Irish Life & Permanent plc
2003 Interim Results – 3 September 2003
Analyst Presentation Script

Roy Douglas (Chariman)
SLIDE 1: 2003 INTERIM RESULTS PRESENTATION

Good morning everybody and welcome to this results presentation.

And a particular word of welcome to those of you who are listening to this presentation from abroad through the teleconference facility. I'm glad you've been able to join us.

I think you could describe 2003 as a half year of two markets.

– A strong banking market driven by the ongoing strong demand for mortgage finance, and

– A weak life assurance market, down considerably on 2002 due to the high level of SSIA sales last year, and the impact of prolonged poor investment markets on investor confidence.

Overall however, we had a very satisfactory performance with the Group's pre-tax contribution in the Republic of Ireland and the UK amounting to €188.0 million, an increase of 16%.

From the Board's perspective the period is notable in particular for marking the final exit from our businesses in the United States. As you will appreciate, this has been an important objective for the Group since we launched our Ireland First strategy four years ago….so we're delighted to have been able to ensure its successful conclusion.

Group capital and liquidity remain strong with a capital adequacy ratio of 10% and a liquidity ratio of 25.0%. Solvency margin was covered 2.2 times by available assets. An interim dividend of 15.0 cent, up 5% on last year's, has been declared.

For a full presentation of the results, I now hand you over to David Went, our Group Chief Executive.
David

David Went (CEO)
SLIDE 2: FORWARD LOOKING STATEMENT
Good morning ladies and gentlemen. Welcome to this morning's results presentation.

In a moment Peter will take you through the details of our financial performance during the period and then I shall talk you through some significant issues in the key businesses. Both Peter and myself will then be happy to answer any questions you might have.

But to start with let me just give you a very brief overview of the performance during the period.

<u>SLIDE 3:</u> INTERIM RESULTS 2003 OVERVIEW
In line with our forecasts, the first half of the current year proved to be a much more challenging environment than we had seen in recent years. The absence of the SSIA incentive which dominated the first half of last year - and continued very difficult investment markets in the early part of the period combined to transform the life and pensions market in particular.

However I believe that the overall performance during the period was more than satisfactory –with the key figure – the pre-tax contribution from ROI/UK our core earnings up 16% to €188 million for the six months.

In particular its been gratifying to see the benefits of the multi-product, multi-channel distribution strategy which lay behind the 1999 merger of Irish Life & Irish Permanent and the subsequent acquisition of TSB bearing fruit with a strong out-performance by our banking division compensating for the weaker life and pensions market.

And providing the silver lining on the life & pensions cloud is the fact that we've yet again managed to grow our market share in Irish Life as a more challenging marketplace begins to separate the men from the boys in that area.

In addition this period marks our final exit from the US – a landmark day for the Group and our Ireland First Strategy that we embarked on four years ago. We'll come back to look at the position in key businesses in a moment.

<u>SLIDE 4:</u> FINANCIAL REVIEW
For now though, let me hand you over to our Finance Director, Peter Fitzpatrick.

<u>Peter Fitzpatrick (Group Finance Director)</u>
Good Morning
As usual we start with a high level analysis of the earnings for the six months.

<u>SLIDE 5:</u> TOTAL PROFIT AFTER TAX
Total contribution has risen by 14% to €189.5m. This includes a small amount of earnings from the US and stripping that out, our contribution line for Ireland and UK operations is up 16%. This represents our core earnings and most of this presentation will analyse that performance. Before that, if we look at some of the other below the line items.

The first six months saw a welcome growth in investment markets. For example, as a proxy for the market overall, our pension fund asset values grew by 5% despite the impact of a weaker $ and Sterling, thereby out performing our embedded value assumptions and giving us a positive variance on short term investment fluctuations of €5.9m in the Life companies. A similar story applies to our Associate, Allianz-IL, which had a positive €0.8m. These combined positives of €6.7m compare to heavy negatives of €59.9m to June 2002, which, you may recall grew to €130m for 2002 full year. So we are pleased to have rounded the corner on this one.

Exceptional items in 2003 reflect the loss on disposal of the last US investment, Guarantee Reserve, which we had flagged in our last statutory accounts, offset by gains on property disposals and I will return to this. The positive in 2002 represented the disposal of the IB business as well as property disposals.

Whilst we have no changes to the Risk Discount Rates, we have revised, as normal, some other economic assumptions which have given us a small negative movement in the period versus a small positive one for 2002.

Taxation charges of €30.3m reflect an effective rate of corporation tax of 12% for Ireland and UK operations. The €30.3m includes an additional charge by way of a levy imposed by the Minister for Finance for a three year period, being €6.1m for the half year and it is worth noting that this very discriminatory tax, in a full year, takes 4.5 cent per share off our EPS. That leaves us after minority interest with €111.2m post tax earnings, obviously impacted by that final write off on disposal of Guarantee Reserve in the US.

<u>SLIDE 6:</u> TOTAL CONTRIBUTION

As I said, total contribution reflects our core earnings in the Group, so analysing the total of €189.5m further you can see, towards the bottom of the chart, growth of 16% under this heading from Ireland and UK operations.

Looking at where this arises,
it will come as no surprise to see life earnings down by 11% half year on half year. We have already clearly flagged to the market that we expected that reduction following the abnormally high level of sales of SSIA's in the first half of 2002. However, within that result there is a stronger than expected performance in a number of areas, including the margin.

In banking and other we have recorded an increase of 68% to €74.8m. The main explanation for this out performance has been a €26m profit arising from a repositioning of a portfolio of gilts.

On a combined basis, Life and Banking are ahead by 12% on last year and we will start analysing each area on the next slide. I will also return in some detail on a later slide to associate company earnings where, happily, the strong earnings trend recorded in the second half of 2002 has continued into 2003.

Other investment earnings in 2002 reflect the disposal of the last of our equities held by the bank - hence nothing in the current year.

Lastly on this slide, the first half contribution from the US reflects the uplift in value in Guarantee Reserve for which we will receive an additional payment from the Purchaser.

<u>SLIDE 7:</u> LIFE ASSURANCE CONTRIBUTION

So, moving into the detail on the life assurance contribution of €96.9m starting with Ireland.

First we see that new business earnings at €18.2m are about half the level of the previous year and this is being driven by a reduction in sales. In the first half of 2002 we had SSIA sales totalling €92m, not repeated in 2003.

<u>SLIDE 8:</u> LIFE ASSURANCE – IRELAND VNB/MARGINS

David will be commenting later on our sales performance for the current year and you will see that we performed very strongly in the area of protection sales through the bancassurance channel - our highest margin product selling through our most profitable channel – and this more favourable product mix, coupled with expense efficiencies and continued positive mortality experience has produced a life margin of 12%, which is 2% ahead of where we guided the market in our preclose statement. So, in effect, we have captured the higher margin which we expected to see arising in the second half somewhat earlier in the year. All of that is good news, especially as we expect to see those margins remaining robust at this level for the rest of the year and effectively compensating the expected lower margin PRSA sales in the second half.

With regard to ILIM, we have a lower level of sales - smaller individual sales in fact which have attracted a better margin in the period.

<u>SLIDE 9:</u> LIFE ASSURANCE CONTRIBUTION

Returning to the main life contribution slide and looking at existing business, the unwind of the discount rate is lower than last year. We lowered the risk discount rate at the end of 2002 which results in a lower unwind and secondly, the large negative short term investment fluctuations in 2002 reduced the level of the value of the in force at the year end, and effectively negated any growth in the unwind which we could have expected from the strong sales in 2002. So, once again, it is welcome that those investment fluctuations have turned positive for the first half of 2003 - and that improvement has in fact continued into July and August.

<u>SLIDE 10:</u> LIFE ASSURANCE IRELAND – EXPERIENCE VARIANCES

Experience variances and assumption changes are set out in detail on this slide.

Persistency remains positive but is down from €7.2m to €0.6m, which is disappointing. The main feature here is a fall off in regular pension renewals in the retail area. Some of this must come from a reaction to the weakening investment markets through 2002 into the first months of 2003 and some from the change in the payment date for tax purposes into the second half of the year. Since markets are recovering and as we approach the end October payment deadline, we anticipate recovering at least some of these lapses in the second half.

Risk has outperformed and this is coming through on the Permanent Health Insurance and Group life lines within corporate business with other risk products across the Group recording a robust positive experience.

On assumption changes, which are €19.9m positive, the main item is a €15m expense release. Following the sale of the IB business to Royal Liver, we had an obligation to run a third party administration service for them. That agreement was terminated this year and we have dismantled that infrastructure and eliminated those costs.

<u>SLIDE 11:</u> LIFE ASSURANCE – CONTRIBUTION

With regards to other income, being largely Cornmarket, our broker company and IPSI our third party administration company - whilst Cornmarket has continued to grow, IPSI has suffered a reduction in new policy flows from its Italian client base together with a fall during 2002 in the value in the funds being administered. So this largely explains the downturn in other income.

Finally then on this slide, in the U.K. we continue to run off CWA's book of business. In 2002 we enjoyed the release of some surplus reserves which distorted the first half earnings. In 2003, earnings, when translated into Euros have been impacted as a result of the weaker sterling.

<u>SLIDE 12:</u> LIFE ASSURANCE COSTS

I have already referred to expenses coming out of the life business following the termination of the third party administration agreement with Royal Liver. The operating costs on this slide exclude those third party administration costs in both periods and therefore reflect the continuing operating cost case within the life group in Ireland. These numbers show that the operating costs for our Irish divisions are virtually flat year on year and that compares to underlying inflation of 5 - 6% per annum.

Within our retail life business, costs have fallen by 3 - 4% and in corporate business they have grown by a modest 2%. In both areas there has been a serious programme to manage costs and enhance productivity and we expect further gains in the course of the second half.

<u>SLIDE 13:</u> BANKING & OTHER CONTRIBUITON

Turning now to banking and other, where the contribution amounted to €74.8m.

The main features have been, on the positive side, growth in mortgage lending, the profit of €26m on disposal of gilts, and a strong performance on the Treasury trading book. On the expense side, we can show clearly the impact of the merger synergies coming through. Asset quality has remained very strong and that is reflected in the reduction in bad debt charges. On the negative side, interest rate reductions have squeezed our deposit spreads within the retail margin, and this has partially offset the growth in the net interest income line which you would expect from a growing mortgage book.

If we can analyse each of the banks main income and expense lines.

<u>SLIDE 14:</u> BANKING MARGINS

Net interest income has grown by just short of €4m in the half year. I have already referred to the pressure on retail margins. That is coming through on the deposit spreads which contracted as interest rates fell and we hit into rate floors in the deposit book. We have had two rate reductions since June 2002 which have impacted on the margin in first half of 2003. Interest rates have reduced by 75 bps and a 65 bps reduction was passed on to our mortgage customers. Deposit rates could not be reduced by an equal amount and the difference results is an adverse impact which has contributed to bringing our margins down from 1.78% for the full year 2002 to 1.7% for the first half 2003.

<u>SLIDE 15:</u> BANKING MARGIN – 2003 MOVEMENT

That movement in the margin of 8bps can be attributed to; retail, suffering a reduction of 5 bps, which I have just outlined, Treasury is flat - its out performance comes through the trading book in other income.

The increased level of wholesale funding to support growing demand for mortgages has had a 3 bps impact.

I referred to a significant item of income relating to the profit on disposal of debt securities or gilts of €26m. We maintain a book of such securities to effectively hedge against falling interest rates. The fall in rates took place and had the adverse impact on our retail margins as I described so we decided to reposition this book and the resultant profit of €26m is shown, in accordance with generally accepted accounting principles, within the "non interest income" line. We had been expecting to show this through the net interest income line and, had we done so, we would have enhanced the margin by 13 bps to 1.83%, which was the basis for our preclose guidance.

Looking out for the rest of the year, we had a further rate reduction which took effect in July and which is not reflected in these numbers. We were unable to pass much of this on to our depositors and this 50 bps reduction will reduce our net interest income by €10m in a full year going forward.

On the other hand within our total lending, spreads are robust and, as we have seen in the first half results of this year, the growth in mortgage lending which we have enjoyed over the last number of years has effectively protected our net interest income from the contraction in deposit spreads and enabled us to grow income by a net €4m in the six months to June.

SLIDE 16: BANKING – NON INTEREST INCOME

Turning to non interest income. The bond markets were very strong in the first half of this year and Treasury recorded a significant uplift in dealing profits for the period. This increase was offset by increased fees and commissions payable relating to brokers for the introduction of new and mortgage business and also bonding costs which protect our more exposed elements of mortgage lending.

Sundry other income has reduced reflecting the programme of disposal of investment and other properties which attracted rents in the past.

SLIDE 17: BANKING – EXPENSES

Banking expenses have come down by 3%, half year on half year. This reflects our continuing commitment to capture integration cost synergies of €29m p.a. by the end of this year. Real inflation continues to run at 5% - 6% per annum and building that on top of a 3% reduction reflects cost savings captured to date with a run rate of €24m per annum. Hence we are well advanced towards capturing the entire €29m.

That feature along with the previously mentioned gain from gilt disposals gives us a cost income ratio of 57% for the period, ranging down to 53% if you include the full value of bancassurance earnings within the bank's results.

We are glad to see that ratio back down into the 50%'s where it was before the acquisition of the TSB: Despite the smoothing effect over the full year for the gilt profits within the income line, we still expect a cost income ratio below 60% for the full year.

SLIDE 18: BANKING – DEBT PROVISIONS

Asset quality in the period, not only remained very robust, but in the consumer finance area, actually improved and we have seen a fall in arrears.

That has resulted in a reduction in the charge for the period, with the increase in write off's reflecting the clean up of current account overdrafts which were fully provided for last year.

Provisioning remains strong, representing 62 bps of the total loan portfolio, as compared to an arrears level of 25 bps. All mortgage arrears are effectively covered in full by general and specific provisions and our car finance book continues to be very conservatively covered by provisions.

<u>SLIDE 19:</u> ASSOCIATE ALLIANZ-IRISH LIFE

Up until the middle of 2002, we had experienced a very weak result from our associate, Allianz-IL. By the half year 2002 the company had, in line with the entire general insurance market, rebased its premium levels. Thereafter it also repositioned its investment book away from volatile equities and into short dated gilts.

The results of this are clear to see. Contribution of €16.3m reflects an improved underwriting result and the negative short term investment fluctuations have turned into a small positive.

The positive trend in earnings noted in the second half of 2002 has therefore continued and whilst we are starting to see premium rates reduce in certain lines of business across the industry, that is being supported by a positive experience in claims which will not undermine these results and so we look forward to an equally strong second half.

<u>SLIDE 20:</u> EXCEPTIONAL ITEMS

Exceptional items are negative this year versus a positive in 2002 arising from the sale of the IB business. In the current year we closed the sale of Guarantee Reserve. Whilst we recorded a loss of €49.6m compared to the embedded value of the company, the sale does allow us to release €67m in capital which had supported this investment. We can now put this capital to work for us in Ireland.

In both periods we had disposals of branch properties giving rise to profits. With that process of disposals now virtually completed and having recorded such attractive gains on disposal, we have revalued the entire bank's property portfolio and this has resulted in a revaluation gain of €80.4m which is carried in reserves, and has the effect of increasing Tier 2 capital in the bank by the same amount.

<u>SLIDE 21:</u> CAPITAL & RESERVES

That takes me neatly into the area of capital.

We continue to enjoy a very strong capital flow from the businesses. Capital generation within the bank is very transparent within our accounts - however we accept that it is less so within the life operations. Accordingly, we have decided to analyse that capital generation within each reporting period, which will strip out the value of the in-force element of life earnings and highlight the capital flows available for dividends and to support the business needs going forward

Banking and other has contributed €65m of earnings and the property revaluation reserve of €80.4m is added to Tier 2 capital.

Within the life group we have an increase in the shareholders net worth of €73.7m coming from earnings. Within the supplementary information at the back of your packs you will see how that reconciles back to the published accounts, not only for this current half year, but for the entire of 2002 as well. Essentially what we are seeing is the existing book of life business throwing up very healthy capital flows. One caveat is that these flows can be skewed in favour of the first half of the year, but in respect of the full year, we expect to see a number in excess of €100m.

In addition to earnings, the sale of G.R. has generated a capital release of €67m and some other items bring that up to €75.8m.

Associate earnings are positive and we will see a resumption of dividend flows and there will certainly be no requirement for external capital support. So we have total capital generated within the period of €309.4m. In addition, during July, we successfully raised €150m in Tier 2 capital. This was a single investor, a private deal with a major fund in Europe at a very competitive rate. The growth in Tier 2 funding between this source and the property revaluation reserve will comfortably support the exceptional mortgage growth which we are enjoying in Ireland and the U.K. over the next couple of years.

<u>SLIDE 22:</u> CAPITAL RATIOS

Translating all of that into capital ratios.
The bank is at the target level of 10% - but that excludes unaudited earnings for the half year which fall into Tier 1 capital only when audited at the year end. It obviously excludes the €150m of Tier 2 raised in July.

Life solvency, courtesy of strong net worth earnings and the sale of G.R. was 2.2 times the minimum required and will stay at that level until the year end when we determine what dividend will be paid up to the parent company.

Lastly, on this slide, net asset value per share has grown to €7.61c from €7.06c at the 31 December, 2002.

<u>SLIDE 23:</u> DIVIDEND

With regards to a dividend. Traditionally we base this on our contribution line which at the half year had grown by 14% pretax. That translates into an EPS growth, based on post tax contribution of 8%, with, as I said earlier, the bank levy having a material impact on the overall tax charges for the bank. Since the half year saw a number of items, particularly gilt gains and positive assumption changes which will not recur in the second half, that growth will fall back for the year as a whole and would not support the case for growth in the dividend at this level. However, we must also have cognisance of the growth in net assets and our overall capital position which I have outlined to you. Therefore despite the fact that we may have built an expectation for a flat dividend in this year, we feel that it is appropriate to increase the dividend by 5% at the interim stage and we will, as normal, review it for the full year in the light of our second half performance.

<u>SLIDE 24:</u> BUSINESS REVIEW

That brings us to the end of the detailed financials. I will hand you back to David who will take you through a review of the business for the first six months.

David Went (CEO)
Thank you Peter.

SLIDE 25: LIFE ASSURANCE MARKET
I said at the outset that we regard the performance during the period as a vindication of the multi-product, multi-channel strategy, which we initiated with the merger of Irish Life and Irish Permanent in 1999.

In particular that strategy has enabled us to compensate for a very tough period in the life & pensions market with a terrific performance from our banking operations. Even acknowledging the somewhat flattering nature of the gilt profits, to which Peter referred, banking contribution would still have been up 17% in the period.

So lets begin by taking a closer look at our life & pensions performance and we'll start by taking a look at the overall marketplace.

The bottom line is that the life & pensions market in Ireland has been substantially restructured during the first half of this year to an extent where its almost irrelevant to draw comparisons between what is happening now and what happened before.

Absence of SSIAs
Commentators have focussed on the absence of SSIAs as if that was the only significant change. As an aside, I heard one colleague refer to SSIAs as the financial services equivalent of *Alco-Pops* (very sweet and enjoyable while you're having them but they leave you with a massive hangover) and after the recovery period we've had to endure this year, I think I know what he meant.

But the ending of the SSIA bonanza was not the only factor at play.

Negative equity markets during the early part of the period – but which hopefully are beginning now to turn - really took any momentum out of potential sales of equity linked products.

Tax Filing Changes
There were other influences also like changes in the tax filing dates which appear to have seriously disrupted the normal scheduling of premium payments – with much less pension provision being made in the first half of the year.
In addition while overall employment continued to grow, there were fewer start ups (so less new DC schemes) and wage growth moderated, in response to economic pressures (so relatively lower levels of DC/risk increments).

In addition, margins were under pressure across the board - protection, because everybody wanted a piece of the action in the absence of anything else to sell, pensions as lower margin PRSA's were coming in and bonds (trackers pay less than pure Scope like products). Competition intensified, as some companies that are literally fighting for their lives, offered just irrational propositions.

Put all those factors together and you've got a really challenging market place. Inevitably the first victim has already been claimed in Scottish Provident and I've no doubt more will follow.

Irish Life well positioned
So where does all this leave Irish Life in this marketplace.

Well pretty well actually. And that's not being smug.

The experience itself may not have been pleasant ….but I do believe that its quickened the process of facing reality in the Irish marketplace. People are now realising that you need real substance and scale if you're going to be a winner here. And Irish Life has both these qualities in abundance.

Growth in market share
Perhaps most tellingly we've grown our market share in the retail business by 2 percentage points to over 20%. This is extremely promising for the future and our experience contrasts with that of other market competitors, where adverse market conditions and poor investment performance have severely damaged the business model.

Market share is going to be ever more critical in the months and years ahead as smaller players get the life squeezed out of them and customers and brokers gravitate to trusted players whom they know have a long term commitment to the market and whom they trust to be able to compete in a lower margin environment.

SLIDE 26: IRELAND – LIFE SALES
Looking specifically at our performance over the period……well clearly overall sales were down – but that's largely a factor of the SSIA bonanza last year.

Strip out that distortion and you're actually looking at 5% sales growth in the retail division…..a very slight 3% decline in Corporate Business and a good performance in ILIM.

The apparent fall in sales in ILIM on this slide is a technical issue arising because a significant proportion of their sales in the period were made off-balance sheet and therefore not credited in this analysis. (It is very difficult to predict which form an ILIM sale will take until it is actually booked). Include those inflows and full value sales were actually up 29% in the period.

SLIDE 27: RETAIL LIFE – PRODUCTS
Looking at the product mix in Retail, again this chart is dominated by the withdrawal of the SSIA offerings. However we were very happy to record a 14% rise in investment sales – despite all the challenges in that area. Including the loss of our two with profit reinsurers, because of their own business difficulties. Our success here is really a testament to our product innovation and that performance is in stark contrast to the total market where investment sales were down 48% in the period.

I've already alluded to the distorting impact of the retiming of tax filing dates on pension sales and I think this lies behind the drop in pension sales – 14% - although again we've outperformed in a market that fell 25%.

And on the plus side we're very happy with the 39% increase in the sale of protection and risk products. In the period we were No. 1 in retail pension, protection and investment sales …… in each case increasing our market share.

PRSAs
On pension sales its worth talking for a moment about the PRSA initiative. There's been a lot of noise around the market about the difficulties with these products; much fuelled surprisingly by producers of the product. Equally surprisingly its also been

the case that thus far regulatory action has been more of a hindrance than a help and I trust that will improve in the weeks and months ahead.

The bottom line is that the PRSA market has been slow to develop – but to talk of its failure is premature and arrogant. PRSAs will be around a lot longer than some of the insurance companies who are currently predicting their demise.

PRSAs are no different to any other pension product. They need to be sold and the companies who want to sell them need to roll up their sleeves and get down to business.

For our part, we have now sold 2,000 odd individual PRSAs at an average premium close to €3,000 per annum – with a significant increase in the rate of designations and sales as we come up to the designation deadline. Our figures suggest that this represents up to 50% of all sales in the year to date so clearly we have created a market space here. So far 2,200 designations representing 15-20,000 employees – what an opportunity! And we are adding designations at the rate of around 150 per day.

And we also have the view that while these sales may take longer to close, they're high quality business which can prove very valuable in terms of developing good customer relationships and future business opportunities down the line – so they are well worth the investment.

<u>SLIDE 28:</u> RETAIL LIFE - DISTRIBUTION

The important thing here is the range of channels we have at our disposal and the continued success of the bancassurance option in particular.

Brokers continue to be very important to us – and will always be so. In fact this year Irish Life Retail was voted the best Broker Service Company in the country by the IBA; a very prestigious award and a first win for Irish Life after severe service difficulties in the mid/late nineties. And we're very satisfied with the progress being made on selling through the bancassurance channel in particular; excluding SSIA's, sales were up 68% and at 35% of total retail sales, we're closing in on our initial aim of a 40% share for this channel.

<u>SLIDE 29:</u> CORPORATE LIFE – PRODUCTS

The other element of our life and pensions business is the Irish Life Corporate Business division which distributes our products and services to affinity groups and companies.

Overall a satisfactory performance from the market leader. Sales of Defined Contributions held up strongly despite the slowdown in employment creation and the reduced number of new schemes setting up over the period. Increments were also dampened by moderating wage levels.

The decline in Risk sales mostly reflects a particularly large scheme which we secured during the same period last year for part of the Irish Army. Cornmarket, our public sector affinity broker, continued to perform very well and its AVC business has boomed with increasing public sector wage levels.

<u>SLIDE 30:</u> RETAIL BANKING MARKET
If we move now to the banking operations, its been a much more positive outturn for the year.

Looking at this market as a whole, the three key influences here have been:

- the continued strength of the residential mortgage market – with continued strong demand from first time buyers

- The historically low rates of interest – and the consequences of this for margins and lending growth – Peter has already dealt with the pretty dramatic squeeze on overall margins that we have experienced as a result of ECB cuts leading to a loss of margin of €13m in the full year.

- And the overall competitiveness of the marketplace

Significant changes have also been introduced to the regulatory environment with the new regulatory body IFSRA coming into being. While there have been some initial teething problems as one would expect, we welcome the new one stop shop.

The final point of Competition Review has become increasingly topical recently with a review of competition in the sector now underway. This will concentrate initially on personal current accounts (where we wish to grow) and the SME sector (where we are not active). In general terms we see the competition review as being positive for our business.

In permanent tsb we see ourselves very much as a force for competition e.g. One Plan/fee free current accounts and so we welcome the review.

<u>SLIDE 31:</u> BANKING – NEW LENDING
Within the business itself, new lending has remained very healthy. New mortgage lending – which is particularly important to us – increased by 31%. We have a very healthy pipeline of new business and applications continue to be strong.
One Plan is selling extremely well – nearly 4,000 customers year to date proving that this is a product filling a real need.

While market share numbers are not yet available beyond March 31, we have increased share each quarter for the last 6 and so we anticipate at least maintaining a 24/25% share of the new business market.

Interestingly last week's employment figures from the CSO indicated that full time employment rose by about 16,000 during the second quarter of this year – with another 12,000 or so part-time jobs being created during the same period. Clearly the continued strength of the jobs market is underpinning the mortgage market here significantly – as it does the life & pensions market.

Across other areas lending was also strong – permanent tsb Finance (included in consumer lending) actually grew its lending in the period (between 5 & 10%), when car sales as a whole were down quite sharply, growing market share in the process. We were appointed to handle Rover finance in the period, to go with Opel, Nissan,Fiat and Daewoo. Commercial lending was down considerably reflecting a more conservative approach to this area as well as some timing issues in relation to some big ticket deals.

Finally in the UK, our centralised mortgage lender, Capital Home Loans, had an exceptionally strong performance with sales up 50% in euro terms or 67% in sterling. To anticipate a likely question, the quality of this book is excellent – with just 168 (out of more than 17,000 mortgages) in arrears – and total arrears coming to less than 2 basis points of the loan book.

<u>SLIDE 32:</u> BANKING LOAN BOOK
Total lending is up to €15.5 billion – a 14% increase on the book at the end of June 2002 - a strong driver for future net Interest Income. Again this is largely driven by mortgage lending both in Ireland and the UK.

<u>SLIDE 33:</u> LENDING CREDIT QUALITY
It's worth pausing for a moment to look at the quality of the residential mortgage lending book.

And the key message here is of the continued high quality of that lending.

The key Loan to Value measure, for example, remains at a very conservative 66% for the Irish book as a whole….and even amongst first time buyers the figure is just 79%. These represent very marginal increases on the figures at the end of December last despite the fact that affordability (through lower interest rates) has increased appreciably since that time.

The recent review of the mortgage lending market by IFSRA remains ongoing and so it would be in appropriate to comment further, except to say that we do not anticipate difficulties arising from it.

Arrears were down marginally at 25 basis points and are covered over 2 times by provisions.

In relation to Investment Properties, RIPs now account for 11% of new lending in Ireland – Anecdotally this is much lower than the market and again reflects the relatively conservative approach we've taken to this area.

By contrast in the UK that RIP figure is 69% but its worth noting that CHL in the UK has always been focussed on this market and we're happy with the experience there where our lending is very widely spread and as I've already mentioned arrears in CHL are very modest – less than 2 basis points of the value of the loan book, the bulk of which is in any event securitised.

<u>SLIDE 34:</u> BANKING RESOURCES
The other side of the banking equation is resources and as you can see overall resources have increased by 6% over the figure at 30th June 2002 with an 8% increase in Current Account deposits.

Clearly the deposit market is extremely challenging for financial institutions now in this low interest rate environment.

On the plus side we've been able to work with customers to try to generate reasonable alternatives to traditional deposit accounts – and our tracker offerings with capital guarantees have proved particularly attractive. However its very difficult now to attract and reward pure deposits especially demand or short notice.

We continue to push forward with our current account offerings. We are now getting the customers current account with a much higher % of new mortgages. This is good in itself and it has also contributed to better arrears management.

During the period we launched a free banking initiative to take advantage of a number of other providers who were curtailing or withdrawing their offers in this area. Initial results are very encouraging.

We are somewhat handicapped in this area because of the degree of inertia associated with current accounts. Hopefully easier switching will be one area of constructive change as a result of the current competition review.

<u>SLIDE 35:</u> HORIZON PROGRAMME (LIFE)

I want to say a few words now about the transformation programmes which we have ongoing in both the life & pensions and banking divisions.

One of the themes that I've returned to a number of times today has been the degree of change and the pressure on margins in both sides of our business. There is as well a general issue of cost pressures following a pretty buoyant few years here in Ireland.

This is not a situation which has developed overnight and we have programmes underway in both sides of our business to deal with this situation. Already they are beginning to bear fruit – as Peter indicated total 2003 costs in the life businesses are in fact just below the same period last year with Retail down 3%, while the bank costs are 3% down on the same period last year.

Horizon

On the life side the objective of the Horizon project is effectively to future-proof our business by enabling us to compete in what we expect to be a much tighter margin environment over the coming years. The PRSA introduction is one such pressure.

Specifically the programme is designed to cap retail operating costs at 2001 levels up to the year 2005 while enhancing the service proposition we offer to brokers, direct sales staff and customers as well as providing much greater scaleability at low incremental cost. Essentially breaking the direct link between processing people and sales volume.

The investments are already now in production but further phases will follow later this year/early next and will be funded from the associated cost savings.

This year we've successfully installed the first phase of the new eCloas system. We also installed our point of sale underwriting technology into the permanent tsb network. All our direct sales and bancassurance consultants are using the new Siebel CRM kit which provides an outstanding customer experience and the bank branches will be equipped with this by early next year.

In terms of new business margins we expect that Horizon will enable us to reach 2005 with margins of around 15% despite the general downward pressures which we are seeing every day.

Not to be forgotten, Corporate Business continued its ongoing productivity programme Boru which has improved productivity by 10% per annum over the past 2½ years.

<u>SLIDE 36:</u> permanent tsb TRANSFORMATION PROGRAMME
Within the bank our first priority has always been to achieve the merger cost synergies and we're well on target to secure savings of €29 million through this programme; higher than our original estimates.

With that in the bag, we're now focussing on phase II of the transformation programme in the bank which will see us move to a new processing platform for all our mortgage business and begin re-tooling the branches to encourage greater efficiencies and use of technology. We have also been examining our branch representation and we expect some further branch amalgamations to reduce costs while we also anticipate some opportunities to open new branches in areas where a professional demographic review suggests opportunities.

This period has seen us make good progress on the cost/income ratio front, although clearly the loss of margin due to ECB rate cuts has delayed our anticipated realisation of a 50% cost/income ratio. We remain committed to that target, with cost reduction over the next couple of years, of €10m-€15m helping us on our way.

<u>SLIDE 37:</u> OUTLOOK
Looking to the immediate future, our view is that while the Irish economy has slowed in the current year from the very high levels achieved in the past 5 years, it still provides significant opportunities for growth and, thanks to the strategic action which we've undertaken in recent years, we're in an extremely strong position in this marketplace going forward. We no longer have any distractions in the US.

In our banking business we expect mortgage demand in the current year to remain strong. In our life business we anticipate that the second half of this year will benefit from increased demand for pensions (due to the September PRSA deadline,the October tax filing, and renewed investor confidence as markets recover). We expect to achieve similar life margins levels to the first half.

In addition the Group will continue to benefit from the ongoing cost initiatives undertaken in all our business units.

Our capital position remains strong, our business model has been stress tested in a very hostile climate and as a result we remain cautiously optimistic for the full year outcome.

<u>SLIDE 38:</u> QUESTIONS & ANSWERS
That brings me to the end of our presentation. We are now happy to take any questions, starting firstly with questions from those participating by way of conference call.