - (B) Retail:							
Retail Let	€0	€0	€0	€0	€0	€0	C
Retail Unlet	€4,365	€4,365	€0	€3,855	€4,249	-€394	A
Retail Pre -Sold	€0	€0	€0	€0	€0	€0	B
Total	€4,365	€4,365	€0	€3,855	€4,249	-€394	
Development - (C) Office:							
Office Let	€2,000	€2,000	€0	€0	€0	€0	C
Office Unlet	€148,930	€142,774	€6,156	€134,061	€134,741	-€680	A
Office Pre -Sold	€1,180	€1,180	€0	€1,180	€1,180	€0	B
Total	€152,110	€145,954	€6,156	€135,241	€135,921	-€680	
Development - (D) Other:							
- Industrial	€24,532	€24,532	€0	€14,352	€13,751	€601	
Total	€24,532	€24,532	€0	€14,352	€13,751	€601	D
- Hospital	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
- Hotel	€214,914	€53,149	€161,765	€3,305	€3,293	€12	
Total	€214,914	€53,149	€161,765	€3,305	€3,293	€12	D
- Pubs	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
- Creche, Car Parks, Windfarms Etc	€92,944	€92,968	-€24	€73,721	€72,641	€1,080	
Total	€92,944	€92,968	-€24	€73,721	€72,641	€1,080	D
TOTAL LAND / DEVELOPMENT	€1,382,149	€1,024,726	€357,423	€667,624	€655,795	€11,829	

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ALL DUBLIN TEAMS: CLIENT ANALYSIS							
Total Lending Exposure: As at: 30-Apr-07	Limit:		Difference: €'000	Balance:		Difference: €'000	
	Apr-07 €'000	Mar-07 €'000		Apr-07 €'000	Mar-07 €'000		
Unzoned Land	€612,357	€627,132	-€14,775	€480,186	€474,237	€5,949	
Zoned Land Without Planning	€2,937,588	€2,985,389	-€47,801	€2,223,765	€2,325,093	-€101,328	
Zoned Land with Planning	€1,664,457	€1,400,563	€263,894	€1,045,910	€819,422	€226,488	
Total Land Exposure:	€5,214,402	€5,013,084	€201,318	€3,749,861	€3,618,752	€131,109	
Development No Pre-Sales	€2,155,696	€2,055,892	€99,804	€1,474,133	€1,367,559	€106,574	Sum Of A
Development with Pre - Sales	€1,163,897	€1,247,164	-€83,267	€1,004,461	€1,030,824	-€26,363	Sum Of B
Development with Pre - Lets	€56,490	€56,490	€0	€26,522	€26,522	€0	Sum Of C
Total Development - Other	€968,464	€807,436	€161,028	€510,403	€500,565	€9,838	Sum Of D
Total Development Exposure:	€4,344,547	€4,166,982	€177,565	€3,015,519	€2,925,470	€90,049	
Development - (A) Residential:							
Residential UnSold	€1,515,639	€1,362,715	€152,924	€1,053,192	€968,805	€84,387	A
Residential Pre -Sold	€996,959	€1,075,947	-€78,988	€886,505	€913,706	-€27,201	B
Total	€2,512,598	€2,438,662	€73,936	€1,939,697	€1,882,511	€57,186	
Development - (B) Retail:							
Retail Let	€14,400	€14,400	€0	€13,860	€13,860	€0	C
Retail Unlet	€232,233	€285,995	-€53,762	€126,526	€116,273	€10,253	A
Retail Pre -Sold	€45,329	€48,499	-€3,170	€42,027	€39,712	€2,315	B
Total	€291,962	€348,894	-€56,932	€182,413	€169,845	€12,568	
Development - (C) Office:							
Office Let	€42,090	€42,090	€0	€12,662	€12,662	€0	C
Office Unlet	€407,824	€407,182	€642	€294,415	€282,481	€11,934	A
Office Pre -Sold	€121,609	€122,718	-€1,109	€75,929	€77,406	-€1,477	B
Total	€571,523	€571,990	-€467	€383,006	€372,549	€10,457	
Development - (D) Other:							
- Industrial	€133,600	€130,057	€3,543	€75,116	€75,593	-€477	
Total	€133,600	€130,057	€3,543	€75,116	€75,593	-€477	D
- Hospital	€53,661	€58,661	-€5,000	€52,692	€51,976	€716	
Total	€53,661	€58,661	-€5,000	€52,692	€51,976	€716	D
- Hotel	€638,099	€473,950	€164,149	€279,948	€272,320	€7,628	
Total	€638,099	€473,950	€164,149	€279,948	€272,320	€7,628	D
- Pubs	€3,682	€3,682	€0	€1,727	€1,343	€384	
Total	€3,682	€3,682	€0	€1,727	€1,343	€384	D
- Creche, Car Parks, Windfarms Etc	€139,422	€141,086	-€1,664	€100,920	€99,333	€1,587	
Total	€139,422	€141,086	-€1,664	€100,920	€99,333	€1,587	D
TOTAL LAND / DEVELOPMENT	€9,558,949	€9,180,066	€378,883	€6,765,380	€6,544,222	€221,158	

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Lending Ireland Development Report

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ALL TEAMS: CLIENT ANALYSIS							
Ireland Based Lending Only: <u>As at:</u> 30-Apr-07	Limit:		Difference: €'000	Balance:		Difference: €'000	
	Apr-07 €'000	Mar-07 €'000		Apr-07 €'000	Mar-07 €'000		
Unzoned Land	€727,478	€737,138	-€9,660	€579,449	€572,938	€6,511	
Zoned Land Without Planning	€3,938,557	€4,187,955	-€249,398	€3,304,523	€3,364,466	-€59,943	
Zoned Land with Planning	€2,055,840	€1,712,177	€343,663	€1,404,665	€1,109,920	€294,745	
Total Land Exposure:	€6,721,875	€6,637,270	€84,605	€5,288,637	€5,047,324	€241,313	
Development No Pre-Sales	€2,683,749	€2,613,889	€69,860	€1,787,124	€1,669,046	€118,078	Sum Of A
Development with Pre - Sales	€2,027,960	€2,067,398	-€39,438	€1,697,709	€1,728,245	-€30,536	Sum Of B
Development with Pre - Lets	€148,556	€147,797	€759	€68,353	€67,051	€1,302	Sum Of C
Total Development - Other	€977,093	€972,373	€4,720	€704,551	€684,154	€20,397	Sum Of D
Total Development Exposure:	€5,837,358	€5,801,457	€35,901	€4,257,737	€4,148,496	€109,241	
<u>Development - (A) Residential:</u>							
Residential UnSold	€1,897,096	€1,782,589	€114,507	€1,366,056	€1,284,176	€81,880	A
Residential Pre -Sold	€1,762,054	€1,800,860	-€38,806	€1,505,611	€1,538,669	-€33,058	B
Total	€3,659,150	€3,583,449	€75,701	€2,871,667	€2,822,845	€48,822	
<u>Development - (B) Retail:</u>							
Retail Let	€94,773	€94,014	€759	€46,495	€46,025	€470	C
Retail Unlet	€468,483	€507,506	-€39,023	€224,902	€201,828	€23,074	A
Retail Pre -Sold	€140,710	€141,356	-€646	€114,418	€110,781	€3,637	B
Total	€703,966	€742,876	-€38,910	€385,815	€358,634	€27,181	
<u>Development - (C) Office:</u>							
Office Let	€53,783	€53,783	€0	€21,858	€21,026	€832	C
Office Unlet	€318,170	€323,794	-€5,624	€196,166	€183,042	€13,124	A
Office Pre -Sold	€125,196	€125,182	€14	€77,680	€78,795	-€1,115	B
Total	€497,149	€502,759	-€5,610	€295,704	€282,863	€12,841	
<u>Development - (D) Other:</u>							
- Industrial	€183,262	€174,124	€9,138	€111,820	€107,036	€4,784	
Total	€183,262	€174,124	€9,138	€111,820	€107,036	€4,784	D
- Hospital	€62,538	€67,538	-€5,000	€60,092	€59,281	€811	
Total	€62,538	€67,538	-€5,000	€60,092	€59,281	€811	D
- Hotel	€599,992	€597,608	€2,384	€443,873	€431,136	€12,737	
Total	€599,992	€597,608	€2,384	€443,873	€431,136	€12,737	D
- Pubs	€5,411	€5,411	€0	€2,602	€2,218	€384	
Total	€5,411	€5,411	€0	€2,602	€2,218	€384	D
- Creche, Car Parks, Windfarms Etc	€125,890	€127,692	-€1,802	€86,164	€84,483	€1,681	
Total	€125,890	€127,692	-€1,802	€86,164	€84,483	€1,681	D
TOTAL LAND / DEVELOPMENT	€12,559,233	€12,438,727	€120,506	€9,546,374	€9,195,820	€350,554	

Produced by:

Banking M.I Team



Lending Ireland Development Report

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ALL TEAMS: CLIENT ANALYSIS							
Foreign Exposure: <u>As at:</u> 30-Apr-07	Limit:		Difference: €'000	Balance:		Difference: €'000	
	Apr-07 €'000	Mar-07 €'000		Apr-07 €'000	Mar-07 €'000		
Unzoned Land	€36,840	€36,840	€0	€30,830	€30,829	€1	
Zoned Land Without Planning	€297,025	€122,447	€174,578	€101,969	€102,522	-€553	
Zoned Land with Planning	€264,943	€265,301	-€358	€165,668	€166,579	-€911	
Total Land Exposure:	€598,808	€424,588	€174,220	€298,467	€299,930	-€1,463	
Development No Pre-Sales	€397,779	€371,122	€26,657	€248,435	€238,266	€10,169	Sum Of A
Development with Pre - Sales	€335,287	€340,482	-€5,195	€224,400	€218,546	€5,854	Sum Of B
Development with Pre - Lets	€2,000	€2,000	€0	€0	€0	€0	Sum Of C
Total Development - Other	€332,390	€170,649	€161,741	€91,378	€89,685	€1,693	Sum Of D
Total Development Exposure:	€1,067,456	€884,253	€183,203	€564,213	€546,497	€17,716	
Development - (A) Residential:							
Residential UnSold	€244,484	€223,983	€20,501	€110,519	€99,276	€11,243	A
Residential Pre -Sold	€334,107	€339,302	-€5,195	€223,220	€217,366	€5,854	B
Total	€578,591	€563,285	€15,306	€333,739	€316,642	€17,097	
Development - (B) Retail:							
Retail Let	€0	€0	€0	€0	€0	€0	C
Retail Unlet	€4,365	€4,365	€0	€3,855	€4,249	-€394	A
Retail Pre -Sold	€0	€0	€0	€0	€0	€0	B
Total	€4,365	€4,365	€0	€3,855	€4,249	-€394	
Development - (C) Office:							
Office Let	€2,000	€2,000	€0	€0	€0	€0	C
Office Unlet	€148,930	€142,774	€6,156	€134,061	€134,741	-€680	A
Office Pre -Sold	€1,180	€1,180	€0	€1,180	€1,180	€0	B
Total	€152,110	€145,954	€6,156	€135,241	€135,921	-€680	
Development - (D) Other:							
- Industrial	€24,532	€24,532	€0	€14,352	€13,751	€601	
Total	€24,532	€24,532	€0	€14,352	€13,751	€601	D
- Hospital	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
- Hotel	€214,914	€53,149	€161,765	€3,305	€3,293	€12	
Total	€214,914	€53,149	€161,765	€3,305	€3,293	€12	D
- Pubs	€0	€0	€0	€0	€0	€0	
Total	€0	€0	€0	€0	€0	€0	D
- Creche, Car Parks, Windfarms Etc	€92,944	€92,968	-€24	€73,721	€72,641	€1,080	
Total	€92,944	€92,968	-€24	€73,721	€72,641	€1,080	D
TOTAL LAND / DEVELOPMENT	€1,666,264	€1,308,841	€357,423	€862,680	€846,427	€16,253	

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ALL TEAMS: CLIENT ANALYSIS							
Total Lending Exposure: <i>As at: 30-Apr-07</i>	Limit:		Difference: €'000	Balance:		Difference: €'000	
	Apr-07 €'000	Mar-07 €'000		Apr-07 €'000	Mar-07 €'000		
Unzoned Land	€764,318	€773,978	-€9,660	€610,279	€603,767	€6,512	
Zoned Land Without Planning	€4,235,582	€4,310,402	-€74,820	€3,406,492	€3,466,988	-€60,496	
Zoned Land with Planning	€2,320,783	€1,977,478	€343,305	€1,570,333	€1,276,499	€293,834	
Total Land Exposure:	€7,320,683	€7,061,858	€258,825	€5,587,104	€5,347,254	€239,850	
Development No Pre-Sales	€3,081,528	€2,985,011	€96,517	€2,035,559	€1,907,312	€128,247	Sum Of A
Development with Pre - Sales	€2,363,247	€2,407,880	-€44,633	€1,922,109	€1,946,791	-€24,682	Sum Of B
Development with Pre - Lets	€150,556	€149,797	€759	€68,353	€67,051	€1,302	Sum Of C
Total Development - Other	€1,309,483	€1,143,022	€166,461	€795,929	€773,839	€22,090	Sum Of D
Total Development Exposure:	€6,904,814	€6,685,710	€219,104	€4,821,950	€4,694,993	€126,957	
<u>Development - (A) Residential:</u>							
Residential UnSold	€2,141,580	€2,006,572	€135,008	€1,476,575	€1,383,452	€93,123	A
Residential Pre -Sold	€2,096,161	€2,140,162	-€44,001	€1,728,831	€1,756,035	-€27,204	B
Total	€4,237,741	€4,146,734	€91,007	€3,205,406	€3,139,487	€65,919	
<u>Development - (B) Retail:</u>							
Retail Let	€94,773	€94,014	€759	€46,495	€46,025	€470	C
Retail Unlet	€472,848	€511,871	-€39,023	€228,757	€206,077	€22,680	A
Retail Pre -Sold	€140,710	€141,356	-€646	€114,418	€110,781	€3,637	B
Total	€708,331	€747,241	-€38,910	€389,670	€362,883	€26,787	
<u>Development - (C) Office:</u>							
Office Let	€55,783	€55,783	€0	€21,858	€21,026	€832	C
Office Unlet	€467,100	€466,568	€532	€330,227	€317,783	€12,444	A
Office Pre -Sold	€126,376	€126,362	€14	€78,860	€79,975	-€1,115	B
Total	€649,259	€648,713	€546	€430,945	€418,784	€12,161	
<u>Development - (D) Other:</u>							
- Industrial	€207,794	€198,656	€9,138	€126,172	€120,787	€5,385	
Total	€207,794	€198,656	€9,138	€126,172	€120,787	€5,385	D
- Hospital	€62,538	€67,538	-€5,000	€60,092	€59,281	€811	
Total	€62,538	€67,538	-€5,000	€60,092	€59,281	€811	D
- Hotel	€814,906	€650,757	€164,149	€447,178	€434,429	€12,749	
Total	€814,906	€650,757	€164,149	€447,178	€434,429	€12,749	D
- Pubs	€5,411	€5,411	€0	€2,602	€2,218	€384	
Total	€5,411	€5,411	€0	€2,602	€2,218	€384	D
- Creche, Car Parks, Windfarms Etc	€218,834	€220,660	-€1,826	€159,885	€157,124	€2,761	
Total	€218,834	€220,660	-€1,826	€159,885	€157,124	€2,761	D
TOTAL LAND / DEVELOPMENT	€14,225,497	€13,747,568	€477,929	€10,409,054	€10,042,247	€366,807	

Produced by:

Banking M.I. Team

Development Report as of 3/31/2007

Top 50 Clients Analysis

Development exposure report as at		April '07		Top 50 Clients Analysis (Excluding Foreign Exposure)		Client Name:		PPF:		Total		Total		Land		Land		Rest		Real		Retail		Retail		Office		Office		Industrial		Industrial		Other		Name of Devt			
Yr	By	Yr	By	Yr	By	Yr	By	Yr	By	Yr	By	Yr	By	Yr	By	Yr	By	Yr	By	Yr	By	Yr	By	Yr	By	Yr	By	Yr	By	Yr	By	Yr	By	Yr	By				
No.	Est.	No.	Est.	No.	Est.	No.	Est.	No.	Est.	No.	Est.	No.	Est.	No.	Est.	No.	Est.	No.	Est.	No.	Est.	No.	Est.	No.	Est.	No.	Est.	No.	Est.	No.	Est.	No.	Est.	No.	Est.				
1	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874	774,874		
2	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	626,976	
3	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	310,574	
4	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948	412,948
5	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	324,462	
6	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	726,356	
7	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	187,874	
8	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	232,400	

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Produced By Banking ML Team

Development Report as of 2004-03

Top 50 Clients Analysis

Development exposure report as at April '07 Top 50 Clients Analysis (Excluding Foreign Exposure)

File No	By Line	Conversion	Client Name	Limit	Balance	YTD	Exposure	Land/Dev	YTD/Dev	YTD/Total	Total Preced	Total Postced	Land/Preced	Land/Postced	Land/Total	Preced/Total	Postced/Total	Office/Preced	Office/Postced	Office/Total	Other/Preced	Other/Postced	Other/Total	Notes of Dev	Local Authority
10	1			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	2			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	3			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	4			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	5			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	6			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	7			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	8			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	9			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	10			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	11			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	12			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	13			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	14			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	15			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	16			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	17			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	18			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	19			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	20			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	21			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	22			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	23			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	24			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	25			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	26			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	27			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	28			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	29			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	30			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	31			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	32			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	33			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	34			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	35			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	36			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	37			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	38			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	39			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	40			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	41			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	42			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	43			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	44			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	45			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	46			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	47			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	48			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	49			1,000	1,000	1,000	1,000	Land	Yes	Yes															
10	50			1,000	1,000	1,000	1,000	Land	Yes	Yes															

Prepared By: Deskley M. Teas

Development Report as at 31/03/2017

Top 50 Clients Analysis

Development exposure report as at April '07 Foreign Exposure by Team

Team No.	Limit	Balance	Value	Sector	Local/Devt	Zoning	PP	Approved to	Yr	Accruals	Total	Total	Land	Land	Land	Res	Res	Retail	Retail	Retail	Office	Office	Office	Hotel	Hotel	Publ	Other	Name of Devt	Local Authority	
								Report	End	Package	Package	Exposure	Zone	PP	Area	Area	Area	Area	Area	Area	Area	Area	Area	Area	Area	Area				
91	4414	4324	3,855	Land	Land	Yes	Yes	No	-	-	-	-	-	-	4234	-	-	-	-	-	-	-	-	-	-	-	-	-	Highland Regional	
92	3365	3366	7958	Land	Land	Yes	Yes	No	-	-	-	-	-	-	3366	-	-	-	-	-	-	-	-	-	-	-	-	-	Highland Regional	
91 Total	8,119	8,170	10,513												8,370															
93	1449	10313	36289	Residential	Development	Yes	No	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	City of Edinburgh	
94	11340	4375	36336	Residential	Development	Yes	No	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	City of Edinburgh	
93 Total	12789	14788	72625																											
95	1624	439	3177	Residential	Development	Yes	No	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	City of Edinburgh	
94 Total	12813	4814	34913																											
96	16201	9783	36343	Residential	Development	Yes	No	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	City of Edinburgh	
97	18961	6308	29975	Residential	Development	Yes	No	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	City of Edinburgh	
95 Total	35162	16091	66318																											
Grand Tot.	1,606,364	862,680	2,035,685																											

Customer Confidentiality

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Produced By Earthlink M.I. Team

**Anglo Irish Bank Corporation plc
Risk Appetite Statement
May 2007**

*Risk Appetite Statement***Table of Contents**

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*Risk Appetite Statement***1. Introduction**

The occurrence of risk is an unavoidable part of the activities of any credit institution. The purpose of a risk management function is, through a process of risk identification, monitoring and controlling, to reduce those risk levels to an acceptable level. As part of the decision-making process in Anglo Irish Bank Corporation plc ('Anglo' or 'the Group'), the Board of Directors, the Board Risk and Compliance (BRC) and the Senior Executive Board (SEB) are ever alert in ensuring that they have a comprehensive understanding and knowledge of the main risks to which the Group is exposed.

Risk appetite refers to the level or amount of exposure and the nature of risk acceptable to the Group. It relates to the strategic objectives, as determined by the Board of Directors, while reflecting the Group's corporate governance, risk management and operating culture.

The Group has formulated its Risk Appetite Statement to confirm the main risks to which it is exposed and to clarify the acceptable levels for each of these risks, both strategically and within each of the Group's business areas. When determining an appropriate risk appetite, the Group ensures that the interests of all its main stakeholders are taken into account fully, with careful consideration given to any potential reputational issues. In addition, the Risk Appetite Statement ensures that the Board and senior management are fully cognisant of, and take responsibility, for the Group's risks.

Risk Appetite Statement

Strategic Objectives and Risk Appetite

The Group's strategic objectives are always considered in-line with its business profile, future and competitive position, ensuring that the needs of all stakeholders are being addressed. This allows for an appropriate identification and assessment of the Group's risks, which, in line with the financial benefits and reputational impacts, are used to identify appropriate risk appetite thresholds for the Group.

The Group operates a niche business model. It has a focused and prescribed approach to the markets it is active in, the products it sells and the clients it does business with.

The following summarises the key areas of the Group's existing strategic objectives. The Board of Directors, in line with the Group's business profile, culture and competitive position has set the following objectives:

- (1) Maintain the centralised business model
- (2) Continue to invest in people and infrastructure
- (3) Continued growth in loan balances and profits
- (4) Continue the development of long-term organic commercial lending growth in certain key markets (Ireland, UK and North America)
- (5) Maintain strong asset quality
- (6) Maintain sound stewardship of shareholders' capital
- (7) Enhance shareholder value
- (8) Continue to diversify the sources of funding, both geographically and by type of funder
- (9) Continue to diversify the income base within the context of the business model

On an annual basis, the Board Risk & Compliance Committee formally assesses the levels of risk deemed appropriate for the Group. This is in turn presented to the Board of Directors for consideration and ultimate approval. The conservative nature of the Group's risk appetite is evidenced by its engagement in secured lending only, limited number of products, geographies and a limited appetite for market risk, in addition to the Group's historical and projected financial performance.

The Group ensures that it takes a focused and prescribed approach to risk, with lending credit risk being actively managed with reference to the following four key principles:

People

Lending to experienced individuals or entities with strong track records and proven expertise.

Risk Appetite Statement

(ii) Cashflow

Income must be sufficient to service the debt in accordance with the terms of the loan. Stress testing is conducted on all loans to provide additional comfort, and emphasis is placed on the appropriate hedging of interest.

(iii) Security

Legal charges are taken to ensure that tangible fixed assets remain within the control of the Group in the event of a loan default and subsequently may be sold independently to repay the debt.

(iv) Recourse

Personal guarantees of promoters are taken to ensure continued 'commitment' from borrowers in the event of a loan not performing. These guarantees must be adequately supported by the confirmed net worth of the individuals concerned.

Complementing the above, Section 4 outlines the key control measures that are in place in the monitoring of the Group's Loan Book.

Risk Appetite Statement

Stakeholders and Business Model

The term stakeholder is used to describe the groups of people who have an interest in the activities of the Group. Hence, in line with corporate responsibility requirements, the Group's consideration extends beyond its shareholders, clients and staff to include regulatory bodies and rating agencies. This ensures that all interests are being appropriately reflected as part of the Group's decision-making activities.

The Group operates in three core areas – Business Lending, Treasury and Wealth Management – and maintains a focused approach to doing business in each of these areas, consistently aiming to use its expertise to deliver superior quality service to its clients through tailored, differentiated products. The success of this offering is based upon the expertise and commitment of the Group's personnel, now in excess of 1,600 across eight geographies. In addition, the Group's centralised business model enables quick decision-making, ensuring consistent delivery of service to its clients and effective management of risk.

The nature of the Group's business means that there is strong competition in every market where the Group operates. Hence, maintaining a client-focused approach to doing business is critical in order to sustain future growth and success. The need to maintain client loyalty and win new clients ensures a constantly evolving service model, with the Group continuing to offer a proactive bespoke service to clients to meet their specific banking needs.

Customer service is viewed as a crucial element in meeting banking requirements for a client. Client support staff are organised into specialised teams who look after specific groups of clients and who work constantly to understand and support these clients and their requirements. This ensures a single point of contact with clients through a dedicated team – one that can respond proactively by anticipating client needs and acting promptly to any requests made.

The continuing success of the Group's business is founded on the talent and dedication of its people. The collective skill, knowledge and commitment of its employees underpins an exceptionally strong culture of delivery for clients and respect for others – the two attributes that truly drive the Group's performance. The Group's business is clearly defined by the people within it; the fact that almost 90% of employees own shares in the Group underlines a close alignment between their interests and those of the Group.

The Group is committed to ensuring that its corporate responsibility applies at all corporate levels, ensuring that it operates in line with the highest standards of ethics and integrity. The Group continually strives to ensure compliance, not just with the letter, but also with the spirit of the regulatory requirements in all jurisdictions where it operates.

*Risk Appetite Statement***4. Risk Tolerance**

By accepting controlled risks, the Group has the ability to consider new opportunities and the use of innovative approaches to further its interests and achieve its objectives, provided the resultant exposures are within defined risk tolerance ranges. All personnel are empowered to take calculated - but prudent - risks to achieve their defined objectives.

While ensuring appropriate levels of operational freedom across the Group's activities, the associated risks of proposed actions and decisions are properly identified, evaluated and managed to ensure that the levels of exposures are acceptable. Within the Group, particular care is needed in taking any action, which could:

- Impact the Group's reputation ✓
- Impact the performance and/or profitability of the Group ✓
- Undermine the independent and objective review of activities ✓
- Result in regulatory issues ✓

Both potential and actual issues and opportunities which could have a significant impact on any of the above must be highlighted, its exposures defined and its impacts addressed. With this in mind, all personnel must maintain an active awareness of the changing environment within which the Group carries out its business.

Risk Appetite Statement

Credit Risk

Reflecting the Group's business activities (commercial lending, wealth management lending and international finance), credit risk represents the most significant element of its risk profile.

Credit risk is measured and monitored by the Group Risk Management function, with the metrics of banking credit risk deemed appropriate documented in the Group Credit Policy. The following extract from the Group Credit Policy outlines the key control measures that are in place in the management of the Loan Book.

Permitted gearing in respect of security should not be more than 80% LTV

The minimum interest cover is 1.3 times¹

A third party professional valuation on properties taken as security must be provided by an approved panel of valuers

A certified net worth statement for the client/guarantor must be made available

All commercial loans in excess of €25 million must be noted by one of the Group's Non-Executive Directors

The Group will only consider lending proposals in Europe from existing clients with a proven track record

Exposure to the European market should not exceed 10% of the Group's Risk Assets

The types of commercial lending which are not normally considered by the Group include:

- Unsecured lending to the large corporate sector
- Working capital for manufacturing
- Primary agriculture
- Start-up companies
- Technology sector

¹ note, this minimum is 1.0 times where the client net worth is in excess of 50% of the loan value.

*Risk Appetite Statement***4.1.1. Commercial lending**

The Group's commercial lending appetite focuses on secured lending to its considerable franchise of high quality clients with a proven record of accomplishment on transactions supported by robust cash flows and strong collateral – in particular tangible assets, such as property.

Ongoing review of commercial lending transactions

To provide assurance of the ongoing high quality of the business lending transactions, additional measures have been put in place by the Group Risk function which complement the guidelines laid down in the Group Credit Policy and which ensure that these transactions are monitored on an ongoing basis.

(a) Loan Reviews

On a bi-annual basis, the Loan Review process is carried out with all members of each lending team. This process ensures that all lending team members maintain ownership and accountability for their loans, while ensuring that potential problems are identified promptly and appropriate remedial action taken.

(b) Portfolio Analysis

Portfolio Analysis is a credit risk-monitoring tool which looks at loan concentrations across geographies and industry sectors. As part of this analysis, sectoral limits are in place and are reviewed and enhanced on an ongoing basis.

(c) Impaired Loans

The Group's Impaired Loan Analysis, documented in the Group Credit Loss Provisioning Policy², deems a loan to be impaired if there is objective evidence of one or more historical events which impact on the loan such that the estimated present value of future cash flows (from that loan) is less than the current value of the loan.

The lending teams are responsible for ensuring that any issue or factor adversely affecting an exposure for which they have responsibility is promptly identified and addressed.

² *Group Credit Loss Provisioning Policy*, September 2006

Risk Appetite Statement

Watch List Analysis

The Group's Watch List Analysis tool is used in the assessment of a loan that is still performing but where there may be a concern with regard to the future servicing ability of the borrower or in respect of the LTV. The requirements of the Watch List Analysis are documented in the Group Credit Loss Provisioning Policy.

1.2. Wealth management

The Group's Wealth Management Division provides a variety of services including private banking, fund management and pension planning, with an emphasis on the protection and preservation of wealth through proper financial planning and both sectoral and geographical asset diversification. The Group's clients are high net worth individuals, typically in excess of €1 million (excluding the client's main residence). Many of these clients are also involved in business lending transactions with the Group.

The main business activities to which the Wealth Management Division incurs credit risk are property and equity funds, in addition to some of the activities of *Anglo Irish Assurance Company (AIAC)*, a subsidiary of the Group. In addition, the Division is active in providing commercial mortgages, investment loans and finance to purchase publicly quoted shares and securities to its client base. However, property development transactions are not carried out by the Division and must be referred to the Business Lending Division.

*Risk Appetite Statement***4.1.3. International Finance****Credit Investments**

The Group's appetite for its credit investment activities focuses on high quality rated listed debt instruments (bonds) issued by banks and sovereigns and also to structured credit transactions (asset-backed securities or ABS). Credit investment-related transactions are held in one of two credit books:

- (1) Credit Portfolio (or 'Bond Book')
- (2) Conduit – an off-balance sheet SPV, managed in conjunction with Dresdner Bank, which requires no capital or funding from the Group and consists entirely of high grade assets

While bank assets represent the majority of transactions in the credit investment book, there is an upward trend for ABS transactions to replace bank assets. The factors influencing this are as follows:

- Bank spreads have been at historic low levels for some time, with ABS assets offering better relative value.
- The majority of high-grade ABS bonds (rated AAA or AA) are now being purchased for the Credit Portfolio having been previously booked in the Conduit. This reflects that the Conduit capacity has been largely filled in addition to the enhanced return on capital achieved through lower risk weightings on high grade ABS under the proposed new regulatory capital calculation requirements.

Trade finance

The Group's trade finance activities relate to international bank and sovereign exposures, with a focus on discounted letters of credit, promissory notes, guarantees, bilateral lending and syndicate lending.

The Group maintains a conservative stance with regard to its Sovereign and banking transactions, limiting its business to a minimum credit ratings level.

Risk Appetite Statement

Ongoing review of credit investments and trade finance transactions

To provide assurance of the ongoing high quality of the Group's credit investments and trade finance transactions, additional measures have been put in place by the Group Risk function which complement the guidelines laid down in the Group Credit Policy and which ensure that these transactions are monitored on an ongoing basis.

i) Annual Review

All bank counterparty limits are reviewed at least annually, with the exception of 'Category 1 banks' (with a rating range equal to the lower of Fitch and/or Moody's, from AAA to AA-) when the review term can be extended to a maximum of two years.

All country limits are reviewed annually, with the exception of some OECD countries rated AA or AA, where the related limits are reviewed every two years.

The review process for Asset Backed Securities (ABS) bond investments and certain sovereign/quasi sovereign bonds is completed under the periodic portfolio reviews.

i) Country Limits

Country limits are set to cap maximum exposures under money market, bond and trade finance products. The country limits are approved at Credit Committee, with the addition of sub-limits for each product category.

*Risk Appetite Statement***4.2. Concentration Risk**

On an ongoing basis, the Group monitors its transaction concentration levels by geography, sector (both security and sector) and by client, as follows:

- Geographical concentration risk - reported on a quarterly basis - is mitigated by the diversification of its exposures across Ireland, the UK, North America and other European countries.
- With regard to sectoral exposure, security and tenant concentration levels are monitored at group and lending team levels. In addition, periodic sectoral analysis reports are produced which focus on specific areas, such as the hotels and pubs, retail, foreign exposure (i.e. exposures outside Ireland and the UK) and cashflow lending.
- An analysis of specific single and connected client exposures is included in the Group Risk Management Report, which is produced on a monthly basis.

Investment properties held as security, and which are used for office or retail purposes, account for a significant portion of the Group's loan book³. However, the underlying exposure is to the tenants in the properties securing these transactions, together with the ability of these tenants to meet their obligations under their lease agreements. Hence, tenant cashflow is fundamental to the Group's credit underwriting process.

4.3. Operational Risk

The Group ensures that its operational risk exposure is limited to the direct risks arising from its business activities. Hence, it is not exposed to operational risks resulting from the storage and distribution of cash and from cheque clearing activities.

Operational risk is measured and monitored by the Group Risk function, with accountability for identified potential risks being assigned to relevant executives across the Group. It is acknowledged that operational risk cannot be entirely eliminated; however, techniques such as fraud prevention, contingency planning, incident management and insurance allow the Group to mitigate the impacts from possible loss events.

³ 'Property investment – office' and 'property investment – retail' account for 23% and 18% of the Group's loan book, respectively.

*Risk Appetite Statement***4. Market Risk**

The Group's limited market risk appetite is reflected by the immaterial level of market risk-related capital required to be set aside, with market risk exposure being accepted only in the Dublin Dealing Room.

The Group main exposure to market risk arises as a result of movements in interest rates and exchange rates which can impact on the following areas:

- The Group's balance sheet structure
- The execution of client and Interbank business
- Proprietary trading

Market risk is measured and monitored by the Group Risk function, with the Treasury Division having responsibility for its ongoing management. Market risk tolerance levels are set in the Treasury Division for each desk, dealer and risk type.

5. Liquidity Risk

The Group adopts a forward-looking approach to managing its liquidity risk with a focus on maintaining the stability of the financial system, in general, while ensuring the protection of its stakeholders. At all times, the Group ensures that resources are available to meet the obligations arising from the withdrawal of client deposits or Interbank lines, the drawdown of credit facilities, and asset expansion.

The Group welcomes the new liquidity risk management requirements from the Financial Regulator⁴ coming into force on 1 July 2007. These new guidelines require institutions to adopt the 'maturity mismatch approach' (replacing the 'stock approach'), which reflects enhanced qualitative and quantitative liquidity risk management techniques.

Liquidity risk is measured and monitored by the Group Risk function, with the Treasury Division having responsibility for its ongoing management.

Limits on potential cash flow mismatches over defined time horizons are the principal means of liquidity control. The cash flow mismatch methodology involves estimating the net volume of funds that must be refinanced in particular time periods, taking account of the value of assets which could be liquidated during these periods.

⁴Requirements for the Management of Liquidity Risk, Financial Regulator, 28 June 2006

*Risk Appetite Statement***4.6. Reputational Risk**

The Group views the protection and enhancement of its reputation as being paramount to its ongoing performance. To ensure that it maintains the highest standards of corporate governance, the guidelines set out in the document *The Combined Code on Corporate Governance*⁵ have been adopted by the Group. At a high-level, these guidelines are used to ensure that the Group maintains an appropriate Board and senior management structure with independence from its business activities, its internal control techniques are adequate and effective and its internal audit function is empowered to adequately assess the Group's risk management, control and governance processes.

⁵ *The Combined Code on Corporate Governance*, Financial Services Authority (FSA), July 2003.

Risk Appetite Statement

Risk Management Objectives and Responsibilities

1. Risk Management Objectives

The establishment and implementation of risk management activities within the Group should enable management to:

- Provide a sound basis for integrated risk management and internal control as components of good corporate governance
- Improve business performance through the informing and enhancing the decision-making and planning process

The improvements and benefits which effective risk management should provide are:

- An increased likelihood of achieving the organisation's aims, objectives and priorities
- Appropriately prioritise the allocation of resources
- Giving an early warning of potential problems
- Providing everyone with the skills to appropriately assess risks

2. Risk Management Responsibilities

All personnel have a responsibility for maintaining good internal control and managing risk in order to achieve personal, team and corporate objectives. Collectively, staff in business units require the appropriate knowledge, skills, information and authority to establish, operate and monitor the system of internal control. This requires an understanding of the Group's activities, its objectives, the risks it faces and its stakeholders, together with an awareness of assigned risk limits.

*Risk Appetite Statement***6. Risk Management Principles**

The following outlines the general risk management principles to which the Group's risk appetite is aligned:

- The Group's risk management activities are aligned to its corporate aims, objectives and organisational priorities, with a purpose of protecting and enhancing the reputation and standing of the Group
- Risk analysis forms part of organisational strategic planning, business planning and investment/project appraisal procedures
- Risk management is founded on a risk-based approach to internal control which is embedded in day to day operations of the Group
- The risk management approach informs and directs our work to gain an assurance on the reliability of organisational systems and forms the key means by which the Board gains its direct assurance
- All staff have responsibility for identifying, evaluating and managing or reporting of risks they have become aware of
- For the benefit of the entire Bank, a culture which provides for spreading best practice, lessons learnt and expertise acquired from our risk management activities are fostered across the Group

Risk Appetite Statement

Communication

This section discusses the roles and responsibilities of relevant functions and areas across the Group with regard to the Risk Appetite Statement, in addition to outlining the main risk-appetite-related reporting requirements.

I. Roles and responsibilities

I.1. Board of Directors

Defining the Group's risk tolerance

Ensuring that the Group's risks are appropriately managed and communicated to all stakeholders

Seeking regular assurance that the Group's system of internal control is effective in managing its risks

I.2. Risk and Compliance Committee

Overseeing the Group's risk management and compliance functions

Reviewing, on behalf of the Board of Directors, the key risks and compliance issues inherent in the Group's business and the system of internal controls required to manage these risks and issues

I.3. Audit Committee

Confirming the reliability of the Group's system of internal controls

Providing advice to the Board of Directors on the activities carried out by the Group's risk management functions

I.4. Directors of the Group's Business Activities

Responsibility for the identification, evaluation and management of the risks facing the applicable business activity

Raising significant issues, as appropriate, to the Board of Directors

I.5. Business Unit management

Ensure a clear and consistent communication of the Group's risk appetite and risk management requirements to its staff

Empowering staff to have an active involvement in managing the Group's risks

*Risk Appetite Statement***8. Review and Approval of Risk Appetite Statement****8.1. Sponsor of Risk Appetite Statement**

The Director of Group Risk is responsible for sponsoring the Group's Risk Appetite Statement to the Risk and Compliance Committee. In addition, the Directors are responsible for sponsoring related policies, guidelines, procedures and processes.

8.2. Owner of Risk Appetite Statement

The Group Risk Management function is the owner of the Group's Risk Appetite Statement and is responsible for its management and ensuring its implementation.

8.3. Approval of Risk Appetite Statement

The Board Risk and Compliance Committee and the Board of Directors are responsible for approving the Group's initial Risk Appetite Statement together with revised versions of the document.

8.4. Review of Risk Appetite Statement

The Risk Appetite Statement will require an annual review to ensure that it is in line with the Group's strategies. Ad-hoc reviews will be carried out where the Group makes significant new business strategy decisions.

OVERVIEW

As part of the Loan Review process, the Risk Management Team meet with all the Lending Teams in Ireland, the UK, Boston, Geneva and Vienna. We travel to all locations, which helps us obtain a better understanding of all local issues, including competition etc.

This review covers the 1st quarter of 2004 and was completed on 30th April 2004.

A detailed analysis of Non-Performing Loans, and Watch Loans is attached, with details on the main cases, including amount, security issues etc.

The main points are as follows:

(a) Non-Performing Loans

Net increase in Non-Performing Loans since last review of €12m.

A total of €27m was added to the list, and 9 cases make up most of the increase (93%). A total of €15m was either repaid or removed from the list as a result of progress made.

The €12m addition equates to a 9% increase in Non-Performing Loans, however, because of the growth in the loan book, the Non-Performing Loans as a percentage of the Loan Book have reduced from 0.71% to 0.66%.

A full analysis of all NPL's is attached.

(b) Capital Provision

No new capital provisions were required as a result of the review. However, provisions relating to the cases removed from the NPL List of circa €6m, were reallocated throughout the NPL portfolio. This is encouraging and confirms the conservative nature of our provisioning policy.

(c) Watch List

The Watch List has reduced by €22m since year end September 2003 from €810m to €788m. Excellent progress has been made on a number of Watch Cases, which is positive. However, we still added €88m in loans on to the list. Of the additions, 16 cases make up the majority of the increase and these cases are discussed in detail within the report.

(d) Trends

- (i) No new or worrying trends emerged from the review in relation to NPL Loans or Watch Cases. The sectors where we have experienced difficulties are the same as reported at last review, namely:
 - (1) Office market;
 - (2) Some development loans;
 - (3) Leisure (pub/hotels).
- (ii) We are approving bigger ticket deals with lower spreads, which is resulting in tighter margins.

- (iii) Our development exposure has increased from a “guideline” limit of 15% of the total loan book, to circa 21%. We need to agree a strategy to reduce this exposure, and a discussion is due to take place at the next SMB in this regard. (See commentary under Loan Book Trends.)

(e) **Sectoral Overview**

At the request of the Bank’s Risk Committee, we agreed that as part of our review process, we would report on particular sectors at each loan review. At this review, the sectors we chose were the pub market in Ireland and our foreign exposure. A summary of these reports are included in this document, together with an update on our “cashflow” type lending exposure.

SUMMARY

Overall, the loan review went well and the Book is in excellent shape, there are problem cases on the Watch List that need to be resolved, and we need to extract ourselves from a number of our larger NPLs as soon as possible.

NPL’s are less than 1% of the Book, so we are comfortable. The new cases added to the list have good assets securing them and as long as we react quickly, we should recover most, if not all, of our exposure.

The Watch List stands at circa €788m, which is 4% of the Book. The fact that €88m of new cases have been added to the list is an issue, although one case amounts to circa €35m. Overall, we are pleased with the progress the lending teams are making on the Watch cases.

This loan review was positive in terms of progress made on troublesome Watch Cases and some Non-Performing Loans. There are no new worrying trends or particular sectors causing concern, which is encouraging.

We will continue to report on NPL and Watch Cases on a monthly basis and ensure progress is being made.

Pat Whelan

31st May 2007**(ii) DEVELOPMENT EXPOSURE****Background**

Due to the specific risks associated with development finance we continue to closely monitor the development exposure across the Group on a monthly basis. In addition to funding a variety of well located land banks throughout the group we also provide finance for construction projects which are at various stages in the development life cycle. These projects typically have a significant level of pre-sales/pre-lets in place which gives us a clear exit strategy.

Group Exposure

The breakdown of the Group Development Exposure is as follows;

	Balances April 2007 €m	Total Portfolio April 2007 €m	% of Loan Book
Ireland	10,610	34,127	31%
UK	4,098	20,350	20%
North America	747	5,424	14%
Totals	15,455	59,900	26%

The development exposure for the Group as at 30th April 2007 is 26% of the book, which is ahead of the position as at the last Loan Review of 24% (€13.1bn) and above our internal target of 20% of the Loan Book. While we are above this self imposed guideline, we lend only to experienced developers, with excellent track records. Recourse is provided in the majority of cases.

Ireland Development Exposure

The development exposure at the 30th April 2007 for the Irish Loan Book is 31% compared with 29% at the last report date, and is broken down as follows:-

Balance	Unzoned Land	Zoned Land	Zoned Land with PP	Speculative Development	Development w/c with Pre Sales/Pre Lets
€m	€m	€m	€m	€m	€m
10,610	627	3,580	1,522	641	4,240

As can be seen only c. 6% of the exposure relates to unzoned land, which is the higher risk end of development lending. However, the Bank only lends in these circumstances to long standing clients who are experienced developers and where the borrower has the ability to achieve zoning and planning in due course and in the meantime has the financial strength to fund the loan and to withstand potential decreases in the value of the land. In addition, we hold appropriate personal/corporate recourse for these exposures. Over 60% of the development exposure relates to land with planning permission in place or with development commenced, which is at the lower end of the development risk profile.

In excess of 50% of Land exposure is located in the Greater Dublin region, while the remainder of the exposure is located within the primary regions of the country.

There has been much media commentary regarding the slowdown in the residential market. A combination of political uncertainty, excess supply in some areas and the impact of rising interest rates on affordability have no doubt led to a tapering off in sales activity in both new houses and in the second hand market. Anecdotal evidence of estate agent activity levels and direct feedback from



THEME: B2

Effectiveness of banks' credit strategies and risk management

LINE OF INQUIRY: B2B

Appropriateness of credit policies, delegated authorities and exception management

MEMORANDUM

TO: Board Risk and Compliance Committee

FROM: Tom Walsh

DATE: 20th November 2006

RE: Annual Review of Group Credit Policy

Please find attached a copy of the Group Credit Policy for 2006, which is proposed for ratification at the Board Risk and Compliance meeting on the 27th November.

Annual Review:

The Group Credit Policy is reviewed on an annual basis by Group Risk in conjunction with the business units to ensure that it reflects best practice and also current market conditions.

Overall, the current credit policy reflects the Bank's risk appetite and no major changes are being recommended. However, there are 4 "material" recommendations which we need to highlight and seek approval for.

1. Minimum Interest Cover Requirements on Property Investment Loans:

It is proposed to reduce this from 1.5 times to 1.3 times. In addition it is proposed to reduce this to 1 times when appropriate recourse is available from a personal or corporate guarantor with a certified / audited net worth in excess of 50% of the loan (see attached). ST

2. Development Finance:

It is proposed to increase the gearing level on working capital finance from 75% to 80%, provided site finance is within policy.

It is proposed to increase working capital finance to 100% subject to contracted pre-sales which would reduce end Loan to Value to Max: 75%.

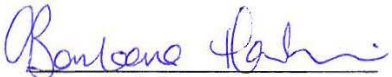
(See attached)

3. A number of changes to signing authorities are included to reflect management changes during the year.

4. Local discretion for Geneva to increase from €150k to €500k in respect of Lombard Lending only.

There are no other material changes proposed.

If you have any questions in advance of our meeting please feel free to contact me directly at 616 2145.

P.P. 

Tom Walsh
Director of Group Risk Management

Appendix 1:

1. *Minimum Interest Cover Requirement*

Rationale for change:

At present the Credit Policy requires Minimum Interest Cover of 1.5 times in respect of investment loans, and maximum LTV's of 80%.

Because of low interest rates and compressed yields across Ireland and UK, the interest cover requirement makes us uncompetitive. As a result a large number of loans are being approval as exceptions to Credit Policy, which needs to be addressed. In addition we are approving a number of facilities at 1 times interest cover to our strongest clients, on the basis of full interest cover. This needs to be covered by our credit policy.

It is proposed to reduce the minimum interest cover required for "normal" investment deals to 1.3 times and 1 times in the case of clients with minimum net worth, i.e. in excess of 50% of loan amount.

Example

	€'000
Investment Property producing Income of 500k sold at 4.75% yield	
Cost	10,500
Legal & Stamp	1,000
Total Cost	<u>11,500</u>
Anglo will lend up to 80% of value	
Anglo Debt	8,400
Required Client Equity	3,100
<u>LTV @ 80%</u>	
Debt	8,400
Income	500
Interest Cost @ 5%	420
Times Cover	1.19 times

If the LTV covenant is met (80%) the facility will still be an exception based on interest cover of 1.19 times.

	€'000
Using Interest Cover Covenant 1.5 times (or within policy)	
Max Debt	6,600
Interest Cost @ 5%	330
Rental Income	1.5 times
Loan to Value	63%

To meet current interest cover test the client would need to provide equity of circa €5m, which is aggressive against a €10.5m purchase. With the proposed change to 1.3 times cover, the above example would be geared at 73% LTV, which is more realistic.

In fact the reality of the situation is that we are approving deals at 1.3 times cover, and are very comfortable doing so, but as an exception to policy.

This amendment will reflect market conditions.

Appendix 2:**2. Development Finance**

It is proposed to amend Credit Policy in respect of development finance to reflect current market conditions as follows:

- Maximum Loan to Development Cost increased from 75% to 80%.
- Maximum Loan to Development Cost increased from 75% to 100% subject to contracted pre-sales in place to reduce loan to maximum end value to 75% post sales receipts.
- Maximum Loan to site value remains unchanged at 75%.

Example: Development Appraisal

	€'000
Initial Site Cost:	4,000
Cost to Develop 40,000 sq. ft residential at €200 psf	8,000
Total Cost	12,000
Estimated End Value of €350 psf	14,000

Scenario 1: No Contracted Pre Sales:

	€'000
Max: Site Loan @ 75%	3,000
Max: Development W/C @ 80%	<u>6,400</u>
Total Anglo Debt	9,400
Loan to end Value	67%

Scenario 2: Contracted Pre Sales:

	€'000
Max: Site Loan @ 75%	3,000
Max: Development W/C @ 100%	<u>8,000</u>
Total Anglo Debt	11,000
Less: Contracted Pre-Sales	<u>3,000</u>
Residual Debt	8,000
Residual Security Value	11,000
Loan to Value After Presales	73%

MEMORANDUM

TO: Board Risk and Compliance Committee

FROM: Eugene Murray

RE: "Material" changes to Credit Policy

DATE: 4th July 2005

With reference to the amended Credit Policy which is on the agenda for this month's Risk and Compliance Committee meeting.

The Credit Policy is fundamentally the same as the previous policy, however, we have made certain amendments to reflect current market conditions in each of the jurisdictions the Bank operates in, and to keep the policy in line with Credit Committee decisions.

There is no longer a division between the Area offices in Ireland and Dublin Banking as they now fall under Lending Ireland.

Section	Change	Reason
<i>Underwriting Criteria</i> Lending Ireland Commercial Mortgages Property Investments Loans Bridging Loans Bank G'tees	- Max. loan to security value increased from 75% to 80% for all of these.	To reflect market conditions.
Development Finance	- Max. loan to site value increased from 70% to 75%. - Max. loan to development cost increased from 60% to 75%. - Max. term increased from 18 mths to 36mths.	To reflect market conditions. We are funding larger deals i.e Customer Co... which take longer to complete.
Loans to purchase securities	- Max. loan to security value increased from 60% to 70%.	To reflect market conditions. Trigger clause remains at 75%.
UK Commercial Mortgages Property Investments Loans Bridging Loans	- Max. loan to security value increased from 75% to 80% for all of these.	To reflect market conditions.
Development Finance	- Max. loan to site value increased from 70% to 75%. - Max. loan to development cost increased from 60% to 75%.	To reflect market conditions.
Loans to purchase securities	- Max. loan to security value increased from 60% to 70%.	To reflect market conditions. Trigger clause remains at 75%.

Annotations - not relevant

Section	Change	Reason
North America Commercial Mortgages Property Investments Loans Bridging Loans Bank G'tees	- Max. loan to security value increased from 75% to 80% for all of these.	To reflect market conditions.
Development Finance	- Max. loan to site value increased from 70% to 75%. - Max. loan to development cost increased from 60% to 70%. - Max. term increased from 18 mths to 48mths.	To reflect market conditions. As with Lending Ireland we are funding larger projects which take longer to complete.
New Policy	European Lending Policy.	Discussed in detail earlier this year at Risk Committee. No changes since then.
Signing Discretions for Lending Ireland (Incl. Private Banking)	New "A" signatures for Credit Committee - - Owen O'Neill - Michael O'Sullivan - Kieran Dowling	All new signatories were promoted to Directors of Lending Ireland during the year.
Additional "A" signatures for Credit Committee	New "A" signatures for Credit Committee, in UK office - Brian Linehan - Ruairi Conneely - Peter Ralph	In response to growth of loan book in the UK. All are experienced Senior lenders.
Non-Executive Signoff	Existing sign off - <u>Group Limit</u> in excess of €15,000k requires non executive noting.	For Discussion.

Annotations - no...

Eugene Murray
Head of Group Risk Management

Category 18 Anglo

Exceptions to Credit Policy for Anglo Loans Transferred to NAMA

In response to Category 18 of the Banking Inquiry notice to IBRC (in Special Liquidation), this document provides, on a best endeavours basis, the number and aggregate of exceptions to credit policy identified for the period 2001 to 2008 in respect of Anglo Irish Bank loans subsequently acquired by NAMA. Submission 1 was provided to the Inquiry giving an overview of historic Anglo Credit Policies and procedures relating to the approval of exceptions to policy.

Methodology & Assumptions

The Methodology & Assumptions used during this exercise are presented in Appendix I attached. Our review took place in three phases.

Challenge

No single source of information was complete and accurate.

Source Matter

- Anglo NAMA Transfer List
- Exceptions Analysis Reports compiled by the Bank from 2004 onwards and from December 2006 incorporated into the Bank's Monthly Risk Management Reports.
- Document Management System
- The Bank's Credit Approvals Register.

Findings:

In order to fully understand the relevance of the findings it is important to fully understand the methodology of the exercise. The findings below identify clients holding at least one loan with an exception to credit policy. The exercise was undertaken at client level and each individual loan account has not been examined.

Of the 1,731 cases reviewed at client level, the number found to have represented an exception to credit policy was 1,073 or 62% of clients. The aggregate value of the exceptions identified was €31.97M or 92 % of the value of the Book which transferred to NAMA.

APPENDIX 1

Anglo Cases Transferred to NAMA - Methodology & Assumptions 02/02/15

Source Data Used and Methodology

Format

Anglo NAMA Transfer List

- 1,731 Records by Anglo Client Number
- List contains 6,930 accounts

This was a look-back exercise from 2008 going backwards to 2001.

Due to time constraints, one exception to credit policy (ECP) per client number, being the most recent exception, was identified.

Previous Credit Applications and any previous ECPs were ignored once the most recent ECP per client was identified.

The aggregate value of the ECP was deemed to be the client exposure at the date of Credit Sanction. This included all loan accounts within the Client Number. The distinction between Regulatory Group Exposure, Client Exposure and Loan Account Exposure was highlighted prior to commencement of this exercise and a decision was made to deem the Client Exposure at Credit Sanction Date of the ECP as the aggregate value for inclusion.

Folder - Group Risk\Credit Committee Exception Analysis

1st Test: Exception analysis documents (from 2004-2008) were consolidated for this exercise into one 'Master Exceptions Log.xls' (MEL) document. Within this, a search was carried out for each Client name.

Note: There were a relatively small number of cases (c. 26 – typically large NAMA Debtors) with >1 Client Number in the Anglo NAMA Transfer List, and >1 ECP in the Master Exceptions Log. In such cases it was unclear if these were multiple ECPs for the same Client Number or if they related to multiple Client Numbers. As time constraints did not allow a match of Client Numbers to specific ECPs (due to the Master Exceptions Log not recording Client Numbers) it was not therefore possible to identify the exposure involved. See 2nd Test.

Document Management System ('DMS')

2nd Test: If the Master Exceptions Log search did not provide a result, the DMS Document Management System (DMS) was examined. A number of document headings were checked within DMS, including 'Signed Credit Form', 'Approved Credit Application', and 'Credit'.

In order to most accurately reflect the exposure of above c.26 clients with >1 Client Number in the Anglo NAMA Transfer List and >1 ECP in the Master Exceptions Log (in respect of the overall calculation), an additional check of Credit Approval records on the DMS was carried out. In the vast bulk of cases, a number of ECPs were approved through 2008 when exposures were (in general) increasing within these cases. For cases where the DMS records were incomplete, the client exposure at end 2008 was taken from the Legacy Banking system.

Folder - Credit Approval Register ('CAR')

3rd Test: A search of the CAR folder was carried out, as a further check, with a view to capturing any material exposures in the NAMA Client List (our primary source data) to which ECP's pertained prior to 2008, and had not been captured by either the Exception Analysis Documents or DMS. This search primarily consisted of 3 main documents within the folder. This was a risk based approach.

Firstly, the NAMA list, which gives a breakdown of exposures in order of accounts (rather than by client) was examined to the degree possible; i.e. in order of account exposure at date of transfer - this was the most efficient method possible, due to significant time constraints, and the nature of 'starting-point' information - each Customer Number (starting from the highest balance) was cross-checked in the Final Completed document, which was filtered for 'Not IN MEL/DMS' (i.e. illustrating that no record of an exception had been found thus far). If a Customer Number was located in the Final Completed Document, the CAR was then searched, in order to ascertain if an ECP was identified therein.

If an ECP was located within the CAR, it was noted, with amounts tallied from the 'New Limit' cell - it is understood that this is most likely to be the cell that reflects the New Limit at date of approval, given that the cell's title matches that of CCA columns, which list the 'New Limit' in this fashion.

Currency Conversion Rate Where the exceptions records or Credit Approvals had not converted into Euro, a Eur/Stg exchange rate of 1.15 and a Eur/US\$ rate of 0.77 rate was applied.

ISSUES Identified

1. Completeness and accuracy of information.
2. As there were no Client Numbers within the Bank's exceptions records, if a name match was found, it was taken as 'given' that this was the same borrower. This is expected to hold true in the vast majority of (or most likely, all) cases.
3. Exception Analysis - U.K. and U.S. cases appear far less frequently - this seems to indicate that this section was not as well maintained as Ireland sheet.
4. There were differences (usually slight, occasionally more significant) between Client names within the two primary documents (e.g. J. Bloggs + M. Bloggs, versus M Bloggs, J Bloggs; Joe Bloggs Ltd v J Bloggs Ltd) - a level of judgment was therefore required in each case, as to whether the documents refer to the same Client(s).
5. There were name differences between cases, as the NAMA list was compiled a significant time later (e.g. 'Deceased'; 'In Receivership'). Some cases were missing part of the name (understood to be due to space constraints on T24) particularly in cases where the Client comprised multiple entities (eg. several individuals forming the Borrower).

Assumption: It is assumed that all aggregate value at the Date of Credit Sanction transferred to NAMA.

Definition of Terms

Number is the total count of cases at client level where exceptions to credit policy were recorded. Only one exception per case, being the most recent exception, was counted.

Aggregate Value is the amount of Client exposure at the date of credit sanction. As above, a detailed approach was taken in determining aggregate value for a certain number of larger clients with multiple client numbers and multiple ECPs.



THEME: B2

Effectiveness of banks' credit strategies and risk management

LINE OF INQUIRY: B2C

Analysis of risk concentration in the base, the adverse economic scenarios and the impact on capital structure

Financial Projections 2008-2012



Presented to Fitch - 10 June 2008

Private & Confidential
10 June 2008

Executive Summary

Group Finance works with the business to stress test Anglo Irish Bank's ("the Bank" or "Anglo") performance and balance sheet position over a five year time horizon. The following analysis outlines the results of the Bank's various projections including higher growth and extreme stress cases.

The results of the stress testing model demonstrate that, across all scenarios, the Bank is well positioned from a capital perspective. Core capital ratios remain robust in all scenarios including higher growth and extreme stress. Access to funding will be impacted by market conditions and increased competition across all the Bank's key markets over the five year horizon but despite this the Bank believes there will be sufficient funding capacity under all scenarios.

The model incorporates conservative assumptions across all scenarios vis-à-vis funding costs and impairment and demonstrates that the levels of retentions and internal capital generated are sufficient to support a strong and robust capital base.

Summary: Scenarios, Results and Assumptions

Scenario	Net Lending Growth	Impairment charge	Profit Before Tax (PBT)	Tangible Common Equity / RWA
	5 year CAGR*	5 year charge	5 year CAGR*	5 year range
Base Case	10%	€1.7bn	10%	5.9% - 7.8%
Higher Growth Case	15%	€1.7bn	14%	5.9% - 7.1%
Low Growth Case	5%	€1.9bn	4%	5.9% - 8.6%
Stress Case	0%	€2.7bn	(6%)	5.9% - 8.9%
Extreme Stress Case	(5%)	€3.7bn	(19%)	5.9% - 9.0%

*CAGR – compound annual growth rate.

Base Case (*expected scenario*)

- Economic backdrop – current credit market turmoil continues well into 2009 and access to credit eases gradually from then on. However the cost of credit normalises at well above pre-crisis levels. The impact on real economies becomes very evident from late 2008 resulting in a considerable economic slowdown with economies entering a short run recession. Some improvement is seen from late 2010 onwards.
- Continued significant moderation in lending from 2007 levels as we control outflows. Conservative assumptions made regarding funding cost, impairment and other P&L lines.
- Funding – lending growth is primarily funded from customer sources and term markets.
- Capital – excess capital (> 6.5% core) of €1.6 billion generated over the period given the efficient model and lower loan growth.

Higher Growth Case

- Backdrop – similar to Base scenario except that credit markets normalise earlier in 2009 with less severe economic conditions. Higher loan growth assumptions result in higher profit growth and more significant capital and funding requirements. Conservative assumptions made regarding impairment.
- Funding – customer funding remains competitive. Conservative assumptions made regarding incremental cost of funds.

Low Growth Case

- Backdrop – similar to Base scenario except that economic and funding conditions improve at a slower rate. Lower lending growth results in the strengthening of capital ratios over the period. Conservative assumptions made regarding impairment.
- Funding – funding requirements less demanding as a result of lower lending growth but prudent assumptions retained regarding cost of funds.

Stress Case

- Backdrop – protracted period of capital markets turmoil to mid 2010 with a prolonged and deeper recessionary environment in all of the Bank's core markets out to 2012. Lending is controlled resulting in no net growth. Higher and sustained impairment accompanied by flat loan growth results in reduced profit but strengthened capital position.
- Funding – very conservative assumptions on funding costs. Maturing term funding is replaced by customer and short term sources.

Extreme Stress Case

- Backdrop – protracted period of capital markets turmoil to mid 2010 with a prolonged and deeper recessionary environment in all of the Bank’s core markets out to 2012. In addition to market stress we also assume issuer stress resulting in Anglo specific rating agency action. Very high and sustained impairment results in significantly reduced PBT but importantly the Bank remains profitable. A controlled decrease in loan balances supports capital growth.
- Funding – access to short term market funding is reduced significantly and we experience a drop in non-retail deposits. Actively managed contraction of the balance sheet compensates for this. The Bank retains the bulk of retail and SME balances through aggressive pricing. Therefore we assume punitive funding costs.
- Despite this the Bank remains profitable and core equity ratios increase.

Model Assumptions: Balance sheet – Extreme Stress Case

Year ending September 30 th	2008	2009	2010	2011	2012
	€m	€m	€m	€m	€m
Net Loan Growth	4,847	(3,540)	(3,363)	(3,195)	(3,035)
Customer Deposit Growth	502	(2,635)	(877)	0	1,490
Wholesale Funding Growth	(1,102)	(8,519)	(2,873)	(1,429)	820

Model Assumptions: P&L – Extreme Stress Case

Year ending September 30 th	2008	2009	2010	2011	2012
Net Interest/ Avg. Interest Earning Assets	1.94%	1.77%	1.85%	1.97%	1.90%
Cost to Income Ratio	19%	22%	24%	25%	25%
Taxation Charge	19%	19%	19%	19%	19%
Impairment Provision / Avg. Loans	0.17%	1.20%	1.20%	1.20%	1.20%
Cash Dividend Payout	13%	13%	13%	13%	13%

Credit Ratios	Extreme Stress Case				
	2008	2009	2010	2011	2012
Profitability (%)					
Net interest income / Avg. earning assets	1.94%	1.77%	1.85%	1.97%	1.90%
Net interest income / Revenues	101.34%	94.69%	95.94%	97.32%	98.35%
Fee income / Revenues	9.07%	8.41%	7.58%	6.34%	5.66%
Trading income / Revenues	1.59%	1.47%	1.33%	1.11%	0.99%
Non-interest income / Revenues	(1.34%)	5.31%	4.06%	2.68%	1.65%
Non-interest expense / Revenues	18.30%	20.67%	22.56%	23.51%	23.51%
Expense less Amort. / Revenues	18.30%	20.67%	22.56%	23.51%	23.51%
Net operating income before prov. / Revenues	80.70%	78.20%	76.20%	75.20%	75.20%
Net operating income after provision / Revenues	74.72%	27.92%	25.55%	27.83%	27.90%
Loan loss provision / Revenues	5.98%	50.28%	50.65%	47.37%	47.29%
Pretax profit / Revenues	74.94%	28.16%	25.81%	28.08%	28.17%
Tax / Pretax profit	19.00%	18.90%	18.87%	18.89%	18.88%
Net income / Revenues	60.64%	22.78%	20.87%	22.72%	22.79%
Pretax profit / Avg. RWA	1.66%	0.57%	0.53%	0.61%	0.61%
Net income / Avg. RWA	1.34%	0.46%	0.42%	0.49%	0.49%
Funding and Liquidity (%)					
Customer deposits / Funding base	63.87%	70.09%	72.65%	74.20%	73.88%
Total loans / Customer deposits	142.46%	132.39%	129.97%	123.98%	121.08%
Total loans / Funding base	90.99%	92.79%	94.42%	91.99%	89.45%
Total loans / Assets	78.28%	78.70%	79.32%	77.64%	76.54%
Capitalisation (%)					
Tangible common equity / Assets	5.12%	6.21%	6.83%	7.39%	7.63%
Tangible common equity / RWA	5.95%	6.75%	7.51%	8.28%	9.00%
Tangible common equity / Loans	6.55%	7.89%	8.61%	9.52%	9.97%
Internal capital generation growth	23.40%	6.48%	5.26%	5.52%	5.00%
Tier 1 capital	9.32%	10.35%	11.30%	11.85%	12.66%
Regulatory total capital ratio	11.67%	11.89%	12.93%	12.85%	12.60%
Total equity / Assets	6.83%	8.28%	9.10%	9.41%	9.60%
Total equity / RWA	7.93%	9.01%	10.01%	10.54%	11.34%
Asset Quality (%)					
New loan-loss provisions / Avg. customer loans	0.17%	1.20%	1.20%	1.20%	1.20%

Balance Sheet - Extreme Stress Case	2008	2009	2010	2011	2012
Assets					
Customer lending	70,796	67,256	63,894	60,699	57,664
Debt securities held	14,997	12,434	11,424	12,598	14,062
<i>Liquidity</i>	10,073	7,756	6,981	8,377	10,052
<i>Investment</i>	2,364	1,946	1,548	1,171	812
<i>Free Funds</i>	2,560	2,732	2,895	3,050	3,198
Interbank lending	5,808	404	1,376	1,563	4,966
Other Non Interest bearing assets	5,199	4,942	4,698	4,466	4,246
TOTAL ASSETS	96,800	85,036	81,392	79,326	80,938
Liabilities					
Customer accounts	53,188	50,553	49,676	49,676	51,166
<i>Retail</i>	21,759	21,324	21,324	21,324	21,964
<i>Corporate</i>	31,429	29,229	28,352	28,352	29,202
Wholesale funding	30,090	21,571	18,699	17,270	18,090
<i>Deposits from banks</i>	6,703	4,021	4,022	4,424	4,866
<i>Debt securities issued</i>	19,913	14,076	11,203	9,372	9,750
<i>Secured Funding</i>	3,474	3,474	3,474	3,474	3,474
Other Non Interest liabilities	3,716	3,531	3,354	3,186	3,027
Capital	9,806	9,381	9,663	9,194	8,655
<i>Balancing adjustment</i>					
TOTAL LIABILITIES	96,800	85,036	81,392	79,326	80,938
Risk Weighted Assets	83,346	78,168	74,036	70,816	68,566

Acquired Loan Assets

NAMA was established in December 2009 following the enactment of the National Asset Management Agency Act, 2009 in November of that year. Five institutions (and their subsidiaries) were designated as participating institutions by the Minister for Finance in February 2010: Allied Irish Bank, Bank of Ireland, Anglo Irish Bank, Irish Nationwide Building Society and EBS Building Society⁴.

LOAN ACQUISITION

The first loan transfers occurred in late March 2010.

Table 2 below summarises the major phases of the loan acquisition process:

TABLE 2: Phases of loan acquisition

	€bn	Date of transfer
Tranche 1	15.3	March – May 2010
Tranche 2	11.9	June – August 2010
Bulk transfer*	44.0	October – December 2010
Transfers in 2011	2.8	March and October 2011
TOTAL	74.0	

*At the request of the Minister for Finance, the transfer of the third and later loan tranches was accelerated as part of a bulk transfer in the last quarter of 2010.

96% of the portfolio (€71.2 billion) was acquired within a nine-month period between March and December 2010.

Transfers in 2011 took place in two phases: a transfer of €1.1 billion in March (loans which were deemed eligible by AIB in late 2010) and a transfer of €1.7 billion in October. After the Supreme Court judgements in the **Dellway** case, NAMA instituted a process of consultation in June 2011 with debtors whose loans had not, at that stage, yet been acquired. Debtors were invited to make written representations to NAMA in respect of the possible acquisition of their loans and, in particular, as to any adverse effect such acquisition was likely to have on their interests. Debtors were also provided with an opportunity to make representations as to the eligibility of the loans by reference to the criteria for eligibility set out in the Act and in the Regulations.

Following a review of submissions received from debtors, the NAMA Board exercised its discretion, under Section 84 of the Act, to acquire loans totalling €1.7 billion and this acquisition was completed in October 2011. In the

⁴ The business of Irish Nationwide Building Society transferred to Anglo Irish Bank on 1 July 2011 and the merged entity now trades as Irish Bank Resolution Corporation Ltd. (IBRC). EBS Building Society was acquired by Allied Irish Banks plc. on 1 July 2011 and now operates as a subsidiary of AIB.

case of another €400m, the Board exercised its discretion not to acquire the loans concerned. Loans totalling €260m were deemed to be ineligible following a review of additional information received in debtor representations.

ACQUISITIONS BY INSTITUTION

Table 3 below summarises the transfers by institution:

TABLE 3: Loan acquisitions by institution (€ billion)

	AIB	ANGLO	BOI	EBS	INBS	TOTAL
Loan balances transferred	20.4	34.1	9.9	0.9	8.7	74.0
Consideration paid	9.0	13.4	5.6	0.4	3.4	31.8
Discount	56%	61%	43%	57%	61%	57%

Table 4 below provides a breakdown of debtor connections⁵ by size of nominal debt acquired by NAMA (many of the debtors are also indebted to non-NAMA financial institutions).

TABLE 4: Distribution of NAMA debtor connections by size of nominal debt

Nominal Debt	Number of debtor connections	Average nominal debt per connection €m	Total nominal debt in this category €m
In excess of €2,000m	3	2,758	8,275
Between €1,000m and €2,000m	9	1,549	13,945
Between €500m and €999.9m	17	674	11,454
Between €250m and €499.9m	34	347	11,796
Between €100m and €249.9m	82	152	12,496
Between €50m and €99.9m	99	68	6,752
Between €20m and €49.9m	226	32	7,180
Less than €20m	302	7	2,117
TOTAL	772	96	74,015

⁵ Debtor connections may consist of one debtor or a number of closely-connected debtors whose aggregate debt is considered by NAMA to be best managed as one cohesive connection rather than managed through separate debtor entities.

holdings, reduced investment cash flows and asset values, much reduced borrower net worth and the increased time envisaged to sell assets and realise investments.

IFRS requires that where there is objective evidence of impairment at the period end an analysis of the present value of all the expected cash flows associated with the loan is undertaken to assess whether the loan is impaired. As a result of this, loans in respect of investment property assets originally purchased at low yields during the years 2005-2007, which may, in the current low interest rate environment, be fully servicing interest but on a discounted cash flow basis show an inability to fully repay the loan principal, are deemed to be impaired.

During the 15 months to 31 December 2009 the value of property held as security for investment property loans has fallen significantly and the value of the security in a large number of cases is no longer sufficient to fully secure the loan in the event of default. This does not impact loans that continue to perform in accordance with facility terms and where there are no indicators of impairment. However, the loss rate on non-performing loans has increased very substantially as a result.

The significant fall in values across the majority of asset classes, and most especially property over the last 18 months has eroded clients' net worth and as a result recourse previously available under personal guarantees and through cross collateralisation is now of very limited value in protecting the Bank's interests.

Income statement – specific lending impairment - €m

	Held for sale	Loans and advances to customers	Total
Ireland	8,164	2,651	10,815
UK	1,537	711	2,248
US	459	339	798
Total	10,160	3,701	13,861
% of closing loan balances	28.5%	10.1%	19.2%

The specific lending impairment charge for the 15 months to 31 December 2009 totals €13.9 billion (6 months to 31 March €3.7 billion, 9 months to 31 December 2009 €10.2 billion). Of this charge €10.2 billion (73%) relates to held for sale assets expected to transfer to NAMA with the

balance of €3.7 billion attributable to the expected post NAMA portfolio. Impairment charges at 31 March 2009 reflected losses incurred up to that point, based on the expected cash flows at that date on the underlying loans, in accordance with accounting standards. The economic and property market deterioration between March and December 2009 resulted in a further significant reduction in asset values and borrowers' net worth. Property markets have continued to be highly stressed with very limited activity and uncertain pricing levels, particularly in Ireland which experienced a fall of approximately 20% in property values in that period.

Losses relating to land and development loans amount to €5.9 billion (42%) of the total specific charge of €13.9 billion. This charge covers loans related to all phases of development from unzoned land to completed units available for sale. 75% of the land and development charge relates to the Irish lending division and reflects the very substantial declines in land values, in some cases up to 90%, the uncertainty regarding the timing and availability of funding to complete partially completed developments and the significant overhang of supply in both the commercial and residential markets.

A further €5.4 billion relates to property investment assets with 56% of this attributable to the leisure and retail sectors. Operating conditions for businesses in these sectors have been particularly hard hit by the decline in retail sales and the increase in unemployment across Ireland, the UK and the US. Ireland, which has experienced a fall in retail sales of approximately 20% and rapid rise in unemployment to 12.5% over the last 12 months, was the worst affected and accounted for €3.9 billion of the €5.4 billion charge. The remaining specific charge of €2.6 billion is attributable to business banking, personal and other lending of which 96% relates to Ireland.

On an overall geographic basis €10.8 billion of the specific impairment charge relates to Ireland with €2.3 billion and €0.8 billion to the UK and US respectively.

Ireland

Losses in Ireland, which represent 78% of the total charge in the 15 months, include €4.4 billion related to development lending, €3.9 billion related to investment lending and €2.5 billion related to business banking and other lending. Included in this charge is an amount of €0.4 billion in relation to losses incurred in respect of lending where the security consisted solely of shares in the Bank. In addition the charge includes €0.1 billion of losses relating to the former Chairman

quired was just interest that had been rolling up?

Mr. Brendan McDonagh: Yes. In the land and development loans, of the €74 billion loans that we acquired, we believe about €40 billion of the €74 billion was land and development loans that we ultimately acquired.

Deputy Michael McGrath: Okay. And the €9 billion-----

Mr. Brendan McDonagh: Almost in all those loans, all those loans were just on interest roll up.

Deputy Michael McGrath: And did the €9 billion largely relate to that €40 billion of land and development loans?

Mr. Brendan McDonagh: Well, I mean, if you think about it in very simple terms, Deputy, then you'd probably say, you know, if you're accruing at 5% per annum on €40 billion, that's about €2 billion per annum. Assuming that these loans might have originated in 2005, 2006, you had on average two or three, two or three-----

Deputy Michael McGrath: What interest rate typically would have applied to loans like that and what would determine-----

Mr. Brendan McDonagh: Well, typically on those loans, the interest rate should be risk adjusted in the first place, to deal with that, because it's risky lending.

Deputy Michael McGrath: Sure.

Mr. Brendan McDonagh: But, because of the nature of competition there was in the market and the relationship model, then the margin applying to those loans was actually much lower than what probably the risk merited, so, you know, it wasn't unusual to see those loans priced, you know, three month EURIBOR, whatever the three month EURIBOR rate was, at sometimes at 1.5%, 1.75% margin, which is quite low for that type of lending. That type of lending is probably okay for an income producing asset.

Deputy Michael McGrath: Yes, okay. Can I move on to the issue of the enforceability of security because issues arose around that and were identified during the legal review and it made it necessary to impose legal discounts of €477 million, which is broken down on table 3, Vol. 2, page 5 of the book that we have. Can you give us an indication of the type of issues that would have arisen which necessitated writing down the value, as such, by almost a €0.5 billion because of unenforceability of security?

Mr. Brendan McDonagh: Yes, I mean typically the issues were where the bank solicitors hadn't taken correct security and, I mean, the banks warranted to us, when they submitted to us that they had first charges over the assets and, when you go to examine those first charges, you'll probably find a defect in that; or else, you know, the title deeds were missing, they couldn't produce the title deeds and, you know, they're typically the most common type of features that effectively ... that you can't enforce on the security, that there's some defect in the security, so I don't think it was unusual in terms of the banks which were covered by NAMA. I think other banks, who were not in NAMA, found the same sort of types of issues.

Deputy Michael McGrath: Okay. And then subsequently, when you did acquire the loans, further issues emerged when you went into more detail assessing each loan and a total of €334 million of overpayments were identified that you had to get back from the banks.

McDonagh, you present us with a table on page ten of your introduction showing €34 billion was lent to 29 individual borrowers. You said 12 individuals of these accounted for €22.2 billion, including three total loans greater than €2 billion, nine total loans between €1 billion and €2 billion. Then on page 11 you said lending on this scale suggests that banks considered property lending a one-way bet. Could I put it to you, if what you have said this morning and what Mr. Daly said this morning ... and these figures, do they or not amount to a damning indictment of what the banks were doing during the bubble period?

Mr. Brendan McDonagh: I think it is a highly unusually level of lending to a small group of individuals. I have often asked myself how did nobody pick up on this? How did a regulator not pick up on this? Because while the banks might be justified that they were lending what they thought to be ... what they thought were good borrowers and good projects, it does not seem to me that anybody looked and said listen, are these same names turning up in institution A,B, C, D, E and F. And I think when you ... if you looked at it which we did when we got the data together and we got through ... and it was very quickly obvious that this level and concentration of lending was done, I don't think you'll find that level of lending anywhere.

Deputy Joe Higgins: Would you say it amounts to recklessness or not on behalf of the banks? In pursuit of this ... there was no mystery of what the banks were after, I assume it was maximisation of profit.

Mr. Brendan McDonagh: Yes, and they are obliged to maximise in terms of their shareholders and that's what their shareholders expect them to do. But I don't think any of their shareholders, whether they be the individual that has a few shares in the bank or an institutional shareholder who as a pension fund might have a large percentage sharehold in the bank, was in any way aware that the concentration of lending was like this. I just think that is highly unusual.

Deputy Joe Higgins: I won't press you much further on it Mr. McDonagh, I mean what was suggested earlier essentially is that somebody comes in to a bank and says "I have a field north of Mullingar that I want to buy for so many tens of millions", and then by the time it arrives on your desk, it is worth 10% of what the banks lent without any due diligence whatsoever. What would you call that? Could you put a name on it?

Mr. Brendan McDonagh: I think that others have called it ... it was highly speculative lending. It was highly speculative borrowing by the borrower and highly speculative lending by the lender, but the lender took all the risk.

Deputy Joe Higgins: Ok. I'll move on briefly now. Deputy McGrath dealt with the €9 billion in rolled-up interest. I won't ask you to repeat that, but just to comment on the distribution by the individual institutions of that €9 billion in terms of the ... in terms of the actual interest charged to individual institutions. Could you do that briefly please?

Mr. Brendan McDonagh: I should add that that €9 billion was based on data which was given to the banks before NAMA came into existence, so it was based on information we got back in the summer of 2009. We estimated that that €9 billion was broken down as follows; AIB about just over €3 billion, Anglo Irish Bank €3 billion, Bank of Ireland €1.8 billion, INBS €1 billion and EBS €0.1 billion.

Deputy Joe Higgins: Thank you. If I might move on then to an issue that has also been dealt with in the sense of the type of security, or not security, that was given by borrowers, that the banks did or did not demand. That has been dealt with quite comprehensively but can I just



THEME: B3

Effectiveness of banks' funding, liquidity strategies and risk management

LINE OF INQUIRY: B3B

Analysis of liquidity risks under adverse scenarios



Stress Testing & Scenario Analysis Funding Liquidity Risk

Approved by:	Group ALCO (Dec 07), ALCO Liquidity Committee (Dec 07) Risk and Compliance Committee (Set for 30 Jan 2008)
Maintained by:	Steven Hiles, Group Risk
Next Review:	November 2008.

Key Sections of the Stress Testing & Scenario Analysis Policy

1. [Introduction & Purpose](#)
 2. [Stress Testing Framework & Timetable](#)
 3. [Summary of Stress Tests & Scenario Analysis](#)
 4. [Detailed Underlying Assumptions](#)
 5. [Stress Testing Limits](#)
 6. [Risk Mitigants](#)
-

Introduction & Purpose

Stress testing and Scenario analysis forms an important component of how the Bank measures and manages liquidity risk. It provides the Bank with an additional means of risk assessment which could highlight underlying risks which are sometimes difficult to identify using more conventional risk control metrics.

This paper details the Stress tests and Scenario analysis which are conducted, the rationale for the tests and importantly the assumptions for the main cashflows for each scenario.

The testing is conducted by Group Risk on a monthly basis and the results reviewed by Liquidity Risk and Group Trading and Liquidity Management. The results are then presented to ALCO Liquidity Committee on a quarterly basis and then formally to Group ALCO.

Stressed Risk Limits have also been set and must be maintained at all times.

If action is required a recommendation is submitted to Group ALCO which can occur as part of the scheduled quarterly review or after the monthly review by Group Risk and GTLM if deemed necessary. A list of risk mitigants is included in this paper which provides potential corrective actions in order to reduce the stressed liquidity risk

The Board through the Risk and Compliance Committee will review the results annually but this could be more frequently if deemed appropriate.

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Stress Testing Framework & Timetable

Monthly	Group Risk produces stress test results.
Monthly	Group Risk & GTLM review results to ensure that they are within Stress Risk Limits set by ALCO.
Quarterly	Group Risk / GTLM present formal report to ALCO Liquidity sub committee for review and discussion.
Quarterly	Stress test results are submitted to Group ALCO for review.
Annually	Annual Review of Stress testing conducted incorporating ongoing validity of underlying assumptions, any new stresses / scenarios to be incorporated. This review will be presented to Group ALCO and Risk and Compliance Committee.

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Summary of Stress Tests and Scenario Analysis currently produced

Name of Stress / Scenario	Bank / Market Specific	Impact Timescale	Severity	Probability
Stress Neutral Position	N/A	N/A	Neutral	Most Likely
Current Regulatory Requirement	Bank / Market	Short Term	Severe	Low (2% - 3%)
Two Notch Downgrade *	Bank	Short Term	Very Severe	Very Low (< 1%)
Wholesale Market Disruption	Market	Short / Medium Term	Moderate	Low (2% - 3%)
Market Risk Stress	Market	Short Term	Severe	Low (2% - 3%)
Asset Growth Stress	Bank	Medium Term	Moderate	Moderate (3% - 5%)
Irish Market Specific	Irish Market	Short / Medium Term	Moderate	Low (2% - 3%)

- *Please note the Two Notch downgrade stress test assesses our ability to withstand a stress **equivalent** to a two notch downgrading. It is important that this does **NOT** actually mean the Bank would be downgraded before the liquidity stress would impact, as a ratings downgrade would be a lagging indicator of such an event.*

The stress tests and scenario analysis represent what the Bank view as most applicable to the current liquidity and macro economic operating environment. The stresses and their underlying assumptions are reviewed regularly.

In addition to the above, a stress neutral test is conducted which calculates liquidity cashflows at different time periods based on only contractual cashflows occurring. This is used for comparative and information purposes only.

For each of the above stresses / scenarios the net forward projected cashflow funding requirement is calculated and measured against the surplus liquidity available under that stress / scenario. This net position is reviewed over time and will represent the stressed liquidity risk exposure within the Bank.

The net cashflow funding requirement is based on two stresses being applied:

- Stress Factors which stress likelihood of contractual maturities being refinanced.
- Growth Stress Factors which are applied to the expected growth volumes in a business as usual environment.

A list of liquidity risk mitigants has also been included which are potential actions that the Bank could take in order to reduce the stressed risk under each of the above stresses / scenarios.

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Stress Test 0 - Base Case Scenario – Stress Neutral Position

Summary Overview

This scenario is assumed to be the stress neutral position where normal levels of retention and expected growth volumes are experienced.

This is used for comparative purposes and assesses the liquidity position of the Bank when contractual flows occur and future growth is in line with plan.

- It assumes that all interbank and wholesale contractual cashflows occur and can be rolled over in the market with incremental growth as per expected.
- It assumes that all Interbank placings are returned to the Bank and that Interbank Deposit maturities occur and are refinanced in the market so that the funding profile remains constant.
- All corporate and retail deposits remain within the bank with no outflows and the portfolios grow at the normal expected level.
- Loan growth is projected as most likely expected net growth.
- Assets and Liquid assets remain unchanged.
- No other significant cashflows occur, unless high degree of probability of certainty.
- The stress neutral position is the Bank operating in business as usual and the liquidity position is assessed at the future time periods.

Stress Factors

Stress Neutral Position	8 Day	30 Day	3 Months	6 Months	1 Year
Interbank Market	100%	100%	100%	100%	100%
Debt Capital Markets	100%	100%	100%	100%	100%
Corporate Deposits	100%	100%	100%	100%	100%
Retail Deposits	100%	100%	100%	100%	100%
Liquid Assets	96%				

- For example of retention ratio of 100% implies all the funds are retained within the Bank upon maturity.
- Liquid Assets – A weighted average haircut of 4% is applied, this is based on applying ECB haircuts to the assets which meet the strict regulatory 4 day liquidity criteria.

Growth Factors

Stress Neutral Position	8 Day	30 Day	3 Months	6 Months	1 Year
Interbank Market Growth	100%	100%	100%	100%	100%
Debt Capital Markets Growth	100%	100%	100%	100%	100%
Corporate Deposit Growth	100%	100%	100%	100%	100%
Retail Deposit Growth	100%	100%	100%	100%	100%
Loan Growth	100%	100%	100%	100%	100%

- For example a growth ratio of 100% would imply growth levels would be at normal levels as per the funding plan.

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Stress Test 1 - Current Regulatory Liquidity Requirements

Summary Overview

The current regulatory requirement which the Bank complies with has built in stress factors for certain cashflows as detailed below. This stress scenario should mirror the regulatory report and allow comparisons to severity of other stressed scenarios against the current regulatory minimum.

Summary of Key Assumptions

Interbank Deposits

0% is assumed to be retained upon maturity and no new Interbank funding is incorporated.

Wholesale Funding

No wholesale funding is assumed to be retained.

Corporate Deposits

Corporate Deposits are behaviourally analysed and then an additional 15% haircut is applied. No incremental growth can be factored in.

Retail Deposits

Retail Deposits without a contractual maturity are behaviourally analysed with no haircut, fixed term retail deposits are behaviourally analysed and an additional 10% haircut is applied. No additional growth can be factored in for this category.

Liquid Assets

Strict criteria exist for liquid assets as funds must be receivable through sale or repo within 4 days. All other assets which do not meet the liquidity qualification are set to contractual maturity. A weighted average haircut of 4% is applied.

Growth Assumptions

Interbank Deposits

No growth in interbank funding factored in.

Wholesale Funding

No growth in wholesale funding factored in.

Corporate & Retail Deposits

No growth in corporate or retail deposits factored in.

Asset Growth

Assumed asset growth would be at planned levels.

Stress Factors

Regulatory Liquidity Req.	8 Day	30 Day	3 Months	6 Months	1 Year
Interbank Market	0%	0%	0%	0%	0%
Debt Capital Markets	0%	0%	0%	0%	0%
Corporate Deposits	73%	73%	73%	73%	73%
Retail Deposits	88%	88%	88%	88%	88%
Liquid Assets	96%				

- For example a retention ratio of 100% implies all the funds are retained within the Bank upon maturity.
- Retail Deposits with a contractual maturity are behaviourally analysed and an additional 10% regulatory haircut is applied to the deposit assumed to be retained.
- Retail Deposits with no contractual maturity are behaviourally analysed and no haircut is applied.
- Retail Deposits with a contractual maturity that are greater than €1.5 million are treated as Corporate Deposits in accordance with the Financial Regulator's requirements.
- Liquid Assets – A weighted average haircut of 4% is applied, this is based on applying ECB haircuts to the assets which meet the strict regulatory 4 day liquidity criteria.

Growth Factors

Regulatory Liquidity Req.	8 Day	30 Day	3 Months	6 Months	1 Year
Interbank Market Growth	0%	0%	0%	0%	0%
Debt Capital Markets Growth	0%	0%	0%	0%	0%
Corporate Deposit Growth	0%	0%	0%	0%	0%
Retail Deposit Growth	0%	0%	0%	0%	0%
Loan Growth	100%	100%	100%	100%	100%

- For example a growth ratio of 100% would imply growth levels would be at normal levels as per the funding plan.

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Stress Test 2 - Two Notch Downgrade

Summary Overview

This is an important Bank specific stress test which attempts to simulate the liquidity impact of an event which is equivalent to the severity of a two notch downgrade. This covers many of the key factors which would be impacted and is viewed as a serious stress level but with a very low probability. The impact would be instantaneous and take some time for funding channels to begin to show signs of recovery.

It is important to note this stress test does not require an actual two notch downgrade but instead factors in a stress equivalent to the magnitude of such a downgrade. It is recognised that such a downgrade would be a lagging indicator of a liquidity problem.

Summary of Key Assumptions

Interbank Deposits

Immediately there would be no interbank funding available and 0% is retained for first 30 days, this will increase to 25% of the market being made available after 3 months and 50% available after 6 months.

Wholesale Funding

Wholesale funding programmes are expected to be seriously dislocated for Anglo, however, it would be expected that after 3 months 25% of the CP market will become active increasing to 50% after 6 months.

Corporate Deposits

It is assumed that the Bank will have significant Corporate Deposit attrition in the first 30 days where it is assumed only 50% will be retained upon rollover after the event and no new corporate funds are factored in. As such on day 30 it is likely that a significant amount of the corporate deposit franchise would have left the Bank.

Retail Deposits

This is assumed to be the least volatile sources of funding with a lower probability of funds leaving in a period of stress. An increased level of expected retail withdrawal has been factored; it is assumed that notice periods would be strictly adhered to in time of stress.

Liquid Assets

Strict regulatory criteria exists for liquid assets as funds must be receivable through sale or repo within 4 days. All other assets which do not meet the liquidity qualification are set to contractual maturity. A weighted average haircut of 4% is applied, this is based on official ECB haircuts on each asset.

Growth Assumptions

Interbank Deposits

No incremental growth in interbank funding is expected, and only the above low levels of retention is experienced.

Wholesale Funding

Wholesale funding programmes are expected to be seriously dislocated for Anglo, however, it would be expected that after 6 months access to the USCP market would be open.

Corporate Deposits

No incremental growth is expected in the first 30 days, increasing to 50% until 6 months where it increases again to 100%. When this is combined with stress factors a significant outflow in corporate deposits is apparent at the outset.

Retail Deposits

Retail deposit growth will be impacted in the short term by an event equivalent to a two notch downgrade that there would be reduced retail funding growth out to one month before slowly starting to gather pace again as confidence is restored to the Bank.

Asset Growth

It is assumed that net asset growth continues but at a lower rate with only 50% of loan growth volumes. The Bank would be in a position to control this asset growth depending on stress within funding volumes and if required could scale back net lending.

Stress Factors

Two Notch Downgrade	8 Day	30 Day	3 Months	6 Months	1 Year
Interbank Market	0%	0%	25%	50%	50%
Debt Capital Markets	0%	0%	25%	50%	50%
Corporate Deposits	50%	50%	50%	50%	50%
Retail Deposits	90%	90%	90%	90%	90%
Liquid Assets	96%				

- For example of retention ratio of 100% implies all the funds are retained within the Bank upon maturity.
- Liquid Assets – A weighted average haircut of 4% is applied, this is based on applying ECB haircuts to the assets which meet the strict regulatory 4 day liquidity criteria.

Growth Factors

Two Notch Downgrade	8 Day	30 Day	3 Months	6 Months	1 Year
Interbank Market Growth	0%	0%	0%	0%	0%
Debt Capital Markets Growth	0%	0%	0%	0%	7%
Corporate Deposit Growth	0%	0%	50%	100%	100%
Retail Deposit Growth	50%	50%	100%	100%	100%
Loan Growth	50%	50%	50%	100%	100%

- For example a growth ratio of 100% would imply growth levels would be at normal levels as per the funding plan.

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Stress Test 3 - Wholesale Market Disruption

Summary Overview

This market specific scenario deals with a possible disruption to the wholesale markets in which the Bank operates. Such an event would be viewed as rare. However, it would be important as wholesale funding not only provides funding for the bank in the short term markets but also such a market disruption would trigger back stop facilities which the Bank have in CP programmes. The Bank would be required to provide funding each day to cover the Wholesale Paper which would not roll increasing the level of funding as the disruption continues.

Summary of Key Assumptions

Interbank Deposits

This would be significantly impacted and interbank unsecured lending would be dislocated with only 50% of rollovers being retained.

Wholesale Funding

All maturing wholesale paper issued would not be rolled; it is assumed that there would be a knock on with the MTN market also not operational.

Corporate Deposits

There would be no impact for normal vanilla corporate deposits.

Retail Deposits

This is assumed to be the least volatile sources of funding with a lower probability of funds leaving in a period of stress. An increased level of expected retail withdrawal has been factored; it is assumed that notice periods would be strictly adhered to in time of stress.

Liquid Assets

Strict criteria exist for liquid assets as funds must be receivable through sale or repo within 4 days. All other assets which do not meet the liquidity qualification are set to contractual maturity. In this scenario a reduction of 10% in market values is applied and also an additional weighted average haircut of 4% in line with official ECB haircuts.

Growth Assumptions

Interbank Deposits

No growth in Interbank funding is expected.

Wholesale Funding

Wholesale funding programmes are expected to be seriously dislocated for immediate future with no sign of returning to normality.

Corporate Deposits

It is assumed that whilst such an event will lead to uncertainty in the financial markets combined with increased competitive pressures from other banks for corporate funding that growth levels will continue.

Retail Deposits

Retail deposit growth will be little impacted by such a scenario however; increased competitive pressures would be evident and impact slightly upon normal growth levels for the short term.

Asset Growth

It is assumed that net asset growth continues at normal expected levels in the first few months and is then reduced slightly. The Bank would be in a position to control this asset growth depending on stress within funding volumes and if required net lending could be scaled back.

Stress Factors

Wholesale Market Disruption	8 Day	30 Day	3 Months	6 Months	1 Year
Interbank Market	50%	50%	50%	50%	50%
Debt Capital Markets	0%	0%	0%	0%	0%
Corporate Deposits	100%	100%	100%	100%	100%
Retail Deposits	98%	98%	98%	98%	98%
Liquid Assets	86%				

- For example of retention ratio of 100% implies all the funds are retained within the Bank upon maturity.
- Liquid Assets – A weighted average haircut of 4% is applied, this is based on applying ECB haircuts to the assets which meet the strict regulatory 4 day liquidity criteria. An additional 10% haircut has been applied to reflect the expected lower asset values.

Growth Factors

Wholesale Market Disruption	8 Day	30 Day	3 Months	6 Months	1 Year
Interbank Market Growth	0%	0%	0%	0%	0%
Debt Capital Markets Growth	0%	0%	0%	0%	7%
Corporate Deposit Growth	100%	100%	100%	100%	100%
Retail Deposit Growth	100%	100%	100%	100%	100%
Loan Growth	100%	100%	50%	50%	50%

- For example a growth ratio of 100% would imply growth levels would be at normal levels as per the funding plan.

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Stress Test 4 - Market Risk Stress

Summary Overview

This market risk stress scenario involves taking the risks which the Bank is exposed to and applying significant adverse market risk movements in order to assess the magnitude of increased funding requirements.

Summary of Key Assumptions

Interbank Deposits

There would be a serious impact on Interbank lending due to increased market risk volatility which would lead to a reduction in Interbank flows.

Wholesale Funding

There would be an impact in Wholesale Paper funding due to increased market risk volatility would lead to a serious reduction in flows, however, it is expected funding would still be available albeit at shorted durations.

Corporate Deposits

There would be little or no impact for normal vanilla corporate deposits.

Retail Deposits

This is assumed to be the least volatile sources of funding with a lower probability of funds leaving in a period of stress. An increased level of expected retail withdrawal has been factored; it is assumed that notice periods would be strictly adhered to in time of stress.

Asset Growth

Net asset growth would continue as normal.

Liquid Assets

In the event of a serious market risk stress it would be expected that the market risk movements would impact upon the market value of our liquidity portfolio. A significant decrease in the market value of our liquid asset portfolio factored in, reflecting the decrease in asset providers and the tendency for normally liquid assets to cease to be so. A weighted average haircut of 4% is also applied.

The main Market Risk variables which are stressed are:

- Foreign Exchange Rates: Core risk currency exchange rates plus or minus 20% (versus EUR).
- Interest Rates (Euro / GBP Sterling / US Dollar): Parallel shift of plus or minus 200 basis points in all currencies in which the Bank has interest rate exposure and the yield curve steepening / flattening.
- Interest Rate / FX Option Volatilities: Eg - Cap or Floor volatility surface plus 10% (parallel) / Cap or Floor volatility surface skew steepening or flattening (low – high strikes) and swaption volatility surface plus 10% (parallel).
- A fall in bond prices impacting on Asset Liquidity Levels: Bond prices reduced by 20%.

Growth Assumptions

Interbank Deposits

No growth in interbank funding is expected.

Wholesale Funding

It is expected that the US Commercial Paper market will remain open albeit at reduced levels with the Euro and French CP markets closed out to 30 days. After which the US CP market will return to normal levels with the Euro and French CP markets opening at reduced levels returning to normal at 6 months. Assumptions are based on actual market experience of banks during similar stress periods.

Corporate Deposits

It is assumed that whilst such an event will lead to uncertainty in the financial markets, corporate deposits would be little impacted.

Retail Deposits

Retail deposit growth will be little impacted by such a scenario.

Asset Growth

It is assumed that net asset growth will continue at normal expected levels for the first few months. The Bank would be in a position to control this asset growth depending on stress within funding volumes and if required could scale back net lending.

Stress Factors

Market Risk Stress	8 Day	30 Day	3 Months	6 Months	1 Year
Interbank Market	50%	50%	50%	50%	50%
Debt Capital Markets	50%	50%	50%	50%	50%
Corporate Deposits	0%	0%	0%	0%	0%
Retail Deposits	98%	98%	98%	98%	98%
Liquid Assets	76%				

- For example a growth ratio of 100% would imply growth levels would be at normal levels as per the funding plan.
- Liquid Assets – A weighted average haircut of 4% is applied, this is based on applying ECB haircuts to the assets which meet the strict regulatory 4 day liquidity criteria. An additional 20% haircut has been applied to reflect the expected lower asset values.

Growth Factors

Market Risk Stress	8 Day	30 Day	3 Months	6 Months	1 Year
Interbank Market Growth	0%	0%	0%	0%	0%
Debt Capital Markets Growth	7%	7%	57%	57%	100%
Corporate Deposit Growth	100%	100%	100%	100%	100%
Retail Deposit Growth	100%	100%	100%	100%	100%
Loan Growth	100%	100%	100%	100%	100%

- For example a growth ratio of 100% would imply growth levels would be at normal levels as per the funding plan.
- Debt Capital market Growth is assumed to be 50% of the Banks US Commercial Paper exposure for the first month. After which is assumed to be 100% of the Banks exposure to the US CP market plus 50% of the Banks exposure to the French and Euro CP market.

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Stress Test 5 - Very Strong Asset Growth

Summary Overview

This is a bank specific stress test which projects much stronger than expected net asset growth and assesses its impact on the net funding requirement.

It is assumed that the Bank has limited scope to adjust their retail and corporate funding growth rates in the short term though they would be able to adjust after a lagged time period.

Summary of Key Assumptions

Interbank Deposits Unchanged, all rollovers would be retained within the Bank.

Wholesale Funding Unchanged, all rollovers would be retained within the Bank.

Corporate Deposits Unchanged, all rollovers would be retained within the Bank.

Retail Deposits Unchanged, all rollovers would be retained within the Bank.

Liquid Assets Strict criteria exist for liquid assets as funds must be receivable through sale or repo within 4 days. All other assets which do not meet the liquidity qualification are set to contractual maturity. A weighted average haircut of 4% is applied.

Growth Assumptions

Interbank Deposits

Continue at normal expected growth rates.

Wholesale Funding

Continue at normal expected growth rates.

Corporate Deposits

Continue at normal expected growth rates for first month, however, volumes from Corporate funding would be increased to cater for additional asset growth.

Retail Deposits

Continue at normal expected growth rates for first month and then increased volumes would be forecast into the numbers to keep funding profile in line with asset growth being funded through predominantly customer sources.

Asset Growth

Asset growth would be twice the forecast growth levels for the first month, then continue to be 150% out to 3 months before the rate of growth reduces down to 125% for the remainder of the year. This projects asset growth to be 36% higher than start of year forecasted growth levels.

Stress Factors

Very Strong Asset Growth	8 Day	30 Day	3 Months	6 Months	1 Year
Interbank Market	100%	100%	100%	100%	100%
Debt Capital Markets	100%	100%	100%	100%	100%
Corporate Deposits	100%	100%	100%	100%	100%
Retail Deposits	98%	98%	98%	98%	98%
Liquid Assets	96%				

- For example of retention ratio of 100% implies all the funds are retained within the Bank upon maturity.
- Liquid Assets – A weighted average haircut of 4% is applied, this is based on applying ECB haircuts to the assets which meet the strict regulatory 4 day liquidity criteria.

Growth Factors

Very Strong Asset Growth	8 Day	30 Day	3 Months	6 Months	1 Year
Interbank Market Growth	100%	100%	100%	100%	100%
Debt Capital Markets Growth	100%	100%	100%	100%	100%
Corporate Deposit Growth	100%	100%	125%	125%	125%
Retail Deposit Growth	100%	100%	125%	150%	150%
Loan Growth	200%	200%	150%	125%	125%

- For example a growth ratio of 100% would imply growth levels would be at normal levels as per the funding plan.

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Stress Test 6 - Irish Specific Market Scenario

Summary Overview

This market specific stress is based on a potential loss of external confidence in the Irish banking sector. A marked reduction in wholesale funding available would be apparent and a fall off in retail and corporate deposits in overseas offices. It is assumed that Irish deposit investors would be much less likely to move funds overseas away from the Banking sector.

It is likely that this would lead to a slow down in commercial lending as a result of an economic slowdown but this would not be immediate.

The impact of this stress would be more medium term although it could be triggered suddenly should negative information be released into the public domain.

Summary of Key Assumptions

Interbank Deposits

0% is assumed to be retained upon maturity and no new Interbank funding is incorporated due to a loss of confidence in the Irish Banking Sector.

Wholesale Funding

Only 25% of existing CP programme maturities would be retained.

Corporate Deposits

It is assumed that the Bank will have significant Corporate Deposit attrition from foreign corporate depositors but Irish corporates would be little changed. Overall weighted retention ratios across the group have been set at 85%.

Retail Deposits

This is assumed to be the least volatile sources of funding with a lower probability of funds leaving in a period of stress. A small level of withdrawal has been factored in for overseas retail franchises.

Liquid Assets

Strict criteria exist for liquid assets as funds must be receivable through sale or repo within 4 days. All other assets which do not meet the liquidity qualification are set to contractual maturity. A weighted average haircut of 4% is applied.

Growth Assumptions

Interbank Deposits

There would be a serious disruption to in interbank funding for Irish banks who would only be able retain 25% of maturing funding on international financial markets.

Wholesale Funding

Wholesale funding programmes would be impacted out to 3 months and then USCP growth would be expected at 50% of normal levels and all CP growth would have resumed by 6 months.

Corporate Deposits

It is assumed that current Irish corporate deposits will be little affected with growth at 50% of normal levels returning to 100% at 30 days. Non Irish Corporate deposits are severely affected in the short term with no growth assumed out to 30 days increasing to 50% of normal growth out to three months and returning to normal levels thereafter.

Retail Deposits

Retail deposit growth will also experience differentiated growth levels based on geographical location with UK and Europe being the most impacted.

Asset Growth

It is assumed that net asset growth continues at normal expected levels in the first few months. The Bank would be in a position to control this asset growth depending on stress within funding volumes and if required could scale back net lending.

Stress Factors

Irish Specific Market Scenario	8 Day	30 Day	3 Months	6 Months	1 Year
Interbank Market	25%	25%	25%	25%	25%
Debt Capital Markets	25%	25%	25%	25%	25%
Corporate Deposits	85%	85%	85%	85%	85%
Retail Deposits	95%	95%	95%	95%	95%
Liquid Assets	96%				

- For example of retention ratio of 100% implies all the funds are retained within the Bank upon maturity.
- Liquid Assets – A weighted average haircut of 4% is applied, this is based on applying ECB haircuts to the assets which meet the strict regulatory 4 day liquidity criteria.

Growth Factors

Irish Specific Market Scenario	8 Day	30 Day	3 Months	6 Months	1 Year
Interbank Market Growth	0%	0%	0%	0%	0%
Debt Capital Markets Growth	7%	7%	57%	57%	100%
Corporate Deposit Growth	12%	12%	62%	100%	100%
Retail Deposit Growth	50%	50%	50%	100%	100%
Loan Growth	100%	100%	100%	100%	100%

- For example a growth ratio of 100% would imply growth levels would be at normal levels as per the funding plan.

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Stressed Risk Limits

Stressed Risk Limits have been set for each of the stress tests and scenario analysis which are performed on a monthly basis. The limits are based on the Bank's liquidity position at the 30 day time period where the net liquidity position is calculated and then compared relative to the stressed risk limit.

The limits have been calculated as a minimum percentage of the stress neutral position and then this is converted into a nominal position for ease of comparison. The purpose of setting the limit referenced to the stress neutral position is to allow accurate comparison over time as to the liquidity exposure to the various stressed factor under each scenario. This will remove the anomaly that the overall liquidity position may deteriorate; however, our exposure to a particular stress test could have actually improved over the period.

The stressed limit is displayed as a percentage of the stress neutral position and also as an absolute nominal position and this is also shown for the previous three month ends to allow ease of comparison over time.

The stressed risk limits are reviewed annually by ALCO Liquidity sub committee and also Group ALCO as part of the Bank's overall limit review process.

Clearly defined risk mitigants are included in this paper which list potential corrective action the Bank could take in order to reduce the stressed risk exposure under each scenario.

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Risk Mitigants for each Stress Test / Scenario

Two Notch Downgrade / General Liquidity enhancing actions

- Hold greater liquidity buffer.
- Modify current funding mix towards more stable funding sources.
- Increase duration across all funding sources.
- Reduce future asset growth levels
- Convert non qualifying assets into qualifying liquid assets through repo.

Wholesale Market Stress

(All of the above measures will also assist in reducing Wholesale Market stressed risk)

- Reduce amount of wholesale funding as a percentage of overall funding.
- Increase duration of wholesale funding programmes and limit amount of CP / MTN which can mature over 30 day period.
- Extendible CP is more liquidity enhancing than vanilla short term issuances.

Market Risk Stress

- Assess market risk exposure which requires most cash and see if the market risk exposure to this can be reduced.
- Are there any natural hedges which can offset market risk exposure?
- Reduce overall group market risk exposure.
- Key focus on potential of Asset values being effected and impact upon market value of liquidity portfolio. Knock on impact of asset no longer being deemed liquid should be assessed in this regard also.

Very Strong Asset Growth

- Extrapolate out asset growth forecasts and examine sustainability of the growth.
- Review Liquidity Plan with ALCO / ALCO Liquidity and if funding requirements and planned funding is leading to deterioration in Bank Liquidity then funding mix needs to be revisited.
- Reduce Asset growth levels or look to increase level of secured funding activity in order to self fund loan growth.

Irish Specific Market Scenario

- Reduce dependency on Irish counterparts.
- Main risk surrounds external perception of Irish market which is difficult to mitigate against apart from holding increased levels of liquidity to protect against loss of confidence in Irish market.

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Appendix 3**Background Research & Peer Analysis - Literature Reviewed**

(All of these documents are available and can be forwarded onto assist, many of them just have a section relating to Stress testing).

1. Basel Committee – Sound Practices for Managing Liquidity in Banking Organisations (Feb 2000)
2. IIF Special Committee on Liquidity Risk – “Principles of Liquidity Risk Management” – 2006
3. CEBS CP 12 “Stress Testing under the Supervisory Review Process” (9 June 2006)
4. Deutsche Bank – Annual Reports (2004, 2005, 2006)
5. Cleveland Federal Reserve Bank – Stress testing
6. Basel Joint Forum – Management of Liquidity Risk in Financial Groups (May 2006)
7. FSA Integrated Prudential Source Book -Chapter 5 – Liquidity
8. FSA Stress Testing – Thematic Review (October 2006)
9. FSA Discussion Paper 05/02 on Stress Testing (May 2005)
10. FSA Review on Market Turbulence and Northern Rock Crisis (10 Oct 2007)
11. Managing Liquidity Risk and Preparing for Extreme Events by Leonard Matz (2006)
12. Top Down Stress Testing: The Key Results by Allan Kearns (Financial Stability Report 2006)
13. Bottom Up Stress Testing: The Key Results by Allan Kearns, Maurice McGuire, Anne Marie McKeirnan and Diarmaid Smyth (Financial Stability Report 2006)
14. IMF Working Paper – Stress Testing of Financial Systems: An overview of Issues, Methodologies and FSAP Experiences by Winfred Blaschke, Matthew T Jones, Giovanni Majnoni and Soledad Martinez Peria
15. ALMA Presentations and Seminars – various
16. FSA DP 24 & CP 128
17. Jersey Financial Services Commission Consultation Paper No 10 – 2006. – “Liquidity Management and Reporting”

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Appendix 4**Some Key points from the above Stress Testing Literature**

There is much reference to the importance of stress testing in liquidity management and most provide examples of such stresses or scenarios which should be tested for. However, the best practice outlined is predominantly focussed on qualitative aspects of stress testing. There is little focus on specifics of testing's and more importantly the underlying assumptions which may be applied for a cashflow type for a specific severity of stress.

IIF Liquidity Paper recommends the following stress tests.

- Market Stress Tests.
- General Regional Crisis, Emerging Market Crisis, Country Crisis, Clearing system failure, 9-11 systematic shock.
- Firm Specific Scenarios.
- Impact of a downgrade, reputation risk impact deposits, internal systematic payments system failure, default of a major counter party / funding provider, change in ability to fund in secured / unsecured market, Loss of CP rating – could be part of CP market crisis.

CEBS - CP12 on Stress Testing.

This comprehensive consultation paper provides detailed information on the role and purpose of Stress testing within financial institutions. In the Liquidity Risk section and particular the related Annex it provides examples of what CEBS regard as the main market risk events and institution specific factors which should be assessed within each stress or scenario test.

All of the main factors have been built into the stressed scenarios which are most applicable to the Bank.

FSA Report on Northern Rock

This report drafted by the FSA regarding the market turbulence and Northern Rock crisis has specific reference to stress testing and how they believe it could have formed part of the early warning mechanism for the risk which the Northern Rock funding model was exposed to.

Managing Liquidity Risk for Extreme Events (Leonard Matz)

This presentation is worthwhile reading given it goes into detail regarding the process of stress testing and what is regarded as the key facets and uses. It also details down different funding sources their liquidity risk and also specific ratios which is generally absent in most literature on the topic. Of particular note are the comments regarding that simply adding highly liquid assets is not the only solution to reducing liquidity risk and that modifying the liability profile can be just as important.

Deutsche Bank Stress testing & disclosure in the annual report

Deutsche Bank provides extensive disclosure on their Liquidity stress testing in their Annual Reports.

- Systemic Shock
- Rating downgrade – by 1 notch
- Rating downgrade – by 3 notches
- Market Risk event
- Emerging markets crisis

Assumptions – all maturing loans to customer will need to be funded (i.e. not repaid), rollover of liabilities will be impaired and will create a funding gap. They then model the steps required to counter balance the net shortfall. Action steps would include selling assets switching from unsecured to secured funding adjusting price to be paid for liabilities. Analysis is fully incorporated into the liquidity risk framework tracking contractual cashflows over an 8 week period per currency and applying the relevant stress tests to each product. Asset liquidity compliments the process.

Their analysis provides guidance as to ability to generate sufficient liquidity under critical conditions and a valuable input parameter when defining a target liquidity position. Analysis is performed monthly and shows the maximum funding gap would be over an eight week period. They then analyse whether the risk to liquidity would be immediate or improve/worsen over time

Sample of Deutsche Bank Liquidity Stress Testing Disclosure in Annual Reports

Scenario	Funding gap ¹ (in € bn.)	Liquidity impact	Gap closure ² (in € bn.)
Market risk	4.0	Gradually increasing	131.9
Emerging markets	22.3	Gradually increasing	131.9
Systemic shock	15.4	Immediate, duration 2 weeks	86.7
DB downgrade to A1/P1 (short term) and A1/A+ (long term)	23.1	Gradually increasing	131.9
Operational risk	14.5	Immediate, duration 2 weeks	131.9
DB downgrade to A2/P2 (short term) and A3/A- (long term)	100.0	Gradually increasing	131.9

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THEME: B4

Impact of the property valuation methodologies on banks' credit risk management

LINE OF INQUIRY: B4c

Adequacy of internal controls over perfection of security and policy exceptions

DRAWDOWNS AHEAD OF SECURITY CONFIRMATION

Background

- Prior to first drawdown on a loan taking place, written confirmation is obtained from the solicitor acting for the bank:
 - that the security detailed in the facility letter is in place
 - of compliance with all relevant conditions precedent and special instructions in the facility letter
- An initial drawdown of funds required before security is in place is authorised in writing by a manager and one member of the A List per the Group Credit Policy
- The total number of drawdowns up to the time of the review for the 12 selected loans was 67

Major finding

	TEAM NO	LOAN NO	TOTAL OF DRAWDOWNS € '000 AND (NUMBER)	DATE OF SOLICITORS LETTER
(i)	1	1	STG€11,253 (2)	No solicitors letter on file confirming that security is complete at drawdown
(ii)	13	2	USD30,910 (8)	No solicitors letter on file confirming security is complete at drawdown
(iii)	13	3	149,416 (27)	No solicitors letter on file confirming security is complete at drawdown
(iv)	18	5	10,410 (9)	No solicitors letter on file confirming security is complete at drawdown
(v)	19	6	STG€6,986 (3)	No solicitors letter confirming security is complete at drawdown
(vi)	23	8	23,750 (3)	No solicitors letter confirming security is complete at drawdown
(vii)	23	9	18,000 (2)	No solicitors letter confirming security is complete at drawdown
(viii)	25	10	6,900 (1)	No solicitors letter confirming security is complete at drawdown
(ix)	25	11	14,821 (11)	No solicitors letter confirming security is complete at drawdown
(x)	27	12	USD19,850 (2)	No solicitors letter confirming security is complete at drawdown

- In 10 out of 12 files (83%) no letter from the bank's solicitor confirming that security was complete is evident



Management comments

- (i) Security not in place at drawdown signed off as an exception. Bank's solicitor still finalising intercompany guarantee from **Customer Confidential** Team to chase solicitor for update. To be actioned by 10/05/2003
- (ii) Verbal confirmation relied on. Security report to be requested from the solicitor. To be actioned by 10/05/2003
- (iii) Verbal confirmation relied on. Security report requested from solicitor. To be actioned by 15/05/2003
- (iv) Written confirmation of mortgage in place was obtained but verbal assurances taken for all other items. Have requested security report from solicitor confirming all security items in place. To be actioned by 16/05/2003
- (v) Correspondance on file from Gordons (e.g Report on Title confirming security in place)
- (vi) Cheques sent to bank's solicitor and held to order pending completion of the bank's security. Bible of security documents is held in the vault confirming security in place
- (vii) Cheques sent to bank's solicitor and held to order pending completion of the bank's security. Bible of security documents is held in the vault confirming security in place
- (viii) All security complete (except for schedule of insurance) as per e-mail from solicitor dated 04/04/2003. Solicitor to send in security report when schedule of insurances for **Customer Co...** received. Liaise with solicitor. To be actioned by 09/05/2003
- (ix) Bible of security documents received and placed in vault on 11 February 2003, confirming that all security in place
- (x) Verbal confirmation was received (C. Deane, Partner). Bible of Documents held in vault confirming security in place

Minor findings

None





Group Internal Audit

DUBLIN SECURITY REVIEW

On assignment	Eileen O'Mahony Aisling Hanley Yvonne Conville
Fieldwork	February to November 2006
Report signed	January 2007

Objectives

To give both the Audit Committee and other stakeholders assurance in relation to the adequacy of and the adherence to the relevant procedures and controls in the Dublin office.

To ensure for the selected accounts, that there is evidence on file, confirming that the security as stipulated in the credit application has been put in place by the Bank.

Scope and work performed

We held interviews with management and key process personnel to obtain an understanding of the processes, controls and key issues. We tested procedures and controls in place over the following listed areas:

- **Lending:** credit approval process, issuance of facility letters, confirmation of security and satisfaction of conditions precedent and documentation
- **Operations:** documentation, drawdown procedures and management of exceptions

The review focused on accounts which did not go through the revised Banking process ('the 'new/new' process).

Previous review

There have been no previous reviews focussing specifically on the confirmation of the Bank's security. The previous audit report on Banking Ireland in 2005 highlighted cases whereby advances were made on the receipt of verbal rather than written confirmation from the Bank's solicitors.

These findings were considered in planning and defining the scope of the current audit.

Dublin Banking Security Review – Summary Report

KEY MANAGEMENT ISSUES

	Observation / Recommendation	Management response	Action date
	<i>Lending & Operations</i> (Sample: 34 accounts covering 22% of the Dublin Banking Book in Feb 06)		
■	Credit Committee Approvals		
	<p>Findings</p> <ul style="list-style-type: none"> ▪ Amendments: We noted 5 (out of 34) cases where items of security specified on the approved credit were either not put in place or were amended without appropriate <u>written</u> approval. ▪ Limits: In 1 case (out of 34) the credit limit approved by the Credit Committee (€14.3m) was not reflected by the peak limit specified in the facility letter (€17.4m). It should be noted that the total amount borrowed did not exceed the credit limit approved. ▪ Non Executive Signature: We noted 2 credit approval forms where the Non-Executive signature was not obtained as required. It should be noted that 1 of these cases refers to a 'daylight' facility. In this case the original and present day loan limit was corrected approved. <p>Recommendations</p> <p>We recommend that management address the above issues and that deviations from the approved credit application are approved in accordance with the credit policy.</p> <p>Over the past two years Banking Ireland has developed and put in place a new lending process. The initial focus of this process was on 'new/new' loans i.e. new money to new clients. The rollout of the process to the existing book has been slow to date. We recommend that</p> <ol style="list-style-type: none"> 1. The roll out of the new process to the remainder of the Banking book in all Irish locations is prioritised. 2. A senior sponsor from Banking Ireland is appointed. 	<p><i>Accepted. These cases will be addressed as a priority. We will ensure that all deviations from the approved credit are approved in accordance with credit policy.</i></p> <p><i>Accepted</i> <i>The peak limit will be presented to credits for approval at the facility's next renewal date.</i></p> <p><i>Accepted. These cases will be addressed and approval sought from the Non-Executive Directors as required by the Credit Policy.</i></p> <p><i>Agreed</i></p> <p><i>A review of the existing procedures has been undertaken with a view to moving to a single controlled process.</i></p> <p><i>A Director of Banking has been assigned responsibility for managing the roll-out of the new lending process to the entire Banking book.</i></p> <p><i>The rollout will be phased in as new drawdowns occur, but we envisage that all drawdowns will be processed using the single system by December 07.</i></p>	<p>28/ 02/07</p> <p>28/ 02/07</p> <p>28/ 02/07</p> <p>31/12/07</p>

Dublin Banking Security Review – Summary Report

■	Confirmation of Security		
	<p>Findings</p> <ul style="list-style-type: none"> • Outstanding confirmations: At the time of completing our fieldwork, confirmations of security items on 7 (out of 34) accounts were still outstanding. Details have been supplied to the relevant executives within the Banking Ireland Division. • Guarantees: In 1 case the solicitor highlighted a potential problem with a guarantee taken in-house. • Multiple solicitors: In one case there were 5 different solicitors handling aspects of security. We are waiting for confirmations from 4 of the firms involved. <p>Recommendations</p> <p>We would recommend that</p> <ol style="list-style-type: none"> 1. Management ensure that all outstanding confirmations are followed up as a priority. 2. Where possible the appointed solicitor should be responsible for obtaining all aspects of security. No security should be taken in-house. A full review should be undertaken of all guarantees taken in-house to ensure that the above case is an isolated incident. 3. The use of multiple solicitors for one client should be minimised, unless it is not practical to do so. 4. In the ongoing review of the solicitors panel, consideration should be given to the track record of the solicitor in following up all the required paperwork. 5. A review of the adequacy of PI cover of all solicitors on the Professional Panel should be carried out. 	<p><i>Accepted</i></p> <p><i>Accepted</i></p> <p><i>Accepted</i></p> <p><i>All outstanding confirmations are being actively chased by the teams. Any variation in security will be approved in accordance with credit policy</i></p> <p><i>Agreed.</i></p> <p><i>Agreed.</i></p> <p><i>Agreed.</i></p> <p><i>Agreed.</i></p>	<p></p> <p>28/02/07</p> <p>30/06/07</p> <p>Immediate</p> <p>30/06/07</p> <p>30/06/07</p>



THEME: B5

Impact of the remuneration arrangements on banks' risk management

LINE OF INQUIRY: B5a

Adequacy of the incentive and remuneration arrangements to promote sound risk governance

- a true and fair picture of the state of the bank's affairs is presented to shareholders and the public in published accounts (Nyberg 2.5.1 – 2.5.3).

Governance in Anglo

Anglo had poor governance structures and procedures and risk controls during its period of high growth. Weaknesses in these areas were identified by auditors and regulators in 2003, 2006 and 2008. For example, the Chief Risk Officer function was merged with that of the Finance Director in 2007, undermining the priority attached to the risk function. In 2005, at the time of the change of management, the CEO moved directly to the position of Chairman, in contravention of best practice. The major change in personnel at that time may have contributed to a changing interpretation of governance principles (Nyberg 2.5.6).

Management showed a lack of awareness of risk and focused their attention on business growth. They did not perceive their existing systems and procedures as inadequate. While the board had appropriate sub-committees, some board members were experienced in fields other than banking and depended on senior management for insight into the need for reporting systems.

Directors (including non-executive directors) and management had large shareholdings in the bank, which may have coloured judgement at a time of high growth (Nyberg 2.5.5 – 2.5.8).

Governance in INBS

Governance in INBS was problematic from an early stage in Ireland's period of economic growth. It adopted a very flat management structure in 1997 when the board delegated its powers for the practical, effective and efficient management, promotion and development of INBS to the Managing Director. It is not clear what if any limits there were to this power, and many staff reported directly to the Managing Director.

INBS did not have a number of standard board committees, and those that it did have operated with poor regard to appropriate structures and procedures, despite repeated representations from the Financial Regulator. Risk control functions were limited to selecting trustworthy commercial borrowers to lend to and evaluating the potential of their sites. The credit function was dominated by lenders, preventing it from taking an adversarial stance.

1.3 Remuneration

While financial incentives are unlikely to have been the major cause of the crisis, they contributed to the expansion of bank lending. Remuneration was generally based on models developed by specialist consultants and benchmarked against comparable Irish and UK companies. The models did not take account of risk and rewarded rapid loan asset growth. This incentivised volume at the expense of quality. CEO remuneration in Anglo and INBS was significantly higher than in other Irish banks while, relative to the size of its loan book, that in AIB was lower than in other banks (Nyberg 2.6).

Among lower-level staff, rewards such as bonuses based on turnover, divisional growth or sales targets also militated against quality of loan assessments (Regling & Watson, pp. 17, 35).

1.4 Lending and credit

A bank's credit policy is set by its board and defines its risk appetite, lending limits and the credit products that it offers. All banks deviated significantly and materially from their stated credit policies (Nyberg 2.7.1 – 2.7.2).

Anglo

Responding to competitive pressure, Anglo relaxed its credit policy three times between 2005 and 2007. Anglo had poor credit management processes with a strong emphasis on accommodating problematic applications, speed of approval and on not losing its existing customers to competitors. It sometimes relied on personal guarantees without properly investigating borrowers' net worth or commitments to other lenders.

Exceptions to Anglo's credit policy were reported as a percentage of Anglo's loans rather than by reference to customer or the market segment. There was poor reporting of arrears and impairments. As a result the board may not have been aware of the deterioration of Anglo's asset base.

In 2006 Anglo moved to "de-risk" its balance sheet by deciding not to take on new customers for development finance. However, it continued to make large loans to its existing customer base.

INBS

INBS had no formal risk management function or relevant information systems. The only risk mitigation measures were to deal with known and trusted developers and to evaluate the sites they proposed to develop.

Other banks

All had risk management structures, but the quality of implementation and resourcing varied. AIB and BoI had well-resourced risk functions that were given appropriate attention by management. However they were hampered by poor implementation and changing lending targets and credit policies. There was a general lack of appreciation of concentration risk. MIS systems were unable to demonstrate this risk or to consolidate information on sector exposures.

ILP's risk management system and processes functioned very well and lending was strictly controlled. EBS's system was not well resourced and lacked influence with its board (Nyberg 2.9).

1.7 Internal audit

Internal audit is the third line of defence after business unit control functions and risk and compliance functions. Its purpose is to give assurance of the effectiveness of the corporate governance and control environments.

All banks had internal audit functions with clearly defined mandates. All reported to the CEO or Audit Committee of the board in accordance with best practice. Internal audit was carried out with varying degrees of effectiveness and professionalism in the banks.

Anglo

Anglo's internal audit function was assessed by external consultants in 2004 as a "strong performer" but with scope for improvement. Subsequent internal and external reviews were positive. However, Anglo's Risk and Compliance Officer was responsible for overseeing Credit and Treasury risks, which is where many of Anglo's difficulties arose. This reassignment weakened internal audit ability to challenge credit decisions.

In 2009 Anglo's Head of Internal Audit, Mr Walter Tyrell, appeared before the Joint

1.1.3 Interactions between external auditors and the Financial Regulator

Bank external auditors are obliged to return various types of information to the Financial Regulator but had no right to report other matter (Nyberg 3.6.1). This information includes audit findings reports, management letters, and M46 letters.¹⁹ This was done in all cases and the returns contained sufficient information to deduce the banks' business models and lending practices, including those of Anglo and INBS. They did not, however, contain any discussion or comment on the implications of the returned information; nor did auditors and the Financial Regulator engage in dialogue regarding audit finding reports. Such comment or dialogue could have highlighted emerging problems before they became acute (Nyberg 3.8.1 – 3.8.6).

Furthermore, Auditing Practice Note 19(I) contains prudential sector lending limit guidelines for the covered banks. Four of the covered banks exceeded the property and construction sector prudential limit guidelines during the run up to the crisis. Nyberg reports that one bank auditor reported the sector limit excess to the Financial Regulator. The other three failed to do so because they were unaware of the standard or felt the Regulator was aware of the standard.

Addressing the Committee in 2010, Mr Matthew Elderfield, the newly appointed Head of Financial Regulation, broadly welcomed a suggestion by the CAG that auditors provide annual positive assurance of corporate governance regimes, including risk management. However, he cautioned that this would require careful consideration and should not impose excessive overheads or standards to be audited that are vague or too extensive.

Bank auditors communicate in varying levels of formality with the Financial Regulator. While they are required to report certain matters to the Financial Regulator, client confidentiality prevents them (unlike their UK counterparts) from reporting other concerns (such as concerns about the risks associated with the business models used). However, client confidentiality does not prevent such communication with their client bank.

Part 2: Findings contained in published reports

2.1. The Financial Regulator found serious issues in certain auditors' work, which have been referred to relevant accounting bodies (CAG Special Report 72, para. 2.41).

¹⁹M46 letters are based on ICAI guidance for auditor reporting to the Financial Regulator and are drawn up in consultation with the Financial Regulator (see Nyberg, footnote 83). See also <http://www.cpaireland.ie/reporting-to-the-FR.pdf>.

Number	Date	Title/Description
20	10/09/08	Letter and paper on liquidity, from FR to DoF
21	05/09/08	Note to MoF re Moody's downgrade of INBS
22	02/09/08	Note for MoF on developments in financial markets
23	26/08/08	Heads of Bill for nationalising/guaranteeing an Irish credit institution
24	01/07/08	Email from DoF to AG Office re competition
25	26/06/08	Note to MoF re performance of Irish banks on stock markets
26	19/06/08	Email from DoF to AG Office re nationalisation Bill.
27	12/06/08	Internal DoF email re power of CB to acquire shares in banks
28	06/06/08	Draft Heads of Bill giving MoF power to take ownership of, guarantee, Irish bank
29	21/05/08	Briefing for MoF before meeting with Head of NTMA re financial stability issues
30	16/05/08	Internal DoF note re EU state aid rules
31	08/05/08	MoF briefing on financial stability issues

**Anglo Irish Bank
2001 - 2008
Top 10 Bonus and Share Option Allocations (Ref 2r)**

Notes to this Submission

- The documents in Submission 4 are not pre-existing documents and have been created by the Joint Special Liquidators from the information contained in the books and records that are available, specifically the annual reports and accounts for the years 2001-2008 and HR records. The information contained therein relates to the period prior to the Joint Special Liquidators' appointment. In such circumstances, the Joint Special Liquidators are unable to provide any guarantee or assurance regarding the accuracy or completeness of this information.
- Furthermore, the Joint Committee should note that the information contained therein may be relevant to ongoing High Court proceedings, prosecutions and /or other investigations and therefore is confidential and is being provided strictly on the basis that it is for the purposes of the Inquiry only and will not be disseminated or used for any other purpose.
- Bonuses and deferred bonuses, as presented, represent the amount awarded to each employee in the respective financial year. This may not accurately represent the ultimate amount paid to each employee.
- Deferred bonuses refer to an amount awarded in the financial year on a deferred basis with a vesting period to the earliest of three years or the individual's retirement date.
- Deferred bonuses from 2007 were Share Options based.
- No performance bonuses were awarded to executive directors in 2008.
- In respect of the Share Option Allocations (refer page 5 onwards), all figures are presented reflecting the 2 for 1 share split which took place during 2005.
- The option price has been amended to reflect the 2 for 1 share split where relevant.
- With regard to LTIP awards the award price has been amended to reflect the 2 for 1 share split where relevant.
- In respect of Share Option Grants / PSP Awards (2008) the option / award price has also been amended to reflect the 2 for 1 share split where relevant
- All amounts are quoted in Euro currency, unless otherwise stated.

**Anglo Irish Bank
2001 - 2008
Top 10 Bonus and Share Option Allocations**

2001			
Name	Bonus	Deferred Bonus Awarded	Total Bonus
██████████	559,000 952,000 *	190,461	1,701,461
██████████	285,691	158,717	444,408
██████████	253,947	139,671	393,618
██████████	247,599	95,230	342,829
██████████	241,000	76,000	317,000
██████████ -- GBP	150,000	90,000	240,000
██████████	126,973	95,231	222,204
██████████	107,927	88,882	196,809
██████████	126,973	63,487	190,460
██████████ -- GBP	100,000	70,000	170,000

*In 2001, the Remuneration Committee approved and awarded an additional retention bonus to ██████████

2002			
Name	Bonus	Deferred Bonus Awarded	Total Bonus
██████████	800,000	400,000	1,200,000
██████████	490,000	245,000	735,000
██████████	435,000	215,000	650,000
██████████	378,000	190,000	568,000
██████████	370,000	0	370,000
██████████ -- GBP	250,000	150,000	400,000
██████████	160,000	95,000	255,000
██████████	125,000	130,000	255,000
██████████	125,000	116,000	241,000
██████████	125,000	91,000	216,000

2003			
Name	Bonus	Deferred Bonus Awarded	Total Bonus
██████████	934,000	466,000	1,400,000
██████████	593,000	297,000	890,000
██████████	510,000	255,000	765,000
██████████	700,000	0	700,000
██████████ -- GBP	294,000	177,000	471,000
██████████	160,000	160,000	320,000
██████████	190,000	120,000	310,000
██████████	160,000	140,000	300,000
██████████ -- GBP	190,000	90,000	280,000
██████████	270,000	0	270,000

This information must be considered in conjunction with the Notes disclosed on page 1 of this report.

**Anglo Irish Bank
2001 - 2008
Top 10 Bonus and Share Option Allocations**

2004			
Name	Bonus	Deferred Bonus Awarded	Total Bonus
██████████	1,600,000	0	1,600,000
██████████	1,000,000	0	1,000,000
██████████	500,000	400,000	900,000
██████████	500,000	400,000	900,000
██████████ -- GBP	350,000	280,000	630,000
██████████	300,000	200,000	500,000
██████████	250,000	110,000	360,000
██████████ -- GBP	225,000	100,000	325,000
██████████	320,000	0	320,000
██████████	318,000	0	318,000

2005			
Name	Bonus	Deferred Bonus Awarded	Total Bonus
██████████	900,000	600,000	1,500,000
██████████	600,000	400,000	1,000,000
██████████	600,000	400,000	1,000,000
██████████ -- GBP	700,000	0	700,000
██████████	533,000	0	533,000
██████████	300,000	200,000	500,000
██████████ -- USD	350,000	200,000	550,000
██████████	250,000	175,000	425,000
██████████	290,000	120,000	410,000
██████████ -- GBP	200,000	175,000	375,000

2006			
Name	Bonus	Deferred Bonus Awarded	Total Bonus
██████████	1,300,000	600,000	1,900,000
██████████	800,000	400,000	1,200,000
██████████	750,000	350,000	1,100,000
██████████	400,000	200,000	600,000
██████████	400,000	200,000	600,000
██████████ -- USD	900,000	500,000	1,400,000
██████████	300,000	200,000	500,000
██████████	250,000	150,000	400,000
██████████ -- GBP	250,000	125,000	375,000
██████████	225,000	100,000	325,000

This information must be considered in conjunction with the Notes disclosed on page 1 of this report.

**Anglo Irish Bank
2001 - 2008
Top 10 Bonus and Share Option Allocations**

2007			
Name	Bonus	Deferred Bonus Awarded	Total Bonus
██████████	2,000,000	0	2,000,000
██████████	800,000	0	800,000
██████████	735,000	0	735,000
██████████ -- USD	1,000,000	0	1,000,000
██████████	640,000	0	640,000
██████████	600,000	0	600,000
██████████	500,000	0	500,000
██████████	300,000	0	300,000
██████████	300,000	0	300,000
██████████	300,000	0	300,000

2008			
Name	Bonus	Deferred Bonus Awarded	Total Bonus
██████████	150,000	0	150,000
██████████	150,000	0	150,000
██████████	150,000	0	150,000
██████████	135,000	0	135,000
██████████	129,000	0	129,000
██████████	127,500	0	127,500
██████████	120,000	0	120,000
██████████	113,750	0	113,750
██████████	110,000	0	110,000
██████████	105,000	0	105,000

**Anglo Irish Bank
2001 - 2008
Top 10 Bonus and Share Option Allocations**

ANGLO IRISH BANK CORPORATION PLC SHARE OPTION GRANTS 2001							
FULL NAME	CLASS CODE	REG CODE	GRANT DATE	MATURITY DATE	OPTION PRICE	GRANTED OPTIONS	TOTAL GRANTS 2001
██████████	Irish Basic Tier	21A	18/12/2001	18/12/2004	2.045000	75,000	
██████████	Irish Second Tier	21A	18/12/2001	18/12/2006	2.045000	75,000	150,000
██████████	Irish Basic Tier	21A	18/12/2001	18/12/2004	2.045000	75,000	
██████████	Irish Second Tier	21A	18/12/2001	18/12/2006	2.045000	75,000	150,000

ANGLO IRISH BANK CORPORATION PLC SHARE OPTION GRANTS 2002							
FULL NAME	CLASS CODE	REG CODE	GRANT DATE	MATURITY DATE	OPTION PRICE	GRANTED OPTIONS	TOTAL GRANTS 2002
██████████	Irish Basic Tier	22A	13/02/2002	13/02/2005	2.250000	300,000	
██████████	Irish Second Tier	22A	13/02/2002	13/02/2007	2.250000	300,000	600,000
██████████	Irish Basic Tier	22B	14/08/2002	14/08/2005	2.940000	25,000	
██████████	Irish Second Tier	22B	14/08/2002	14/08/2007	2.940000	25,000	50,000
██████████	Irish Basic Tier	22A	13/02/2002	13/02/2005	2.250000	25,000	
██████████	Irish Second Tier	22A	13/02/2002	13/02/2007	2.250000	50,000	75,000
██████████	Irish Basic Tier	22B	14/08/2002	14/08/2005	2.940000	9,000	
██████████	UK Basic Tier	22A	14/08/2002	14/08/2005	2.940000	16,000	
██████████	Irish Second Tier	22B	14/08/2002	14/08/2007	2.940000	25,000	50,000
██████████	Irish Basic Tier	22C	24/09/2002	24/09/2005	2.925000	100,000	
██████████	Irish Second Tier	22C	24/09/2002	24/09/2007	2.925000	100,000	200,000
██████████	Irish Basic Tier	22D	28/11/2002	28/11/2005	3.350000	60,000	
██████████	Irish Second Tier	22D	28/11/2002	28/11/2007	3.350000	60,000	120,000

This information must be considered in conjunction with the Notes disclosed on page 1 of this report.

**Anglo Irish Bank
2001 - 2008
Top 10 Bonus and Share Option Allocations**

ANGLO IRISH BANK CORPORATION LTIP AWARDS 2002				
FULL NAME	GRANT DATE	RELEASE DATE	AWARD PRICE	AWARD
██████████	05/12/2002	05/12/2005	3.400000	11,764

ANGLO IRISH BANK CORPORATION PLC SHARE OPTION GRANTS 2003							
FULL NAME	CLASS CODE	REG CODE	GRANT DATE	MATURITY DATE	OPTION PRICE	GRANTED OPTIONS	TOTAL GRANTS 2003
██████████	Irish Basic Tier	23C	25/09/2003	25/09/2006	4.675000	500,000	
██████████	Irish Second Tier	23C	25/09/2003	25/09/2008	4.675000	500,000	1,000,000
██████████	Irish Basic Tier	23C	25/09/2003	25/09/2006	4.675000	200,000	
██████████	Irish Second Tier	23C	25/09/2003	25/09/2008	4.675000	200,000	400,000
██████████	Irish Basic Tier	23C	25/09/2003	25/09/2006	4.675000	100,000	
██████████	Irish Second Tier	23C	25/09/2003	25/09/2008	4.675000	100,000	200,000
██████████	Irish Basic Tier	23C	25/09/2003	25/09/2006	4.675000	200,000	
██████████	Irish Second Tier	23C	25/09/2003	25/09/2008	4.675000	200,000	400,000
██████████	Irish Basic Tier	23A	17/02/2003	17/02/2006	3.105000	100,000	
██████████	Irish Second Tier	23A	17/02/2003	17/02/2008	3.105000	100,000	200,000
██████████	Irish Basic Tier	23C	25/09/2003	25/09/2006	4.675000	100,000	
██████████	Irish Second Tier	23C	25/09/2003	25/09/2008	4.675000	100,000	200,000
██████████	Irish Basic Tier	23C	25/09/2003	25/09/2006	4.675000	100,000	
██████████	Irish Second Tier	23C	25/09/2003	25/09/2008	4.675000	100,000	200,000
██████████	Irish Basic Tier	23D	19/12/2003	19/12/2006	6.300000	500,000	
██████████	Irish Second Tier	23D	19/12/2003	19/12/2008	6.300000	500,000	1,000,000
██████████	Irish Basic Tier	23C	25/09/2003	25/09/2006	4.675000	100,000	
██████████	Irish Second Tier	23C	25/09/2003	25/09/2008	4.675000	100,000	200,000

This information must be considered in conjunction with the Notes disclosed on page 1 of this report.

**Anglo Irish Bank
2001 - 2008
Top 10 Bonus and Share Option Allocations**

ANGLO IRISH BANK CORPORATION PLC SHARE OPTION GRANTS 2003							
FULL NAME	CLASS CODE	REG CODE	GRANT DATE	MATURITY DATE	OPTION PRICE	GRANTED OPTIONS	TOTAL GRANTS 2003
██████████	Irish Basic Tier	23A	17/02/2003	17/02/2006	3.105000	100,000	
██████████	Irish Basic Tier	23C	25/09/2003	25/09/2006	4.675000	100,000	
██████████	Irish Second Tier	23A	17/02/2003	17/02/2008	3.105000	100,000	
██████████	Irish Second Tier	23C	25/09/2003	25/09/2008	4.675000	100,000	400,000
██████████	Irish Basic Tier	23C	25/09/2003	25/09/2006	4.675000	165,730	
██████████	UK Basic Tier	23C	25/09/2003	25/09/2006	4.675000	9,270	
██████████	Irish Second Tier	23C	25/09/2003	25/09/2008	4.675000	175,000	350,000
██████████	Irish Basic Tier	23D	19/12/2003	19/12/2006	6.300000	500,000	
██████████	Irish Second Tier	23D	19/12/2003	19/12/2008	6.300000	500,000	1,000,000
██████████	Irish Basic Tier	23C	25/09/2003	25/09/2006	4.675000	100,000	
██████████	Irish Second Tier	23C	25/09/2003	25/09/2008	4.675000	100,000	200,000
██████████	Irish Basic Tier	23D	19/12/2003	19/12/2006	6.300000	493,200	
██████████	UK Basic Tier	23D	19/12/2003	19/12/2006	6.300000	6,800	
██████████	Irish Second Tier	23D	19/12/2003	19/12/2008	6.300000	500,000	1,000,000
██████████	Irish Basic Tier	23C	25/09/2003	25/09/2006	4.675000	200,000	
██████████	Irish Second Tier	23C	25/09/2003	25/09/2008	4.675000	200,000	400,000
██████████	Irish Basic Tier	23C	25/09/2003	25/09/2006	4.675000	100,000	
██████████	Irish Second Tier	23C	25/09/2003	25/09/2008	4.675000	100,000	200,000

This information must be considered in conjunction with the Notes disclosed on page 1 of this report.

**Anglo Irish Bank
2001 - 2008
Top 10 Bonus and Share Option Allocations**

ANGLO IRISH BANK CORPORATION PLC TOP 10 SHARE OPTION GRANTS 2004							
FULL NAME	CLASS CODE	REG CODE	GRANT DATE	MATURITY DATE	OPTION PRICE	GRANTED OPTIONS	TOTAL GRANTS 2004
[REDACTED]	Irish Basic Tier	24C	24/11/2004	24/11/2007	7.965000	60,000	
[REDACTED]	ESOP	24B	24/11/2004	24/11/2007	7.965000	40,000	
[REDACTED]	Irish Second Tier	24C	24/11/2004	24/11/2009	7.965000	100,000	200,000
[REDACTED]	Irish Basic Tier	24C	24/11/2004	24/11/2007	7.965000	50,000	
[REDACTED]	ESOP	24B	24/11/2004	24/11/2007	7.965000	50,000	
[REDACTED]	Irish Second Tier	24C	24/11/2004	24/11/2009	7.965000	100,000	200,000
[REDACTED]	Irish Basic Tier	24C	24/11/2004	24/11/2007	7.965000	100,000	
[REDACTED]	ESOP	24B	24/11/2004	24/11/2007	7.965000	100,000	
[REDACTED]	Irish Second Tier	24C	24/11/2004	24/11/2009	7.965000	200,000	400,000
[REDACTED]	Irish Basic Tier	24B	31/08/2004	31/08/2007	6.760000	100,000	
[REDACTED]	Irish Second Tier	24B	31/08/2004	31/08/2009	6.760000	100,000	200,000
[REDACTED]	Irish Basic Tier	24C	24/11/2004	24/11/2007	7.965000	500,000	
[REDACTED]	Irish Second Tier	24C	24/11/2004	24/11/2009	7.965000	500,000	1,000,000
[REDACTED]	Irish Basic Tier	24C	24/11/2004	24/11/2007	7.965000	60,000	
[REDACTED]	ESOP	24B	24/11/2004	24/11/2007	7.965000	40,000	
[REDACTED]	Irish Second Tier	24C	24/11/2004	24/11/2009	7.965000	100,000	200,000
[REDACTED]	Irish Basic Tier	24C	24/11/2004	24/11/2007	7.965000	57,380	
[REDACTED]	ESOP	24B	24/11/2004	24/11/2007	7.965000	40,000	
[REDACTED]	UK Basic Tier	24A	24/11/2004	24/11/2007	7.965000	2,620	
[REDACTED]	Irish Second Tier	24C	24/11/2004	24/11/2009	7.965000	100,000	200,000
[REDACTED]	Irish Basic Tier	24C	24/11/2004	24/11/2007	7.965000	47,380	
[REDACTED]	ESOP	24B	24/11/2004	24/11/2007	7.965000	50,000	
[REDACTED]	UK Basic Tier	24A	24/11/2004	24/11/2007	7.965000	2,620	
[REDACTED]	Irish Second Tier	24C	24/11/2004	24/11/2009	7.965000	100,000	200,000

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ANGLO IRISH BANK CORPORATION PLC TOP 10 SHARE OPTION GRANTS 2004							
FULL NAME	CLASS CODE	REG CODE	GRANT DATE	MATURITY DATE	OPTION PRICE	GRANTED OPTIONS	TOTAL GRANTS 2004
██████████	Irish Basic Tier	24C	24/11/2004	24/11/2007	7.965000	50,000	
██████████	ESOP	24B	24/11/2004	24/11/2007	7.965000	50,000	
██████████	Irish Second Tier	24C	24/11/2004	24/11/2009	7.965000	100,000	200,000
██████████	Irish Basic Tier	24C	24/11/2004	24/11/2007	7.965000	50,000	
██████████	ESOP	24B	24/11/2004	24/11/2007	7.965000	50,000	
██████████	Irish Second Tier	24C	24/11/2004	24/11/2009	7.965000	100,000	200,000
██████████	Irish Basic Tier	24C	24/11/2004	24/11/2007	7.965000	50,000	
██████████	ESOP	24B	24/11/2004	24/11/2007	7.965000	50,000	
██████████	Irish Second Tier	24C	24/11/2004	24/11/2009	7.965000	100,000	200,000
██████████	Irish Basic Tier	24C	24/11/2004	24/11/2007	7.965000	50,000	
██████████	ESOP	24B	24/11/2004	24/11/2007	7.965000	50,000	
██████████	Irish Second Tier	24C	24/11/2004	24/11/2009	7.965000	100,000	200,000
██████████	Irish Basic Tier	24C	24/11/2004	24/11/2007	7.965000	50,000	
██████████	ESOP	24B	24/11/2004	24/11/2007	7.965000	50,000	
██████████	Irish Second Tier	24C	24/11/2004	24/11/2009	7.965000	100,000	200,000
██████████	Irish Basic Tier	24C	24/11/2004	24/11/2007	7.965000	100,000	
██████████	ESOP	24B	24/11/2004	24/11/2007	7.965000	100,000	
██████████	Irish Second Tier	24C	24/11/2004	24/11/2009	7.965000	200,000	400,000
██████████	Irish Basic Tier	24C	24/11/2004	24/11/2007	7.965000	50,000	
██████████	ESOP	24B	24/11/2004	24/11/2007	7.965000	50,000	
██████████	Irish Second Tier	24C	24/11/2004	24/11/2009	7.965000	100,000	200,000
██████████	Irish Basic Tier	24C	24/11/2004	24/11/2007	7.965000	50,000	
██████████	ESOP	24B	24/11/2004	24/11/2007	7.965000	50,000	
██████████	Irish Second Tier	24C	24/11/2004	24/11/2009	7.965000	100,000	200,000

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FULL NAME	GRANT DATE	RELEASE DATE	AWARD PRICE	AWARD
██████████	03/12/2004	03/12/2007	8.145000	3,068
██████████	03/12/2004	03/12/2007	8.145000	6,752

ANGLO IRISH BANK CORPORATION PLC TOP 10 SHARE OPTION GRANTS 2005							
FULL NAME	CLASS CODE	REG CODE	GRANT DATE	MATURITY DATE	OPTION PRICE	GRANTED OPTIONS	TOTAL GRANTS 2005
██████████	Irish Basic Tier	25F	07/12/2005	07/12/2008	11.820000	50,000	
██████████	Irish Second Tier	25F	07/12/2005	07/12/2010	11.820000	50,000	100,000
██████████	Irish Basic Tier	25E	24/11/2005	24/11/2008	11.400000	25,000	
██████████	ESOP	25G	24/11/2005	24/11/2008	11.400000	25,000	
██████████	Irish Second Tier	25E	24/11/2005	24/11/2010	11.400000	50,000	100,000
██████████	Irish Basic Tier	25F	07/12/2005	07/12/2008	11.820000	50,000	
██████████	Irish Second Tier	25F	07/12/2005	07/12/2010	11.820000	50,000	100,000
██████████	Irish Basic Tier	25E	24/11/2005	24/11/2008	11.400000	25,000	
██████████	ESOP	25G	24/11/2005	24/11/2008	11.400000	25,000	
██████████	Irish Second Tier	25E	24/11/2005	24/11/2010	11.400000	50,000	100,000
██████████	Irish Basic Tier	25C	20/09/2005	20/09/2008	10.930000	25,000	
██████████	ESOP	25E	20/09/2005	20/09/2008	10.930000	25,000	
██████████	Irish Second Tier	25C	20/09/2005	20/09/2010	10.930000	50,000	100,000
██████████	Irish Basic Tier	25E	24/11/2005	24/11/2008	11.400000	25,000	
██████████	ESOP	25G	24/11/2005	24/11/2008	11.400000	25,000	

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ANGLO IRISH BANK CORPORATION PLC TOP 10 SHARE OPTION GRANTS 2005							
FULL NAME	CLASS CODE	REG CODE	GRANT DATE	MATURITY DATE	OPTION PRICE	GRANTED OPTIONS	TOTAL GRANTS 2005
██████████	Irish Second Tier	25E	24/11/2005	24/11/2010	11.400000	50,000	100,000
██████████	Irish Basic Tier	25F	07/12/2005	07/12/2008	11.820000	50,000	
██████████	Irish Second Tier	25F	07/12/2005	07/12/2010	11.820000	50,000	100,000
██████████	Irish Basic Tier	25E	24/11/2005	24/11/2008	11.400000	25,000	
██████████	ESOP	25G	24/11/2005	24/11/2008	11.400000	25,000	
██████████	Irish Second Tier	25E	24/11/2005	24/11/2010	11.400000	50,000	100,000
██████████	Irish Basic Tier	25A	04/02/2005	04/02/2008	18.730000	25,000	
██████████	ESOP	25A	04/02/2005	04/02/2008	18.730000	25,000	
██████████	Irish Second Tier	25A	04/02/2005	04/02/2010	18.730000	50,000	100,000
██████████	Irish Basic Tier	25F	07/12/2005	07/12/2008	11.820000	150,000	
██████████	Irish Second Tier	25F	07/12/2005	07/12/2010	11.820000	150,000	300,000
██████████	Irish Basic Tier	25B	23/05/2005	23/05/2008	9.750000	25,000	
██████████	ESOP	25D	23/05/2005	23/05/2008	9.750000	25,000	
██████████	Irish Second Tier	25B	23/05/2005	23/05/2010	9.750000	50,000	100,000
██████████	Irish Basic Tier	25E	24/11/2005	24/11/2008	11.400000	25,000	
██████████	ESOP	25G	24/11/2005	24/11/2008	11.400000	25,000	
██████████	Irish Second Tier	25E	24/11/2005	24/11/2010	11.400000	50,000	100,000
██████████	Irish Basic Tier	25E	24/11/2005	24/11/2008	11.400000	25,000	
██████████	ESOP	25G	24/11/2005	24/11/2008	11.400000	25,000	
██████████	Irish Second Tier	25E	24/11/2005	24/11/2010	11.400000	50,000	100,000
██████████	Irish Basic Tier	25F	07/12/2005	07/12/2008	11.820000	50,000	
██████████	Irish Second Tier	25F	07/12/2005	07/12/2010	11.820000	50,000	100,000

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FULL NAME	GRANT DATE	RELEASE DATE	AWARD PRICE	AWARD
[REDACTED]	20/12/2005	22/12/2008	11.430000	5,585
[REDACTED]	20/12/2005	22/12/2008	11.430000	9,886
[REDACTED]	20/12/2005	22/12/2008	11.430000	5,249
[REDACTED]	20/12/2005	22/12/2008	11.430000	5,249
[REDACTED]	20/12/2005	22/12/2008	11.430000	2,978
[REDACTED]	20/12/2005	22/12/2008	11.430000	5,249
[REDACTED]	20/12/2005	22/12/2008	11.430000	4,374

ANGLO IRISH BANK CORPORATION PLC TOP 10 SHARE OPTION GRANTS 2006							
FULL NAME	CLASS CODE	REG CODE	GRANT DATE	MATURITY DATE	OPTION PRICE	GRANTED OPTIONS	TOTAL GRANTS 2006
[REDACTED]	Irish Basic Tier	06E	07/12/2006	07/12/2009	14.800000	25,000	
[REDACTED]	ESOP	06E	07/12/2006	07/12/2009	14.800000	25,000	
[REDACTED]	Irish Second Tier	06E	07/12/2006	07/12/2011	14.800000	25,000	75,000
[REDACTED]	Irish Basic Tier	06C	21/07/2006	21/07/2009	10.890000	10,000	
[REDACTED]	ESOP	06C	21/07/2006	21/07/2009	10.890000	10,000	
[REDACTED]	Irish Basic Tier	06E	07/12/2006	07/12/2009	14.800000	12,500	
[REDACTED]	ESOP	06E	07/12/2006	07/12/2009	14.800000	5,000	
[REDACTED]	Irish Second Tier	06C	21/07/2006	21/07/2011	10.890000	20,000	
[REDACTED]	Irish Second Tier	06E	07/12/2006	07/12/2011	14.800000	12,500	70,000
[REDACTED]	Irish Basic Tier	06E	07/12/2006	07/12/2009	14.800000	12,500	
[REDACTED]	ESOP	06E	07/12/2006	07/12/2009	14.800000	50,000	
[REDACTED]	Irish Second Tier	06E	07/12/2006	07/12/2011	14.800000	12,500	75,000

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ANGLO IRISH BANK CORPORATION PLC TOP 10 SHARE OPTION GRANTS 2006							
FULL NAME	CLASS CODE	REG CODE	GRANT DATE	MATURITY DATE	OPTION PRICE	GRANTED OPTIONS	TOTAL GRANTS 2006
██████████	Irish Basic Tier	06D	27/09/2006	27/09/2009	12.710000	20,000	
██████████	ESOP	06D	27/09/2006	27/09/2009	12.710000	20,000	
██████████	Irish Second Tier	06D	27/09/2006	27/09/2011	12.710000	40,000	
██████████	Irish Basic Tier	06E	07/12/2006	07/12/2009	14.800000	10,000	
██████████	ESOP	06E	07/12/2006	07/12/2009	14.800000	15,000	
██████████	Irish Second Tier	06E	07/12/2006	07/12/2011	14.800000	25,000	130,000
██████████	Irish Basic Tier	06E	07/12/2006	07/12/2009	14.800000	30,000	
██████████	ESOP	06E	07/12/2006	07/12/2009	14.800000	40,000	
██████████	Irish Second Tier	06E	07/12/2006	07/12/2011	14.800000	30,000	100,000
██████████	Irish Basic Tier	06C	21/07/2006	21/07/2009	10.890000	7,500	
██████████	ESOP	06C	21/07/2006	21/07/2009	10.890000	7,500	
██████████	Irish Basic Tier	06E	07/12/2006	07/12/2009	14.800000	15,000	
██████████	Irish Second Tier	06C	21/07/2006	21/07/2011	10.890000	15,000	
██████████	Irish Second Tier	06E	07/12/2006	07/12/2011	14.800000	15,000	60,000
██████████	Irish Basic Tier	06B	19/05/2006	19/05/2009	12.280000	25,000	
██████████	ESOP	06B	19/05/2006	19/05/2009	12.280000	15,000	
██████████	Irish Second Tier	06B	19/05/2006	19/05/2011	12.280000	40,000	80,000
██████████	Irish Basic Tier	06E	07/12/2006	07/12/2009	14.800000	60,000	
██████████	ESOP	06E	07/12/2006	07/12/2009	14.800000	80,000	
██████████	Irish Second Tier	06E	07/12/2006	07/12/2011	14.800000	60,000	200,000
██████████	Irish Basic Tier	06C	21/07/2006	21/07/2009	10.890000	5,000	
██████████	ESOP	06C	21/07/2006	21/07/2009	10.890000	5,000	
██████████	Irish Basic Tier	06E	07/12/2006	07/12/2009	14.800000	15,000	
██████████	ESOP	06E	07/12/2006	07/12/2009	14.800000	5,000	

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FULL NAME	CLASS CODE	REG CODE	GRANT DATE	MATURITY DATE	OPTION PRICE	GRANTED OPTIONS	TOTAL GRANTS 2006
██████████	Irish Second Tier	06C	21/07/2006	21/07/2011	10.890000	15,000	
██████████	Irish Second Tier	06E	07/12/2006	07/12/2011	14.800000	15,000	60,000
██████████	Irish Basic Tier	06E	07/12/2006	07/12/2009	14.800000	30,000	
██████████	ESOP	06E	07/12/2006	07/12/2009	14.800000	140,000	
██████████	Irish Second Tier	06E	07/12/2006	07/12/2011	14.800000	30,000	200,000
██████████	Irish Basic Tier	06C	21/07/2006	21/07/2009	10.890000	5,000	
██████████	ESOP	06C	21/07/2006	21/07/2009	10.890000	5,000	
██████████	Irish Second Tier	06C	21/07/2006	21/07/2011	10.890000	15,000	
██████████	Irish Basic Tier	06E	07/12/2006	07/12/2009	14.800000	20,000	
██████████	ESOP	06E	07/12/2006	07/12/2009	14.800000	10,000	
██████████	Irish Second Tier	06E	07/12/2006	07/12/2011	14.800000	20,000	75,000

ANGLO IRISH BANK CORPORATION LTIP AWARDS 2006				
FULL NAME	GRANT DATE	RELEASE DATE	AWARD PRICE	AWARD
██████████	07/12/2006	07/12/2009	14.850000	4,040
██████████	07/12/2006	07/12/2009	14.850000	1,346
██████████	07/12/2006	07/12/2009	14.850000	2,071
██████████	19/05/2006	19/05/2009	12.280000	6,376
██████████	07/12/2006	07/12/2009	14.850000	2,020
██████████	07/12/2006	07/12/2009	14.850000	1,346
██████████	07/12/2006	07/12/2009	14.850000	2,693
██████████	07/12/2006	07/12/2009	14.850000	2,693

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FULL NAME	CLASS CODE	REG CODE	GRANT DATE	MATURITY DATE	OPTION PRICE	GRANTED OPTIONS	TOTAL GRANTS 2002
██████████	Irish Basic Tier	07C	14/02/2007	14/02/2010	16.060000	60,000	
██████████	ESOP	07C	14/02/2007	14/02/2010	16.060000	50,000	
██████████	Irish Second Tier	07C	14/02/2007	14/02/2012	16.060000	40,000	
██████████	Irish Basic Tier	07F	28/11/2007	28/11/2010	9.930000	25,000	
██████████	ESOP	07F	28/11/2007	28/11/2010	9.930000	25,000	
██████████	Irish Second Tier	07F	28/11/2007	28/11/2012	9.930000	50,000	250,000
██████████	Irish Basic Tier	07D	11/05/2007	11/05/2010	16.275000	17,290	
██████████	UK Basic Tier	07D	11/05/2007	11/05/2010	16.275000	2,710	
██████████	ESOP	07D	11/05/2007	11/05/2010	16.275000	20,000	
██████████	Irish Second Tier	07D	11/05/2007	11/05/2012	16.275000	35,000	
██████████	Irish Basic Tier	07E	02/08/2007	02/08/2010	13.610000	6,250	
██████████	Irish Second Tier	07E	02/08/2007	02/08/2012	13.610000	12,500	
██████████	ESOP	07E	02/08/2007	02/08/2010	13.610000	6,250	
██████████	Irish Basic Tier	07F	28/11/2007	28/11/2010	9.930000	50,000	
██████████	ESOP	07F	28/11/2007	28/11/2010	9.930000	50,000	
██████████	Irish Second Tier	07F	28/11/2007	28/11/2012	9.930000	100,000	300,000
██████████	Irish Basic Tier	07F	28/11/2007	28/11/2010	9.930000	25,000	
██████████	ESOP	07F	28/11/2007	28/11/2010	9.930000	25,000	
██████████	Irish Second Tier	07F	28/11/2007	28/11/2012	9.930000	50,000	100,000
██████████	Irish Basic Tier	07B	09/02/2007	09/02/2010	16.110000	70,000	
██████████	ESOP	07B	09/02/2007	09/02/2010	16.110000	70,000	
██████████	Irish Second Tier	07B	09/02/2007	09/02/2012	16.110000	60,000	200,000
██████████	Irish Basic Tier	07F	28/11/2007	28/11/2010	9.930000	25,000	

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FULL NAME	CLASS CODE	REG CODE	GRANT DATE	MATURITY DATE	OPTION PRICE	GRANTED OPTIONS	TOTAL GRANTS 2002
[REDACTED]	ESOP	07F	28/11/2007	28/11/2010	9.930000	25,000	
[REDACTED]	Irish Second Tier	07F	28/11/2007	28/11/2012	9.930000	50,000	100,000
[REDACTED]	Irish Basic Tier	07B	09/02/2007	09/02/2010	16.110000	40,000	
[REDACTED]	ESOP	07B	09/02/2007	09/02/2010	16.110000	40,000	
[REDACTED]	Irish Second Tier	07B	09/02/2007	09/02/2012	16.110000	70,000	
[REDACTED]	Irish Basic Tier	07F	28/11/2007	28/11/2010	9.930000	25,000	
[REDACTED]	ESOP	07F	28/11/2007	28/11/2010	9.930000	25,000	
[REDACTED]	Irish Second Tier	07F	28/11/2007	28/11/2012	9.930000	50,000	250,000
[REDACTED]	Irish Basic Tier	07F	28/11/2007	28/11/2010	9.930000	25,000	
[REDACTED]	ESOP	07F	28/11/2007	28/11/2010	9.930000	25,000	
[REDACTED]	Irish Second Tier	07F	28/11/2007	28/11/2012	9.930000	50,000	100,000
[REDACTED]	UK Basic Tier	07A	15/01/2007	15/01/2010	15.800000	2,875	
[REDACTED]	Irish Basic Tier	07A	15/01/2007	15/01/2010	15.800000	17,125	
[REDACTED]	ESOP	07A	15/01/2007	15/01/2010	15.800000	10,000	
[REDACTED]	Irish Second Tier	07A	15/01/2007	15/01/2012	15.800000	20,000	
[REDACTED]	Irish Basic Tier	07E	02/08/2007	02/08/2010	13.610000	6,250	
[REDACTED]	Irish Second Tier	07E	02/08/2007	02/08/2012	13.610000	12,500	
[REDACTED]	ESOP	07E	02/08/2007	02/08/2010	13.610000	6,250	
[REDACTED]	Irish Basic Tier	07F	28/11/2007	28/11/2010	9.930000	25,000	
[REDACTED]	ESOP	07F	28/11/2007	28/11/2010	9.930000	25,000	
[REDACTED]	Irish Second Tier	07F	28/11/2007	28/11/2012	9.930000	50,000	175,000
[REDACTED]	Irish Basic Tier	07B	09/02/2007	09/02/2010	16.110000	40,000	
[REDACTED]	ESOP	07B	09/02/2007	09/02/2010	16.110000	20,000	
[REDACTED]	Irish Second Tier	07B	09/02/2007	09/02/2012	16.110000	40,000	

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FULL NAME	CLASS CODE	REG CODE	GRANT DATE	MATURITY DATE	OPTION PRICE	GRANTED OPTIONS	TOTAL GRANTS 2002
██████████	Irish Basic Tier	07F	28/11/2007	28/11/2010	9.930000	25,000	
██████████	ESOP	07F	28/11/2007	28/11/2010	9.930000	25,000	
██████████	Irish Second Tier	07F	28/11/2007	28/11/2012	9.930000	50,000	200,000
██████████	Irish Basic Tier	07E	02/08/2007	02/08/2010	13.610000	12,500	
██████████	Irish Second Tier	07E	02/08/2007	02/08/2012	13.610000	25,000	
██████████	ESOP	07E	02/08/2007	02/08/2010	13.610000	12,500	
██████████	Irish Basic Tier	07F	28/11/2007	28/11/2010	9.930000	12,500	
██████████	ESOP	07F	28/11/2007	28/11/2010	9.930000	12,500	
██████████	Irish Second Tier	07F	28/11/2007	28/11/2012	9.930000	25,000	100,000
██████████	Irish Basic Tier	07B	09/02/2007	09/02/2010	16.110000	15,000	
██████████	ESOP	07B	09/02/2007	09/02/2010	16.110000	10,000	
██████████	Irish Second Tier	07B	09/02/2007	09/02/2012	16.110000	25,000	
██████████	Irish Basic Tier	07F	28/11/2007	28/11/2010	9.930000	12,500	
██████████	ESOP	07F	28/11/2007	28/11/2010	9.930000	12,500	
██████████	Irish Second Tier	07F	28/11/2007	28/11/2012	9.930000	25,000	100,000
██████████	Irish Basic Tier	07E	02/08/2007	02/08/2010	13.610000	25,000	
██████████	Irish Second Tier	07E	02/08/2007	02/08/2012	13.610000	50,000	
██████████	ESOP	07E	02/08/2007	02/08/2010	13.610000	25,000	100,000
██████████	Irish Basic Tier	07B	09/02/2007	09/02/2010	16.110000	70,000	
██████████	ESOP	07B	09/02/2007	09/02/2010	16.110000	50,000	
██████████	Irish Second Tier	07B	09/02/2007	09/02/2012	16.110000	80,000	200,000

This information must be considered in conjunction with the Notes disclosed on page 1 of this report.

**Anglo Irish Bank
2001 - 2008
Top 10 Bonus and Share Option Allocations**

ANGLO IRISH BANK CORPORATION LTIP AWARDS 2007				
FULL NAME	GRANT DATE	RELEASE DATE	AWARD PRICE	AWARD
[REDACTED]	28/11/2007	28/11/2010	10.660000	18,762
[REDACTED]	30/07/2007	30/07/2010	13.690000	8,796
[REDACTED]	28/11/2007	28/11/2010	10.660000	9,796
[REDACTED]	28/11/2007	28/11/2010	10.660000	9,381
[REDACTED]	28/11/2007	28/11/2010	10.660000	18,762
[REDACTED]	28/11/2007	28/11/2010	10.660000	14,071
[REDACTED]	28/11/2007	28/11/2010	10.660000	9,381
[REDACTED]	28/11/2007	28/11/2010	10.660000	6,531
[REDACTED]	28/11/2007	28/11/2010	10.660000	18,762
[REDACTED]	28/11/2007	28/11/2010	10.660000	4,690
[REDACTED]	28/11/2007	28/11/2010	10.660000	6,098
[REDACTED]	28/11/2007	28/11/2010	10.660000	14,071

ANGLO IRISH BANK CORPORATION PLC - TOP 10 SHARE OPTION GRANTS / PSP AWARDS 2008						
FULL NAME	REG CODE	GRANT DATE	MATURITY DATE	OPTION PRICE	PSP / GRANTED OPTION	TOTAL GRANTS / AWARDS 2008
[REDACTED]	N/A	20/02/2008	20/02/2011	€10.87 / STG£8.06	1,487	1,487
[REDACTED]	PSP AWARD	01/02/2008	01/02/2011	9.370000	65,228	65,228
[REDACTED]	PSP AWARD	01/02/2008	01/02/2011	9.370000	213,447	213,447
[REDACTED]	N/A	20/02/2008	20/02/2011	€10.87 / STG£8.06	594	594
[REDACTED]	PSP AWARD	01/02/2008	01/02/2011	9.370000	80,043	80,043
[REDACTED]	N/A	20/02/2008	20/02/2011	€10.87 / STG£8.06	1,487	1,487
[REDACTED]	08A	08/01/2008	08/01/2011	10.100000	15,000	

This information must be considered in conjunction with the Notes disclosed on page 1 of this report.

**Anglo Irish Bank
2001 - 2008
Top 10 Bonus and Share Option Allocations**

ANGLO IRISH BANK CORPORATION PLC - TOP 10 SHARE OPTION GRANTS / PSP AWARDS 2008						
FULL NAME	REG CODE	GRANT DATE	MATURITY DATE	OPTION PRICE	PSP / GRANTED OPTION	TOTAL GRANTS / AWARDS 2008
██████████	08A	08/01/2008	08/01/2013	10.100000	30,000	
██████████	08A	08/01/2008	08/01/2011	10.100000	15,000	60,000
██████████	08B	07/03/2008	07/03/2011	9.190000	7,500	
██████████	08B	07/03/2008	07/03/2013	9.190000	15,000	
██████████	08B	07/03/2008	07/03/2011	9.190000	7,500	30,000
██████████	PSP AWARD	01/02/2008	01/02/2011	9.370000	71,401	71,401
██████████	PSP AWARD	01/02/2008	01/02/2011	9.370000	68,303	68,303

Highly Confidential - Provided to the Joint Committee
Inquiry into the Banking Crisis on 23 February 2015

This information must be considered in conjunction with the Notes disclosed on page 1 of this report.



THEME: B6

Impact of the banks' internal audit processes in supporting effective risk management

LINE OF INQUIRY: B6a

Effectiveness of internal audit oversight and communication of issues related to governance, property-related lending strategies and risks, and funding and liquidity risks

- 2.5.6 Anglo's internal governance structure corresponded to the usual requirements. The Bank had a board sufficiently large to run the various necessary Board Sub-Committees. In 2005 the Bank changed CEO and, in addition, a number of executive Directors, who had been with the bank for many years and were experienced bankers, either retired or left the bank around this time. Anglo worked from there on with a new team of executives. In addition, the former CEO was appointed as the new Chairman of the Board, in contravention of generally accepted governance principles at the time. Thus, while the governance structure remained in place, the key people running the bank changed within a short time; this could have contributed to the changing interpretation of governance principles. As already mentioned, one change apparent was an acceleration of lending growth over the following few years.
- 2.5.7 The board members were experienced and well regarded in their own fields of speciality. However, they were not expert in the field of banking and several therefore appear to have been dependent on senior management to assess the needs for the reporting systems and procedures necessary to contain the key risks identified. Accordingly, there is little evidence that board directors at the time were active in challenging the bank's approach or its pace of lending growth. A number of Non-Executive Directors (NED's) and executives also had significant Anglo shareholdings, which indicates their confidence in the operations of Anglo and their assessment of the risks involved.
- 2.5.8 In 2007, the responsibilities of the Chief Risk Officer (CRO) were assumed by the Finance Director in addition to his other duties. At this time, Anglo's property-related exposure in Ireland, the UK and the US had grown very significantly, and the need to monitor and manage the attendant complexities and risks had grown proportionately. This decision would suggest that risk management was not appropriately prioritised within the bank.

INBS

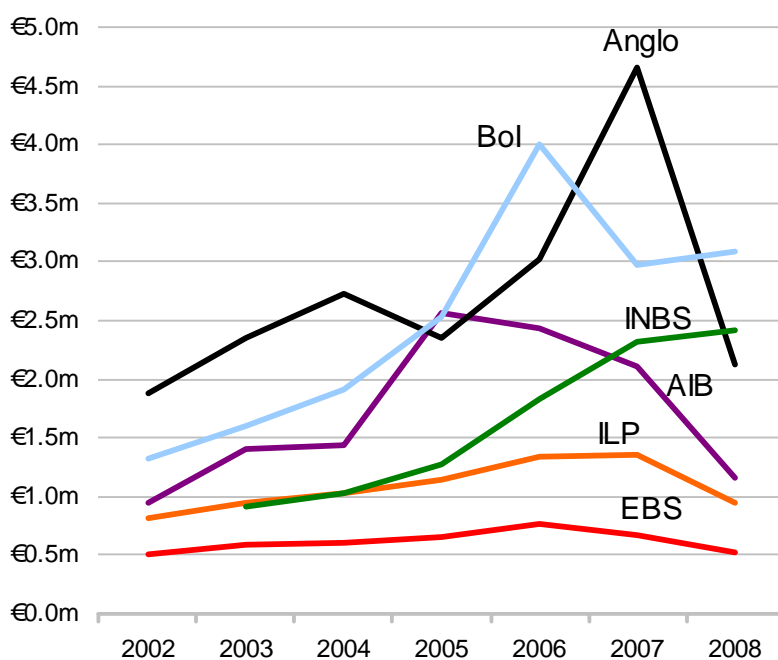
- 2.5.9 INBS operated with a very flat organisational structure and had a relatively small number of staff responsible for the large commercial loan book. The Managing Director (MD) had been given extraordinary powers by the Board and many staff reported directly to him. In August 1997, the Board had formally delegated its powers for the practical, effective and efficient management, promotion and development of the bank to the MD. This delegation of powers was most unusual given its vague and general formulation. Indeed, it is not immediately apparent what the limits to this empowerment were.
- 2.5.10 Though INBS had an Asset and Liability Committee and an Audit Committee, it operated without a number of other standard Board Sub-Committees (Risk or Nominations Committee). Moreover, there were functional inconsistencies in the operation of the committees that were in place.³⁴ Often basic procedural requirements for the operation of these committees, such as

³⁴ For example, in relation to INBS's Credit Committee, an inspection by the Financial Regulator in 2006 identified that, for the period 8 May 2005 to 11 May 2006, the quorum of three members was only achieved for two of the twenty seven meetings and for four of the meetings only one member was present.

2.6.3 The models, as operated by the covered banks in Ireland, lacked effective modifiers for risk. Therefore rapid loan asset growth was extensively and significantly rewarded at executive and other senior levels in most banks, and to a lesser extent among staff where profit sharing and/or share ownership schemes existed. Targets that were intended to be demanding through the pursuit of sound policies and prudent spread of risk were easily achieved through volume lending to the property sector. On the other hand, most banks also included performance factors in their models other than financial growth.

2.6.4 As illustrated by the graph and separate table in Figure 2.13 below, rewards of CEOs reached levels, at least in some cases, that must have appeared remarkable to staff and public alike. It is notable, that proportionate to size, the CEOs of Anglo and INBS received by far the highest remuneration of all the covered bank leaders. Conversely, despite AIB having one of the largest exposures to the property market, its CEO was paid the least, proportionate to size, of the covered bank leaders.

Figure 2.13 CEO Remuneration in the Covered Banks



Source: Annual Reports

Note:

1. CEO remuneration includes all reported remuneration including salary, fees, bonus, pension contributions other than shares or share options granted
2. INBS CEO Remuneration for 2002 not disclosed in annual report
3. Amounts relate to reported remuneration of officer holding period for the majority of the financial year except AIB 2005 where two CEOs' figures are combined due to mid-year hand-over
4. The 2008 (31/3/09) figure for BoI includes €1.46m for payment in lieu of notice

Figure 2.13 (continued)

'000	2002	2003	2004	2005	2006	2007	2008
Anglo	€1,885	€2,346	€2,721	€2,354	€3,015	€4,656	€2,129
INBS	(Note 3)	€10	€1,034	€1,269	€1,836	€2,313	€2,417
AIB	€40	€1,399	€1,445	€2,563	€2,436	€2,105	€1,152
BoI	€1,318	€1,594	€1,919	€2,525	€3,998	€2,972	€3,095
EBS	€13	€89	€601	€655	€760	€678	€22
IL&P	€22	€46	€1,025	€1,138	€1,335	€1,362	€42

2.6.5 Financial incentives were unlikely to have been the major cause of the crisis. However, given their scale, such incentives must have contributed to the rapid expansion of bank lending. Nevertheless, it was claimed by a number of bankers that management and staff were not motivated by compensation alone. Most would compete, it was claimed, as they had during the previous period of lower compensation, on the basis of natural competitiveness and professional pride.

2.7 Lending and Credit

2.7.1 The core principles, values and requirements governing the provision of credit are contained in a bank's credit policy document which must, as a regulatory requirement, be approved at least annually by a bank's board. The policy defines the risk appetite acceptable to the bank and appropriate for the markets in which the bank operates and the lending products which it provides. Procedures for approving and reporting exceptions to policy should also be clearly defined in the credit policy document. The purpose of such a credit policy is to set out clearly, particularly for lenders and risk officers, the bank's approach to lending and the types and levels of exposures to counterparties that the board is willing to accept.

2.7.2 During the Period, all of the covered banks regularly and materially deviated from their formal policies in order to facilitate rapid and significant property lending growth. In some banks, credit policies were revised to accommodate exceptions, to be followed by further exceptions to this new policy, thereby continuing the cycle. Furthermore, systems and procedures often lagged as lending activity increased.

Anglo

2.7.3 Anglo was not known for offering cheap loans either before or during the Period. Instead, the large financing needs of known customers would, if necessary, be provided quickly. This was particularly convenient for property developers needing to conclude deals rapidly or in competition with each other. However, as competition increased in Anglo's core lending markets, margins declined and greater risks were taken to retain customers. This is evidenced by material changes made to Credit Policy in 2005, 2006 and 2007 which relaxed key elements of lending criteria.

regulators and accounting bodies are reviewing the merits of alternative expected-loss models⁵⁴ for financial reporting.

2.8.13 Experience from the present crisis indicates that the prudential value of financial statements can be enhanced through a bank's counter-cyclical ability to anticipate future losses in its annual loan loss provisioning. The Commission believes that relevant Irish authorities should actively engage in the international work currently in progress to improve provisioning rules. In case this work does not succeed or developments so require, authorities might, where possible, consider using available national discretion to adopt financial reporting standards which support the stability of Ireland's banking system.

2.8.14 In this regard, it is noteworthy that the Bank of Spain (BoS) had introduced a dynamic provisioning (DP)⁵⁵ model for Spanish banks in 2000. BoS required the Spanish banks to continue using DP after 2005 notwithstanding the EU-mandated IFRS adoption. It was open to the FR to consider adopting provision along the lines of the DP model and to require Irish auditors to accept this. Alternatively, other counter-cyclical measures such as higher capital adequacy ratios could have been imposed by the FR in the benign Irish economic conditions in 2005.

2.9 Risk Management

2.9.1 Management and boards in general appear not to have fully appreciated the two key risks to which their banks were exposed. The risks were increased exposures to funding-dependent development projects with future refinance risks and to volatile wholesale funding. In addition, in many institutions, governance, systems and processes were also inadequate, exposing the covered banks to significant but often unrecognised operational risks.

2.9.2 Inadequate and ineffective Management Information Systems (MIS) have been identified as a weakness in most banks. Sound strategy and policy formulation requires that senior management and boards are well and promptly informed about the key metrics of a bank especially in relation to risk. For this reason, MIS needs to be of a quality, depth and timeliness that ensures that these requirements are met. In many of the covered banks, it appears that MIS did not always provide timely information on the extent and quality of property-related exposures.

⁵⁴Under consideration by the accounting standards setter, the IASB, in response to perceived weaknesses in IAS 39. Under the expected-loss approach, losses can be recognised earlier by banks through building up provisions for any expected loan losses over the life of a loan.

⁵⁵ The Spanish dynamic provisioning (DP) model uses a statistical method to provide for losses considered inherent in a loan portfolio which have not yet materialised. In an economic upturn, additional buffers beyond IFRS incurred-losses provisions are built up, which can be used during a downturn.

Anglo

- 2.9.6 The Risk function in Anglo was inadequately resourced and did not have the conviction necessary to ensure compliance with credit policy. While the Risk function had responsibility for Credit Committee meetings, the lack of adherence to good credit standards was manifest with exceptions to policy a frequent occurrence. Although the legacy IT system had shortcomings, it did hold all the relevant data. However, there is no evidence that this system was appropriately interrogated for the purpose of risk analysis by the Risk function. This may point to insufficient risk awareness both at management and board level.
- 2.9.7 These issues were particularly problematic because most Anglo Board members did not appear to have sufficient experience or specialist knowledge to fully recognise the specific risks attaching to a fast-growing monoline bank and the necessity for high quality MIS. Also, it is not clear whether all key letters from the FR, highlighting *inter alia* lending and risk management shortcomings, were disclosed to or considered by either the Risk and Compliance Committee, or the Board. The Board therefore lacked an internal, robust source of risk assessment and external feedback.

INBS

- 2.9.8 As already noted, INBS did not have a formal risk management function. In practice, this meant that there was no independent unit challenging risk appetite, checking compliance with credit policy, assessing proposals prior to lending decisions being taken, undertaking credit reviews, or monitoring risk limits. Essentially, there were no independent checks to limit or balance the risks that INBS continuously took, despite its increasing exposure to high risk land and site financing.

Other Banks

- 2.9.9 The profile, role and effectiveness of risk management varied across the other four covered banks. All had a functioning, though not always adequately resourced or mandated, risk management function.
- 2.9.10 The two bigger banks (AIB and BoI) had well staffed risk management functions that, at least in recent years, had a seat at the highest executive forum. However, the effectiveness of risk management was curtailed by poor implementation even though a number of risk mitigants had been introduced; flexibility was required and used to meet targets set down by new strategies (see Sections 2.4 and 2.5) whereas robust risk management has a tendency to dampen loan book growth. Thus, there were frequent exceptions to policy, a lack of specified risk appetite thresholds, significant deficiencies in MIS and a general unawareness or lack of concern about concentration risk. In addition, partly because of divisional structures, risk management lacked the ability to consolidate information on sector exposures.
- 2.9.11 The remaining two smaller banks differed from each other. IL&P had a very well functioning risk management system and lending was driven by strict principles and controls (exceptions to

policy were routinely notified to the Board). EBS had a system that was not adequately resourced and seems to have lacked influence within the bank.

2.10 Internal Audit

2.10.1 Internal Audit (IA) functions existed in each of the covered banks during the Period. Their purpose, authority and responsibility were in all cases defined and set out in terms of reference or by charter approved by an Audit Committee and Board of each bank. In all the covered banks, IA reported to the CEO and Audit Committee, in line with best practice. IA is generally recognised as “a third line of defence” coming after business unit control functions (first line of defence) and risk/compliance control functions (second line of defence). IA is there to provide independent assurance on the continuing effectiveness of the institution’s corporate governance and control environment. It reviews, at regular intervals, key control function processes, reports on risk and control practices, frameworks and policies, and reports its findings to the audit committee. Across the covered banks, the functions of IA were carried out with varying degrees of effectiveness and professionalism.

Anglo

2.10.2 Anglo’s IA function had been assessed by external consultants in April 2004 and was then classified as a “strong performer” but with a number of opportunities for improvement. The two most relevant areas noted for further development related to “greater clarity of the role of IA in the overall risk management framework to ensure there are no gaps in risk coverage” and “enhanced reporting on emerging risks”. The IA function was again reviewed, this time internally, in February 2007 and again in 2008 and 2009 and the findings of these reviews were positive. Prior to the commencement of the Period, Anglo had established a Risk and Compliance Committee with oversight responsibility for Credit and Treasury Risks. Accordingly, neither IA nor the Audit Committee was in a position to challenge credit decisions per se, where the main problems ultimately arose. The IA role in credit risk was limited mainly to carrying out inspections on processes such as adherence to terms and conditions of loan sanctions, which it duly did.

INBS

2.10.3 The IA function in INBS, while effective for its traditional residential mortgage type business, proved to be inadequate in the growth oriented commercial lending environment. It was lacking the requisite knowledge and skills in key areas such as IT, Treasury, and Commercial Lending and, as a result, responsibility for these areas was required to be outsourced to a large auditing firm. During the Period the FR identified a significant number of weaknesses, shortcomings and concerns in IA. The FR made numerous requests and specific recommendations for IA to be strengthened stressing, *inter alia*, that the enhancement of the IA function was particularly important given the fact that INBS had a small executive team which required the support of a strong IA function. In 2007, the FR continued to raise significant concerns about the independence and expertise of IA. This culminated in a request in May 2008 for an independent external consultant to review and report on the adequacy of IA and of the control environment within INBS. The FR subsequently required that the Audit Committee be strengthened.



THEME: C2

Role and effectiveness of the Policy appraisal regime before and during the crisis
Pre Crisis phase

LINE OF INQUIRY: C2c

The liquidity versus solvency debate

ANGLO IRISH BANK CORPORATION plc (the "Bank")**Minutes of a Meeting of the Board of Directors
held at Stephen Court, 18/21 St. Stephen's Green, Dublin 2
on Friday 12th December, 2008 at 2.00 pm**

Present:	S.P. FitzPatrick	(By conference call) Chairman
	W. McAteer	
	D. Drumm	
	G. McGann	
	M. Jacob	
	P. Whelan	
	N. Harwerth	(By conference call)
	D. O'Connor	(By conference call)
	D. Quilligan	(By conference call)
	L. Bradshaw	(By conference call)
	A. Heraty	(By conference call)
N. Sullivan	(By conference call)	
In Attendance:	A. Dukes	(By conference call)
	F. Daly	(By conference call)
	N. Mercer	(Secretary)

1. Update on Discussions with Department of Finance/ Central Bank:

David Drumm updated the Board on his and Willie McAteer's discussions with Kevin Cardiff, in which they had outlined the key discussion points from yesterday's board meeting, also mentioning the downward spiral momentum which had been building since the announcement of the Bank's results on the 3rd December, 2008. Whilst it had been acknowledged by Kevin Cardiff that support would be provided when needed, the nature of that support had not been articulated.

After the meeting David Drumm and Willie McAteer had also met with the Governor of the Central Bank, John Hurley and Tony Grimes, at which the quantum of capital required was discussed, with a figure of €3 billion seen as the optimum amount by John Hurley. David Drumm added that the potential mechanisms for raising capital had been discussed. These included inter-alia, a rights issue and preference share issue, although no specific guidance was provided as to the terms on which the Government support would be provided.

2. Capital Raising:

There was a discussion regarding the appetite of existing investors to participate in an equity offering by the Bank with the Executives expressing confidence that circa €1 billion could be raised from the Bank's long-term investors. The Executives added that they believed that this investment could be firmly grounded/crystallised within the next week as meetings had already been set up as part of the investor road show.

The Board agreed that it was essential that a template for the terms of a capital raising be devised as a matter of urgency and that management should draft an outline of a deal structure for a capital raising which could be discussed with investors during the road show meetings.

The importance of gauging and obtaining support from Kevin Cardiff in the Department of Finance with regard to potential terms for a capital raising programme was also discussed. It was noted that whilst initial discussions with IAIM with regard to capital raising had not been fruitful, a further meeting should be arranged with IAIM to ascertain the circumstances and conditions on which their members may be prepared to invest.

David Drumm also reported on the Department of Finance's feedback in respect of the Tier 1 Bond buyback discussed at yesterday's board meeting, commenting that this proposal had been received reasonably well. It is now proposed to set out the structure of this proposal in more detail for further consideration by the Board.

3. FSA:

It was noted that the Bank has not yet received notice in writing from the FSA regarding their intention to place the UK Branch on the 'watch list' adding that this matter was not to be disclosed publicly by the FSA. Declan Quilligan added that he believed that an improvement in the Bank's capital ratio and liquidity position would in time lead to the Bank's removal from the FSA 'watch list'. He confirmed that the Financial Regulator was aware of the situation.

4. Financial Regulator:

The Chairman updated the Board on a meeting he attended on Wednesday last called by Pat Neary at short notice, which had also been attended by Con Horan and Bernard Sheridan. He added that the Financial Regulator had expressed concern at the share price and what this implied in terms of shareholder confidence. There had also been a discussion on the contents of the Business Plan (which had been submitted to the Financial Regulator previously) at the meeting and the Financial Regulator had raised a number of issues which the Chairman then outlined to the Board including inter alia:-

- The Board's role including consideration of changes to the Board and Management.
- What was the Board's alternative strategy should it not be in a position to raise capital and how it would propose to limit the resulting damage to the Bank.
- The Bank's ability to continue to raise deposits in the UK.

The Chairman had advised the officials from the Financial Regulator, of the meeting of the Board which was to take place on Thursday 11th December to discuss proposals around capital raising and investor feedback, and confirmed to the Board that he had reverted to the Financial Regulator on the proposals discussed at that meeting.

He confirmed that a further update would be provided to the Financial Regulator following today's meeting.

The meeting then concluded.

..... *J. W. C.* Chairman

..... *21/3/09* Date

Kalamazoo - 92575.000

THEME: R2

Effectiveness of the supervisory practice
(Central Bank, Financial Regulator and
Department of Finance)

LINE OF INQUIRY: R2b

Nature and effectiveness of the operational
implementation of the macro economic and
prudential policy



Credit Opinion: **Anglo Irish Bank Corporation Plc**

Anglo Irish Bank Corporation Plc

Dublin, Ireland

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	A1/P-1
Bank Financial Strength	C+
Issuer Rating	A1
Senior Unsecured	A1
Subordinate -Dom Curr	A2
Jr Subordinate	A2
Preference Stock	A3
Commercial Paper	P-1
Other Short Term -Dom Curr	P-1
Anglo Irish Capital UK (2) LP	
Outlook	Stable
Bkd Preferred Stock	A3
Anglo Irish Asset Finance PLC	
Outlook	Stable
Bkd Preferred Stock	A3

Contacts

Analyst	Phone
[REDACTED]	44.20.7772.5454
<i>Customer Confidentiality</i>	49.69.707.30.700

Key Indicators

Anglo Irish Bank Corporation Plc

	[1]2007	2006	2005	2004	2003	Avg.
Total assets (EUR billion)	96.65	73.29	48.41	34.34	25.52	[2]37.85
Total capital (EUR billion)	9.34	6.90	4.62	3.87	2.25	[2]35.82
Return on average assets	1.17	1.08	1.32	1.32	1.20	1.22
Recurring earnings power [3]	1.59	1.50	1.73	1.75	1.80	1.67
Net interest margin	1.96	1.89	1.89	1.83	1.89	1.89
Cost/income ratio (%)	22.32	26.45	27.26	27.65	29.27	26.59
Problem loans % gross loans	0.51	0.53	0.64	0.62	0.74	0.61
Tier 1 ratio (%)	8.60	8.40	8.40	8.30	8.50	8.44

[1] As of September 30. [2] Compound annual growth rate. [3] Preprovision income % average assets.

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of C+ to Anglo Irish Bank Corporation plc (AIBC), which translates into a baseline credit assessment of A2. The rating reflects the bank's stable market position and solid track record as a secured lender to medium-sized corporates, professional property investors and high net worth individuals. It also takes into account AIBC's sound profitability, good credit quality and rigorous lending approach and balances this against the challenges that exist in regard to asset quality and funding against the background of

current market conditions - both in its core markets and globally.

Growth at AIBC has been largely organic and based around the core activities of corporate lending and commercial mortgages. AIBC is primarily active in Ireland and the UK, as well as to a lesser but growing extent, the US.

The bank has undergone substantial loan growth in recent years, however, the apparently aggressive growth rates need to be assessed in the context of the economic expansion experienced in the Republic of Ireland and the bank's conservative underwriting policies. We expect this growth to fall back somewhat due to the slowing Irish economy and the global "credit crunch".

In particular we note that AIBC has a sizable degree of exposure to the commercial investment property market - albeit backed by a granular stream of cash flows from the services sector - which could leave it vulnerable to more challenging conditions in the Irish and UK corporate markets. Moody's notes that AIBC has direct access to these cash flows providing the bank with an added degree of protection. Moreover, AIBC is somewhat reliant on short-term wholesale funding and while this is mitigated by the efforts the bank has made over recent years to diversify its funding sources (not least its successful deposit-gathering strategy) this is an area of potential challenging going forward.

AIBC's long term global local currency (GLC) deposit rating is A1, based on Moody's assessment of a high probability of systemic support in the event of a stress situation - in accordance with the medium country support guideline for Ireland. Consequently, there is a one-notch uplift for AIBC's GLC deposit rating from its A2 baseline credit assessment.

Credit Strengths

Stable and established market positions in core business areas

Sound profitability aided by low cost base

Good credit quality supported by rigorous lending approach

Market risk is contained

Credit Challenges

Portfolio credit concentrations in investment property lending

Strong loan growth up to 2007 leads to a relatively unseasoned loan book

Somewhat reliant on short-term wholesale funding

Economic capitalisation although adequate could face some pressure

Rating Outlook

There is a stable outlook on all ratings. The stable outlook on AIBC's BFSR is underpinned by the bank's current franchise and market share within both the Irish and UK markets as well as its solid profitability which should position the bank well in less favourable environment.

What Could Change the Rating - Up

An upgrade of the BFSR is unlikely given the bank's funding structure, its concentration on investment property lending and the more difficult economic conditions in the bank's main markets.

What Could Change the Rating - Down

A serious downturn in the bank's core Irish and UK markets leading to a significant decline in credit quality would put downward pressure on the BFSR as would an inability to maintain and grow deposit funding levels from current levels to support further growth. In this respect the exposure of AIBC to the investment property markets in London and Dublin will be of particular note.

Recent Results and Developments

In the year to 30 September 2007, AIBC recorded a pre-tax profit of EUR 1,243 million, an increase of 46% year-on-year (compared with a previous increase of 25% y-o-y). Total assets increased by 32% to EUR 96.6 billion. The

group's Tier 1 and total capital ratios amounted to 8.6% and 12 %, respectively, as at 30 September 2007.

DETAILED RATING CONSIDERATIONS

Detailed considerations for AIBC's currently assigned ratings are as follows:

Bank Financial Strength Rating

Moody's has assigned a C+ BFSR to AIBC which is in line with the (C+) outcome of the financial strength scorecard. Moody's believes the C+ rating is an appropriate measure of the bank's financial strength taking into consideration its strong domestic market position, sound financial fundamentals and conservative underwriting.

Qualitative Factors (50%)

Factor: Franchise Value

Trend: Improving

AIBC's domestic market share in mid-sized commercial lending currently amounts to approximately 20%, ranking third after Allied Irish Banks plc (Aa2/P-1/B-) and Bank of Ireland (rated Aa2/P-1/B-). Although competition is strong in this particular business segment, Moody's believes that AIBC is well placed to sustain its domestic position in view of its track record and visibility, its low cost base and the relationship-driven nature of its corporate lending business.

AIBC has been active in the UK market for 20 years and now ranks fifth amongst those foreign-owned banks with an investment property focus, its estimated market share amounting to 5%. AIBC's UK franchise has been strengthened by the establishment of regional lending offices in Manchester, Birmingham, Glasgow, London, Edinburgh, Belfast and Leeds.

Although the institution's share of the US market is negligible, strong loan growth has resulted in the US division now accounting for 10% of the aggregate loan portfolio as at 30 September 2007. AIBC's Boston based operation provides commercial real estate financing options in the US and the bank also has representative offices in New York and Chicago.

We believe that the institution's UK and US activities offer AIBC considerable long-term growth potential in view of the size and depth of these markets (as compared to its smaller home market).

Although business lending is the primary earnings contributor, AIBC's wealth management activities, which encompass private banking, wealth management, funds management and retirement planning activities, provide additional business and revenue diversification.

AIBC scores C- for franchise value.

Factor: Risk Positioning

Trend: Improving

AIBC's score for risk positioning is affected by the relatively modest scores for industry and borrower concentrations. The bank does not have any corporate governance issues. The liquidity management score of B reflects the institution's good liquidity management and on-going efforts to increasingly diversify its funding profile. The market risk appetite score of A takes into account the fact that the market risk in the bank's trading and non-trading books is well contained, although we note that the bank took impairment provisions and mark-to-market adjustments on its portfolio of SIVs and ABS with a sub-prime element of EUR112m in the year to end-September 2007. We would expect the bank to take further adjustments on these portfolios but these should not be rating relevant.

AIBC is strategically focused on secured lending to medium-sized corporates, professional property investors and high net worth individuals. The group's lending approach is identical in each of its core markets; Ireland, the UK and the US (Boston, New York and Chicago). Growth has been largely organic and products include commercial lending and commercial mortgages.

Moody's views favourably the institution's consistently applied business strategy and its continued focus on its core operating strength as a commercial lender, however the bank's focus on commercial property-related lending means that the bank scores relatively low on borrower and industry concentration.

On an overall basis, AIBC scores C- for risk positioning.

Factor: Operating Environment

This factor is common to all Irish banks operating in the Republic of Ireland. Moody's financial strength scorecard produces a score of B+ for the Irish operating environment. The assessment of AIBC's operating environment reflects our view of the different countries where the group operates, primarily Ireland and the UK.

Quantitative Factors (50%)

Factor: Profitability

Trend: Neutral

AIBC consistently records sound profitability levels. In particular, pre-tax income increased by 46% in financial year 2007. Strong loan growth and a low cost base, the latter due to the absence of a branch network and more general cost awareness, have been instrumental in driving profit growth throughout the years. However, AIBC remains susceptible to net interest margin attrition, due to the fact that interest income is the earnings mainstay and in view of the institution's wholesale funding reliance. In mitigation, the bank has thus far maintained its net interest margin and has been diversifying its revenue flow by geography (Ireland, the UK and the US) and activity (treasury, wealth management). In addition, AIBC has been actively sourcing retail deposit funding, the latter typically proving less sensitive to interest rate movements. However, against the background of higher funding costs and slowing economies in its core markets we might see AIBC's profitability fall back somewhat going forward and the extent of any potential fall back will obviously be an important rating driver. We would also note that the bank is generally libor based on both sides of the balance sheet so the impact of the base rate / libor differential is negligible.

AIBC scores C+ on profitability.

Factor: Liquidity

Trend: Neutral

AIBC's liquidity is good and given the bank's funding profile is subject to substantial monitoring by senior management. AIBC has improved and strengthened its funding profile as a result of the ongoing diversification of its funding sources. Although primarily reliant on corporate deposits and market funding the bank has a growing retail deposit base that at end-September 2007 accounted for 21% of the bank's total funding, compared to 36% for corporate funding. AIBC does not have a retail branch network but has proactively grown its retail deposit base in Ireland, the UK and the Isle of Man. The bank's corporate deposits have proven to be resilient and we believe that given the nature of these depositors (Irish-based credit unions, charities, small- and medium-sized companies, and professionals) they will continue to be. AIBC's retail and corporate deposit base increased by 46% to EUR52.7 billion in the year to 30 September 2007.

AIBC has in recent years taken steps to improve liquidity, primarily reflected by the ongoing diversification of its funding profile both geographically and by instrument type. Moody's also notes positively the relative lengthening in the maturity profile of the bank's funding base. The bank has established a EUR 2 billion private UK structured covered bond programme (March 2007). As at Sept 2007 AIBC had issued EUR 1.33 billion under the programme (with an average life of 3 years). The programme was increased to EUR 5 billion in October 2007.

In October the bank issued a further EUR 2 billion of UK covered bonds. These bonds were exchanged for a portfolio of Aaa rated ECB repo eligible covered bonds via a series of repo transactions thus increasing the bank's liquid asset holdings by EUR 2 billion. The bank also has other sources of liquidity it can call on such as its substantial liquid assets portfolio. It also has a USD600 million committed facility as a back-stop to its USCP programme.

AIBC scores C+ for liquidity overall which includes a B score for liquidity management and a D score for the liquidity ratio.

Factor: Capital Adequacy

Trend: Neutral

AIBC's Tier 1 and total capital ratios amounted to 8.6% and 12.0% as at end-September 2007. Although the bank's Tier 1 capital ratio appears to have remained broadly stable in recent years, AIBC has issued hybrid Tier 1 capital (non-core Tier 1). Excluding hybrid Tier 1 capital, AIBC's core Tier 1 capital ratio is 5.2%. For a bank of AIBC's profile such ratios are adequate but leave less room for manoeuvre in a deteriorating operating environment.

In mitigation, Moody's notes AIBC's consistently strong internal capital generation levels (33% in 2007). AIBC intends to hold a core Tier 1 capital ratio of at least 5% in the short-to-medium term. Although hybrid capital issuance dilutes the quality of an institution's capital base, Moody's takes into consideration AIBC's good asset quality and strong internal capital generation levels. We believe while the bank's economic capitalisation is

sufficient at present that could face some pressure in the future against a background of potentially lower profitability and potential asset quality deterioration.

AIBC scores C+ for capital adequacy.

Factor: Efficiency

Trend: Neutral

AIBC's cost-to-income ratio was 22.3% as at 30 September 2007, notwithstanding ongoing business expansion and staff recruitment outlays. Moody's believes that AIBC's low cost base endows it with greater flexibility in dealing with competitive pricing pressure and remains an undoubted key credit strength.

AIBC scores A for efficiency.

Factor: Asset Quality

Trend: Neutral

AIBC's credit quality is very good in view of the secured nature of the institution's loan portfolio, rigorous and conservative lending policy and ongoing low level of non-performing loans (NPLs). AIBC is strategically focused on secured cash-flow-based lending to medium-sized corporates, professionals and high net worth individuals. All exposures are collateralised, almost exclusively on property (first legal charge).

Although the loan book exhibits a pronounced commercial property-related element, it is important to note that the underlying industry exposure is highly diversified. Loans are backed by a very granular stream of cash flows and are collateralised by means of a first legal charge on the underlying property. Furthermore, AIBC has direct access to these cash flows, which provides the bank with an added degree of protection. Lending policy is conservative and rigorously applied.

Against these positives it needs to be remembered that AIBC has not yet been seriously tested through a market downturn and that the growth rates in AIBC's loan book have been strong -- amounting to 34% in the 12 months to September 2007. Thus far AIBC's sustained high loan growth, portfolio expansion has been in the context of the strong economic growth performance in the Republic of Ireland and the UK. Going forward the growth and performance of both economies is likely to be at best slower, throwing the issue of loan book seasoning, or lack of it, into more focus.

Any concerns in relation to loan book seasoning are mitigated to a certain degree by (i) the property price appreciation in recent years, which has led to an improvement in indexed LTVs and by extension the value of the security underpinning the loan portfolio and (ii) the predominantly short-to-medium-term duration of the loan book (average duration is 3.7 years), which means that the institution should be well placed to manage its exposure over the long term in the event of a prolonged or severe economic downturn in any of its core markets. Moody's also notes the growing degree of geographic diversification, which could help to mitigate the impact of a localised economic downturn on the credit quality of the bank's loan portfolio. Furthermore, the maturity profile of tenant lease contracts exceeds the duration of the loan portfolio.

The point remains however that in general, Moody's believes that commercial property portfolios are inherently more risky than residential mortgage portfolios and would typically evidence higher arrears levels in the event of an economic downturn.

AIBC scores A for asset quality.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's has assigned a global local currency (GLC) deposit rating of A1 to AIBC. The rating is underpinned by the bank's baseline credit assessment of A2. In view of AIBC's domestic market share (approximately 10% of system assets) Moody's assesses the probability of systemic support for the bank in the event of a stress situation as "high" in accordance with the medium system support guideline for Ireland. Consequently, AIBC receives a one-notch uplift from its baseline risk assessment, bringing the GLC to A1.

Notching Considerations

Junior obligations are notched from the supported deposit rating as Moody's believes that the Irish financial Services Regulatory Authority does not have the right to impose a loss of principal on subordinated debt and other similar instruments.

Foreign Currency Deposit Rating

Moody's assigns an A1 foreign currency deposit rating to AIBC.

Foreign Currency Debt Rating

Moody's assigns an A1 foreign currency debt rating to AIBC.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Risk Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scal Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Anglo Irish Bank Corporation Plc

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						C	
Factor: Franchise Value						C-	0
Market Share and Sustainability			x				
Geographical Diversification		x					
Earnings Stability					x		
Earnings Diversification [2]							
Factor: Risk Positioning						C-	0
Corporate Governance [2]							
- Ownership and Organizational Complexity	--	--	--	--	--		
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
Controls and Risk Management		x					
- Risk Management			x				
- Controls	x						
Financial Reporting Transparency			x				
- Global Comparability	x						
- Frequency and Timeliness				x			
- Quality of Financial Information			x				
Credit Risk Concentration	--	--	--	--	--		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management		x					
Market Risk Appetite	x						
Factor: Operating Environment						B+	0
Economic Stability		x					
Integrity and Corruption		x					
Legal System	x						
Financial Factors (50%)						B-	
Factor: Profitability						C+	0
PPP % Avg RWA			2.32%				
Net Income % Avg RWA		1.72%					
Factor: Liquidity						C+	0
(Mkt funds-Liquid Assets) % Total Assets				10.38%			
Liquidity Management		x					
Factor: Capital Adequacy						C+	0
Tier 1 ratio (%)		8.47%					
Tangible Common Equity % RWA			4.35%				
Factor: Efficiency						A	0
Cost/income ratio	25.34%						
Factor: Asset Quality						A	0

Problem Loans % Gross Loans	0.56%						
Problem Loans % (Equity + LLR)	8.46%						
Lowest Combined Score (15%)						C+	
Economic Insolvency Override						Neutral	
Aggregate Score						C+	
Assigned BFSR						C+	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information

[2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral

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