

**Davy Conference  
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**SLIDE 1**

**Introduction**

Good morning. I am delighted to be here today to address this conference and thank you to our hosts, Davy. The subject of my presentation today is the growth opportunities in the Irish financial services market and how we are positioned as a group to:

- get our share and more of that growth
- to translate it into a growing earnings stream, and
- source the capital to support that growth.

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**Growth Opportunity**

So let me start with the Irish growth story and what it means for the financial services sector. In doing so it is worthwhile to firstly look at the growth that we have enjoyed over the past decade and the principal driver of that growth, namely the very positive demographics of Ireland. We will then move on to see how this demographic driver is set to continue for the next decade and beyond.

**SLIDE 3**

**Ireland – Population Growth 1993 – 2004**

The overriding dynamic in Ireland that sets it apart from most other European countries is our young and growing population. In just over a decade our population increased by almost half a million people, or 13%, and for the first time since the 1870s the population exceeded 4 million. This absolute growth in numbers together with the increasing proportion of well educated young people coming into the workforce have been the principal drivers of Ireland's economic success story to date.

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**Ireland – Personal Borrowing 1993 – 2004**

So, not surprisingly on the back of this phenomenal growth we have seen huge increases in demand for both banking and life and pension products. The growth in demand for personal credit has been spectacular and the biggest component of this has been mortgage credit. Clearly this growth has been good for us as a leading mortgage lender in the market. Household debt in Ireland is now just 60% of GDP – up from 40% 5 years ago. This compares with over 100% in the UK and is also exceeded by The Netherlands, Portugal and Germany in the euro area. So while we are much more leveraged today, we are so in a much more benign economic environment and are not out of line with other economies generally, particularly taking into account the younger age profile of the population of Ireland.

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**Ireland – Life Premium Income 1993 – 2004**

In the life and pensions market we have also seen a similar correlation between economic growth and growth in revenues. Annual premium income has increased by 240% over the period 1993 to 2004 – driven by steadily rising demand for pension, protection and savings products as employment and incomes have increased. Again as the market leader in life and pensions this has been hugely positive for us.

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**Ireland – Project Population Mix**

So much for history. However the good news is that the economic growth we have seen is set to continue, albeit not at the exponential rates we have enjoyed over much of the past decade. Once again the continued growth in the population of Ireland is a major contributor, a trend which continues to be in sharp contrast with most of our European neighbours. The most recent forecast from the Central Statistics Office is for a further 20% increase in the population, to 5 million, between now and the year 2020. And a critical feature of that expected growth is the changing composition of the population over that period. Between now and 2020 that critical age cohort of those between 35 years and 65 years, in terms of the drivers of demand for financial services is set to increase by 35% as the exceptionally young population profile we have to day gradually ages over that period.

## **SLIDE 7**

### **A Very Attractive Backdrop**

So the powerful demographic forces that have driven economic growth and rapidly rising demand for financial services over the past decade are set fair to continue for some time to come.

However it is important to remember that it is not solely demographics which are underpinning demand for financial services.

Ireland enjoys a very high savings ratio estimated at approximately 14% for 2004, which reflects a strong saving and investment culture.

Another benefit from the rapid rise in incomes and asset values is the significant growth in inherited wealth. This is probably the first generation in Ireland for whom this is very substantial. It is estimated that the inherited wealth from housing, which is currently circa €3 billion per annum, is set to double by the year 2020. This together with a strong savings and investment culture will provide strong market support for the long term savings market.

In addition, the savings market continues to enjoy very strong support in terms of public policy. We have seen this particularly in the pensions area which has very attractive fiscal incentives and where the Government is committed to expanding private pension coverage for the growing working population.

Finally the Irish market is about to a big bonus from Special Savings Investment Accounts. These products enjoyed a very attractive cash subvention from government and were taken up by almost 40% of the adult population of the country. These contracts are set to mature over 2006 and 2007 with a total maturity value estimated in the order of €16 billion. We see this as a tremendous opportunity to engage with our customers and have no doubt that it will be very positive both in terms of generating sales and building longer term relationships.

## **SLIDE 8**

### **Life and Banking Markets**

So that's our view of the likely demand outlook for the sector. I will now take a brief look at both the life and the banking markets to see how the various players in that market are positioned in terms of who is likely to get what share of that attractive and growing pot of business.

## **SLIDE 9**

### **Life and Pensions Market**

The life and pensions market in Ireland is consolidating. Over the past 5 years ourselves in Irish Life together with Bank of Ireland, have steadily increased market share so that between us we now have circa 50% of new business volumes. What is significant is that both of us have adopted a multi-channel distribution strategy. The mono-line distribution companies have virtually all ceded market share over the same period. So distribution reach and the scale that it affords have been key ingredients for success in the market. We see this trend continuing and our expectation would be that there will be exits of some of the smaller players from the market.

## **SLIDE 10**

### **Personal Banking Market**

The personal banking market in Ireland has been dominated by AIB and Bank of Ireland, with shares in excess of 70%. However they have not had the market entirely to themselves. In the residential mortgage market building societies – such as Irish Permanent – would traditionally have held a very strong position. The creation of permanent tsb in 2001 and the entry of RBOS into the market, with the Ulster Bank and First Active, mean that there are now substantial players with significant positions in sectors of the market now taking on the AIB / Bank of Ireland, duopoly. In addition, we have seen Danske enter the market with the acquisition of NIB and we have had HBOS since 1999, albeit that they have not made much progress since then. Both Danske and HBOS have indicated their intent to increase share in the market. All this adds up to a pretty competitive market environment but one where, in my opinion, distribution, branding and the quality of franchises will be key determinants of success.

## **SLIDE 11**

### **Competitive Position – Irish Life**

I now want to turn to look at how our main business in both the life and the banking markets are positioned to compete in their respective sectors. Firstly let me look at Irish Life.

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### **Comprehensive Life Distribution**

Key to Irish Life's market position in the retail life and pensions market has been its multi-channel distribution model which we have built up over the last 5 to 6 years. There are 4 elements to this

- A direct business done through our 240 strong employed sales force together with a further 135 self-employed franchisees. This channel sells a wide range of products and has been very successful in the sale of the government sponsored stakeholder pension product, the PRSA.
- Bancassurance where we sell through our network of over 100 permanent tsb branches where we have almost 500 staff fully trained and equipped with state-of-the-art point of sale technology. The primary product focus is on protection and investment products and more recently in successfully selling PRSAs.
- The intermediary channel where Irish Life Retail has a network of over 1,000 brokers or IFAs who sell mainly to the middle and upper end of the market concentrating on lump sum investment and pension products, and finally
- Our partnerships arrangements where we are the product supplier for the bancassurance business of other credit institutions, and where we have largely displaced AVIVA as the provider.

This spread of distribution provides 2 important benefits. It enables us to reach all market segments and it also ensures that we are not overly dependent on any one channel.

## **SLIDE 13**

### **Retail Life Distribution Mix**

You can see from this chart the actual distribution mix in our retail life business in the current year. Broadly today we have a balanced spread of distribution with 3 channels at about 30% each and the partnership business accounting for the remainder. The key developments since the group was put together has been the development of our bancassurance business which has come from zero to 28% in the current period and, when taken together with our direct business, now results in almost 60% of new business coming through controlled channels. This contrasts with 1998 when, in practice, we had minimal control over our distribution. Also in 1998 the partnership business consisted entirely of a tied agency with a single bank, First Active, whereas today it consists of relationships with a range of different institutions.

So this distribution matrix and reach is a real strength and is now operating at near maximum efficiency.

**SLIDE 14**  
**Strong Product Suite**

And our success on the distribution front has also been matched on the product front.

The performance of our asset management division, Irish Life Investment Managers, over the last 5 years provides a very strong underpinning for the sales targets of both our retail and corporate business. ILIM's active management performance is top quartile over 1, 3 and 5 years and is based on a consistently applied and rigorous investment approach. Also critically important has been ILIM's innovation in developing a wide range of passive products. The flagship consensus fund which has an absolutely consistent 10-year track record is the passive fund of choice for defined contribution fund trustees.

We also operate an open architecture where we offer the investment funds of other managers, including Fidelity for whom we are the exclusive distributor in the Irish market.

**SLIDE 15**  
**Customer Satisfaction**

The final ingredient underpinning our market position and branding in the life sector in Ireland has been our focus on our customers. For a large part of the life assurance sector, this is a novel concept with product and distribution driven strategies ignoring the end customer. That is not a sustainable position and we have invested heavily in developing customer-friendly products and in steadily improving the quality of customer service. Our InTouch programme which we launched in 2004 sets a benchmark index for customer service satisfaction against which the business is publicly measured and which is also linked to staff remuneration. Since inception we have recorded very significant improvements and are away ahead of our competitors in this area.

**SLIDE 16**  
**Competition Position – permanent tsb**

Now I want to turn to look at our banking business, permanent tsb, and the competitive position it finds itself in the personal banking market. As we stated when announcing our interim results in September our banking business is somewhat behind our life business in terms of where we want it to be. Huge progress has been made since we put Irish Permanent and TSB together in 2001. However, we have more to do and we are currently in the second phase of our transformation programme at the bank with circa 12 to 18 months to run.

**SLIDE 17**  
**permanent tsb – Distribution**

As we have just discussed in our life business, distribution also plays a key role in the bank's strategy. permanent tsb also operates a multi-channel distribution strategy, operating in addition to its 100 strong branch network, through agencies, intermediaries and brokers, using the direct sales force of Irish Life and business directly coming to it via the telephone and internet. This puts permanent tsb on the high streets of all major towns and provides a comprehensive choice for customers in terms of how and where they want to do business. In the past the majority of our customers have been mortgage holders and for most of these customers we would not have been their primary banking relationship. Now that we have, since the acquisition of TSB in 2001, a full transaction banking capability we are building up our base of current account customers to establish that primary banking relationship. We see as protecting our core mortgage market share in an increasingly competitive market.

**SLIDE 18**  
**Mortgage Distribution Mix**

Currently, just under 50% of our mortgage business in Ireland comes through our retail branch network and agencies, and a similar proportion from brokers and intermediaries. The balance comes from electronic channels or via the direct sales force of Irish Life. Over the last number of years, we have seen significantly increased productivity from the branch network in terms of bancassurance products, and more recently current accounts, and we know there is an opportunity with the changes we are currently making in the branch network to boost branch productivity in mortgage sales even further.

## **SLIDE 19**

### **New Customer Acquisition**

Clearly, while using all distribution channels our ambition is to maximise the sale of products through our own controlled channels, principally our branch network. Our recent strategy to do this and to acquire new customers has been through our aggressively priced and marketed new product offerings – our fee-free current account and our low interest rate ICE credit card. This has been hugely successful. In 2005 we have opened up 60,000 new current accounts. These are primary current accounts where customers lodge or mandate their salary and then we become their primary banking relationship. Clearly we are foregoing fee income on these accounts, but we are however getting the benefit of free balances and ultimately these relationships provide us with a key platform for cross-selling products to these customers, both on acquisition and later in the relationship. This is something we know we are good at, where we have demonstrated our ability already in our bancassurance operations.

Our major competitors will find it very difficult to match our free banking proposition given the potential revenue that they would forego.

## **SLIDE 20**

### **Increasing Branch Network Productivity**

The other significant strategy running alongside new customer acquisition is the transformation of our branch network in terms of radically increasing its sales focus. In this respect we are somewhat behind many of our competitors but coming late into the game has some advantages. We can learn from others' mistakes.

We have already done a lot of this work which involves, in the first instance, centralising of administration which was previously done in branches. This has been completed and our next step is to re-allocate the staff in the network into dedicated sales and sales support roles with new sales related remuneration structures. The final element supporting the drive for increased productivity in the network is the roll out of point of sale technology to support mortgage sales and we expect to have this in place in the first half of this year.

## **SLIDE 21**

### **Competitive Mortgage Pricing**

As you know the mortgage market in Ireland has been hugely buoyant but also very competitive with the increasing number of players in the market. Different players have adopted different strategies in that market. To use the supermarket analogy there are those banks offering a low prices everyday strategy versus those with special offers. We fall into the special offer category, as does Bank of Ireland, whereas AIB has adopted a low prices everyday strategy. That said our policy is to be competitive right across the product range but most particularly with respect to pricing for new business where we give a discount off the standard variable rate -1% in the first year. It does mean that there is a differential between the new business pricing and the back book standard variable rate and this is something we seek to manage. Following the recent 25 basis points rise in the ECB rate we took the opportunity – effective from January - to reduce the differential between the new business and back book rates by only increasing the latter by 15 basis points, which we could do without significant impact on our overall margin.

Our offering in the mortgage market is clearly not just about price. Our distribution reach and our service offering and branding are also critical. And we are absolutely determined that we will not

cede share to either existing competitors or indeed to the more recently arrived entrants to date, the latter have struggled to achieve any sort of critical mass in this market.

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### **Costs / Margins / Capital**

I want to turn now to take a brief look firstly at what has been happening on the cost front and on margins, both of which are key determinants in translating what are very attractive top line revenue flows into bottom line earnings. I will also touch on the capital position to emphasise the financial flexibility we have in funding our rapidly growing life and banking businesses.

## **SLIDE 23**

### **Life New Business Margin**

The margin performance on our life business has been very positive, as you will have seen from our recently announced interim results for this year. There were a number of factors underpinning this sharp improvement in margins in the first half, including the product mix, the absolute levels of sales increase we enjoyed and the benefits accruing from our cost reduction programme, particularly in our retail business. The product mix benefit came largely from the higher proportion of higher margin protection business. This was particularly gratifying as this has been the principal area contributing to the decline in margins over the previous 2 to 3 years. This was the result of our competitors driving down protection prices in an attempt to gain market share. We matched those price reductions and eventually our competitors blinked and increased their prices. We expect to see the full year margin of about 19% and we are optimistic going forward that we can at least match and hopefully exceed our target margin of 17%.

## **SLIDE 24**

### **Retail Life Costs**

In addition to product pricing, cost management has made an important contribution to the recovery in our margins. Key to this has been our Horizon change programme in our retail life business which is just now reaching its conclusion. Horizon has been more than just cost cutting, it has implemented new technology right from the front end of point of sale, through on-line fulfilment and into a new back office administration system. This has delivered a much more satisfying point of sale experience for the customer and quicker service delivery. We believe this gives us a platform for further cost reductions into the future as we now have the capability to employ much greater use of customer self-service technology.

## **SLIDE 25**

### **Life Capital**

In addition to managing margins and costs we must manage our capital efficiently. The growth in our life business is generating a requirement for capital of circa €120m per annum. This is being funded out of the surpluses emerging from the in-force book of business with any excess surplus contributing to the group dividend requirement. Our starting capital position in our life business also gives us tremendous flexibility in funding:

- The net assets in our life business are double the statutory minimum - €691m versus €343m
- These are statutory reserves and do not include any embedded value future profits.
- The capital is all Tier 1 – there is no leverage whatsoever, and
- Financial reinsurance and securitisation of the in-force are available options if required.

## **SLIDE 26**

### **Banking Margins**

Turning to the bank we see that the margin picture is one of a steady reduction in rates since 2001. This has been primarily driven by falling interest rates driving down margins on the liability side as we hit into deposit floors. The other component has been the gradual dilution of margins coming from the funding of new business from wholesale funds. Clearly the impact of falling interest rates is over and rates are now on the way up, which is a positive environment for us.

The margin dilution coming from increased wholesale funding will continue as we grow rapidly, although this has been partly offset by the benefit accruing from our acquisition of current account balances at no cost and also, in profit terms, is compensated for by attractive volumes.

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##### **Banking Costs**

While we may not have much control on the effect of interest rates we have been very active on the cost front in our banking business, succeeding in basically holding costs flat over the last 4 years. Indeed our expectation looking at the next couple of years is for costs to remain pretty much flat at these levels as we continue to roll out and implement the current phase of our transformation programme in the bank.

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##### **Banking Capital**

Finally a comment on the capital position of the bank, where we are pretty comfortable. The annual capital requirement from balance sheet growth is more than double that of the life business and this we are funding, and will continue to fund, principally from Tier 2 debt. We have huge Tier 2 capacity to enable us do this as our current RAR of 10.6% Tier 1 capital. Furthermore that Tier 1 is all upper Tier 1 with no prefs or hybrid capital included. If we were to add prefs or hybrids that would also further expand our Tier 2 capacity. Again, like the life company, we can take risk off the balance sheet through securitisation, to reduce capital needs. So we have huge flexibility in funding our growth ambitions.

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##### **Summary**

That brings me to the end of my presentation. We think we're in a great market and feel vindicated in our Ireland First strategy. Based on all the growth indicators that we have for the next 5 or 10 years, we believe once again that it is the correct choice for us.

We made the choice to concentrate on the Irish market because of the very strong market positions we have both in our life and in our banking businesses. Strong positions based on distribution strength, branding and franchises. These will ensure that we get our share, at the very least, of the opportunities afforded in the Irish financial services market.

And finally over the years we have done what we said we would do, and done so in a low risk and consistent manner. I hope that gives you, as investors, confidence in terms of our ability to achieve our ambitions for growth over the next 5 to 10 years.

On that note I will finish my presentation and I will be more than happy to take any questions.

Thank you.