

**LETTER FROM THE CHAIRMAN OF ANGLO**

**ANGLO IRISH BANK CORPORATION PLC**

*(Incorporated in Ireland with limited liability under the Companies Acts, 1963 to 2006. Registered No. 22045)*

*Directors*

Donal O'Connor\*, Chairman  
Frank Daly\*  
Alan Dukes\*  
Noël Harwerth\*  
Anne Heraty\*  
Michael Jacob\*  
William McAteer  
Gary McGann\*  
Declan Quilligan  
Ned Sullivan\*  
Pat Whelan

*Head and Registered Office*  
Stephen Court  
18/21 St. Stephen's Green  
Dublin 2

*\*Denotes Non-Executive Director*

23 December 2008

*To Shareholders*

**Issue of 1,500,000,000 New Preference Shares of €0.16 nominal value  
at an issue price of €1.00 per share  
Approval for Waiver of Obligation under Rule 9 of the Irish Takeover Rules  
and  
Notice of Extraordinary General Meeting**

Dear Shareholder,

**(1) INTRODUCTION**

On Sunday 21 December 2008 the Minister for Finance announced a framework to provide additional capital to certain Irish credit institutions including Anglo. This comes against a backdrop of unprecedented turmoil in international markets which has adversely impacted confidence in financial institutions, resulting in increased market expectations for minimum levels of core capital.

The Group announced its preliminary results for the year ended 30 September 2008 on 3 December 2008, reporting profit before taxation of €784 million and shareholders' funds of €4,125 million. The Board acknowledges that further strengthening the Group's capital base is a priority in order to meet market expectations for increased levels of core capital.

Recognising the Group's systemic importance to the Irish banking sector and wider economy, the Minister for Finance has agreed to reinforce the capital position of Anglo. The Board welcomes the Minister's announcement of an initial investment of €1.5 billion of core capital and the Government's support for the Company. We are very grateful to the Government for this clear demonstration of support. The investment in Anglo will be by way of New Preference Shares and will be provided by the Minister for Finance (or a state or state-related entity or agency that the Minister will procure to subscribe for the New Preference Shares) pursuant to Section 6 of the Credit Institutions (Financial Support) Act 2008. The intention of the Government is to continue to reinforce the position of Anglo and to make further capital available if required so that it remains a sound and viable institution. The Government will ensure that the existing employment rights of the employees of the Company are safeguarded.

The Board believes that this capital raising is a very positive development for the Group and that it is necessary to provide confidence to our customers, depositors and investors. It will also give the Group the financial capability to safeguard the value of its established and proven businesses, particularly in light of the increasingly challenging economic environment. Subject to the Resolutions being passed and the issue of the New Preference Shares, the Group's Regulatory Core Tier 1 Capital ratio increases from 5.9 per cent. at 30 September 2008 to 7.7 per cent. The Group's Tier 1 Capital ratio increases from 8.4 per cent. to 10.1 per cent.

Accordingly, the purpose of this document is to provide you with details of the New Preference Share Issue and the terms upon which the Government is prepared to provide capital to the Company. An Extraordinary General Meeting will be held on 16 January 2009 at which we will ask for your approval of the Resolutions set out in the Notice of EGM at the end of this document. If the Resolutions are not passed the New Preference Share Issue will not take place which, in the Board's view, would not be in the best interests of the Bank.

Following the passing of the Resolutions and the issuance of the New Preference Shares, the holder of the New Preference Shares will be entitled to exercise 75% of the Voting Rights at general meetings of the Company, with Ordinary Shareholders being reduced to 25% of the Voting Rights. Notwithstanding this, the Board strongly believes that the approval of the Resolutions is in the best interests of Shareholders. Following the New Preference Share Issue the Board will regularly evaluate the Bank's capital position in light of the Bank's performance and market expectations. Accordingly, the Board will consider the redemption of the New Preference Shares in the future, but only when it is prudent to do so. Any redemption within five years from the date of issue will be at the issue price and thereafter at 125% of the issue price. Redemption is subject to the approval of the Financial Regulator and the New Preference Shares being redeemed from profit retentions and / or the proceeds of an issue of shares or securities that constitute Regulatory Core Tier 1 Capital.

## **(2) THE PREFERENCE SHARE ISSUE**

Subject to the passing of the Resolutions, it is proposed that the Minister will subscribe for 1,500,000,000 New Preference Shares with a nominal value of €0.16 at a price per share of €1.00. The New Preference Shares will have the following principal rights:

- The New Preference Shares will be perpetual and non-transferable (save that they may be transferred by the Minister for Finance to any state or state-related entity or agency).
- The New Preference Shares will entitle the holder thereof to receive a non-cumulative preferential dividend at a fixed rate of 10% of the issue price per annum to be paid annually. The New Preference Shares shall rank *pari passu* among themselves and with the Existing Preference Shares and in priority to the Ordinary Shares as regards the right to receive dividends.
- In the event any dividend or part thereof payable on the New Preference Shares is not capable of being paid, provided that the amount (if any) standing to the credit of any reserve fund or reserve account of the Company is sufficient, bonus Ordinary Shares will be issued in lieu of the amount of dividend that would otherwise be unpaid.
- The holder of the New Preference Shares shall be entitled to participate *pro rata* and with equal priority with the holders of the Ordinary Shares in the surplus assets available for distribution to the Company's members on a winding up or liquidation of the Company, or other return of capital.
- The New Preference Shares are redeemable, at the option of the Company, at a price per share equal to the issue price of the New Preference Shares within the first five years and thereafter at a price per share equal to 125% of the issue price of the New Preference Shares, provided that the consent of the Financial Regulator is obtained and that the New Preference Shares are being redeemed from profit retentions and / or the proceeds of an issue of shares or securities that constitute Regulatory Core Tier 1 Capital.
- The holder of the New Preference Shares will have the right to exercise 75 per cent. of the Voting Rights in Anglo at meetings of the shareholders of the Company. The Minister for Finance may at his discretion reduce the percentage of the Voting Rights that he holds in the Company.
- The holder of the New Preference Shares will have the right to appoint or remove directors of the Company.

Further information on the terms of, and rights attaching to, the New Preference Shares is set out in Part 3 of this document.

## **(3) GOVERNANCE AND MANAGEMENT**

Recent changes to the composition of the Board have seen former Chairman Sean FitzPatrick and independent Non-Executive Director Lar Bradshaw resign. In addition, David Drumm resigned as Group Chief Executive on 19 December 2008. I was appointed Chairman of the Board on 18 December 2008. The Board has taken the initial steps towards the appointment of a new Group Chief Executive. A Board committee, headed by Ned Sullivan, senior independent Director, will formally appoint an external advisor to assist with this process.

On 18 December 2008 two new Non-Executive Directors, Frank Daly, former Chairman of the Revenue Commissioners, and Alan Dukes, previously Minister for Finance of Ireland, were appointed to the Board under the terms of the Government Guarantee Scheme. Both bring valuable experience to the Board and I welcome them.

The Board has begun a formal review of the Company's overall governance framework including policy and practice relating to Directors' loans. A committee of the Board, chaired by Frank Daly and assisted by external advisers, has been established to oversee this review.

The Board recognises and understands the sense of hurt and disappointment that people feel regarding the Bank following recent events. We apologise unreservedly to our customers, employees, shareholders and all other stakeholders for these events and are determined to restore people's trust and confidence in the Bank.

The Group is committed to continuing to support its customers through the economic cycle whilst always having full regard to prudent risk management. In this respect, the support provided from the Government, through the Government Guarantee Scheme and the proposed strengthening of the Company's capital, positions the Group favourably.

#### **(4) EXTRAORDINARY GENERAL MEETING**

An Extraordinary General Meeting has been convened to be held at the Mansion House, Dawson Street, Dublin 2, Ireland at 10.00 am on 16 January 2009, at which the following resolutions will be proposed and voted on:

##### ***Resolution 1 To increase the authorised share capital***

Resolution 1 seeks Shareholder approval to increase the authorised share capital from €242,000,000, Stg£50,000,000 and US\$50,000,000 to €482,000,000, Stg£50,000,000 and US\$50,000,000 by the creation of 1,500,000,000 New Preference Shares of €0.16 each to facilitate the New Preference Share Issue, which represents a percentage increase of 73 per cent. in the Company's authorised share capital.

The reason for this increase is to create the class of shares for which the Minister for Finance will invest under the terms of the New Preference Share Issue.

##### ***Resolution 2 To authorise the Directors' to allot relevant securities***

Resolution 2 seeks Shareholder approval to renew the Directors general authority to allot and issue shares, including the New Preference Shares, up to an amount equal to the authorised but unissued share capital of the Company.

If the authority were utilised in full, then the maximum amount of relevant securities which the Directors will have authority to allot will be 430,849,591 Ordinary Shares and 1,500,000,000 New Preference Shares.

The authorised but unissued Ordinary Shares represent 57.3 per cent. of the total Ordinary Shares in issue (excluding treasury shares) as at 22 December 2008, the latest practicable date before publication of this Circular.

The number of treasury shares held by the Company as at the date of this Circular is 16,761,522. Such treasury shares represent 2.2 per cent. of the total Ordinary Shares in issue (excluding treasury shares) as at 22 December 2008, the latest practicable date before publication of this Circular.

The Directors presently intend to exercise this authority to allot and issue 1,500,000,000 New Preference Shares to the Minister for Finance pursuant to the New Preference Share Issue. This authority shall expire on 15 January 2014.

##### ***Resolution 3 To disapply pre-emption rights***

Resolution 3 seeks Shareholder approval to:

- grant to the Directors the authority to disapply pre-emption rights in relation to the allotment of equity securities by way of rights, open offer or otherwise to the holders of equity securities subject to such exclusions and other arrangements deemed necessary to deal with any legal or practical problems and

to allot, for cash, shares to a maximum aggregate nominal value of 5 per cent. (being approximately 38,457,520 Ordinary Shares) of the issued Ordinary Shares in the Company on the date of the EGM without first being required to offer such shares to existing holders of equity shares;

- grant the Directors authority to disapply pre-emption rights in relation to the issue of the New Preference Shares to the Minister for Finance; and
- grant the Directors authority to disapply pre-emption rights in relation to the issue of Ordinary Shares in lieu of unpaid dividends on the New Preference Shares.

The authority shall expire on the earlier of the date of the Company's next Annual General Meeting or 30 April 2009.

#### ***Resolution 4 To amend the Articles***

Resolution 4 seeks Shareholder approval to make certain amendments to the Articles of Association, which will be effected by adopting new Articles in substitution for the existing Articles. The amendments set out the detailed rights of the New Preference Shares. A copy of the proposed new Articles (showing all changes from the existing Articles) will be available for inspection at the registered office of the Company, 18/21 St Stephen's Green, Dublin 2 during normal business hours up to, and including, 16 January 2009 and at the place of the Extraordinary General Meeting for at least 15 minutes before, and during, the Extraordinary General Meeting.

#### ***Resolution 5 Waiver Resolution***

The Takeover Panel has waived the obligation of the Minister (or any state or state-related entity or agency) to make a general cash offer to all Shareholders under Rule 9 of the Takeover Rules, which would otherwise arise as a result of the New Preference Share Issue as explained in section 5 below, on condition that the Shareholders vote in favour of Resolution 5.

Voting on the Waiver Resolution will be conducted by way of a poll of the Shareholders.

A Form of Proxy for use by the Shareholders at the EGM is enclosed. Whether or not Shareholders intend to be present at the EGM, they are requested to complete, sign and return a Form of Proxy to Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland as soon as possible but in any event so as to arrive not later than 48 hours before the time of the EGM. The completion and return of a Form of Proxy will not preclude a Shareholder from attending and voting in person should he or it subsequently wish to do so.

#### **(5) WAIVER OF OBLIGATION TO MAKE A GENERAL OFFER UNDER RULE 9**

Under Rule 9 of the Takeover Rules, if the Minister's holding (owned or controlled) equals or exceeds 30 per cent. of the Voting Rights (in this case as a result of the New Preference Share Issue), the Minister would be obliged to make a mandatory offer for the balance of the issued Ordinary Shares of the Company not already owned by him unless this obligation had been previously waived.

In order to facilitate the allotment and issue of the New Preference Shares to the Minister, the Takeover Panel has agreed to waive the potential obligation of the Minister to make a general cash offer to all Shareholders under Rule 9 of the Takeover Rules which might otherwise arise as a result of such issue.

The Takeover Panel issued the waiver by letter dated 23 December 2008 subject to the following conditions:

- (i) the passing of an ordinary resolution by the independent Shareholders, on a poll at the EGM, approving the holding by the Minister of 75% of the Voting Rights in Anglo. The terms of this ordinary resolution are set out as Resolution 5 in the Notice of EGM. As the Minister does not hold any shares in Anglo all existing shareholders are regarded as independent for the purposes of this vote.
- (ii) that a circular is prepared by the Company in accordance with the Whitewash Guidance Note in the Takeover Rules and such circular is approved by the Takeover Panel. This Circular has been approved (in this respect only) by the Takeover Panel.

A copy of the waiver letter is available for inspection as detailed in Part 5, section 5.

**It should be noted that if the Waiver Resolution is passed, the Minister would be permitted under the Takeover Rules to increase his holding of Voting Rights without incurring any further obligation to make a general offer under Rule 9 of the Takeover Rules.**

Although the Minister has the right to transfer the New Preference Shares to another state or state-related entity or agency any such transfer will not affect the waiver granted by the Takeover Panel provided the Minister continues to control the Voting Rights granted to the holder of the New Preference Shares.

The advice of Davy Corporate Finance, which has been appointed to advise the Directors, on the waiver of the potential obligation of the Minister to make a general offer under Rule 9 of the Takeover Rules in the circumstances detailed in this document, is set out in Part 2 of this Circular.

#### **(6) CONSENTS**

The New Preference Share Issue shall be conditional on passing all Resolutions presented at the EGM, as well as the granting or waiver of all required consents (if any) pursuant to the Credit Institutions (Financial Support) Act 2008, or by the European Commission and/or the Financial Regulator.

#### **(7) IMPORTANCE OF THE RESOLUTIONS**

The Resolutions must be passed by Ordinary Shareholders at the Extraordinary General Meeting (and, in the case of the Waiver Resolution, as an ordinary resolution of the Shareholders conducted by way of a poll) in order for the allotment and issue of the New Preference Shares to the Minister to proceed. If the Resolutions are not approved and the allotment and issue of the New Preference Shares to the Minister does not proceed, the Group will need to reassess its strategic and operational position and will be required to find alternative methods for achieving targeted capital ratios which in the current market environment may not be available or successful. If the Company is unable to raise capital and increase its capital ratios sufficiently, there will be adverse consequences for the Company which may, in turn, have negative implications for Ordinary Shareholders.

#### **(8) RECOMMENDATION**

**The Board reiterates its clear view that the proposed New Preference Share Issue will strengthen considerably the Group's capital position and that it represents a significant positive development in the Group's ongoing ability to successfully undertake its business.**

**The Directors, who have been so advised by Davy Corporate Finance, consider the allotment and issue of the New Preference Shares to the Minister to be in the best interests of the Company and Shareholders as a whole. In providing advice to the Directors, Davy Corporate Finance has taken into account the commercial assessments of the Directors. Accordingly, the Directors unanimously recommend that you vote in favour of the Resolutions at the EGM as they intend to do or procure be done in respect of their own beneficial holdings, which amount in aggregate to 5,814,645 Ordinary Shares, representing approximately 0.76 per cent. of the existing issued Ordinary Shares.**

Yours faithfully,

**DONAL O'CONNOR**  
Chairman