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
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Allied Irish Bank
AIB: Core Book 2

January 2016

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THEME: C2

Role and effectiveness of the Policy appraisal regime before and during the crisis

LINE OF INQUIRY: C2c

The liquidity versus solvency debate

Notes to the accounts

36 Deposits by banks	Group 2004 € m	Group 2003 € m	Allied Irish Banks, p.l.c. 2004 € m	Allied Irish Banks, p.l.c. 2003 € m
Securities sold under agreements to repurchase	**8,523**	6,093	**8,421**	6,093
Other borrowings from banks	**11,905**	12,001	**26,027**	22,738
	20,428	18,094	**34,448**	28,831
Of which:				
Domestic offices	**18,450**	16,040		
Foreign offices	**1,978**	2,054		
	20,428	18,094		
With agreed maturity dates or periods of notice, by remaining maturity:				
Over 5 years	**555**	348	**527**	310
5 years or less but over 1 year	**50**	91	**–**	77
1 year or less but over 3 months	**6,456**	2,509	**6,368**	2,504
3 months or less but not repayable on demand	**13,014**	14,838	**12,787**	14,596
	20,075	17,786	**19,682**	17,487
Repayable on demand	**353**	308	**255**	293
	20,428	18,094	**19,937**	17,780
Due to subsidiary undertakings			**14,511**	11,051
			34,448	28,831
Amounts include:				
Due to associated undertakings	**2**	3	**2**	3

The Sunday Business Post
March 15, 2015

Findings in Project A

The €63 billion land and development bombshell: This was the biggest danger facing Irish banks at that time as land and development land generated little income and was always going to be the slowest to recover.

Loans in this category for each bank were: AIB (€23.7 billion); Bank of Ireland (€13.6 billion); Anglo (€19.7 billion); Irish Nationwide (€5.6 billion); EBS (€516 million); Irish Life and Permanent (Zero).

Anglo's top 20 development/land clients alone owed €6.6 billion.

Irish banks' €121.5 billion exposure to Britain: PwC notes that "40 per cent of loans are lent outside Ireland with 55 per cent of Irish Nationwide's book outside Ireland, primarily in Britain.

"On average, 43 per cent of AIB, Bank of Ireland and Anglo's loans are outside Ireland".

In total Irish banks have loaned €256 billion in Ireland, €121.5 billion in Britain and €48.6 billion in other international jurisdictions. If Irish banks had been allowed to

expects it might lose €15.7 million. PwC notes that Anglo's list is "based on recent valuations" and assumes assets "can be readily sold". Similar underestimates of losses were produced by all the banks.

Irish Nationwide's 'prudence': Irish Nationwide loaned €74 million to fund a byzantine palace in Surrey called Updown Court with a bowling alley, cinema and five swimming pools.

The society lists it as its second biggest problem borrower as it expects to lose €34.3 million on it.

"Given the current market conditions, a 46 per cent impairment was deemed prudent," the report notes. In total €4.2 billion or 42 per cent of the society's entire loan book is classed as "speculative property investment".

General concentration: PwC states "78.2 per cent of Anglo's book is lent to property companies, 5.5 per cent for personal investment and 6.3 per cent to hotels. 44.2 per cent of Bank of Ireland's book is in home mort-

AIB's sector concentration: According to PwC, "The Financial Regulator applies a limit on sector concentrations equating to 200 per cent of own funds for one sector or 250 per cent of own funds for two related sectors.

"At September 30, 2008, AIB's property exposure (excluding Poland, Britain and parts of the capital markets) totalling 275 per cent of own funds and 390 per cent when combined with development and land exposures therefore breaching the above limits.

"We understand that the sector concentration framework is currently being reviewed by the Financial Regulator."

Bank of Ireland most realistic: "Impaired loans totalled €4.5 billion at September 30, 2008 across all the banks, with the largest impairment being in Bank of Ireland totalling €1.9 billion." Bank of Ireland had placed 8.9 per cent of its loan book on its "monitored" list, but Anglo felt only 2.6 per cent of its book deserved this treatment. Anglo had

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THEME: C3

Appropriateness and effectiveness of the Department of Finance actions during crisis

LINE OF INQUIRY: C3b

Appropriateness of the bank guarantee decision

Notes of events occurring on 29th and 30th September 2008

This is an account of the events of last Monday in relation to the Government guarantee and the meetings surrounding it. On Monday evening the 29th September I telephoned Kevin Cardiff in the Department of Finance around 5pm/6pm asking him if it was possible to meet with the Minister for Finance that evening. This was in coordination with the Bank of Ireland who were making a similar call to arrange to meet the Taoiseach. Cardiff responded that the Minister wanted to see us that evening and he suggested a time of 21.30pm in Government buildings.

At 21.30pm I attended a meeting in Government buildings with Dermot Gleeson, Richard Burrows and Brian Goggin. When we arrived in Government buildings we were ushered into a side room and subsequently called into a meeting attended by the Taoiseach, the Minister for Finance, the Attorney General, Dermot McCarthy from the Taoiseach's office, Kevin Cardiff, David Doyle, Eugene McCague and John Hurley the Governor of the Central Bank.

We were invited at this start of the meeting to present our analysis of the current situation. We had agreed in advance that the order of presentation would be firstly Richard Burrows, then Dermot Gleeson, and then followed by myself and Brian Goggin. All the speakers outlined a serious situation on the systemic stresses facing the Irish Banking system and indeed the international funding situation for banks worldwide. When it came to my presentation I stressed that AIB was in a reasonably strong position but it was experiencing the stresses in the market but that we had adequate liquidity to meet our regulatory requirements up to the end of October.

Brian Goggin presented an similar outlook also stressing that the situation was deteriorating and we were a number of weeks away from both the banks being funding all of its requirements in the overnight market which while a viable option was highly undesirable and fraught with risk.

After our presentation there was a discussion with those in the room on what could be done about the situation and we mentioned that the situation needed to be stabilised and one way to do it would be for the Government to guarantee, the obligations of the Irish Banks on a temporary basis. At that time we were asked to leave the room and the members of the cabinet were to discuss the position as presented by the Banks with their officials. We were out of the room for over an hour and then called back. When we were called back the position of other banks was discussed particularly to the degree that they might be under more stress than we were.

We outlined in detail our view that Anglo Irish Bank and Irish Nationwide were in a very weak position and represented a contagion threat to the rest of the system and they had to be dealt with very severely in terms of being closed down, nationalised or put into a some sort of run off position and ring fenced from the rest of the institutions. During that meeting Tony Grimes from the Central Bank was called in and he said that Anglo Irish Bank needed a billion in funding to meet their obligations the following morning, immediately in the morning time and could need three to four billion later on during the day. At this point John Hurley said it was impossible to bring down a bank of that size in the middle of the week, that accidents could occur and a fumble could occur and that what we needed to do was to get enough funding to keep Anglo in business until the weekend when other actions could be taken.

Both of the Banks present stressed that we felt we had to preserve all the liquidity we had to meet our own needs especially as we had already outlined that the funding position was weakening on a daily basis. The Government responded by saying that we had to come up with a solution that they didn't have that attitude to intervene at this stage and that we needed to lend money to Anglo. The meeting was quite heated at this stage as we maintained that we couldn't help beyond very small amounts of money. We were asked to leave the room and give serious consideration to the Governments requests bearing in mind the threats we all faced. We left the room and worked with our colleagues in treasury in both sides and put back the issues to working groups that we had offsite. In AIB's case that comprised a group of John O'Donnell, Colm Doherty and Eamonn Hackett who were looking at the issues back in Bankcentre. I believe Bank of Ireland had a similar group working at their end. The two banks worked separately at this stage as we were both in relatively different positions vis-á-vis our responsibility to respond to the Governments request.

After about an hour's discussion AIB was able to come up with a solution which involved bidding up for substantial funds in the ECB auction due on the Tuesday the seven day auction where we could bid up to 6 billion against qualifying collateral that we had in our possession. This would require us to move substantial amounts of collateral from our Euro clear accounts into the auction process.

In addition we had other qualifying assets which we were prepared to submit to the Central Bank and use the draw down funds against the marginal lending facility. In addition to that we were prepared to make a suggestion to the Government that treble A type assets that we hold in our securities portfolio which do not meet ECB qualifying criteria could be given to NTMA in return for a gilt which we would then give to the Central Bank as a QLA and ask them to raise money against it in the ECB. We would get the cash and give the cash back to the NTMA who would give it to Anglo. This mechanism could generate up to 8 to 10 billion if we moved all our securities.

We were called back into the room after a long period. Both banks made proposals which in broad terms amounted to about 5 billion each that we could give to Anglo until the end of the week and that didn't include the NTMA proposal which was made which could be an additional 8 billion. We both stressed that whatever the outcome either bank could not be on risk for Anglo and that we needed an absolutely guaranteed back stop facility, promissory note or exercisable instrument with Government guarantee to get our money back at the latest on the following Monday.

The Government responded quite positively to our response and recognised I believe that a reasonable effort had been made by the Banks to try and solve the problem. At that stage the discussion moved on to the form of the guarantee that we had earlier discussed which everybody in room agreed was necessary in one form or another. The Government submitted a form of guarantee (copy attached) which in our view while inspirational in terms in what we were all looking for fell short on lack of specificity. We had drawn up an alternative form which included language which was more specific and also included a definite timeline. There was quite a bit of debate about this. Clearly there was concern on the Government side that this was too specific and would move the obligations very pointedly from the banks to the Governments balance sheets.

After many points been raised on both sides of the table it was eventually accepted that a change in the original Government draft was required. We were asked to leave the room while this drafting process was undertaken. During that period there were a number of exchanges between both sides which included issues relating to subsidiaries. In general there was a gradual movement towards an agreed form. There were also issues in the Government's draft which we were uneasy about relating to attestations by the FR that the system was solvent and that all banks were solvent. We felt there was clearly a risk in this statement if market participants purchased shares in companies once the guarantee was issued and it subsequently transpired that these companies were not as strong as contended.

There was a final meeting on the guarantee and we went back into another session and we didn't hear from the other side and we were told that the meeting was over at approximately 3.30am. Subsequently at 3.50am on Tuesday morning the guarantee was issued and the announcement was made to the markets. There was no other contact with the Government during that day Tuesday.

MINUTE BOOK

MINUTES OF THE BOARD MEETING
of
ALLIED IRISH BANKS, p.l.c.

held on Sunday, 7 September 2008,
at Bankcentre, Ballsbridge, Dublin 4 at 8.00 p.m.

PRESENT:	Dermot Gleeson	Chairman	via audio link
	Kieran Crowley		
	Colm Doherty		
	Donal Forde		
	Stephen L. Kingon	via audio link	
	Anne Maher		
	Dan O'Connor		
	John O'Donnell		
	Sean O'Driscoll	via audio link	
	David Pritchard	via audio link	
	Eugene Sheehy	via audio link	
	Bernard Somers		
	Michael J. Sullivan	via audio link	
	Jennifer Winter	via audio link	

IN ATTENDANCE:	W. M. Kinsella, Secretary
	Eamonn Hackett, MD, Global Treasury
	Bryan Sheridan, Group Law Agent

An apology for inability to attend was conveyed on behalf of Mr. Robert G. Wilmers.

Irish Financial Market

Mr. Sheehy reported that he had been contacted on Saturday, 6 September 2008, by the Financial Regulator ("FR") seeking assistance with respect to an Irish financial institution ("the institution") which, following a recent media story, could face a sudden withdrawal of deposits when it re-opened for business on Monday, 8 September, or shortly thereafter. Arising from the FR's approach, meetings had been held on 7 September under the chairmanship of the FR and had been attended by Messrs. Doherty and Hackett for AIB, senior representatives of Bank of Ireland, and the Company Secretary and Treasurer of the institution.

Mr. Doherty reported that, at the afore-mentioned meetings, where the proclaimed role of the FR was that of "facilitator", information of a very poor quality had been made available by the institution; following an analysis of that information, it had been estimated that if there was a run on the institution, it would have a liquidity shortfall of €2bn to €4bn. The funding profile of the institution was weak, and it was unlikely to be able to refinance funding that was maturing periodically over the ensuing year, commencing in December 2008. Accordingly, the institution was facing a serious medium term funding problem, and, potentially, a short-term one. The institution had assets of €12bn, comprising €2bn of home mortgages and €10bn of property and construction loans, of which 40% were in Ireland, 50% in the UK and the balance in Europe. The quality of the loans was suspect and could require write-downs ranging from a benign 13% estimated by the FR, to 30%/50% estimated by Bank of Ireland, which had previously conducted a due diligence review of the institution. The institution had shareholders' funds of €1.5bn.

CHAIRMAN'S INITIALS

Mr. Doherty advised that the FR had indicated that only €200m of the institution's €2bn home mortgage book was eligible to be pledged with the Central Bank for liquidity purposes. To address the potential immediate funding shortfall, he and

Irish Financial Market (Continued)
the Bank of Ireland representatives had indicated that they would be prepared to recommend that their respective Banks make available funding lines of €2bn each, provided that these were guaranteed, either directly or indirectly, by the Government and that liquidity of a like amount was made available to the two banks by the Central Bank or the National Treasury Management Agency ("NTMA"). As an alternative, Bank of Ireland had suggested that the institution should be nationalised. The FR's position was that the Government would not provide any guarantees or support for the institution and that the two banks should provide the funding lines on an unsecured basis. The AIB and Bank of Ireland Executives had agreed to bring the FR's request to their respective Boards, but had advised the FR that they were not be in a position to recommend approval of it.

Mr. Sheehy reported that, subsequent to the above-mentioned meetings, he had been contacted by a representative of the FR, who was understood to be at the offices of the Department of Finance. He was advised that the official side was of the view that AIB and Bank of Ireland should, without support, each provide a funding line of €2bn to the institution. He had informed the FR that it was his understanding that the institution's loan portfolio would required to be written-down substantially, and, accordingly, that if AIB acceded to the FR's request, AIB would, in due course, probably have to incur a write-downs of €1bn on the funding line provided. He had indicated that this would not be acceptable. He had then been requested to have the matter reconsidered by AIB.

Mr. O'Donnell advised that AIB held the Clearing Account of the institution and that if it became necessary to return cheques drawn on that Account because of a shortage of funding in the institution, this could precipitate a run on the institution.

The Chairman indicated that the matter for consideration by the Board was whether AIB should provide funding support to the institution in the sum of €2bn, €1bn of which might have to be written-off, and that the Management view was that the requested support should not be provided without either direct or indirect Government support for the amount involved and the provision of liquidity to AIB, to facilitate giving the requested support.

The Chairman invited the Group Law Agent to comment on the legal position. In response, Mr. Sheridan advised:

- that before approving an unsecured facility for the institution, the Board would need to be satisfied that the dangers of doing so were outweighed by the other dangers of the situation; and
- that the Government would probably need to enact legislation before it could give a guarantee of the kind mentioned.

Following a discussion, during which the Executive Directors and Mr. Hackett responded to questions, it was agreed that a €2bn funding facility should be made available by AIB to the institution conditional upon:
(a) that facility being guaranteed, either directly or indirectly, by the Government; and
(b) liquidity of €2bn being provided to AIB by the Central Bank and/or NTMA.

It was further agreed that it would be impossible, for a variety of reasons, to provide unsecured funding facilities as suggested.

CHAIRMAN'S INITIALS

The position of other Irish institutions was then discussed.

It was agreed that, if there were developments of note, the Board should meet again on Monday, 8 September 2008 at 5.00 pm; otherwise, the Board would meet on Tuesday, 9 September 2008 at 5.00 pm for a general update on the

MINUTE BOOK

Irish Financial Market (Continued)
situation. In the meantime, the Chairman was asked to make high-level contact with the Government to explain AIB's position with respect to the institution and its concerns more generally about the market.

Declarations of Interest
During the course of the meeting, Mr. Crowley declared that he held a deposit with the institution, and Mr. O'Donnell declared that members of his family held small deposits with the institution.

Chairman ______________

Date 19. 9 08

CHAIRMAN'S INITIALS

MINUTES OF THE BOARD MEETING
of
ALLIED IRISH BANKS, p.l.c.

held at 8.00 a.m. on Wednesday, 17 September 2008, at the Offices of M&T Bank, 25 South Charles Street, Baltimore, Maryland, USA.

PRESENT:

Dermot Gleeson — Chairman
Kieran Crowley
Colm Doherty
Donal Forde
Stephen L. Kingon
Anne Maher
Dan O'Connor
John O'Donnell
Sean O'Driscoll
David Pritchard
Eugene Sheehy
Bernard Somers
Michael J. Sullivan
Robert G. Wilmers

IN ATTENDANCE:

W. M. Kinsella, Secretary
Rene Jones, CFO, M&T – Item 6
Alan Levine, Partner,Cooley Godward Kronish LLP – Item 7
Laura Berger, Partner, Cooley Godward Kronish LLP – Item 7
Bryan Sheridan, Group Law Agent – Item 7
Greg Thoreson, US Legal Advisor – Item 7
Gerry McGorman, Head of Global Treasury, North America – Item 8
Billy Strickland, GM, AIA North America – Item 8
Paul Carey, MD, AIB Corporate Banking, North America – Item 8
Steve Meadows, Group Chief Operations Officer – Item 10 (via audio link)
Diarmuid Hanrahan, Head of Payments and eChannel Development – Item 10 (via audio link)
Marcel McCann, Enterprise Business Architect – Item 10 (via audio link)
Margaret Ryan, Senior Manager, O&T Management Office – Item 10 (via audio link)

An apology for inability to attend was conveyed on behalf of Ms. Jennifer Winter.

[redacted]

2. Group Chief Executive's Report

Mr. Sheehy presented his Report, which commented on the Group's financial performance to 31 July 2008, Divisional business developments, loan growth, loan quality, operational risk, market risk and other issues. The list of exceptions to the Group Large Exposure Policy greater than €250m approved by Management during July and August 2008 was appended, as was the Board Dashboard summarising the top 10 risks, the top 3 Internal

CHAIRMAN'S INITIALS

MINUTE BOOK

2. Group Chief Executive's Report (Continued)

Audit issues, the top 5 Compliance Risk issues, and the top Enterprise projects.

Mr. Sheehy reported on interactions with the Central Bank/Financial Regulator ("CB/FR") since the 7 September Board meeting and indicated:

- that there was a systemic need for term debt of up to €15bn in the Irish market, analogous to similar facilities in other countries;
- that, notwithstanding having a regulatory liquidity surplus of €15bn, AIB would breach its regulatory liquidity ratio by the end of October 2008 if market conditions did not ease and term funding become available; the CB/FR had been so advised, and the matter would be pursued again with the FR.

The Chairman indicated that, in the absence of a response from the regulators to the systemic funding problem, the matter would be pursued at political level.

Mr. Doherty reported that, arising from exposures to Lehman Brothers, which had filed for bankruptcy protection, Capital Markets was facing a write-off of the order of €8m to €10m. He then gave an update with respect to the commissioning of a new head office for Capital Markets (approved by the Board on 13 March 2008), and advised that planning and litigation issues were delaying commencement of the project.

Mr. Forde reported that sentiment in RoI was poor, with activity levels falling and funding costs continuing to rise. However, positive news had emerged with respect to customer perception of AIB and market share of personal business was growing, while market share of business lending was holding. The challenge for the Division would be to reach the year-end in line with the Forecast presented to the Board on 24 July 2008.

[redacted]

4. Group Management Accounts

Mr. O'Donnell presented the Group Management Accounts to 31 July 2008, commenting on variances against budget and other key features thereof. He then presented the Indicative Group Management Accounts to August 2008, and advised that the trends evident in the July Accounts were continuing.

He advised that a number of matters had arisen that would adversely affect the Financial Forecast 2008 presented to the Board on 24 July 2008, namely, M&T write-offs arising from the Fannie Mae and Freddie Mac rescues and from its investment in Bayview, and any losses that would be incurred by AIB arising from its exposure to the recently-collapsed Lehman Brothers. It was expected that these would be substantially offset by a potential tax recovery. Accordingly, and on the basis that the RoI bad debt charge would be in line with the charge used for the purposes of the Financial Forecast 2008, he

CHAIRMAN'S INITIALS

4. Group Management Accounts (Continued)
expected that the 2008 EPS figure should be close to the range promulgated with the announcement of the Interim Results.

He then circulated a letter from the Irish Auditing & Accounting Supervisory Authority ("IAASA") raising queries with respect to the Half-Yearly Financial Report to June 2008, and the draft reply thereto. He commented on the issues raised by IAASA, and the matter was noted.

5. AIB Group Capital Position
Mr. O'Donnell presented a paper reporting on AIB's capital position, in response to analysts' and press comments suggesting that Irish banks would find it necessary to raise additional capital. The conclusion in the paper was that, assuming severe credit deterioration, as set out in the paper, and that the bad debt rate of charge would not exceed the previously experienced peak of 150 bps, AIB would not need to raise equity capital.

He commented on the importance of retaining AIB's AA rating, and he advised that there was no indication that the rating agencies would require Core Tier capital 1 to be increased above 5.25%. In the event that the bad debt charge increased beyond 150 bps, then there were options open to AIB to raise capital, including the disposal of the investment in M&T, before it would be necessary to seek fresh equity.

Mr. O'Donnell responded to questions, and was thanked for his report.

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[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted] INITIALS

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[redacted]

[redacted]

Chairman ________ Date 18/11/08

CHAIRMAN'S INITIALS

Notes of events occurring on Monday & Tuesday (29th & 30th September 2008) (Dictated, on weekend or 3rd to 5th October)

In the afternoon of Monday the 29th September I received a phone call from Richard Burrows the Governor of the Bank of Ireland. At that stage there was extreme turmoil in the markets particularly in relation to the Anglo share price which was down almost 50%. There have been various feedback between senior members of Management team and various echelons of Government and the Regulator and there was a clear impression (without anything explicit being said) that Anglo was in serious trouble and that the plan of the authorities was to take Anglo and Irish Nationwide (who had different problems) into some sort of State care and provide some sort of support for the remaining four banks.

Richard indicated that he felt that matters were so difficult that we should seek to speak with the Taoiseach and the Minister for Finance. He indicated that even if AIB were not going to attend that Bank of Ireland would be making this approach anyway. I consulted the CEO and we agreed that it would be a good idea to go and speak to the Government given the fraught state of the situation which was compounded, shortly after, by the decision of the House of Representatives not to support the Paulson Plan. Both Richard Burrows and myself had received phone calls from Sean Fitzpatrick during the afternoon of the 29th.

We had a very brief conference call between myself and Richard and the two CEO's; there was very little discussion; what was needed was fairly clear; it was agreed that Richard would set the broader context and I would set the narrower local context but that the technical submissions to the Government would be largely left to the CEO's. We arrived at Government buildings at 21.30pm and an official indicated that what was expected was that we would set out our views on what should be done; we would then be asked to withdraw and the authorities would consider the situation.

Notes of events occurring on Monday & Tuesday (29th & 30th September 2008) (Dictated, on weekend or 3rd to 5th October)

We were given the facility of a room to wait in (what I knew as the new cabinet room) and we were then taken to the conference room immediately adjoining the Taoiseach's office where we were met by the following;

a) The Taoiseach
b) The Minister for Finance
c) The Attorney General
d) The Governor of the Central Bank
e) The Secretary General of the Taoiseach's Department and of the Department of Finance
f) Mr. Cardiff from the Department of Finance
g) Mr. Eugene McCague of Arthur Cox and Company
h) At one stage later in the evening we were joined by Mr. Tony Grimes from the Central Bank and in the later stages of the night when Governor Hurley had to leave, Mr. Grimes took his place.

Richard Burrows gave a brief introduction for a couple of minutes covering the deteriorating national and international situation and then I spoke for a couple of minutes. I had prepared some very rough notes on two pages which I retain. The contextual points I made were as follows:

- The Paulson Plan turned down.
- Rumour on New York Stock Exchange that Irish Stock Exchange would not open the next morning.
- A question from an English newspaper to our press office as to whether our shares were going to be suspended.
- I said that the contagion was spreading from the infected patients to the healthy (the analogy of infected patients [redacted] Oireachtas had been used in various exchanges involving the Central Bank and the Government).

- I indicated that markets were beginning to ask why Irish Nationwide had not been dealt with and why Anglo had not been dealt with; was there some systemic issue in Ireland that prevented them being dealt with; I indicated that the decisive action that had been taken for example in relation to Fortis in Belgium, Holland and Luxembourg and in relation to Dexia also beginning to contrast unfavourably with the absence of action in Ireland.
- I indicated that Irish Nationwide had got under the radar because they had no share price, their bonds were trading at 0.20c on the Euro and their credit default swaps were 27% over Libor.
- If the market believes that all Irish Banks are in some way connected (which they are not) and that the weakness of Anglo and Nationwide, was misunderstood by the market as in some way affecting the stronger banks.
- I indicated that the remedial action which we propose (this had been agreed with Bank of Ireland) was that the sick banks by which I meant Anglo and Nationwide should be taken out, (by which I meant nationalisation) or taken into some sort of administratorship (or some other form of protective custody) and some sort of guarantee provided for the remaining banks; this is not the first time that the Government would have heard this conversation and it had been generated in the course of that day and previous day in conversations between Regulators and AIB as well as other banks.
- I said that there was a danger that if the two weak banks were not dealt decisively, there could be a market conclusion that the authorities here were in denial and that both the guarantee and the taking out of weak banks was needed; the guarantee wasn't certain to work but it had a better chance of working if the two weak banks were taken out.

- The final point I made related to the form of the guarantee; an initial draft had been furnished (I think by Bank of Ireland) and was in a form which we thought was too bare; I mentioned that a guarantee had to read correctly to technical eyes in Foreign Central Banks (I mentioned Peru, Libia and Russia). We furnished a more extensive formula (which we had brought with us) as to the sort of instruments and deposits that should be covered. (This formula was eventually adopted later in the night pretty well word for word).

Eugene Sheehy and Brian Goggin elaborated the suggestions in the current situation. All of this was done at the invitation of the Taoiseach. There was very little response from the official side and we were thanked and asked to withdraw. We went back a number of times during the night but there were long gaps sometimes for an hour up to almost two hours.

When we went back there was more response from the official side, especially from Governor Hurley, the Minister and Secretary General Doyle. Governor Hurley was very clear that it would be dangerous to take down an Institution (and the reference here was clearly to Anglo; Nationwide has in our view deep seated trouble but it was not urgent trouble) in the middle of the week. I specifically remember Governor Hurley saying that it could be "disorderly" and that there could be "a fumble" if it was done mid week. He indicated that the priority was to get to the weekend; things could be dealt with "in an orderly manner". He asked us to indicate what liquidity we could provide to Anglo on Tuesday and for the rest of the week. This was all in the context of a guarantee going to be provided by the Government. We furnished our draft guarantee to the Government at a very early session. We left the meeting and Eugene and I were given a separate room by Mr. Lennon the Taoiseach's programme manager in one of the side corridors. Eugene contacted John O'Donnell and Colm Doherty and the treasury team and I understand Brian Goggin was doing the same with his team.

Notes of events occurring on Monday & Tuesday (29th & 30th September 2008) (Dictated, on weekend or 3rd to 5th October)

After a lot of toing and frowing we came up with a number of formulae which would allow us to extend the liquidity which we could provide to Anglo. Particularly we could bid at an ECB auction the following day provided our collateral was processed by the Central Bank during the night. Mr. Grimes indicated that he would need a billion in the morning for Anglo and 4 billion later in the day. Because the auction was on the following day (Tuesday) if the bids were successful, the funds would not become available until Wednesday. The Central Bank indicated that they had some funds which could be used to supplement ours on the Wednesday. A key requirement is that the Government, the Central Bank or the NTMA would guarantee to return the 5 billion to us on Monday 6th October. A promise from Anglo would not be acceptable.

Eventually it was concluded that AIB and Bank of Ireland could each produce 5 billion to tide Anglo over to the weekend. Before the end of the night steps were taken to start putting the collateral together to allow us to be ready for the ECB bid process in the morning; we would agree that we would bid up and pay a high price to get this extra liquidity on behalf of Anglo.

In the course of the evening Eugene also made another suggestion which had come from our Treasury people namely that non qualifying assets (of which we had about 10 billion) could be used with the NTMA, to provide further liquidity; as I understand it (I may not be fully correct in this) the NTMA would apply a haircut to our collateral, they would give us Government bonds which we would present to the Central Bank which they in turn would present to the ECB which would result in a generation of further liquidity.

Notes of events occurring on Monday & Tuesday (29th & 30th September 2008) (Dictated, on weekend or 3rd to 5th October)

It is certainly the case that Eugene emphasised to the Treasury team that we were to search every nook and cranny for the extra liquidity and come up with the best ideas possible and I am absolutely satisfied that we did this and responded fully to the request from the Governor of the Central Bank made in the presence of the Taoiseach to assemble as much liquidity as we could to help Anglo to the end of the week. This is not withstanding the self evident fact that we were now stretching our own liquidity to help a competitor.

It was all done however on foot of the very clearest representations from the Central Bank Governor made in the presence of the Government (although not endorsed by the Government) that an orderly dealing with Anglo would occur at the weekend. The Government made clear that they were not making any agreement with us simple hearing submissions. And the Government would then make their own decision. The Attorney General said to me personally that I should understand that the Government were not undertaking to do anything with any particular institution and I said I understood that.

During the course of the night we suggested to the authorities that a sentence in their draft statement about the guarantee which said something like "the Financial Regulator has informed the Government that all the Irish Banks are solvent" was probably unnecessary and possibly dangerous in the sense that Anglo shares would be traded on foot of it, which could lead to complications for the Government.

There were some other people present in the corridors or in adjoining rooms who I met. I met Mr. Neary and had a short and fully agreeable personal chat with him (he introduced me to one of his colleagues whose name I don't remember) and I also met Padraig O'Riordan in the corridor who is the Managing Partner of Arthur Cox and as I understand it was part of Mr. McCague's team assisting the State. I gained the impression (and it is only that) that the Government were satisfied with our response on providing liquidity and that at least in principle the decision to provide the guarantee might have been made in advance of our arrival; I am less sure about the position of the Government in relation to saving the two troubled institutions but quite clear that Governor Hurley's request to the Banks was to allow the authorities, time to arrange to take those two institutions into some sort of care.

1) No more phone calls

MARIAN FINUCANE SHOW SATURDAY 4TH OCTOBER 2008

01:05 to 28:46 (27.41)
01:55 to 11:30 (09.35)

37 minutes 16 seconds

Marian Finucane: Now, sitting across the table from me this morning is a gentleman whom I have no doubt read and saw the movie, 'Bonfire of the Vanities'. He is the Chair of Anglo Irish Bank, he was CEO of Anglo for about 22 years and we were just musing ... first of all you are very welcome indeed Sean Fitzpatrick.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Thank you Marian.

Marian Finucane: We were just musing beforehand that if one were to make a movie of what happened in Ireland in the last week, it might start in the Department of Finance on Monday night. Where were you on Monday night?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): I was at home. I was out for dinner with a friend of mine so I got home at around about 9.30 and watched TV and went to bed at around about 11 o'clock.

Marian Finucane: And did you have any contact or any information of what was happening?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Of that particular night? I knew lots of things that were happening because we had discussions, obviously, with the Central Bank and with the Regulator and indeed with the Department of Finance over the previous weeks, but that particular night I was not aware of what was happening.

Marian Finucane: You didn't know what was happening?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): I didn't know what was happening in the sense of I didn't know that the meeting was taking place that night at ten, 11 o'clock. I knew there was a meeting at 4.30, 5 o'clock but I didn't know that it was going on for so long.

Marian Finucane: Well, when you went out for dinner, Anglo Irish shares were down on the day what, 46%?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): They were down 46%, yes.

Marian Finucane: Did that afford any indigestion?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well of course it did. I mean we were concerned, as indeed all the rest of the banks were. I mean I suppose the big issue here is that if Anglo Irish Bank is down in isolation you worry more, but all of the banks were down that day in Ireland, all the banks were down in Germany, all of the banks were down in the UK, so there was a great sense of, you know, things were not moving in the right direction. I suppose the...

Marian Finucane: Did you see an Armageddon coming?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Oh I did, yes. I certainly was very, very concerned when I heard the news at dinner that Congress hadn't voted on the 700 million. At that stage I really feared and I've got to say to you, unashamedly, I was very fearful during the week.

Marian Finucane: You know the rumour-mill was flying around?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Of course, that's Ireland.

Marian Finucane: All week, and they were saying that Anglo was the one.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well, you know, Anglo is a very well capitalised bank but Anglo in line, in tandem with all of the other Irish banks were in a situation where they were seeing global liquidity...

Marian Finucane: Yes, I understand that.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): ... drying up. Now everyone knows that and...

Marian Finucane: But you're on the record as saying that largely speaking you didn't borrow from other banks for your own loans, that you did it from a deposit base. You're on the record saying that on RTE?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Yes, and that was the case and it has been the case.

Marian Finucane: So it was the liquidity thing that was your problem?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): It was liquidity; oh no it was a liquidity. I mean profitability is, I won't say is a taken, but you can see all the banks have been profitable over the last number of years and there's lots of talk and lots of rumour mongers going around about the bad debts. But by and large they're very profitable so we just take that and we can talk about that later on. The issue that faced all of the banks, Anglo Irish Bank and the other banks, was the drying up of the global, wholesale markets. And when you...

Marian Finucane: But you said you don't go to those wholesale markets, that you do it mainly from your deposit base?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Yes, mainly from our deposit base, but of course you need this for liquidity. Em, our deposits, loan deposit ratio is probably the best in Ireland at 135% so of course we use that. But we use that as a top-up and what we were finding then was that we had money that needed to be paid back over the course of the next few months and we were concerned about the liquidity and then where was the money going to come for that, as indeed all of the banks were as it subsequently came out. So we were all in...

Marian Finucane: But were you the ones that brought it to a head in other words?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): I wouldn't have thought so. I think what brought it to a head was the pace that happened. I mean, do you see Marian, what happened during the week... On 14th September Lehman's went into liquidation. Then you had...

Marian Finucane: Unbelievable.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Unbelievable. Then you had AIG being nationalised. Then you had HBOS doing a deal with Lloyds. Then you had Wachovia being bought by Citi Bank. Then you have an Iceland Government taking out Glitnir. Then you had on the Monday, on the Monday 29th you had Bradford & Bingley announced that morning, you had rumours about Fortis and Dexia, so all of these banks were - not Irish banks but they were all outside of Ireland - but all dependent upon global liquidity and they were facing the same problems as us. So then what you had was a sharp decline in European bank stocks, a sharp decline in Irish bank stocks...

Marian Finucane: Well a bloodbath in the Irish bank stocks.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): ...The making of it, yes, the making of it all. And then what you were going to have then was a situation where the em, what was the Government going to do if the banks...

Marian Finucane: Can I ask you about the Government?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): ...if the banks, if the banks were going to face this global liquidity crisis. Then we had a situation in Ireland where we're part of Europe but we're Irish and all of the banks were facing this, it wasn't just one bank, it was all of the banks.

Marian Finucane: Yes, but it would appear that one...

Sean Fitzpatrick (Chairman, Anglo Irish Bank): And then it happened.

Marian Finucane: Yes, but one was teetering more than the others.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Now you're getting into discussion with me just on the timing of one as against the other.

Marian Finucane: Yes.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): And you heard the story, I mean AIB and Bank of Ireland asked to see the Minister for Finance on the Monday evening and we were...

Marian Finucane: Were they in touch with you?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Oh yeah, we'd spoken. We had spoken with each other, of course we had, yeah. I mean we knew that every bank was stripped. This was not a shameful position to be in Marian, this was a reality.

Marian Finucane: It was a dangerous place to be in.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): It was a dangerous place but it wasn't a shameful position because it wasn't a creation of Irish banks that this had occurred.

Marian Finucane: But then why is every commentator, left, right and centre, saying that the Irish banks behaved imprudently, some would say recklessly in the amount of money given and lent for property deals when the dogs in the street, who don't own a house, knew that the property market was going down?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Sure. Okay Marian, I'll just deal with that in one second but I just want to really get kill-off was that they must be divorced; the global liquidity situation with the view and the rumours and speculation about property in Ireland. That was not the cause because...

Marian Finucane: Well now if I just look here, in June - now just one second.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Marian, Marian, just let me finish on this one...

Marian Finucane: In June the investment bank Citigroup...

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Banks were not, they were not, sorry, they were not...

Marian Finucane: ... published a negative report on Irish banks, cutting its recommendation on Anglo Irish Bank from 'hold' to 'sell'.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Sorry Marian...

Marian Finucane: The Citi report said that 80% of Anglo's loans are secured against Irish and UK property.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Okay Marian. Now this is where the confusion comes in. They are investment reports about stock market holdings, okay? And they are shareholders, recommendations to shareholders. We're not talking about providers of liquidity and what was happing was, there was no providers of global liquidity and that was the big issue as to why the action took place last week, and it's a why the Irish Government had to take decisive and bold action on Monday night.

Marian Finucane: Can I go back?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Now, I'm going to come back now to the issue of bad debts because that's a, you know, I've heard that phrase; I've been reading the newspapers, I've been listening to the news, I've been watching TV and I've been speaking with friends of mine, both in and out of banking, and yes, it's a common theme. What you've got to understand is this - that that the property, when people say have we been reckless, of course banks have made mistakes and Anglo Irish Bank has made mistakes and it has made mistakes in the past because we're in the business of risk and we have made mistakes and I'll admit that. Have we been reckless? No, we haven't. We cover all our loans in a belt-and-braces way. Ask any of our customers about that. So we don't believe we've been reckless.

Marian Finucane: So reports in the paper about 1.1 billion, 100% loans provided by Anglo, that's not true?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): I don't, I can't believe that we've ever given 100% loan in our lives, anywhere.

Marian Finucane: Ever?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Ever.

Marian Finucane: Or doing it in tranches so that it looks different?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Sorry, we're not trying to fool ourselves Marian. I mean we're in the business of making money. We're business people and what we want to do is, we don't want to be reckless, we want to make money. In fact, you know if I had been sitting here with you two years ago you would have been saying look at, all you guys are making all this money, I mean now we're just turning round and sort of saying you're being reckless and you're not going to make money.

Marian Finucane: Well the reason we're concerned about whether or not you've been reckless is that we're signing the guarantee.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Absolutely

Marian Finucane: So we have a vested interest now in ways that we, and by 'we' I mean all the listeners, never had before.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): And Marian, I agree fully and I think the world has changed since last Monday and I think, you know, as a chairman of a bank we're going to have to take into account the view of the taxpayer in a way that we've never done that before. This is a whole new paradigm I think for the boardrooms of Irish banks.

Marian Finucane: How did you react to the Michael Fingleton email?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): I just read about that yesterday afternoon and I'm sorry for the kid, the young son, and I really don't know an awful lot. I was sorry about that because that shouldn't have happened, but he was a young man, I think he was motivated by the right ideas but obviously he wasn't directed.

Marian Finucane: It made a lot of ordinary people very angry.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well of course it did.

Marian Finucane: And they thought, here we go now, we've signed the guarantee and they're heading off...

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Absolutely. Now I can understand that but, you know, I'm not close enough to it Marian and I don't know the person involved. But of course it was wrong but I think it was misplaced, I don't think it was...

Marian Finucane: Okay, let me go back a couple of weeks. When were you... were you involved in talks at any stage with the Government?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Was I in talks? Well, I've met the Department of Finance officials and I met the Minister, Minister Lenihan, and clearly I spoke on a regular basis, although they were led by David Drumm, Chief Executive with the Regulator and the Central Bank.

Marian Finucane: And what kind of input does the Regulator have in your lives?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well he regulates very closely. He gets all of the information that he wishes to get from us in relation to our lending, in relation to our liquidity, in relation to our deposits and everything. He comes in, he does internal audits, he looks at the top 20 loans, 40 loans, he gets information about various ratios, all of that and the Central Bank will also get that type of information if required as well.

Marian Finucane: Is that every quarter?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Yes, every quarter and then any time they wish to make visits to all of the banks.

Marian Finucane: And they've been doing a lot of visiting recently?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Nothing recently but I mean they have been doing consistent visits over the years, and I mean they'd be very mindful of the issue in relation to the growth in lending over the years and particularly in the growth of lending to home loans and mortgages and indeed, in the growth of lending to developers.

Marian Finucane: I'll come back to that in a minute, about the lending to developers but I'm just trying to get a picture of the run-up of what was happening. I mean if you take that two or three weeks ago it became clear that people were taking their money out of banks, em, it was supposedly irresponsible to even mention the fact that people were taking the money out of banks. Was there much money taking out of your bank?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): No, not dramatically. I mean you gain money, you lose money depending on what's going on but I mean, banks depend on confidence and there's no question about it, confidence was being eroded by various comments and by various...people in the street it was 'is my money safe?'. Now what was happening was, again it was the confusion of people like simple understanding. They like to have a simple reason for what's going wrong and the reasoning which they were given by the media and by commentators was that the banks had over-lent and they'd lent recklessly. Against that background we had the global drying up of liquidity. That was the key issue. That was the key issue why the Government came in with a bank guarantee. Now the Government before, the week before, had come in with a guarantee for deposits for €100,000. That was seen as positive.

Marian Finucane: Did that stop an outflow?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Oh yeah. I mean that was really geared at the retail and small corporate loans and it did, yes, without a doubt.

Marian Finucane: Had you been losing money, had money been going out your door before that?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well you see, money had been moving in and out because what people were doing...

Marian Finucane: Well obviously, but...

Sean Fitzpatrick (Chairman, Anglo Irish Bank): No, no, just let me finish this point. They were spreading their money so we were receiving money in from other banks where they were sort of caught to the maximum of €20,000 and we were losing money where say we had €100,000 on deposit we were losing 80, with four cheques going out to four different banks. So it was that type of ...

Marian Finucane: Was there a lot of it?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): There was fair movement in it but nothing of a very serious nature.

Marian Finucane: And what happened then after the €100,000 guarantee?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well that sort of calmed things down, but as I said, that was, if you like, geared at the local market, ok?

Marian Finucane: Yeah.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): But the big, big issue going on all the time, which wasn't really well heralded and wasn't spoken about and wasn't reported on was the global crisis, which wasn't aiming anything at Ireland in particular, or certainly any of the banks.

Marian Finucane: Well it is alleged that some of the hedge-funds took a look at Ireland and said...

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Sorry, you are talking about hedge-funds. That's investors and that's shorting banks and things like that.

Marian Finucane: Yes.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): I'm just talking about the global liquidity availability. There was nothing there because there was a systemic, so there was no money available even if we wanted it, which Irish banks wanted it. So it wasn't a question they were saying no to Ireland and we're going to give it to somewhere else.

Marian Finucane: But you didn't get it?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): That's very important to nail that Marian.

Marian Finucane: If you didn't get it, the money that you needed on the global market, how long would it have taken before you'd have been..?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well I think as the, to quote the Taoiseach which I read in the paper, we were all on the brink. It was very close. It was...

Marian Finucane: How close?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well I mean it was a matter of days I would have thought. That's why it was so important that Government acted so decisively and so boldly and, you know, it was a bail-out of the banks in a sense but it was a bail-out for the Irish economy. The Irish economy, the Irish taxpayer must be grateful and we, the bankers, must be very grateful to the Government for what they did.

Marian Finucane: Well the first thing I would say to you, that you should be grateful and very few bankers came out to say thank you.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well I'm saying thank you unashamedly because we owe our lives to the Government and what they did. Absolutely Marian.

Marian Finucane: Now when you said the taxpayer should be grateful, I would suggest to you the taxpayer is deeply ungrateful?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Sorry can I just...?

Marian Finucane: Can I sa to you that if you ran a referendum on Monday to say will we underwrite all this money with our tax, hard earned euros, I don't think the referendum would have carried.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Ok, fair enough Marian, and maybe you're right, particularly with all the publicity, but if I can just go through it in a very simple way, why they should be grateful. If the Irish banking system had collapsed there would have been chaos here and the real economy would have suffered and that would have effected you, Marian, your kids, my kids and all of our neighbours. So we would have been in uncharted territory and anything could have happened. And it's very important, and I know bankers are not the favourite people for the past number of years, but it's very important in any democracy that we have a good banking system that provides the lubricant for the real economy. Now if we didn't have a situation where if the Irish banking system had just exploded, then you don't know what would have happened. We could have actually been dominated by foreign banks and the big difficulty there is that they tend to pull back to their place of birth when there are difficulties and Ireland would then become the New Zealand of Europe. So that's why it was so important that the Government acted.

Marian Finucane: Because it was suggested that there were cheap buys in the Irish banks?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Absolutely. But other banks didn't buy. Why? Because they were all having their own difficulties in their own countries. This is a systemic problem worldwide.

Marian Finucane: Let me go back. You said you spoke to Brian Lenihan. When were you talking to Brian Lenihan?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): I would have spoken to Brian Lenihan about ten days ago. I'm not exactly sure of the date but...

Marian Finucane: And can you tell us something of the conversation?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Ah no. I think that would be very inappropriate Marian.

Marian Finucane: Were you explaining the difficulties you were in?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): No. I think I was explaining the difficulties and he was explaining the difficulties that they had and there was, there was lots of things being discussed by lots of people in different ways and at that stage, you know, mature insights hadn't yet been garnered. And when I say mature, we weren't quite certain which way it was going to go and they were looking at everything. But I suppose first of all what we had to do...

Marian Finucane: Did he ask you for your recommendations?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): When we had to go through, em, what we had to try to again get the difference between what was happening externally and get that across and remove the issue about the bad debts and the likelihood of reckless lending, all of that. We had to get that removed, which we eventually did, and he saw that very, very clearly. Sorry, you asked me did...?

Marian Finucane: Did you make a suggestion to him on how it should be dealt with?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): What I was trying to do was explain the situation to him, okay? He has obviously got more facts and figures than I have because I'm from Anglo Irish Bank; he's got it from a much, much wider a group of banks so therefore I wouldn't be so arrogant as to tell him what I thought should be done.

Marian Finucane: Well, I mean he might have asked you since you're in the business, how do we sort...

Sean Fitzpatrick (Chairman, Anglo Irish Bank): We certainly exchanged ideas but, but, but...

Marian Finucane: And what was your blueprint for how it might be sorted out?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well my sense was this: that this was not caused by any one bank. It was not caused by any one issue with any one bank. This was caused by the global crisis and we as banks were going to fall eventually, if we didn't get money, and therefore the Government were the only place we could turn to. And why shouldn't the Government act because, if we didn't turn to them and if they didn't act we could end up with no banking sector being Irish controlled, and that could not be a good situation for all of us going forward. He saw that very clearly and very readily.

Marian Finucane: There's a certain irony, you might agree, that we have been preached at about how 'let the markets sort it out' and 'let the market dictate' and the market will find its own weaknesses and strength in the market should run it. And then when the marketers get into difficulty they go running to the government and the taxpayer.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Again Marian, I'm just not making my points well enough clearly. When they were talking about 'let the market decide', the market can decide the valuations of banks.

Marian Finucane: Yes.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): They can do all of that and they have decided the valuations of the banks. The banks have dropped dramatically in Ireland since this time last year - over 70%. That's what the valuers and that's what the market says. However, we're not talking about the market sorting out this problem because this was a liquidity problem and there was nowhere else to turn to. And if Brian Lenihan and Brian Cowen had stood idly by to let the market sort it out, we would have had chaos and we wouldn't be in the position which we are in today. Now as regards to the taxpayer, it is right that the banks should foot the costs of the guarantee.

Marian Finucane: How much?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): What do you mean how much?

Marian Finucane: How much are the banks paying?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): That's going to be...well I mean I haven't spoken to the other banks and we haven't spoken to the Central Bank yet and that will take place next week, and our Chief Executive, David Drumm.

Marian Finucane: Have you not spoken to the other banks?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Pardon? Have we not spoken with the other banks about the guarantee?

Marian Finucane: Yeah.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Listen, a lot of things happened during the week and we were dealing with priorities and the next priority actually will be dealing with the whole detail of what Mr. Lenihan is proposing in the detailed regulations.

Marian Finucane: It says in the...

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Let me put it this way...

Marian Finucane: It says in the Irish Times...

Sean Fitzpatrick (Chairman, Anglo Irish Bank): The banks need, the banks will pay it, no question about it and rightly so. And much more importantly, if there is any bank that defaults, that default will be borne by the banking sector in the first instance so all of the banks are going to have to go before the taxpayer is called on. And what we're really saying here is that the taxpayer...

Marian Finucane: Will you run that past me again?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Of course I will, yeah.

Marian Finucane: You are saying that if one bank falls...

Sean Fitzpatrick (Chairman, Anglo Irish Bank): And then what will happen is - just take it very simply Marian - if a bank falls that means that its liabilities are greater than it's assets.

Marian Finucane: Yeah.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Ok, so there's going to be a shortfall for the depositors.

Marian Finucane: Yes.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Ok, so someone's going to have to pay them. The Government has guaranteed them so they'll be paid and then the Government will say right, we've written a cheque for, I don't know, €200 million, €100 million, whatever the figure is; who's going to pick that up? That's not going to be the taxpayer; it's going to be borne by the rest of the banks. And it's quite clear and fully accepted by the banks, and rightly so. Big deal by the banks, of course it's right. So there's going to be no issues on that. So what effectively the taxpayer has done is this; he's lent the Government, the sovereign name of Ireland, to particularly outsiders that would feel that they can lend to Irish banks with a sovereign risk.

Marian Finucane: Right.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): That is an incredible advantage given to Irish banks.

Marian Finucane: Well clearly.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Absolutely. And we are incredibly grateful for it because it really was, it was the most decisively, I believe quite frankly that the decision made last Monday is probably the most important decision made in this country from an economic point of view since the foundation of the State. And I've got great regard and great admiration for what was done in the face of a dubious public and I understand that as well.

Marian Finucane: Yeah, but now, just looking up stuff on Bloomberg, the cost to Ireland to go borrowing now has gone up because our risk rating has gone up.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Absolutely, yes.

Marian Finucane: So we're going to pay for that?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Yeah, but sorry, that should be covered in the guarantee. That should be reflected in the price which the banks pay. We shouldn't be asking the taxpayer to pay more for ordinary government borrowing just because they're bailing us out. We need to actually come up with that.

Marian Finucane: A figure of €2 billion is mentioned in the paper today.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): I'm not going to comment on any of that until we have discussions with the appropriate people Marian, because it would be wrong of me. I haven't read all the papers although I did see that this morning.

Marian Finucane: You did see that, yes. I would have thought it was a snip at €2 billion?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well as I say, there's no cheque being written by the Irish State.

Marian Finucane: Do you think it's a snip at €2 billion?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Do I think it's a snip at €2 billion? Well it will depend on the total of the deposits being guaranteed, whether the...

Marian Finucane: No, that's not what I asked you. Do you think....?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): I know it's not quite what you asked me.

Marian Finucane: No.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Do I think it's a snip...

Marian Finucane: Do you think it's a snip?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): I think it's em, I think that's a big figure. You see, what I think is this Marian; what we've all got to be careful here, and we've all been relaxed down here on this, a cure has been provided for the ills of the bank. Wouldn't it be terrible if that cure killed the banks as well? The intention was to ensure the banks were viable going forward. So they've got to balance their need to get repaid, as is say repaid but get paid, as against actually putting in too much and that's a question that needs to be discussed between the banks.

Marian Finucane: I can hear the horse-trading going on.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Sorry, no, I'm not horse-trading Marian. I'm just saying...

Marian Finucane: I can hear it!

Sean Fitzpatrick (Chairman, Anglo Irish Bank): All I'm just saying is look at Marian, this has been done not for the banks, it's being done for the economy but the banks have been net gainers on this. So let me be absolutely clear on that, and I accept that point fully. But Marian, we've got to come in to do this way together. Really what the Taoiseach said the other day is, now the banks have got money they've got to lend. We've got to lend money in a proper way to re-energise our economy to get it going again. Indeed we have an obligation to do that. A clear, clear obligation to actually change the way we've done things.

Marian Finucane: When will activity start?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well I think activity will start fairly quickly again because it was nearly paralysis over the last few months, so I think activity, when things calm down completely, when we get through all of this stuff, we get all of this in, and we've had all discussion and Marian, you know better than I do the wide range of discussions. There's a certain theme, you know the banks, my god, big fat cat bankers giving out, taking them all out, and I understand that completely. You know I mean absolutely understand it.

Marian Finucane: You see...

Sean Fitzpatrick (Chairman, Anglo Irish Bank): But, but what we must understand is that it's not just bailing out the bankers, it's ensuring that our economy, your economy, my economy, our kids' economy, has a fair chance of going forward.

Marian Finucane: Yeah. When they do get angry about fat cat bankers, to use your own term, there is a bewilderment, not to mention anger when you see people getting enormous bonuses on foot of appalling delivery. Like it seems there are decisions made to give pretty amazing bonuses no matter how people have performed?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Right. Well first of all I can only talk about our bank and I am very well aware that senior Irish bankers are paid enormous sums in relation to the balance of the community. In our bank we pay by performance. There's effectively a contract written out and agreed by, if you like, independent directors within the bank, that don't work in the bank, that work in different areas of the economy in Ireland, with the executives. And that is agreed and if the performance is reached they get it. For instance, David Drumm's salary, of last year's salary and bonus package, less than a third of that is basic salary and if he doesn't actually contribute and actually achieve his performance criteria he doesn't get it. And it's as simple and as straightforward as that.

Marian Finucane: But we were going down the tubes last week!

Sean Fitzpatrick (Chairman, Anglo Irish Bank): But sorry, hold on. We haven't paid anything this year. So I could just say to you and I will say to you very clearly that the boardrooms of Irish banks will have to take into account the views and wishes of the taxpayer, the new stake-holder in Irish banks, and I believe that that new view and that new paradigm will be reflected in the decisions that remuneration directors, i.e. the directors, independent directors that actually decide salaries, to ensure that people are paid appropriately and not excessively.

Marian Finucane: Will there be dividends this year?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Will there be dividends this year, em, I mean I can't say that to you in relation to Anglo Irish Bank because that would be wrong and inappropriate. But let me put it this way, the world hasn't stopped. We were talking about a liquidity problem, we weren't talking about a profitable problem and the banks will look at all of these. We've got a list to the detail of what's going to be in the detailed regulations next week and we're going to look at that and we're going to have to discuss this with the Central Bank and with the Department of Finance and reach a solution which is right, not just for the banks, but also for Government and the taxpayer.

Marian Finucane: Okay, a couple of callers in: 'For ordinary, decent people who get in money troubles the bully-boy debt collectors are moved in. If the same occurs with the high-rollers what happens? The fat cats are rewarded. That was by text. Another caller says, 'Marian, why have thousands of foreign banks not been affected by the liquidity problems? Were our banks uniquely badly managed?' We'll come back to that later. Peter hopes the banks will show as much compassion to householders who may be finding it hard to pay back their mortgages as the Government showed to the banking community in bailing them out in their financial difficulties. Another one says, 'now that the banker has said thanks, can he go the whole hog and say sorry to the Irish people?'

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well Marian, you know, it would be very easy for me to answer a call like that and say sorry. What I've got to say is this; is that the cause of our problems was global, not directed, nothing, so I can't say sorry with any type of sincerity and decency, but I do say a very genuine thank you because that is right.

Marian Finucane: Two more callers just before I go to the break. 'Marian, the Irish Nationwide fiasco is not just inappropriate it's treachery. It's the helpless man on the road turning around and kicking the Good Samaritan in the teeth. It is unbridled arrogance', and that came from Gerry. Another caller say, 'Banks and bank executives, through their choices, decisions and behaviours have lost my confidence. This is not about an abstract money system, it's about the personal and corporate values that shape the system and determine what happens'. And on that note we'll take a break.

Marian Finucane: Welcome back to the programme this morning, and I'm in studio this morning with Sean Fitzpatrick who is Chairman of Anglo Irish Bank, former CEO of Anglo Irish Bank. Couple of things I want to come back, because it's been mentioned over and over and over again. And this is that the banks have imprudently as some would say, recklessly as others would say, gone with lending into the property market, both commercial and residential and in Britain and elsewhere. On foot of valuations that are clearly unrealistic at this point. I mean Davy's were talking about I think it coming down was it 30% was Davy's estimate on the reduction in the value.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Sure, sure.

Marian Finucane: What about that? I mean isn't that going to leave banks very vulnerable?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well it depends on where they are. But look it, can we just take a very simple example and just take typically the type of lending that banks do, because banks don't just do property lending. So say the lent you money . . .

Marian Finucane: But it's 80% of yours isn't it?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): It is not 80% of ours, it's less than 20% of our book, property.

Marian Finucane: Less than 20%.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Less than 20%.

Marian Finucane: Cause it's widely reported in the papers.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): That's what they said, I mean what we do is we do a lot of investment property lending, where we would money to you Marian for instance, say to buy a property in Grafton Street which may have McDonalds on the ground floor, Price Waterhouse on the first floor and Arthur Cox on the second floor. So you could have, our exposure quite frankly is to the people, their ability to pay the rent. So our exposure quite frankly is to the fast food business, to the financial services business, and to the legal business, nothing to do with the property at all. And the property price can go down and it's totally irrelevant to us. So it's cash flow . . .

Marian Finucane: But if rentals go down it wouldn't be?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): But I know if rentals go down, but I mean rentals are reviewed every five years, and they're not going to dramatically change down during that particular cycle. So it's the . . .

Marian Finucane: So you only have 20%?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Sorry I'm saying most of the banks have that. That's a, and maybe some of them have even less.

Marian Finucane: So have all these financial journalist misread your books?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Oh no they have been told this. I mean if you just have a look at any detailed analysts views, including Dresden and including all these various other people, Citibank, and listen to David Drumm, that is the reality of it. So if we're talking about when I'm, I think what you're talking about is cold development. In other words where people are given money to buy a site down in Kildare say.

Marian Finucane: Hmm, hmm.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Right, and well that's it, that's exactly it. So if you come along and talk about say 30%, if I can just give two very simple examples, just nice and quickly. If we lent you money to but a newsagents shop, say down in Kildare for say €500,000 and it cost €500,000, you were putting in €100,000 we lent €400,000, so we will be getting our €400,000 back off you typically by, and I don't know what the figures are, just say €5,000 a month over the next ten years. Just say, because of the property going down, the property price of the property that you've bought for €500,000 is now gone down by 30%, so now it's worth €150,000 less, yet we've given you €400,000. What are we worry about if you're continuing to pay your €5,000 a month? No problems at all and we're not going to ring you, or get in touch with you at all. Because that's cash flow and that is where 80% of our lending is. Now turn to the other one, then down in Kildare where a site was bought say for €10 million, and just say the developer put in €2 million and the bank put in €8 million, and just say that it's gone down, not 30% which Davy say, say it's gone down 50%. Now if it's gone down by 50% the property is no longer worth €10 million it's worth €5 million and the bank is down €3 million. Now, how can that be sold? Well will the bank sell it today? No it wont. Will it push the developer to sell it today? No it wont. And then you hear other people, ah they're taking it very easy on developers they're not pulling the plug. Why would they pull the plug when there's no one going to buy. Bankers you know are business people essentially. So they will wait until the market gets better. But in the meantime, they will either get interest form the developer which will service the loan, or it is not being serviced and . . .

Marian Finucane: Lend them money to pay the interest?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): No, no, they will get interest, get it from his own resources, they won't lend it. If they can't get money from . . .

Marian Finucane: They are lending it at the moment?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Marian, no sorry Marian they're not lending it. If they're not getting the interest, ok, what they will do is they will stop bringing in the interest, profit and loss account, so the account doesn't go up, and the will make the provisions. Now when I listen to people like George Lee, say the banks won't tell us what the figures are, the banks report twice a year, interim results and final results. And they are audited. And they are audited by independent auditors. And if you're telling me that the independent auditors don't have the sense of the concern, of course they have, and they look at each one individually, and that's what's done. Also what you have is you've got risk committees in all the banks, chaired, certainly in our case by independent nonexecutive directors, and they're looking at all of those.

Marian Finucane: By the way, would it be appropriate that the Government would appoint somebody to those committees?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): We're going to have to listen to the detail on that. And maybe it is. But the certainly get full information from our credit committees. They are give a list of all the loans that are approved. If they want to sort of see the background, they've got it all. And maybe put people onboard. We must understand as bord directors of banks, that the world has changed since last Monday, and we must understand that the important stakeholder is now the State and the taxpayer, and we are going to have take full cogniscence of what they wish and want.

Marian Finucane: Ok, when were you talking to the Minister by the way, was that a week ago?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): I'd say it was about ten days ago.

Marian Finucane: Ten days ago, because there were headlines in the paper yesterday, mind you they were in the paper on Sunday, last Sunday I read about you and another Director putting in, I think you put in 1.1 and he put in 1.3 into shares of Anglo Irish Bank, and they say now that there's going to be an investigation about insider trading?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Yeah I saw that, I was very very disappointed, to see that story in the Irish Independent yesterday. And I'll just tell you straight out, there is no truth whatsoever in that story, none.

Marian Finucane: Did you not have a sense that the Government was going to bailout the banks?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): No I didn't have a sense.

Marian Finucane: But you were talking to Brian Lenihan?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Sorry, sorry, what I did was I did, like other directors in the past, was showing confidence in our shares by taking money out of my own resources, to buy shares in Anglo Irish Bank. It is the only way that I could articulate in a very clear way to a wide audience that I believed in Anglo Irish Bank, and that's what I did. Now I've been banking 35 years, clearly I have to go through a process to actually get that cleared with our company secretary, with the Chief Executive of the Bank and that I did. There is no sense that there was anything done wrong.

Marian Finucane: But did you now know beforehand that the Government was going to bail the banks out?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Of course I didn't, that wasn't announced until Monday night.

Marian Finucane: But you'd been talking to the Minister the previous week?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): I'd been talking to the Minister in the previous ten days about various issues about what he could do or what he might not do, but I wasn't sure what he was going to do.

Marian Finucane: And were you bankers generally either as the Chair like yourself and Dermot Gleeson, were you in constant, they would be your competitors obviously always, but were you at this stage all talking to one another?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Not on a constant basis no, no, no we weren't. But we would have an idea what was going on, from either the Regulator, from people at mid-management level or the senior management level, but as Chair I mean I'd spoke to Dermot Gleeson and I've spoken to Richard Burrows, and I've spoken to Michael Walsh, and I've spoke to Gillian Bowler. So the, all of the chiefs, all of the Chairman of them, I spoke to them all within the last two weeks or so.

Marian Finucane: Right, and were you all as it were trying to form a view of what you would say to the Government?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): No we weren't, there was no cohesive, there was no group meeting the Government at all. So each of the banks would have, because I mean again it's very confidential, and each would have been very sensitive to their own particular situation, so they were keeping their powder dry on all of that.

Marian Finucane: Right. Did they call you during the night on Monday, I meant to ask you that?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Yes we got calls.

Marian Finucane: What time did you get your first call at?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well I slept right through it. So my first time that I heard about it was at 6 o'clock form our Chief Executive.

Marian Finucane: Was he on the phone during the night?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): I think he was on the phone at 4 o'clock where someone from IFSRA had rung him.

Marian Finucane: And was their kind of a conference call with all of the banks?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): No I think it was done on an individual basis. And then of course we had to wait until the morning to flesh out what in fact had been agreed.

Marian Finucane: Right, great sigh of relief all around?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Without question Marian. There was a real sign of relief and a determination that going forward, that there's going to be different behaviour in bank boards. We're going to have to look at all of our models to ensure that we're bullet proof against this type of situation again, if it ever occurs.

Marian Finucane: How could you do that?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well I don't know, this is what we're going to have to look at. Greenspan said this is a once in a century occasion that things like this happen. We're going to have to look at that, we're going to have to look at our own model, we're going to have to look at the way we do our business, we're going to have to look at all of those things. And maybe we'll come back with a model, and maybe we'll come back with a revised model.

Marian Finucane: Yeah, because what people are afraid of is that you guys are going to say `phew, happy days, here we go again'.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well Marian I'll give you my word that Anglo Irish Bank won't do that. It's not happy days here we are again. Very grateful to the Government for what they did. Very mindful that we're given a lifeline to go forward to repair our balance sheets and we know what duties and obligations we have arising out of that chance and we will not be found wanting in them?

Marian Finucane: Still enjoy banking?

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Well I'm no longer, as an Executive, but of course I do yes.

Marian Finucane: Ok. Sean Fitzpatrick thank you very much indeed for talking to us.

Sean Fitzpatrick (Chairman, Anglo Irish Bank): Thank you.

\\ end
BH

Dermot Gleeson
Chairman

AIB Group
Bankcentre
Ballsbridge
Dublin 4
Ireland

Telephone +353 1 660 0311
Facsimile +353 1 660 6575
www.aibgroup.com

6 October 2008

Personal & Confidential: to be opened by the addressee only

Mr. Sean Fitzpatrick,
Chairman,
Anglo Irish Bank,
Head Office,
Stephen Court,
18/21 St. Stephens Green,
Dublin 2.

Dear Sean,

I was out of the country at the weekend. On my return on Sunday, I was shocked and angry, to read a transcript of your interview with Marian Finucane. In the interview you significantly misrepresented the following matters;

a) The events of Monday.
b) The liquidity position of AIB.
c) The nature of your communication with me.

You conveyed an impression that all of the banks were in the same situation on Monday last and denied that it was Anglo alone who had an acute liquidity problem, which it would be unable to fix on Tuesday.

The truth is that on Monday night AIB was asked by the Governor of the Central Bank (in the presence of the Taoiseach and others) to provide emergency funding to solve Anglo's liquidity problem not just on Tuesday, but for every succeeding day until the end of the week.

AIB acceded to the request and arranged to provide Anglo with 5 billion in liquidity until the weekend. The reason AIB was able to do this, was because it had liquidity in excess of its own requirements available on Monday, not just for Monday night but for the rest of the week and beyond; Anglo was not going to be able to balance its books on Tuesday without assistance.

It is frankly outrageous for you to indicate that AIB's liquidity was good for only "a matter of days". It is entirely inaccurate for you to say "this was not caused by any one bank" when the truth is that is was Anglo alone, which required to be saved on Monday.

As to our communications, as you know the only communications between us in the last few months, was that you rang me on Monday asking for a meeting between the CEO and Chairman of Anglo and AIB which I declined, indicating that we were very busy, and that there was nothing we could do for you; at that stage you suggested that we should go together to the Minister and I declined that invitation also and left you with my genuine best wishes in the situation you found yourself.

Your interview conveys an impression of a different sort of contact between us. While that is not perhaps a major point, what is undoubtedly significant is that you feel entitled to share an (in my view inaccurate) account of our communications, in public without any prior consultation with me.

The reason that I am writing to you now rather than speaking to you is that I am not any longer prepared to risk you sharing confidential telephone conversations with a chat show in which AIB's position on critical issues is significantly misrepresented.

Oireachtas

[redacted] I reserve the right to put the record straight on each of the foregoing issues at a time and a manner of my choosing and at any time from today onwards.

Yours sincerely,

Dermot Gleeson

To guarantee file

MEMORANDUM

To: Eugene Sheehy, CEO

From: Dermot Gleeson, Chairman

Date: 2 October 2008

<u>RE: Possible lines for the Minister</u>

1. **Two institutions nearly brought down the system.**
2. **Their [redacted] went unregulated, by a hopeless regulator.**
3. Michael Fingleton's interview this week on the BBC website press shows that he can continue an uncontrolled [redacted], as he likes.
4. Slightly more subtle, but not entirely dissimilar behaviour is reported anecdotally from Anglo.
5. Anglo could not have opened on Tuesday last without liquidity support from the two big banks.
6. **If the price differentiation on the guarantee fails to distinguish <u>significantly</u> and <u>unmistakably between:</u>**
    a. **Those who brought the system to its knees (Anglo and Nationwide) and,**
    b. **Those who stepped up to rescue Anglo.**

    Then the whole agenda changes.
7. Our name and reputation has been damaged by our perceived role in asking for the guarantee; we have maintained silence on the fact that what we asked for was that [redacted], who had brought us all down, be taken out of the market and then for a guarantee to be put in place.
8. <u>What we did not ask for</u>, is that the [redacted] should be boosted, and baked into the system going forward.
9. **Either the new era of regulation starts with the price list to be published on Monday, or we despair of any proper regulation ever starting and act accordingly.**

Executive Summary

Key Transaction Considerations

- There are limited attractions to an acquisition of Omega which include:
  - ➢ The possibility to generate surplus capital on the back of a strategy to wind down Omega;
  - ➢ Help consolidate AIB's market position;
  - ➢ Secure good relationships from an established franchise; and
  - ➢ Be defensive in nature.
- However, there are significant risks associated with this transaction and should this proposal be progressed the following issues need to be fully considered:

Business Risks

- In order to fully assess the key business and financial risks AIB should insist upon full due diligence in order to assess:
  - ➢ The quality of the loan book and the level of FV adjustments required;
  - ➢ A clear understanding of the funding position including maturity and headroom;
  - ➢ The ongoing sustainability of Omega's business model;
  - ➢ The veracity of a strategy focussed on shrinking Omega's balance sheet quickly; and
  - ➢ The quantum and the ability to extract synergies from an already tight cost base without further impacting the business.

Capital and Funding

- To the extent that external capital is required the execution risk increases and, therefore, an acquisition of Omega should aim to limit the level of new, expensive capital required. If new external capital is required it must be priced in order for it to be successfully taken up – which inevitably results in significantly diluting existing shareholders – some pre-marketing should be undertaken to gauge the extent and terms at which such appetite may exist.
- While the Guarantee provides respite it does not fix the structural funding issue at Omega. AIB will need to have a strategy to address the funding challenges particularly in light of the level of debt maturing next year. The injection of new capital does provide some additional funding.

Conclusions

- We believe that Omega is unlikely to be an attractive asset and one that faces significant challenges:
  - *Omega's focus on lending, secured on property*, has resulted in it having significant exposure to the current economic slowdown and falling asset prices. Brokers are suggesting losses of €3.0bn - €4.6bn (4% - 6% of the loan book) over the next three years. Based on the upper end of these estimates and allowing for normal yearly charges we have assumed a FV adjustment of €3.6bn on acquisition;
  - *Funding* is a significant issue, where €6.8bn of its MTN programme matures next year which would put significant additional, and perhaps an untenable burden on AIB; and,
  - *A capital base* that is highly leveraged which under AIB's IRB approach to capital would possibly result in the capital ratios deteriorating.
- Given the challenges, and questions over the medium term sustainability of Omega's business model, we believe that it would be necessary to manage down Omega's loan book in order to de-risk it and ensure that it reaches a level that is self funding. This would be a significant challenge. In addition, given the risks, we also believe that any acquirer should only pay nominal value for Omega.
- Were AIB to acquire and consolidate Omega, AIB would require €4.4bn of external Core Tier 1 capital on Day 1. We believe that the risks associated with this transaction are significant and external providers of this capital would require equity returns.
- Given the scale and equity nature of the investment we believe that the Government is an unlikely investor. Without Government as an investor attracting external investors would come at a significant cost (and in any event may only be possible with some element of Government support). Based on recent precedents and assuming that AIB issues a convertible, a coupon of 14% would be payable and, if as assumed, it converts by the end of 2009 (assuming a 15% discount to the current price of €2.18) existing shareholders would be diluted by c.72%. NAV dilution per share is estimated at 50%. A deal on this basis would be totally unattractive to AIB. This level of dilution would be unacceptable to shareholders along with any attempt to disenfranchise their pre-emption rights.
- While we have examined alternative approaches to a transaction to address the capital and dilution impacts on existing shareholders, these approaches, which are based on more aggressive regulatory and structural assumptions, have significant shortcomings that make them unattractive to AIB and difficult to execute.
- If a transaction were to be progressed, considerable focus would be required on assessing the business, including its loan book, capital and funding position. In addition any transaction should only be undertaken following full due diligence and would require significant Government support.

Business Overview

Group Structure

Omega plc

- Share price - €0.83
- Market Cap - €632.0m
- 2008E P/E – 0.6x
- 2008E P/TB – 0.1x
- H1-2008 total assets – €101bn
- Loans - €68bn, Deposits - €55bn

Business Lending

- Core offering of lending secured on property to professional and medium-sized corporates in Ireland, the UK and the US. A key focus is to provide loans to purchase investment and development properties in retail, office and residential.

Treasury

- Manages the bank's funding and liquidity requirements, interest rate and foreign exchange exposures, as well as generating additional income through corporate treasury activities. Also provides foreign exchange and interest rate risk management solutions for corporate customers.

Wealth Management

- Niche provider of private banking and investment solution services to high net worth
- At H1-2008, Omega had c. €2.4bn of AUM mostly focused on property-related off-balance sheet structures.

- Omega is Ireland's 3rd largest bank with total assets of €101bn at 31st March 2008 and loans of c.€68bn. It has a LTD ratio of 1.25x, although the stickiness of the deposit base is questionable.
- Limited branch network with 6 offices in Ireland, 9 lending offices in the UK and representative offices in New York, Boston and Chicago.
- Omega has a broad shareholder base with over 19,000 shareholders (more than 90% of its shares are held by institutions).
- Omega pursues a strategy of senior debt lending to mid-sized commercial enterprises secured on property. It does not typically undertake cash flow based lending.
- It is estimated that Omega holds 20% of the mid-sized Irish commercial lending market and c.5% of the UK investment property market.

1.0 Group Financial Performance

Earnings per share for YTD September 2008 of EUR 103.6c was down 33% on the comparative period for 2007.

AIB Group YTD September pre-tax profit of € 1,381m was € 445m adverse to budget. Excluding the sale of 50.1% of the card acquiring business (contributing a favourable € 106m variance) and profit from the disposal of branches and Bankcentre, AIB Group profit before tax before disposals was € 556m adverse to budget (with provisions € 440m adverse). On a divisional profit basis, adverse variances were returned by AIB Bank ROI (€ 447m adverse), Capital Markets (€ 83m adverse) and AIB Bank UK (€ 68m adverse). M&T's profit of € 73m was € 23m adverse; and Group Holdings' profit variance was € 51m favourable. Poland Division had a favourable divisional YTD profit variance on a euro basis (€ 15m), but was on budget on a zloty basis.

AIB Bank ROI YTD performance of € 447m adverse was primarily driven by the impact of provisioning. Provisions increased 629%, € 428m over the comparative figure last year to € 496m (an adverse YTD variance of € 406m). Operating income was also adverse to budget (€ 111m on a year to date basis) which arose from significantly higher costs of funding (€ 57m adverse) and lower advances and resources margins in net interest income; as well as lower than budgeted income from Investment & Protection in other income of € 24m due to the challenging economic operating environment. Operating expenses on a YTD basis were favourable, with favourable personnel costs (€ 71m) and general and administrative expenses (€ 16m). Staff costs were the key driver of lower personnel costs, with decreases in manpower count, pension costs and bonus provisioning all contributing.

The € 83m adverse YTD Capital Markets performance was driven by adverse income of € 129m. This comprised of variances in Global Treasury (€ 85m adverse) and Investment Banking (€ 43m adverse). The Global Treasury adverse variance was driven by Liquidity Management and Debt Issuance (€ 63m adverse), the Bond Management Unit (€ 74m adverse) in part offset by Interest Margin and Traded Credit (€ 56m favourable). Offsetting the total adverse operating income in part were favourable operating expenses as a result of favourable personnel costs and general and administrative expenses of € 22m and € 13m respectively. Provisions of € 30m were € 13m lower than budget.

AIB Bank UK adverse YTD variance of £ 43m (€ 68m) was driven by adverse provisions (£ 39m higher than planned) and lower than budgeted net interest income (£ 12m adverse), partially offset by costs (£ 9m favourable). Cost cutting measures have driven the favourable personnel variance of £ 8m with lower pension, national insurance and overtime costs, in part offsetting the operating income variance of £ 13m adverse (arising mainly from adverse net interest income of £ 12m).

BZWBK YTD profit was on budget. Adverse operating expenses and provisioning was entirely offset by favourable variances in operating income, associate undertakings and profit on disposal of property.

AIB's share of M&T's YTD September 2008 profit was US$ 111m (US$ 34m adverse to budget). M&T benefited from the Visa IPO (c. US$ 5m benefit on an AIB reported basis) but had an impairment charge relating to Freddie Mac and Fannie Mae of US$ 153m (c. US$ 26m on an AIB reported basis). M&T continues to provide for higher credit provisioning which also impacts on the overall adverse to budget variance.

Group Holdings was € 51m favourable to budget, with favourable costs of € 37m and favourable operating income of € 9m.

AIB has recorded a reduction in costs of 3% on an underlying basis since September 2007. Personnel expenses decreased by 4% whilst general and administrative expenses were in line with the comparative period.

2.0 Divisional Business Updates

2.1 Republic of Ireland

OVERVIEW OF BUSINESS ACTIVITY

Sentiment continued to deteriorate through the month with housing sales at a new low, business confidence further eroding and consumer activity sharply lower. Reports from a variety of sectors (Hotels, Restaurants, Leisure, Transport, Retail) are all pointing to a significant fall in turnover through the course of September.

In terms of business activity, loan growth was flat for the month, apart from the quarterly interest posting. New business deals are very few and credit activity is almost exclusively focused on the review and restructuring of existing business. Mortgage growth has held up reasonably well but only because AIBs market share of new business is greater in a market that is generally weaker. Loan margins continue to improve – however, plans to increase mortgage margins have been compromised by developments on the Government Guarantee.

Deposit activity has been on a rollercoaster through the month with small outflows in the early weeks, and a significant inflow in the last week of the month as a consequence of the Bank Guarantee scheme. In overall terms, Term Deposits grew by approx. €450m from early Sept. to Oct. 3rd. With the advent of the guarantee and the 'equalization' of players in the marketplace, competition on rate has become ever more intense.

Wealth activity continues to be very weak - the focus for the next few weeks will be on the Pensions campaign. Card spending has also fallen and Card arrears and provisions are rising.

Financials for the month have held up reasonably well but the continuing high cost of funding and widening basis risk will create a negative variance to the most recent year-end forecast of the order of €20 - 30m.

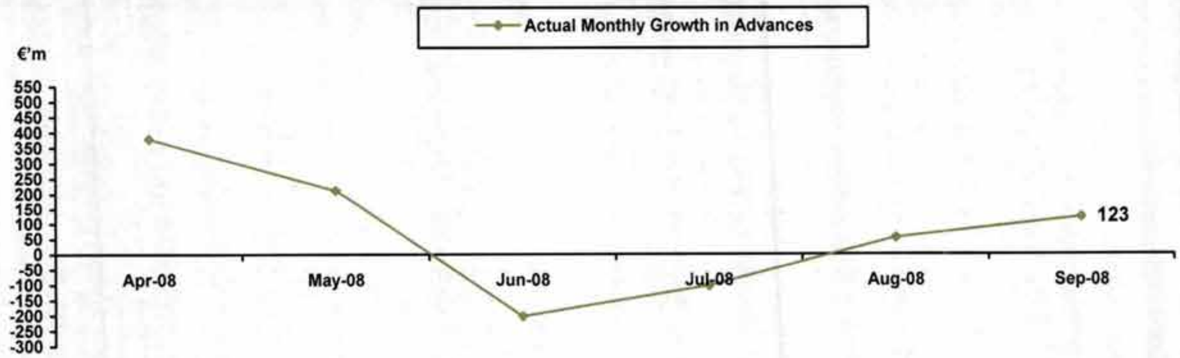
The credit environment continues to deteriorate. We are in the course of revising our year-end expectation for Provisions and this exercise will be complete in a week or so. This will inevitably show further slippage from the July picture - largely in Property and Construction related cases, but other sectors may also become an issue if the current economic environment was to persist

	Volume YTD Average	Plan % v. YTD Avg.	% Growth Since Dec. 2007 Base *(Point to Point)*	% Growth Since Sep. 2007 Base *(Point to Point)*
Total Advances	€72,431m	99.0%	5.9%	10.0%
Total Resources	€39,806m	96.3%	-0.1%	-0.1%

**Mortgage figures are included in the overall Advances figure*

ADVANCES

Business Banking



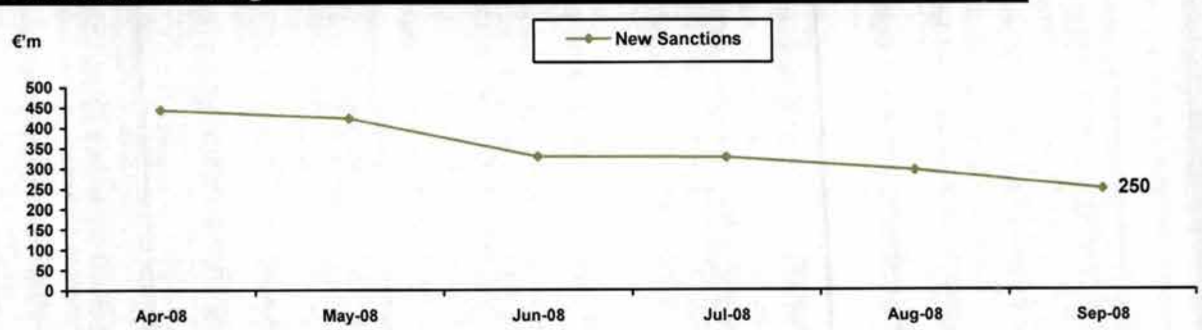
Residential Sector:

- The new homes market continues to be stagnant with significant delays being encountered in closing out sales, which have been contracted some months ago.
- Tighter lending criteria being applied to Home Mortgages by all banks continues to slow down the conclusion of contracted sales on new homes.
- The view of developers is that potential buyers are postponing purchases until after the Budget on 14th Oct.

Commercial Sector:

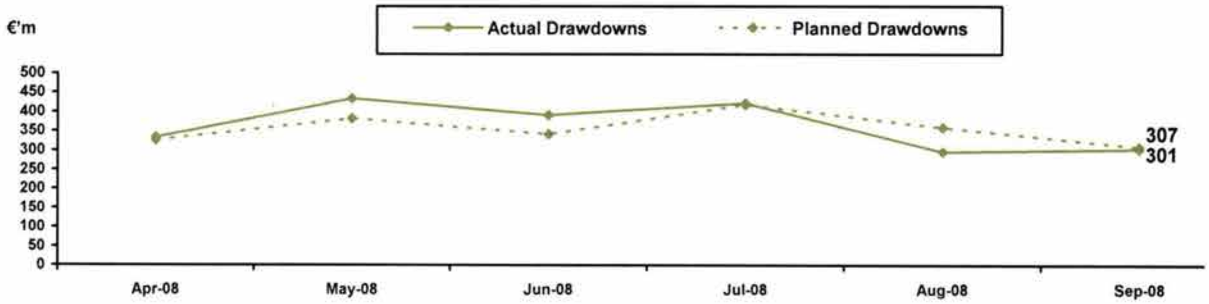
- Developers view is that bank funding for Commercial Investments has dried up, which has resulted in delayed starts on new projects and put a stop to projects that are underway.

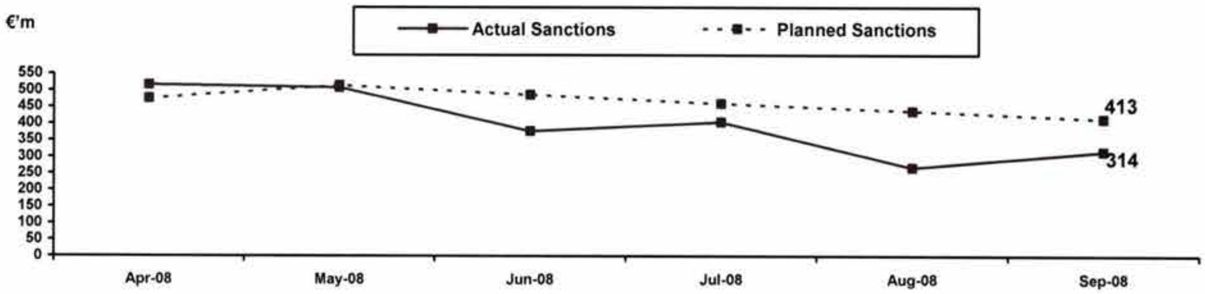
Commercial Banking



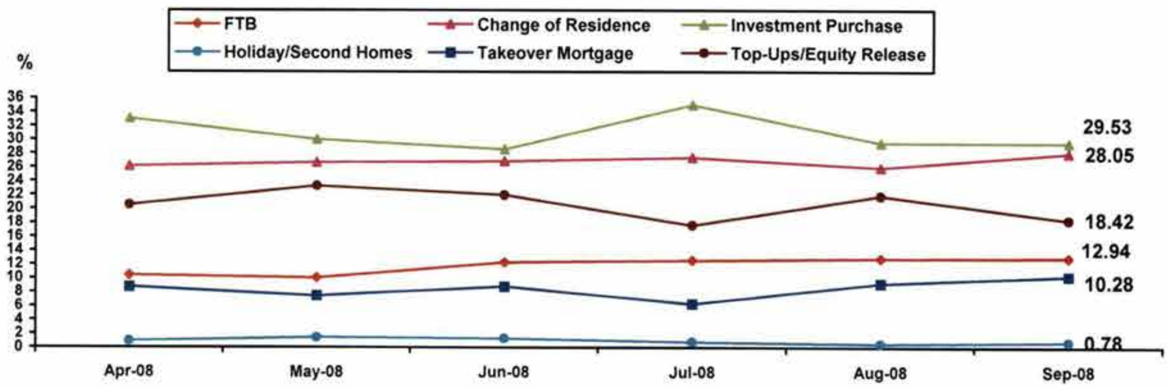
- Trends: Total No. of Applications September: 2,533 (up 29% on Sep.'07) – increase in applications due to Commercial Banking restructure). Total Amount of New Sanctions for September €250m (down 43% on Sep.'07). Total No. of Applications Declined: 79 (up 39% on Sep.'07). Commercial Banking is now responsible for all applications over branch discretion and comparisons on a month by month basis in respect of no. of applications for Sep.'08 down 7% of Aug.'08 and new sanctions for Sep.'08 down 16% on Aug.'08.
- Competitor Activity: Market activity continues to be slow. Higher margins are more acceptable to clients on their understanding of the higher funding cost of transactions. There continues to be a demand for interest roll up in view of lack of sales.

Home Mortgages





<u>% Sanctions Broken Down By Sector</u>

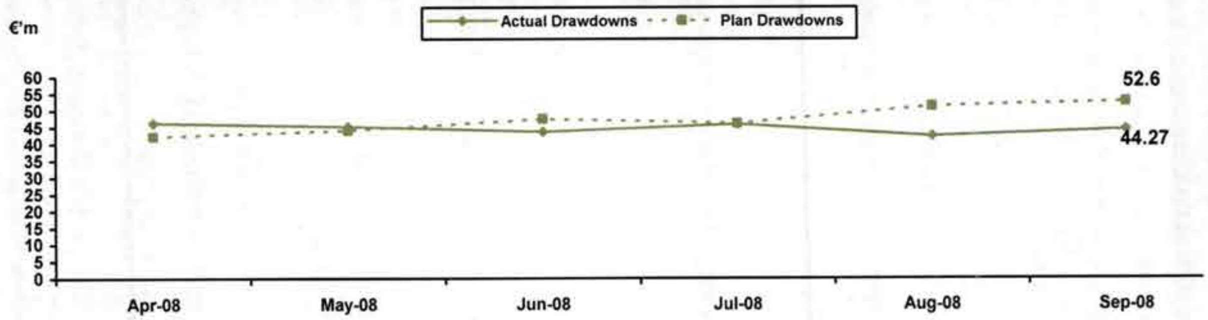


- AIB growth for August at 0.83% was ahead of the rest of the market at 0.34%. AIB growth year to date at 6.65% was ahead of market growth of 4.79% *(Source: Central Bank statistics published one month in arrears).*
- AIB Group RoI market share was 17.00% in Aug. '08 v. 16.82% in Aug. '07 *(Source: Central Bank statistics published one month in arrears).*
- Our national 'Mortgage Month' was successfully launched in September supported by a national advertising and media campaign, staff 'cross sell' competition and new branch support materials.
- Number of new applications in September: Actual 2,246 vs. 2,210 Sep.'07 (102%).
- 212 'Winback' deals sanctioned, totalling €50m in September (drawdowns €38m). 2,021 'Winback' deals sanctioned year to end September, totalling €474m (drawdowns €409m).
- According to the latest edition of the PRSB/ESRI House Price Index (published monthly in arrears), national house prices declined by 0.9% in August (vs. declines of 0.2% in July, 0.6% in June and 1.2% in May). National house prices declined by 9.9% year on year at end August 2008 versus declines of 1.9% year on year at end August 2007.
- A number of Developer Equity Schemes have been highlighted in the media, most notably the schemes offered by Bernard McNamara and Ray Grehan (Glenkerrin Homes). While the terms of each scheme differ, these schemes typically offer interest free deferred loans (15-30% of property price) for a defined period of time. The

developer's loan is secured by way of a second charge on the property. To-date, there has been no co branding or partnership of a financial institution with Developer Equity Schemes.

- There have been further changes to competitor pricing with Tracker mortgages continuing their decline and LTV bands for Variable products coming to the market
    - BoI/ICS: (a) Discounted Buy-to-Let Tracker rates, (b) Increased Tracker rates by 0.10% - 0.25%, (c) launched new business Loan to Value Variable rates
    - First Active & Ulster: (a) withdrawal of all Tracker Rates for Owner Occupier and Buy to Lets (23.09.08) and (b) launched new business loan to value Variable Rates (29.09.08).

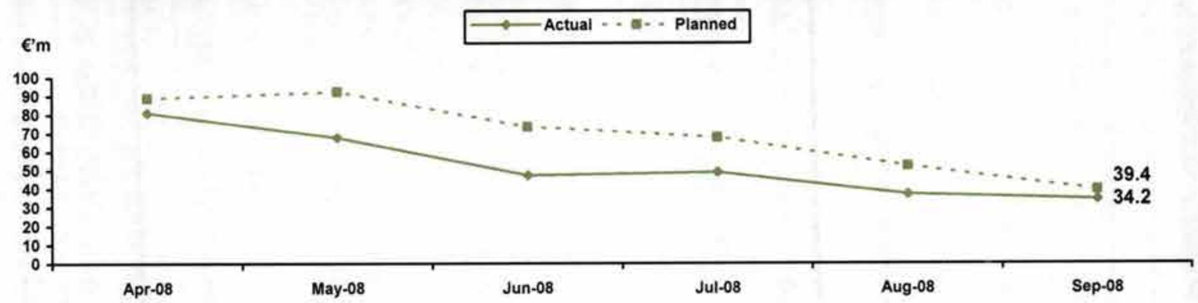
Consumer Credit



Total new drawdowns year to date €382.06m versus plan €398.6m, 96% of plan. Outstanding balances at the end of September were €815.7m, versus a planned figure of €798.2m (€102% of plan). The current average margin YTD is ahead of plan at 5.63% (versus plan of 5.44%). The planned end of year margin is now 5.59%. Sales performance across all channels has been strong YTD at 13% positive variance over plan in terms of application numbers.

Consumer Credit continues to be an area of development focus and an internal and local promotional campaign is scheduled to run in November to support the ongoing sales activity in branches. The main priority of this campaign will be to increase awareness of our Personal Lending offering and ensure our 'Open for Business' message is communicated to customers. Advertising will be concentrated in local press and radio with in-branch merchandising nationwide.

Car Finance



- Car sales for September in down 40% and down 20% ytd. AIB Car Finance is down 17% year to date.
- AIB is under pressure on the Fourcourts from Stocking Finance providers.
- Sales of all new vans and trucks has fallen drastically in the last couple of months, however, AIB is continuing to do well in this declining market with truck sales in particular at 22% market share.
- Plant sales have fallen to particular low levels with the downturn in the Construction & Civil Engineering sectors.

2.3 Capital Markets

CORPORATE BANKING

Autumn is usually one of the busiest times in the loan market, as companies and bankers seek to wrap up financings before the Christmas holiday period. This year, however, the market has almost completely stalled in the face of the ongoing credit crisis.

It is now becoming increasingly likely that overhanging investment-grade paper will weigh heavily on bank balance sheets as we move towards 2009. By contrast, a year ago overhanging leveraged deals were the main issue facing banks, restricting the institution's underwriting capacity for new deals in 2008.

Ireland continues to feel the effects of the downturn in the economy with the fall off in consumer spending affecting most businesses. Corporate Banking Ireland continues to stay close to all its relationship clients, working closely with them through these unprecedented times. Constant communication with customers is key at this time so the unit can manage its portfolio of credit effectively and manage its strong relationships, which have been built up over many years. The other main focus of the business continues to be on resource gathering with efforts still yielding increased resources from both Irish and International clients.

Market conditions continue to deteriorate in Britain. Retail sales appear to be suffering in the last 2/3 weeks. Expectation is for substantial increase in profit warnings. Corporate Banking Britain's business focus is all on monitoring sensitive credits and deposit gathering.

In Corporate Banking International on the Acquisition Finance side, numerous auctions/deals have been pulled and no deal launches are anticipated before year end. The sense is that most institutions face liquidity cost issues. Quarter 1 2009 looks difficult with the market down 70% YTD in 2008 and likely to be smaller in 2009. The Structured Finance market is also very difficult with most banks saying they will not be active until the end of the year. ABS markets are quiet on both private and public side. There are large bid lists in the market although limited trading. Spread widening is being driven largely by continued lack of liquidity rather than fundamentals. Hedge funds returns have dropped in recent months and remain under pressure as redemptions force asset sales. Corporate spreads keep moving wider on account of liquidity and credit concerns.

The U.S. economic and financial systems are under historic stress. Wachovia Bank, acquired this month by Wells Fargo after nearly collapsing, declared a Q3 loss of $23.9bn, the largest ever loss at a bank since this financial crisis began. U.S. and global financial rescue packs and rate cuts have eased some of the pressure in the banking credit markets, however, there continues to be significant uncertainties. Investors and analysts are now increasingly focused on the broader US economy and the implications of recession with the rising unemployment rate, expected disappointing corporate Q3 numbers and the increasing concerns about defaulting corporates. A variety of sectors are under pressure including, inter alia, media, automotive, consumer products, retailers and down the road impacts anticipated on Reits and commercial real estate. The falling and very volatile stock market reflect these realities.

Real Estate Investment Markets in Europe are to all intent and purposes closed with very few transactions having been completed in Q2 and Q3 2008 in the main investment jurisdictions. Access to finance and the reluctance to sell has continued to put an effective halt to the market.

The main focus of the Corporate Banking Real Estate team is to ensure all existing credits are operating in accordance with terms and conditions and all staff are actively seeking to grow Corporate Banking's deposit balances.

The focus of the Reserve Bank of Australia has shifted from inflation containment to recession avoidance in the space of only a few weeks, albeit these were weeks in which global market turmoil was at its peak. With a softening of growth in Asia, continuing uncertainty in bank markets and consumer confidence low, the government has proposed a A$10bn stimulus package largely directed at pensioners and families with pre Christmas windfalls on offer to encourage spending. Interest rates were also slashed in October by a highly publicised 1%, taking the base rate to 6% with further cuts forecast in the next few months.

The Corporate Banking Asia Pacific business has moved away from lending until markets stabilise and is now firmly directed at deposit raising with a significant push across the whole team. The strength of and loyalty to the Australian majors is making the task more difficult than it should be, but the opportunity exists over the medium term. Uncertainty surrounding the Australian government's guarantee to banks is also beginning to unsettle the loyalists to the Australian lenders and the unit is seeking to use this to its advantage.

CAPITAL MARKETS BUSINESS SUPPORT SERVICES

The growth rate of international payments has started to slow, in line with the slower economic environment. Six month moving average for outward payments is 0.91% in 2008 vs 3.89% in 2007 for the same period. Inward payments are -0.89% in 2008 vs 2.64% in 2007.

In Corporate Operations the total value of loans business as usual administrated within Capital Markets is now outstanding at €54.92bn, of this €31.96bn relate to the Capital Markets Division. The balance €22.99bn relates to loan processing executed by Corporate Operations for other parts of the Group.

The IT and Change functions continue to focus on business as usual support and implementations of both Enterprise and Divisional change programmes.

The overall control framework remains robust across Global Treasury, Global Corporate Banking and Investment Banking with active management of all operational risk incidents.

Work continues on:

1. Credit Transformation – Delivery 2 rollout now complete in Corporate Ireland. Releases 3 and 4 have a target completion of Quarter 2 2009.
2. The Enterprise project for AML is ongoing. The Capital Markets dates for rollout have been negatively impacted due to delays in the overall Enterprise project. **Final roll out for Capital Markets is scheduled for December.**

Update
As at 23rd Oct 2008 the liquidity ratios are 147% in 0-8 day and 91% in the 8-31 day. The deficit to internal policy is €2.1bn over the 1 month period. Since the 14th Oct 2008 AIB has had a continuous deficit to internal policy. However, AIB has continued to maintain a surplus to the FR's liquidity requirements at this time.

Current market conditions remain very stressed. The CP market is effectively closed, with the market contracted to overnight. The repo market has dried up for most securities other than Gilts and Sovereign.

Both Retail and Corporate resources are holding well across all divisions and since the Irish Government Guarantee, effective midnight 29th Sept 2008, AIB has experienced significant deposit inflows.

3.2 Media & Corporate Relations

The twin focuses this month were the continuing coverage of the Government Guarantee scheme and the reportage surrounding the Budget, which was announced on the 14th October.

Before the details of the Government Guarantee scheme were published in the second half of the month, the Sunday Business Post argued that AIB and Bank of Ireland would have to choose whether or not to sign up to the Scheme, suggesting that AIB may not wish any plans for acquisitions in eastern Europe to be dependent on government approval.

When the details were published, there was much comment from media, with several articles examining the financial strength or otherwise of Irish financial institutions. The Irish Times reported that the 11 banks covered by the scheme would pay €1bn over two years. The Sunday Independent suggested that AIB is likely to avoid the need for State capital pointing to the options available to it via the sale of its stake in M&T or its BZWBK subsidiary.

There was concerted and consistent criticism of the Financial Regulator following his appearance at a session of the Oireachtas Committee on Economic Regulatory Affairs. The general tone of the coverage was that he had failed to fulfil his role properly - hence the current situation. The Regulator's comments that the six main Irish banks have loans to property developers totalling €39.1bn were widely reported. Later in the week, the Irish Independent carried a report listing the top property loan deals, in which it showed AIB as the leading lender with €1bn out of the top ten deals total of €3.9bn.

The Irish Independent reported comments made by Eugene Sheehy that AIB would not be asking the Irish government for equity support. Eugene's comments that the bank would rather die than raise equity and that the bank had several options for self help were reported widely. Towards the end of the month, in another article about the options available for Irish Banks, this time in the Sunday Independent, those comments were reported again and AIB was again singled out as having more room for manoeuvre than its competitors, given its capacity to offload its M&T stake or BZWBK if necessary. Also in an opinion piece in the same edition of the paper, Alan Ruddock noted that AIB may have to accept government recapitalisation, despite Eugene's comments about the bank's aversion to accepting new equity.

The Sunday Tribune compared the financial health of AIB, BOI and Anglo, concluding that AIB was in the strongest position of the three. A separate article in the same paper noted that the pricing figures for credit default swaps for AIB were considerably superior to those for Bank of Ireland, Anglo Irish Bank and Irish Life & Permanent.

The stock exchange announcement made by AIB that it had signed the Government Guarantee and that its subsidiaries in the UK, Channel Islands, Isle of Man and AIB North America were also covered by the Scheme, was usefully reported in several of that Saturday's papers, including the Irish Times.

Towards the end of the period, both IIB and Halifax-Bank of Scotland (Ireland) made known their decision that they would not be joining the Government Guarantee Scheme. The Irish Times reported that IIB's Belgian parent KBC had also decided to re-brand its footprint in Ireland renaming IIB as KBC. Mark Duffy of Halifax-Bank of Scotland (Ireland) was reported in the Irish Times saying that his bank's decision to stay out of the scheme was because the provisions of the scheme were discriminatory and anti competitive (The Irish Times also noted that Halifax signalled this to its customers by taking out full page newspaper ads highlighting that it would now be free of competitive constraints. It backed this up by increasing the deposit rate on one of its headline fixed rate savings accounts on the 29th October).

The Sunday Times concluded that the clause in the Scheme which seemed to suggest that any liability arising from the Scheme would have to be met by those who signed up to it, may have discouraged foreign banks from joining up.

The Sunday Independent carried a report on the settlement reached between AIB and horse trainer Jim Bolger, with Bolger alleging that AIB targeted his accounts, leaving him with no option but to go the legal route. The Sunday Tribune also picked up the story carrying quotes from the trainer alleging sharp practice at the bank. The Tribune also reported that the European Commission is to make a formal complaint regarding the Financial Regulator's decision not to release minutes of a meeting it had with former AIB auditor Eugene McErlean.

In positive news, the beginning of the month saw an ECB rate decrease of 50 bps. Both AIB and Halifax-Bank of Scotland (Ireland) immediately signalled their intention to pass on the cut in full to borrowers, which was well received by both broadcast and print media. Other banks eventually followed suit, though the good publicity was secured by AIB and Halifax. AIB Bank's decision to withdraw Tracker mortgages for new business did not attract adverse media attention and was reported straightforwardly in the Irish Times. The paper noted that the bank was following similar moves already made by most of its competitors.

Finally, the Sunday Independent noted that AIB staff had donated €350k to the St Vincent de Paul charity through the AIB Florin Fund. Also, the Irish Farmers Journal reported that AIB is sponsoring overseas bursaries for agricultural science students **in conjunction with the Agricultural Science Association.**

(12)

F9/25/08, D
Record 12

30 September 2008

Attendance: T, BL, AG, DMcC, KC, DD, JM, E McCague, xxxx Burrows Sheehy, Gleeson

Burrows

- Rapidly deteriorating situation everywhere – fully caught up in it
- Situation threatens the stability of our organisations
- Rumour in NYSE that Dublin won't go tomorrow
- Contagion from weaker to strong
- 2 institutions in terminal decline
- Why has INBS not been dealt with? Afraid people will assume INBS & Anglo tied in to the healthier outfits.
- Reminded action: 2 elements (a) guarantee for surviving (b) troubled patients to be taken out
- Can't guarantee that any guarantee will work
- Eventually impartial guarantee should register as good among Centrals Banks around the world – language must be unmistakeable
- Higher difficulty with funding – slight resistance to overnight funding today (heard from Eamonn Hackett, Treasury).

Sheehy

- On positive side, retail guarantee has been very successful – no effect on wholesale depositors.
- Trend has been increasing – more and more difficult "no quote for Dublin".
- People we've been dealing with for decades pulling back – 1 month we will be funding bank overnight. Bad if can't even get that, disaster – bankruptcy.
- Market is saying that Anglo is bust.
- Guarantee in xxxx will not help equity markets, but may help liquidity a bit.
- Want price to be in cash.

Hurley

- Guarantee required tomorrow
- Needs to be priced
- Anglo now asking for 4 bn tomorrow
- Will give them 1 ½ in the morning
- Might be necessary tonight to call in the banks
- Will have to be told that the use of the guarantee requires them to close down their businesses
- If further funds required AIB & Bank should contribute
- If rates for Anglo are significant, give them ELA from Central Bank.

PN &JR

- Guarantee absolutely xxxx
- Price of guarantee 0.25 and 0.5 of a point

- Min asked FR did they agree with AIB/BofI that 2 need to be nationalised first, FR (PN) did not agree.

T

- State guarantee best way to underpin deposits
- Want clarity of what is to be done in light of international events
- Go off and do it – Chairman & CEO

PN

- Will put in significant conditions

Governor

- If provide funding, need conditions – need to reduce risks of State

PN

- Everybody who has had a look at the banks is saying there is value in them over time
- Accepts this is a 'throw of the dice'

00.41 on 30 September 2009

AIB & BofI back in ....

- Use MLF[?] for AIB – 1 ½ billion best can do 4. 6 best do
- Another idea – non eligible assets
- 10bn ABS & AAA – bring to NTMA – give gilts for it – say 8bn assuming a haircut – have to get it back next Monday.

Goggin

- Tomorrow is ½ year end
- So already managing for tomorrow
- Can't get cash xxxx Wed in xxxx
- Very nervous about how own deposits will hold up
- Could produce 4-5bn by Wed if get tender
- Will not use MLF[?]
- Capacity to consider
- Very strong preference not to xxxx
- Prefer to get it back close of business on Friday
- Could not xxxx