

**Script for Fox Pitt Kelton Conference
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**SLIDE 1
Introduction**

Good morning, ladies and gentlemen. I am delighted to be here today to address this conference organised by our hosts, Fox Pitt Kelton. The subject of my presentation today is the growth opportunities in the Irish financial services market and how we in Irish Life & Permanent are positioned as a group to get our share and more of those growth opportunities and to translate that into a growing earning stream for our shareholders.

**SLIDE 2
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.

**SLIDE 4
Ireland – Real GDP Growth 1993 to 2004**

The population growth over the last decade has also been matched by a strong growth in employment in Ireland over that period, with numbers at work rising from 1.1 million in 1993 to 1.9 million today, an increase of over 60%. Having sorted out the public finances in the late 1980s and early 1990s, the main blockages to economic growth and development were removed and the economy was allowed to achieve its full potential. It readily absorbed the increasing number of young people coming into the labour force for the first time as well as the pool of unemployed and a greater number of females returning to paid work. All this translated into real GDP, more than doubling in a decade. An expanding workforce enjoyed rising incomes along with the benefits of falling taxes and interest rates. It doesn't get much better than this for providers of financial services.

**SLIDE 5
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 to meet both the strong demographically driven demand for housing and the asset inflation which has accompanied it. Falling interest rates have of course played their part in this. 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 we are much more leveraged today but 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 growth we have seen is set to continue albeit not necessarily at the exponential rates we have enjoyed over much of the past decade. The reason is the continued growth in the population of Ireland, 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 between now and the year 2020, with the population hitting 5 million from the 4 million level of today. So the 500,000 increase in the country's population that has occurred in the last decade is now set to be followed by an increase of double that amount, 1 million, over the next 15 years. And a critical feature of that expected growth is the changing composition of the population over that period. Between now and 2020 the 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.

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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, and clearly the challenge for us is to ensure that we get our share of that growth and more.

However it is important to remember in addition that it is not solely demographics which are underpinning demand for financial services but a number of wider factors in the economy and society which are also very supportive and positive. Ireland enjoys a very high savings ratio estimated at approximately 14% for 2004, which reflects a strong saving and investment culture and additionally provides a very substantial buffer for any headwinds that might emerge on the economic front over the coming years. Another benefit from the rapid rise in incomes and the asset inflation we have enjoyed, particularly in the property market, is the significant growth in inherited wealth. This is probably the first generation in Ireland that it now coming into very substantial inherited wealth on a wide scale. It is estimated that the inherited wealth from housing, which is

currently estimated at €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 same market has enjoyed, and continues to enjoy, very strong support in terms of public policy. We have seen this particularly in the pensions area which enjoys very attractive fiscal incentives for private pension provision and where the Government is actively working to ensure increased private pension coverage for the growing working population.

Finally, as I am sure all of you are aware, the Irish market is about to enjoy the fruits of a fiscal intervention 4 or 5 years ago, when the Government introduced the Special Savings Investment Accounts. These products enjoyed very attractive tax benefits 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. This will clearly provide a huge potential bonanza for all providers of retail services and goods, not least in the financial services sector which is the repository of these funds. It remains to be seen exactly what customers will in fact do, i.e. whether they will go on a spending spree or in fact choose to continue to save and roll over their accumulated funds into other financial services products. From our point of view, we see it as a tremendous opportunity to engage with our customers and have no doubt that the outcomes will be very positive both in terms of building longer term relationships with those customers and in generating more immediate sales opportunities.

SLIDE 9 Life and Banking Markets

So that's our view of the likely demand outlook for the sector. What I want to do now is 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 10 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 encompassing bancassurance, direct sales force and the IFA market and this has been a key contributor to our success. 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 would be exits of some of the smaller players from the market. Mind you, we have been saying this for some time and the process has been slow. Maybe that's in the nature of life companies where the financial implications of a secular decline in business can be masked by arcane financial reporting. It may also be that the expected sales bonanza from the SSIA maturities may also defer the inevitable decision day for some of these sub-scale businesses to exit the market.

SLIDE 11 Personal Banking Market

The personal banking market in Ireland has historically been dominated by AIB and Bank of Ireland, who together would have in excess of 70% of all current account and credit cards issued in the country. However they have not had the market entirely to

themselves. For example in the residential mortgage market building societies would traditionally have held a very strong position as indeed has Irish Permanent, now permanent tsb, being a leading player in the market. The creation of permanent tsb in 2001 with the merger of Irish Permanent and TSB Bank and the entry of RBOS into the market, with the combined brands of 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, more recently we have seen Danske enter the market with the acquisition of NIB and we of course have had HBOS in the market since 1999, albeit that they have not made much progress since then. Both of the latter companies 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.

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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 through our One Source brand. This channel is targeted at the broad middle market selling a range of products from protection and lump sum investments and more recently has been very successful in the Irish equivalent of the UK stakeholder pension product which is 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 for the sale of life, pension and investment products which are sold to permanent tsb customers. The primary product focus is on protection products in association with the mortgage sale and with lump sum investment products. More recently the bank has been also increasingly successful in selling the pension PRSA product.
- The intermediary channel where Irish Life Retail has a network of over 1,000 brokers or independent financial advisers 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. This is a market to which we provide protection products, principally associated with mortgages, and where we have displaced AVIVA as the primary provider.

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

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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 notwithstanding that almost half of the business came through our direct sales force at the time. 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 6 or 7 different institutions.

So this distribution matrix and reach is a real strength which we have built up steadily and progressively over the last 5 or 6 years and which is now operating at near maximum efficiency.

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Strong Product Suite

And our success on the distribution front has also been matched on the product front making us the clear market leader in terms of both product performance and more generally in terms of product innovation. 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, both for the retail market and for the institutional pension fund market. The flagship consensus fund which has an absolutely consistent 10-year track record is the passive fund of choice for defined contribution fund trustees. In addition to having excellent performance in our own in-house suite of products, 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.

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Customer Satisfaction

The final ingredient underpinning our market position and branding in the life sector in Ireland has been our focus on our customers and on quality service delivery to them. 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 for a company such as ourselves which has the ambition to build a world class life and pensions business that delivers outstanding products and service to customers. We have therefore invested heavily over the past number of years in developing customer-friendly products and in steadily improving the quality of customer service and the level of customer satisfaction. Our InTouch programme which we launched in 2004 sets a benchmark index for customer service satisfaction against which the business is measured and which in fact is also linked to staff remuneration. Since inception we

have recorded very significant improvements and are away ahead of our competitors in this area.

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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 I 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 and a lot has been achieved. However there is no doubt that we have more to do and we are currently in the second phase of our transformation programme at the bank, and this has in the order of 12 to 18 months yet to run.

SLIDE 18
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 plus 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 cities and towns right throughout the country 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. It has therefore been critically important to have this range of distribution to access the customers of other financial institutions to distribute our mortgage product. 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 market share in an increasingly competitive market.

SLIDE 19
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 coming either directly through electronic channels or via the direct sales force of Irish Life which is now also distributing mortgages. 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 20
New Customer Acquisition

Clearly while using all distribution channels our primary objective is to maximise the sale of products through our own controlled channels, in this case principally our branch network. We therefore want to maximise the number of our direct customers whose primary banking relationship is with us. Our 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 the year to date alone, we have opened up 50,000 new

current accounts. These are primary current accounts where customers lodge or mandate their salary and then we become their primary banking relationship. The new current accounts are opening at the rate double that of 2004 and we expect to continue at least at this pace, if not more, into 2006. 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 down the line. This is something we know we are good at, where we have demonstrated our ability already in our bancassurance operations and it's an area where our major competitors will find it very difficult to respond to given the potential revenue that they would forego were they to match our free banking offering.

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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 this in fact gives us an opportunity both to deploy the latest state-of-the-art self-service technology on the one hand, and also to put in place the most appropriate HR structures and processes to ensure that we achieve the desired outcome in terms of sales. We are somewhat down this route already 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 sales and sales support roles with new sales related remuneration structures. Our target for implementation of these new staff structures is January coming and we are on schedule to meet that. 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. We have already implemented this technology for sales of bancassurance savings and investment products and have seen the benefit that it has delivered in terms of sales productivity.

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Competitive Mortgage Pricing

As you know the mortgage market in Ireland has been hugely buoyant but, with the increasing number of players in the market, it has also been hugely competitive. Different players have adopted different strategies in that market. If I was 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 have 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 unlike our low prices everyday competitors there is a differential between the new business pricing and the back book standard variable rate and this is something we seek to manage. One way we manage is by having a range of fixed rate and tracker products with highly competitive rates.

Our offering in the mortgage market is clearly not just about price, although price is very important. Our distribution reach and our service offering and branding are also critical and we are determined to manage each of these components to both protect and grow our share in the mortgage market. 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 and Margins

I want to turn now to take a brief look 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. On the margin front we will see contrasting pictures for life and banking, reflecting in the latter case circumstances out of our control, whereas on the cost front where we do have a large measure of control we have seen a consistent and strong performance in cost management across both our life and banking businesses.

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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 refused to cede share. Eventually our competitors blinked and from the start of this year have begun to increase their prices, which meant that we were matching our competing price at a higher level which was clearly positive for our margins. We expect to see the first half margin more or less delivered in the second half of this year and we are certainly optimistic going forward that we can at least match and hopefully exceed our target margin of 17%.

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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 has been ongoing for the last 3 to 4 years and 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, quicker service delivery and straight through processing. 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 self-service technology to reduce transaction processing costs in the life business.

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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 and certainly this accounts for the vast bulk of the margin reduction. The other component has been the gradual dilution of margins coming from the funding of new business primarily from wholesale funds with retail deposits only growing very modestly. Clearly the impact of falling interest rates is almost certainly over and at some point in the near future we expect rates to pick up and we would expect to be beneficiaries from such an event. The margin dilution coming

from increased wholesale funding is inevitable as we grow rapidly, although this has been partly offset by the benefit accruing from our acquisition of current account balances at no cost.

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Banking Costs

While we may not have much control of our interest reductions and their impact on the margins, 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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Summary

That brings me to the end of my presentation. We think we're in a great market. We made a call 5 or 6 years ago on concentrating our focus on the Irish market with our Ireland First strategy, and we feel very much vindicated by that call. And based on all the growth indicators that we have, looking out for the next 5 or 10 years, we believe once again that it is the correct choice for us. We also made the choice to concentrate on the Irish market because of the very strong market positions we have both in our life business and in our banking business. Strong positions based on distribution strength, branding and franchises which will ensure that we get our share, at the very least, of the opportunities afforded in the Irish financial services market. And finally to make the point that we have in the past delivered, I would venture to say, pretty consistently on what we said we would do, and we have done that in a low risk manner which I would hope 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 you might have.

Thank you.