

**Irish Life & Permanent plc  
2003 Final Results – 3 March 2004  
Analyst Presentation Script**

**Roy Douglas (Chairman)**

**SLIDE 1: 2003 FINAL 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.

Well as you will see in a moment, 2003 was very much a year of two halves. The first six months were certainly difficult – particularly as a result of the retrenchment in the life & pensions market which we saw at that time.

However the market ultimately proved to be significantly more robust than many had expected. And the results this morning will testify to a marked recovery in the life & pensions market as the year progressed – and a continuing strong performance in our banking business. So overall a performance with which we are very satisfied.

From the Board's perspective, the year was notable in particular for the successful and 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 five years ago. So we're delighted to have been able to ensure its successful conclusion.

Now I'd like to hand you over to our Group Chief Executive David Went and our Group Finance Director Peter Fitzpatrick, to take you through the details of this presentation.

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.

**SLIDE 3: FINAL RESULTS 2003 OVERVIEW**

In reviewing last year the first thing to remark is that we had a very satisfactory financial performance with the pre-tax contribution from our Irish and UK businesses up 5% on the prior year. This is particularly satisfying when considered against:

- the exceptional levels of once-off life SSIA sales and profits in 2002,
- the effect of continued weakness in investment markets in the early part of 2003,
- the impact of falling interest rates.

In our banking business we enjoyed record growth with new mortgage lending of €3.8 billion as the Irish mortgage market continued to be extremely robust right through the year and indeed into the current year.

On the life and pensions side of the business we saw a very encouraging recovery in the second half of last year with Retail sales, for example, up 39% on the first half. Again this recovery has continued into the start of this year.

Finally – and crucially – we made real progress in 2003 in cutting costs across all our key businesses and the radical change programmes which we are implementing will ensure that we continue to deliver further cost efficiencies over the next two to three years.

All of the foregoing has been happening against the backdrop of a much stronger economy. The Irish economy comfortably weathered the worst of the international recession and is set for a resumption of GDP growth closer to capacity levels of 4 to 5%. This is clearly positive for our business with over 90% of earnings coming from Ireland.

#### **SLIDE 4: FINANCIAL REVIEW**

So they are the headlines. I will now hand you over to Peter to take you through the detailed financial results.

#### **Peter Fitzpatrick (Group Finance Director)**

Good Morning

As usual we start with a high level analysis of the earnings for the year.

#### **SLIDE 5: TOTAL PROFIT AFTER TAX**

Total contribution, our equivalent to operating profit, has grown by 3% for the Group overall and, as we will see in a moment, reflects a 5% growth for our ROI/UK operations.

As David has said, this reflects a good performance within our core businesses and also a significant improvement in the performance of our associate company and there is plenty of analysis of this line to follow shortly.

Below the contribution line, positive short-term investment fluctuations reflect the strong recovery of the investment markets in 2003. Within our Life business, this produced an out-performance against our assumptions and gave us a significant claw-back of the negative fluctuations reported in 2002. This is obviously welcome

and gives you an indication that fee income is benefiting from improving valuations as well as from the inflows of sales made in the year.

I will come back in a later chart to break out the figures for exceptionals and economic variances which, by and large, reflect the disposal of the last US business, for a loss, in 2003 and the disposal of the IB business in 2002, for a handsome profit.

As a result of this turnaround in the exceptional items, profit before tax is down 14% on 2002, but that in turn is softened by a lower tax charge which produces profit after tax down 10% year on year.

The effective rate of corporation tax is 12%, which is a lower rate than that for 2002 when, you will recall, following the enormous fall in the markets we wrote off €30m of tax credits in respect of unutilised losses where we felt that this tax was irrecoverable. In 2003 the strong improvement in the markets, which has continued into 2004, has allowed us to write back €18m of these credits and this, in turn, has reduced our effective rate of tax from an expected 15% to 12%.

Again, however, can I draw attention to the inclusion of the additional tax charge levied against retail banks for the first time in 2003. This levy costs the Group €12.2m for the full year 2003 and, as flagged at the interim stage, takes about 4.5 cent per share off our EPS, so this discriminatory tax does have a significant impact on our profitability.

## **SLIDE 6: TOTAL CONTRIBUTION**

So, returning to the contribution line of €365.2m which reflects our core earnings and analysing this out further.

Starting at the bottom of the chart, the US earnings of €1.5m reflects the last six months of our ownership of Guarantee Reserve.

We had other investment earnings of €3.8m in 2002, being the profit on disposal of the last of our financial equities held by the bank.

That leaves us with a core contribution from Ireland and the UK which is up 5%.

Continuing to work up the slide.

Our share of the earnings of Allianz-IL is well up on 2002 courtesy of a good underwriting result and more normal investment markets. I will return to this a little later.

Banking and other is up 32%. The main driver of this is a €26m gain arising from the repositioning of a portfolio of gilts, which we reported at the interim stage. Adjusting for this, contribution within the bank is up 7% which comes from a combination of revenue growth, but more particularly, through a real reduction in expenses.

Life Assurance contribution is down, as expected, on 2002, reflecting lower new business earnings following the SSIA sales bonanza in 2002. In addition there was also some adverse experience in the UK company, City of Westminster which I will come back to.

## **SLIDE 7: LIFE ASSURANCE CONTRIBUTION**

Staying with Life Assurance, let us look at the components of the contribution of €189.7m, starting with Ireland.

As I mentioned earlier, new business earnings have reduced as a result of lower sales and are down from €58.2m to €42m and indeed this is the principal fluctuation within our Life numbers.

## **SLIDE 8: LIFE ASSURANCE – IRELAND VNB / MARGINS**

Breaking the VNB out between Life Assurance and Fund Management. The reduction in VNB for both areas is directly related to sales volumes.

In the case of Life Assurance, this largely relates to the non-recurrence of the high level of SSIA sales in 2002 when our Retail division sold almost €102m of APE in this product. These SSIA's took our Retail division to a level of sales at which there was an enhanced margin to be made given the gearing one can achieve over the fixed cost base. Those sales and the attributable margin, obviously did not recur in 2003.

However, on the positive side, the sales momentum was sufficiently strong in the second half of the year to bring our life margins up from the 12.1% reported for June to 13.8% for the year as a whole.

That indicates that our second half life margins were 15.5%, running ahead of our target rate of 15% - and that represents a fine performance. It underscores not just a recovery of sales in the second half but also the real advances being made in managing our cost base, as we said we would do.

Within our funds management division, ILIM, the trend reported at the half-year stage has continued into the second half. David will be commenting upon the very strong overall inflows achieved by ILIM which were up 34%.

2003 saw a larger proportion of segregated funds being sold with a smaller level of on balance sheet sales. Secondly, 2002 included one very large scheme sale which attracted a low margin. So these issues result in ILIM's VNB being lower, in absolute terms, but attracting a higher margin than that in 2002.

## **SLIDE 7[ Repeat]: LIFE ASSURANCE CONTRIBUTION**

Reverting back to the slide with our contribution analysis, the unwind of inforce business is down marginally. That relates to the reduction of 1% in the risk discount rate at the end of 2002. Also, the large negative investment fluctuations in 2002 lowered our opening value of inforce business for 2003 and reduced the unwind. Both of these issues are reversed for 2004, so we will be back to the more normal growth pattern in the current year.

Experience variances and assumption changes are virtually flat year on year. However, as you will see from the next chart, there is a lot of change in the components of that income, year on year.

## **SLIDE 9: LIFE ASSURANCE IRELAND – VARIANCES & ASSUMPTION CHANGES**

Taking each of the main headings in turn; with regards persistency, the year started on a down beat note with weak investment markets and the change in tax filing dates impacting pension contributions and giving rise to a persistency figure of close to zero at the half year.

The loss of confidence due to the weak investment markets showed definite signs of recovery in the second half and, in addition, we did recover a fair proportion of the lapsed pensions from the first half as we approached the October tax filing date.

In overall terms, if having come through a pretty grim 2002 year end from a renewals perspective and still managed to report a €6.8m positive persistency variance in 2003, then that is a tribute to the manner in which we have sold products to customers in the past as well as the robust nature of our assumptions.

In the area of risk, our experience continues to be very positive, with Permanent Health Insurance and Group Life schemes within Corporate Business continuing to perform strongly. The small negative assumption change of €3m relates to a strengthening of reserves within that part of our Corporate Business annuity book which we retained, whilst the €14.3m positive in 2002 was a once off change to mortality assumptions within the Retail division.

The principal item included in the “other” line is expenses where we continue to make good progress in cost management right across the Group and so the trend is positive. On top of that in 2003 we enjoyed a €15m release of expense reserves following the termination of the administration service for Royal Liver to whom we sold our IB business and again that is a number which featured in our Interim Results.

Lastly then we have a write off of certain costs associated with the Horizon project to date against the accrued benefits of the project.

David will be covering our progress on this project a little later.

With regards to the accounting for the project, since we have commenced using our new administration system for new business and have started the process of the capturing benefits, it is appropriate that we write off costs to the extent that we have such cost savings.

Accordingly, we have a €11.3m write off of our Horizon costs going through the experience lines with a matching net €11.3m of a benefit reflected in the assumption changes, giving in turn a nil impact on the P+L account.

## **SLIDE 7[Repeat]: LIFE ASSURANCE – CONTRIBUTION**

Once again, going back to our contribution slide, there are two other items to cover. Firstly, other income. Good revenue growth from ILIM's segregated funds business and from Cornmarket our broker business has been offset by other areas which service overseas business, being ILI and IPSI, our TPA Company. That is largely as a result of lower transaction volumes and the fall off in the value of funds under management.

In the UK, CWA saw a disappointing return as a result of three issues. Firstly, this company is in run off and risk volatility can have a disproportionate effect on the results. We saw a €5m positive in 2002 swing to a €6m negative in 2003 which we expect is a once off. Secondly, we have reached a stage whereby we need to revise our expense assumptions as we progress through our current administration outsourcing agreement and, lastly, there is a negative impact from a weakening of sterling.

#### **SLIDE 10: LIFE ASSURANCE COSTS**

I did say that we were enjoying positive expense variances and if we step outside EV earnings to examine the absolute level of costs. Total costs are well down courtesy of the disposal of Guarantee Reserve in the US. The main line of interest on this chart from the point of view of actively managing our cost base, is operating costs which are effectively flat year on year. Within that performance retail costs are down by 3% and we have seen very modest increases, well below the rate of inflation, within Corporate Business.

Right across the Life Assurance business, the issue of cost management is at the top of the agenda. Our performance this far has been impressive, we still have more to do, and David will be returning to this theme.

#### **SLIDE 11: BANKING & OTHER CONTRIBUTION**

Turning now to Banking and other which is up by 32%. The positive features on which I commented at the Interim Results stage are equally relevant for the entire year. They are a good growth in our mortgage books, the profit of €26m on disposal of gilts, and a good Treasury trading performance.

On the expense side, operating costs have fallen as we have captured all of our targeted cost synergies following the acquisition of TSB.

Asset quality remains strong, with a flat year on year bad debt charge, despite a substantial increase in lending.

The only negative in the results is the impact on our deposit spreads as a result of interest rate reductions. This has largely offset the growth in net interest income which we would have expected from a fast growing mortgage book and resulted in net interest income growing by just short of €7m over 2002, and I will return to margins later.

I referred to a significant item of income relating to the profit on disposal of debt securities or gilts of €26m. This item featured in our Interim Results and just to briefly repeat the facts. We maintain a book of securities to effectively hedge against falling interest rates. The fall in rates took place, had an adverse impact on our retail margins and we decided to cushion our results from this impact by repositioning this book. The resultant profit of €26m is shown, in accordance with the accounting rules, within the "non interest income" line, although it does, effectively support net interest income for the year by way of a substitution of lost margin.

With regards to other non-interest income we include a detailed analysis in the supplementary information in your packs. In general terms, the growth in fees and

commissions receivable, treasury dealing profits and property management income is being reversed by the stronger growth in fees and commissions payable.

Why is that ?

The larger proportion of this increase relates to commission payments to brokers who introduce new mortgage business to us. The absolute volume in sales of mortgage business has grown in Ireland by 30% over 2002 and commission payments have risen accordingly. The same logic also applies to mortgage bonding costs where we insure our credit exposure in respect of advances with an excess of 75% LTV.

As in previous years, other income excludes all bancassurance earnings which are accounted for by Retail Life. Bancassurance earnings in the year amounted to €32m the exclusion of which does have a significant impact on our cost income ratios, as we will see in a later chart.

### **SLIDE 12: BANKING MARGINS**

Returning to net interest income and margins, interest rates have fallen by 125 bps since late 2002 and 115 bps of this was passed onto the mortgage customer. We could not move deposit rates down by an equal amount. Deposit spreads have suffered as a result of hitting into interest rate floors and this is the principal factor in bringing our margins to 163 bps, down 15 bps from the 2002 level.

This slide effectively reinforces this point as you can see that we are now back to the pre – TSB margin levels of 2000. Our margins took a large step up when we acquired TSB in 2001 with the benefit of its substantial deposit book with attractive spreads.

However, the other line on this chart does show the real dynamic in our earnings in that we have almost doubled our net interest income compared to 2000 and this is a more appropriate measure of real performance resulting from a fast growing Balance Sheet.

### **SLIDE 13: BANKING MARGIN – 2003 MOVEMENT**

The movement in the retail margin from deposit spreads accounts for most of the 15 bps reduction. The impact of additional wholesale funding takes 5 bps off the margin which is offset by a stronger Treasury performance in managing our liquid assets. Looking forward, the impact of the last interest rate reduction in mid 2003 will be felt in the first half of 2004. However, if and when interest rates rise, we will see an opportunity to recover some of those deposit spreads which were lost when rates fell. Long dated rates are certainly pointing us in that direction. Secondly, and returning to the earlier point of balance sheet growth, 2004 has started very strongly from a lending perspective and we expect to see any margin contraction compensated for by volume growth, which will add real value to our net interest income line.

### **SLIDE 14: BANKING – EXPENSES**

The Bank's operating expenses have fallen by 2% despite inflation running at close to 7% for 2003. This clearly demonstrates the capture, of the rest of the €29m targeted cost synergies arising from the formation of permanent tsb. The impact of

these synergies will continue to flow into 2004 and that along with the new transformation project will, we expect, produce a flat cost figure for 2004 compared to 2003. So, once again, a strong performance on cost management, and with more to do.

The cost income ratio, on a reported basis has reduced to 60%. As I said, this excludes all bancassurance earnings, but for comparison purposes with our peer group we have included a ratio with bancassurance commissions and also bancassurance EV earnings which are 59% and 56% respectively.

### **SLIDE 15: BANKING – DEBT PROVISIONS**

Asset quality remains robust. There are no signs of distress appearing in any of our loan portfolios. The charge for the year is flat on 2002 and this is our main performance indicator. The level of write offs has increased by €1.9m - that does not present cause for concern as these debts were fully provided for in prior periods.

The overall level of arrears balances has not grown, from the 2002 level of €38m but our overall provisions have grown by over 7% as we continue to create general provisions against the strong mortgage growth we have enjoyed.

So, a good experience in 2003 and continued very conservative levels of provisioning, covering our balances in arrears by 2½ times.

### **SLIDE 16: NON-LIFE ASSOCIATE - ALLIANZ-IRISH LIFE**

The last item contained within the contribution line relates to our Associate Company.

As reported at the Interim stage, Allianz-IL rebased its premium rates in 2002 and this, when combined with a good claims experience in 2003, has produced a much improved underwriting result.

In addition, a move away from investment in equities has meant that the investment performance was less volatile.

So a bumper set of results which, to be fair, probably reflects the very best of underwriting experience. We would be very pleased to see a comparable performance in 2004, but the pressure is on renewal rates and Allianz is committed to passing to its customers the benefits of a good claims experience. So in some respects 2003 will be a hard act to follow.

### **SLIDE 17: EXCEPTIONAL ITEMS**

The final few lines on the P + L Account relate to exceptional items and economic variances. In 2003 we disposed of our last investment in the USA, Guarantee Reserve and incurred a loss of €50.3m which is the same number reported at the interim stage. In 2002 we disposed of our IB business to Royal Liver for a significant profit of €103.2m.

In 2003 we sold the last of the surplus branch properties out of permanent tsb giving rise to a profit of €3.2m. - most of these branches had been sold in 2002, hence the higher level of gain in that year.

We have no further bank restructuring costs to report in 2003.

Lastly then, reflecting the upwards move in longer term interest rates, we have increased our risk discount rate by 0.5% to 8% giving us a negative economic variance of €20.2m versus a positive €20.8m for 2002 when we reduced the risk discount rate.

An 8% risk discount rate leaves us quite conservatively placed when compared to our peer Group.

## **SLIDE 18: CAPITAL & RESERVES**

Moving now into the area of Capital and Reserves. Firstly, let us analyse the level of capital generated by the Group which will support the new business being written as well as paying for our dividend.

Banking and other has contributed €99.6m of earnings and the property revaluation reserve of €80.6m which we reported at the interim stage, is added to Tier 2 capital. These numbers are easy to identify from our accounts.

Surpluses being generated by the life business are somewhat more difficult to see, so let me explain them to you.

Within the Life Group, we have an increase in the Shareholders' net worth of €151.5m from earnings. As we did at the interim stage, we again include within the supplementary information at the back of your slides a reconciliation between this number and the published accounts.

Essentially, we are seeing the back book of business throwing off an attractive level of capital. At the interim stage I guided you towards a number in excess of €100m and we have comfortably exceeded that target courtesy of a lower than expected rate of tax and a stronger recovery of the investment markets. In addition to earnings, the sale of Guarantee Reserve in the US, despite the fact that this was sold at a book loss, has generated a capital release within Irish Life. This is obviously a once off release totalling €66m which along with some other sundry items brings that line up to €79.1m. So, that gives us total capital generated in 2003 of a very healthy €410.8m.

In an environment where we are aggressively growing our businesses, we will obviously consume capital. To satisfy some of this requirement we have tapped the debt markets for Tier 2 capital and in 2003 raised €150m in this way. There was an intention to warehouse some of this Tier 2 for growth in 2004 and when you look at our capital ratios on the next chart you will see the impact of this.

## **SLIDE 19: CAPITAL RATIOS**

The bank risk asset ratio is up to 11% which is ahead of our target of 10% - but, that will come down in the first half of 2004 as this is absorbed by growth in lending.

Life Solvency remains very comfortable - we have a target of 1.7 times the minimum required by the Regulator and strong surpluses generated leave us at 1.8 times cover, after paying up a full dividend to the bank.

NAV has grown accordingly from €7.06 to €7.81 per share.

## **SLIDE 20: DIVIDEND & EPS**

This last slide continues on the good news story with a proposed final dividend growth well in excess of our interim payment. Pre-tax contribution is up, as we saw in earlier charts, but as you can see from this one, the post tax contribution EPS is down 3% year on year which I will explain in a moment. So why are we growing our dividend by 7.4%. The answer is that we take a longer-term view of our contribution line and we are confident in our ability to continue to grow that line. Secondly, we overlay this confidence with the internal capital generated in the Group, particularly within the life business, and you can see very strong statutory capital being generated in 2003. So we are balancing off the non cash flow embedded value earnings which can be a little volatile, with the statutory cash flows arising which are robust.

The proposed dividend is 51 cent for the full year and, at this level, we are comfortable that this is a base from which we can grow in the future.

With regards to EPS, The Accounting Standards Board issued an edict requiring companies, which are allowed under Irish law to hold their own shares on behalf of policyholders, to treat these shares as Treasury shares which really is a nonsense. Complying with this has meant that the basic and fully diluted EPS reported in our statutory accounts have been increased as we have cancelled these shareholdings against reserves. Fortunately there is no distortion caused in the profit and loss account. We do, however, also publish additional EPS numbers which ignore this change, numbers we feel are more appropriate, and they are the two which you see on the chart.

Contribution EPS is 3% down, despite the total contribution at pre-tax level showing growth. The main difference here is the levy which costs us 4.5 cent per share and is a first time charge in 2003 as I referred to earlier. So, what the company have given, the Minister has taken away.

## **SLIDE 21: 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.

There are a number of key themes that I want to highlight in reviewing the performance of our businesses last year and in assessing prospects for the current year.

Let me look at our life & pensions business first.

## **SLIDE 22: LIFE ASSURANCE MARKET**

The most dramatic feature in the life business was the significant recovery in sales in the second half of the year in key, profitable areas like protection, investments and pensions – areas which had been completely overshadowed in 2002 by the SSIA phenomenon.

Secondly in May of the year we had the launch of PRSAs .....potentially a very significant product for the industry opening up a new market as part of the government's policy to open up private pension coverage.

Thirdly, the progress being made in the ongoing change programmes across the Retail and Corporate businesses which are delivering real cost reductions and productivity improvements.

And all of this translated into a strong performance across the key life divisions:

- The **Retail Business** – post SSIA's - began to get back to basics and had a very good performance – with non-SSIA sales up 22% on 2002 and 2<sup>nd</sup> half sales 39% up on the first half.
- **Corporate Business** sales were up 8% for the year – again a much stronger second half performance making up for a 3% decline in sales the first six months in their case.
- And an exceptional sales performance in **ILIM** which during 2003 saw more than €1.3 billion in gross inflows.

### **SLIDE 23: RETAIL LIFE – PRODUCTS**

The retail business of course is at the heart of our life business.

I've already mentioned the recovery in sales.

- A 25% rise in protection sales – where we continue as market leader.
- A 16% rise in pension sales – reflecting in part a highly successful PRSA campaign in the latter half of the year – again leaving us as market leader in this area with we estimate a 30% share of the market. 12,000 employers designated Irish Life as their preferred PRSA provider before the expiry of the deadline last year. We continue to add designations, including employers who designated elsewhere but have had no follow-up.

Again you may recall that pension sales really just died at the start of last year (due to a combination of factors). Well at present the sales pipeline is running at over 80% ahead of the same period last year - so a really encouraging start to the year in this area.

- And a 19% rise in “investment sales” – where we continue again as No. 1 in bond sales.

Within the bond sales 28% more individuals invested with us in 2003 compared to the previous year – again confirming our growing reputation as the product innovator and market leader.

## **SLIDE 24: RETAIL LIFE - DISTRIBUTION**

By distribution route, the three channels of the Direct Sales Force, Brokers and Bancassurance all contributed strongly.

The Direct Sales Force enjoyed success with the PRSA campaign in particular – pushing up their relative standing in this table.

The PRSA product is already beginning to separate the serious players from the also rans in the life market. To date the experience has been that it's the bancassurers and the direct sales businesses, which are best placed to exploit the opportunities offered by PRSAs.

PRSAs are an important product, not just for us, but for Ireland generally as they form an important plank in government strategy to improve private pension funding. The signs are there that this is going to be a significant market but will require investment to ensure that the opportunity is maximised. We would welcome continued Government support for the product. One exciting part for us is the wider opportunity given to sell a full product range as well as the PRSA – a terrific potential contributor to future sales.

We've invested a lot of time and effort in PRSAs. But we're doing so because I firmly believe that this is a real "gateway" product which is going to allow us to build relationships with a whole new customer base – so there's a huge prize to be won for the companies that are successful.

## **SLIDE 25: CORPORATE LIFE – PRODUCTS**

When we reported on the interim figures – last September – we were reporting Corporate Business sales down 3%.

That was a good performance at the time given the nervousness and reduced level of private sector job creation in the economy in the early part of last year.

But through the second half of the year the picture began to brighten up considerably. A 14% rise in DC sales reflects some new scheme wins but also a very strong performance by Cornmarket, our broker subsidiary, which picked up some significant AVC business through its public sector schemes.

The fall in protection/risk sales reflects the inclusion of one particularly large public sector scheme in the prior year as well as lower wage increases which of course impact group risk premiums.

Finally we secured considerable additional sales from our older base of defined benefit business as these schemes increased funding levels in response to the need to bolster solvency following market falls. Despite the market bounce this is a trend that is likely to continue.

So overall a satisfactory performance.

## **SLIDE 26: IRISH LIFE INVESTMENT MANAGERS**

And finally ILIM – our fund management business – had a really golden year:

- The top ranking active fund manager for the year
- Continued dominance of the passive management market with the exceptional and consistent performance of their Consensus Funds.

ILIM enjoyed total inflows of €1.3 billion in the year with the majority coming into segregated, or off balance sheet funds. This was in contrast to the prior year where the bulk of ILIM sales came into on balance sheet unit-linked funds and this accounts for the lower reported sales figure. This can vary widely between periods.

### **SLIDE 27: RETAIL BANKING MARKET**

Moving to the bank, we've seen another great performance from permanent tsb.

A record €6 billion in new lending.

The continued strength of our residential mortgage business.

Our increased bancassurance capability

The full delivery of the merger cost synergies.

And further progress on the change programme in the bank.

### **SLIDE 28: BANKING – NEW LENDING**

In respect of lending – we secured a record €6 billion in new lending during the year.

Residential lending – which had begun strongly last year – continued in that vein throughout the twelve months 30% up on 2002... and indeed continues so to date, if anything stronger as 2003 ended and 2004 began.

The overall mortgage market has seen very strong especially in the residential investment property (RIP) market which now accounts for between 25% and 30% of reported mortgage lending. Our proportion of RIPs lending is 13% and so we are underweight in that area. As we have said before we are more cautious in this area than perhaps some others and our preference has always been to focus in particular on owner-occupiers and particularly first-time buyers who now account for over 40% of our new loans.

On the Consumer Finance side, 2003 was a great year with an 11% rise in new lending. **permanent tsb** Finance continues to significantly outperform the other lenders in the car market here. During the year overall loan volumes were up 9.7% despite a new car market down 6.9%. Our business with non-core dealers, i.e. those with whom we do not have an exclusive manufacturer led relationship, grew exceptionally strongly on the back of outstanding service proposition to dealers.

And last week, **permanent tsb** Finance announced a new joint venture relationship with BMW Group which will see it provide funding for this popular and prestigious marque. We are now clearly established as the No.1 new car financier in Ireland.

Finally our niche UK centralised lender (Capital Home Loans) put in another strong performance with a 77% rise in new lending in sterling terms. Once again they were awarded 5 stars in the FT sponsored service awards – the fifth year running.

### **SLIDE 29: BANKING LOAN BOOK**

In terms of the loan book, we're looking at an overall increase in the book of 17% - with a 20% rise in the mortgage book.

The only area of underperformance really is in respect of the Commercial book where the size of the book fell by 7%. We have been a bit cautious here historically but we have taken a number of steps to improve our competitive position without compromising our credit standards.

### **SLIDE 30: LENDING CREDIT QUALITY**

And finally given the rapid growth in new lending there are inevitably concerns raised as to credit quality. Well as Peter has said asset quality remains very robust reflecting a consistent policy of prudent lending.

On new lending in 2003 the average Loan to Value was 67% - 2 points up on the position in 2002 reflecting improved affordability as interest rates fell.

And an average LTV for first time buyers of 80%. Certainly well within the comfort zone.

I already mentioned that we were underweight in terms of lending to first-time investors – that's reflected in the RIPS figures for the Irish market here at 13%.

And finally – arrears. Once again arrears are at historic lows – just 0.22% of the Irish lending book overall. In the UK where we are primarily a buy-to-let lender arrears are a minuscule 0.01% - less than 200 cases out of close to 20,000 mortgages.

### **SLIDE 31: BANKING RESOURCES**

On the resources side, we enjoyed particular success in current accounts – where the balances rose by 16%. One important factor in this area was a very concentrated campaign which we ran in the second half of the year around a Free Banking initiative – timed to coincide with the ending of such regimes by the large banks.

We recorded a three-fold increase in the number of quality current accounts opened during the year (albeit from a low base) and we hope to exploit the potential in this further in the current year. Our current advertising is just one example. Competition in the retail deposit area is very intense and we were less successful in growing our balances and – while this is partly due to our success on the bancassurance front in a low interest rate environment - we have drawn up a more aggressive deposit strategy for 2004 with a number of significant product initiatives.

### **SLIDE 32: HORIZON PROGRAMME (LIFE)**

One of the other themes which I've spoken about this morning is our continuing focus on the cost agenda.

Last year we made real progress in that agenda in both the life and banking businesses.

On the life side, we've spoken previously about the Horizon Programme. Our Siebel technology, already in use by our Direct Sales force and bancassurance consultants, is being rolled out to sit on branch staff desks – under the name SMART sales.

On EPOS we are at present getting about 1,000 applications a week coming in electronically – with huge efficiencies and improved turnaround times. Our new back-office system –CLOAS- will by the end of March process all new business and the final phase will commence shortly which is the migration of the existing book to the new system.

Overall we expect the project to complete by the end of next year or early 2006. As Peter has indicated the project costs will more than be paid for by associated savings generated.

### **SLIDE 33: TRANSFORMATION PROGRAMME (BANKING)**

And in a similar vein on the banking side, the year gone saw the final securing of the merger synergies arising from the Irish Permanent / TSB Bank merger. That exercise has realised over €22 million worth of savings in respect of personnel and €7 million in respect of overheads.

We've now moved on to the next phase of our transformation programme in the bank which will see the introduction of a new, more efficient platform from which to process our mortgage business and investment in new technologies in our branches to improve customer service and increase productivity. This includes as I said earlier the Siebel system across the branches for CRM purposes.

The bottom line is that we expect that costs will be flat over the 3 years of this programme.

### **SLIDE 34: SUMMARY & OUTLOOK**

Finally – to the future.

The momentum which was so significant in the latter half of 2002 has continued through the start of the current year – both in the life and pensions business and in the banking side.

I've already mentioned that pension new business pipeline, for example, is up over 80% on the same period last year....our direct sales force is flat out translating the PRSA designations into sales and right across the business you can see growing interest in investment products as equity markets continue their recovery. On the banking side mortgage new business is stronger than the same period last year, while despite a disappointing start for car sales, **permanent tsb** Finance is lending well above last year's levels.

Clearly the broader economy is also enjoying the benefits of renewed confidence and the outlook for the economy as a whole continues to be positive.

All this sets out a very positive environment for our core businesses.

During the year that's passed we've demonstrated our ability to win the "hard yards" with focussed effort and a keen awareness of costs. We're very confident that we are well placed to secure great progress in the months and years ahead and we look forward with enthusiasm to the challenge.

### **SLIDE 35: 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.