

**Irish Life & Permanent plc**  
**2007 Results Preliminary Announcement**  
**Script for Analyst Presentation Feb 27<sup>th</sup> 2008**

**Slide 1 Introduction (Denis Casey, CEO)**

Good morning and welcome everyone. Thank you for your interest in our results and for your attendance today.

**Slide 2 Forward Looking Statement**

For the sake of good order and to meet our compliance and governance obligations can I just draw your attention, as is usual, to the Forward Looking Statement which must precede announcements and presentations of this nature.

**Slide 3 Key Messages**

I want to begin this morning by focusing for a moment on the key messages that we'll be returning to throughout this presentation.

**Firstly – we're going to be reporting on an excellent performance in 2007.**

You know we're in an environment where eaten bread is soon forgotten but it is perhaps instructive on a day like today to reflect on what has been an outstanding performance by our various businesses characterised by

- an exceptional sales growth right across our products and distributions
- strong operating profit growth...
- and continued success in building out our key franchises in life & pensions, funds management and retail banking .

**Secondly – we're going to outline how we've succeeded in meeting and in managing the challenges that emerged during the year.**

**Thirdly – we'll be emphasising again the very "low-risk" nature of our business model....as evidenced by..**

- an extremely well-secured loan portfolio....
- a life business where the vast majority of our liabilities are unit-linked....
- ultra conservative life and bank investment portfolios....with no exposure to toxic assets
- and excellent credit quality across our loan books.

**And finally, I'll talk to the strength of our position as we face into 2008.**

In a moment I'm going to hand you over to Peter Fitzpatrick, our Finance Director, who will take you through the details of our financial performance during the year. But first, I want to elaborate on some of these points

**Slide 4          Excellent 2007 Performance.**

By any measure, Irish Life and Permanent has delivered a vintage performance in 2007.

- The Groups sales engines firing on all cylinders delivered life & investment sales up 44% and bank lending up 16% - and that's after almost a decade of exceptional growth in both arenas.
- In permanent tsb we continued winning new converts to our hugely popular current account offering with another 69,000 customers recruited during the year – extending our retail banking presence.
- And strong revenue growth combined with good management of our costs has generated growth of 19% in our life & banking operating earnings.

So all in all an outstanding performance in the year past.

**Slide 5          Successfully Managed Challenges.**

But of course 2007 will probably be remembered most for the start of the current wave of turmoil in international financial and equity markets ....and closer to home for the marked slowdown in the Irish mortgage market.

And while these circumstances remain with us - I believe that we've clearly demonstrated - by the way in which we have been able to respond to these challenges – that we had not grown complacent or careless over a decade of outstanding growth and success and that we have the flexibility and the resilience necessary to adapt to the new environment.

**Slide 6          Low Risk Business Model.**

That ability is grounded in the diversity of our group where we've built a portfolio of outstanding, market leading businesses in life insurance, pensions, investments, mortgage lending, retail banking and funds management.

And of course it's also grounded in the very low risk nature of our business model – a characteristic, which serves us well in these market conditions.

- In our life & investment business for example; 93% of the liabilities are unit-linked

- And in permanent tsb, 98% of our loan book is secured....with the vast bulk (some 88%) backed by residential mortgages

It's also worth emphasising again here the excellent credit quality of our mortgage loan book and our continuing low arrears experience. We'll come back to this in more detail later in the presentation.

And finally, our low risk approach is reflected in the ultra conservative construct of our life and bank investment portfolios – where I repeat we hold no toxic assets.

### **Slide 7          Strong Position going into 2008.**

Before handing you over to Peter, the final point I want to emphasis is our strong position as we face into 2008

- Our businesses are in great shape
- Our balance sheet is robust
- and we're well positioned to meet our funding and our capital requirements for the year – and Peter will talk through this in some more detail in a moment.

When I come back I'll talk through the key developments in our various business units and the outlook for the current year but for now let me hand you over to Peter Fitzpatrick to review our financial performance.

### **Slide 8          Financial Review (Peter Fitzpatrick, Finance Director)**

Good morning and again, welcome.

My speaking agenda for this morning is on this slide. Firstly on earnings, we have an excellent set of results to deliver and, as Denis has already said, operating earnings came in very close to our own forecasts used to update the market in December last. I also propose to cover topical and important issues such as asset quality, funding and capital and in so doing I hope to dispel some of the myths which have grown up around these subjects such as a possible rights issue.

### **Slide 9          2007 Group Earnings**

Moving on to the numbers and starting with the high level summary of performance.

Operating profit has grown by 12%, driven by operating profit growth of 19% in respect of our Life and Banking businesses but offset by a reduction, as expected, in our share of the earnings of our associated company, Allianz. The following slides provide a detailed analysis of this performance, but before that, let's work down the P+L account towards Group profit after tax.

Below the line items are dominated by the short term investment fluctuations, or STIFs, which amount to €114m negative compared to €101m positive for 2006.

This turnaround is principally related to the fall on stock market values, when 2007 produced a fall of 1% compared to the expected level of growth within our embedded value models of 6%. The volatility in the market has produced an almost equal but opposite effect in 2007 compared to 2006 and it's interesting to go back over the last five years' results and see that the net impact of STIFs is a positive €133m which, in turn, underpins the reasonableness of our ongoing assumptions.

Economic variances are €14m negative reflecting a 0.4% increase in the risk discount rate which stood at 7.8% at the year end and this mostly relates to the increase in medium term gilt yields. Comparable numbers for 2006 were €38m negative on the back of a 0.9% increase.

Taxation, as always, is somewhat complex and is primarily driven by the level of tax on life operating profits - so I'll defer comment on this to the following slides.

Profit after tax, as a result of those movements in the STIFs, is down by 28% year on year at €404m.

## **Slide 10      Operating Earnings**

Turning now to an analysis of operating profits, our mainstream Life and Banking businesses have increased by 19% over the earnings for 2006.

Our Life businesses including ILIM have grown operating profits by 26% reflecting a very successful year for sales in all areas, continuing strong margins and a healthy growth in earnings from our in-force block of business.

The comparable figure for the Bank is 8% growth, dampened by the impact of a solicitor led fraud, without which the bank's earnings growth would have been around 14%, which is an attractive level, achieved in spite of the difficult conditions experienced by the Bank in the second half of the year. It is being driven by strong net interest income growth, a lower level of margin attrition than we had expected, coupled with good cost control and a continuing low bad debt experience within the main portfolios.

The last item within operating profit relates to Allianz, our General Insurance Associate and also the joint venture, Springboard.

Again, in the case of Allianz the earnings have come in close to guidance at €31m, which reflects a sharp reduction from €56m in 2006, which was a year of out-performance due to the release of significant levels of prior year reserves. As expected, these exceptional prior year reserves have now been fully released and the post tax level of €31m for 2007 is one from which the company feels it can grow into the future.

The main features of 2007's performance for Allianz were firstly, within the underwriting account, a continuing competitive market place saw premium rates fall further. Claims experience was a little disappointing in the first half of the year, but did improve in the second half.

Secondly, the return on the investment portfolio benefited from the repositioning completed several years ago to reduce the risk of volatility. Lastly, there was a contribution from the profit on disposal of the corporate headquarters in Dublin.

Allianz Ireland remains extremely well capitalised and this enables almost all of the earnings shown here, on a post tax basis, to be distributed to its shareholders. We are therefore getting an excellent return on our investment.

Springboard was set up in late 2006 and recorded an initial loss in the period, €2m being our share.

The tax charge of €54m relates to combined banking and life operating profits giving an effective rate of 10% versus 9% in 2006. For both years the effective rate is lower than would be expected with the life tax charge benefiting from assumption changes and the release of deferred tax reserves.

## **Slide 11      Life Earnings**

Turning now to some of the detail underlying the growth of 26% in pre-tax life earnings.

New business earnings have grown by 20% over 2006 reflecting growth in sales of some 30% for Life business and close to 80% for funds management. This has been offset, in profit terms, by a relatively lower margin being achieved.

Within the Life business, the margin was 19.2% for 2007 compared to the exceptional performance of 20.6% in 2006. As we reported at the half year stage, around half of this reduction arises as a result of a higher risk discount rate for 2007 versus 2006. The balance of this reduction relates principally to the Retail Division where, we saw a lower proportion of sales overall arising within the most profitable product group, protection, together with a lower proportion of sales coming through Bancassurance, our most profitable distribution channel.

However, despite that mix effect on the margin, 19.2% represents a strong performance in embedded value terms. If we stay with new business and look at the profitability from a cash flow perspective, the average internal rate of return on Life new business has improved to 13.3% as compared to 12.1% for 2006. The payback period in respect of this Life business is, on average, 6 years.

Both of these measures are solid endorsements for the profitability of our new business streams.

A similarly positive story applies to the in-force business earnings which have grown by 32% in total. The total expected return, being the unwind of a growing book of in-force business, together with the expected investment return, has grown by €32m to €147m, albeit, in this case, helped somewhat by the higher risk discount rate.

Experience variances and assumption charges combined are €45m positive, up from €31m in 2006. The main trends here are a continuing out-performance versus assumptions in the areas of risk and persistency plus expense productivity gains. It is a recurring feature of our results announcements to refer to the prudence and conservatism within our risk and persistency assumptions and also to highlight the level

of productivity gains which we are achieving from our re-engineered sales and administration processes. All of these have contributed handsomely to a total of €208m of positive gains over the last 5 years. That's a great experience in retrospect, but we also expect to see the trends continuing for some time into the future.

And the tax charge on life operating profits at €21m for the year comes in lower than expected for the reasons already mentioned.

## **Slide 12      Bank Earnings**

Turning now to the bank. Total income has grown by 13% to €548m. The main contributor is net interest income which has grown by 17%, reflecting firstly, the attractive level of balance sheet growth, despite a slow down in new mortgage issuance, and secondly, a good outcome on the margin which, despite all of the challenges in the last half of 2007, came in at 117 bps compared to 119 bps for 2006. I will come back to this in some more detail in a moment but first let me run through the other principal items in the bank's P&L account.

Firstly, expenses, which at €302m have grown by almost 11%. Much of this growth was front end loaded in 2007, reflecting additional once off costs associated with the SSIA maturities, which was money well spent. There were also a number of projects designed to improve productivity and invest in developing businesses. Outside of this, we are confident that we have a firm handle on cost growth and, in the current environment, cost management is of paramount importance and all areas of the Group, not just the Bank, are applying a heavy focus on this agenda. Finally on costs, the Bank's cost income ratio on a stand alone basis is 55% for 2007 and this falls to 49% if we were to credit the bank for the bancassurance earnings which it generates, but which we report within life earnings.

Impairment provisions under the "business as usual" heading are increasing in line with the growth of the underlying credit portfolios and we are seeing no credit deterioration in any of our loan portfolios as we will see when we look at the issue of credit quality in a bit more detail.

However we did have some exceptional losses in late 2007 as a result of Solicitor fraud which amounted to close on €12m and which also affected a number of other financial institutions.

If this exceptional loss is stripped out of the bank's result for the year, the underlying growth in banks earnings is 14%, which is an excellent outcome considering the challenging environment it faced in the second half with the extreme volatility in the cost of funding.

## **Slide 13      Bank Margins**

That brings me back to the net interest margin where the outcome for 2007 came in, as I said, somewhat stronger than we had expected. This slide analyses the main movements within the margin from the 2006 level of 119 bps to 117 for 2007.

The higher cost of funds, together with the higher proportion of wholesale funding on the Balance Sheet, cost an additional 5 bps in the year. As I said at the interim stage, we were well positioned in our funding lines and repricing of the portfolio happened progressively as opposed to suddenly in the second half, sheltering us from the worst excesses in volatility up to the year end. Secondly, in 2006, we reset our back book pricing for the standard variable rate in particular, in order to maintain our competitive position in the Irish market and this had a full year effect of 6 bps on the 2007 margins.

On the positive side, we had an earlier than expected implementation of the new liquidity protocol which took the worse excesses out of our liquidity requirement and, thankfully, that happened well before the credit crunch. The saving here was 4 bps. There was also a benefit, on the deposit or liability side of the balance sheet, from rising spreads and this gave us back 4 bps on the margin to which we had an extra return from Treasury of 1 bp.

Looking forward into 2008 with regards to margins, obviously the uncertainty surrounding the cost of funding will be the main issue for us. In particular whilst short term funding costs have substantially reduced from their pre year-end highs, the cost of longer term debt remains a difficulty. We are somewhat fortunate in not having major long term debt re-financings until Quarter 3 this year and so have some time to, hopefully, see the spreads come in to more economic levels. On the lending front we have been re-pricing products, which will afford us some margin protection in 2008. Finally, our Group Treasury will be focused on managing our funding costs to best effect and maximising returns from liquidity holdings. Taking all of this together, we have mapped out a number of margin scenarios and feel that the margin for 2008 could be somewhere in the range of 100 bps to 105 bps.

Effectively the costs associated with the credit crunch are having a significant effect on margins and, the lower end of the range reflects the possibility that long-term funding costs do not move from their current high levels. In the light of this risk, and to protect the bank's overall P&L account for 2008, we disposed of the entire of a €2.5bn bond portfolio in early February and locked-in a profit of close to €29m in so doing. That will provide a very valuable underpinning of the bank's profits for 2008 and the gain will be reported as trading income which is the equivalent of about 7 bps in margin terms.

#### **Slide 14      Bank Credit Quality**

As Denis emphasised in his introduction we operate a low risk business model across our group and I want to now turn to look at a number of important areas of the business which underscores this, starting firstly with credit quality.

Two-thirds of our loan book consists of Irish residential mortgage lending and, as this graph starkly illustrates, we have, over the past five years, seen arrears on this book continue to show a steady downward trend in the number of cases one month or more in arrears, notwithstanding the huge growth in the number of mortgages over the same period. And it is notable that the improvements in 2006 and 2007 have been achieved despite a 2% increase in interest rates over that period, when the expectation would reasonably have been for arrears cases to increase. That is a positive reflection on the affordability tests which we have consistently applied in underwriting, including the 2%

stress test required by the Financial Regulator, which ensures that borrowers have the financial flexibility to absorb rate increases should they occur.

Repossessions remain at very low levels (less than 10 in 2007) and are really the exception rather than the rule in terms of arrears management and write offs on Irish mortgages are again negligible again in 2007.

The Non-Performing Loan (NPL) percentages for all loans three month or more in arrears again show a consistently downward trend for the Irish mortgage book.

In our UK mortgage business, Capital Home Loans, the trend reflects, more the increase in the size of individual customer portfolios, rather than an increase in our arrears experience. The absolute level of the arrears element has in fact remained very low at about 4 bps. A comparison between CHL's buy to let arrears and those for the entire U.K. buy to let market discloses that we are running at a level of below 50% of the U.K. average.

Consumer finance in Ireland is another success story and again, the total balances at risk for arrears cases have been trending down. Our car finance portfolio is the largest portion of this category of lending and it acts as a very useful barometer of customer behaviour where the experience could cross over into mortgage lending. In that context it is pleasing to see a continuing improvement in our experience.

All taken together, our arrears experience and low levels of eventual loss continues to maintain the relatively low risk weightings within our Basle 2 models and continues to support the case for lower levels of economic capital required to support our lending activities.

## **Slide 15      Asset Quality - Life**

So excellent credit quality, now let's look at other issues surrounding asset quality, starting with our life business.

A substantial portion – in excess of 90% – of our policyholder obligations are unit linked where the policyholder, as opposed to shareholder, takes the investment risk.

Outside of this, our non-linked liabilities are matched with debt securities of the appropriate duration and are high quality investments, mainly sovereign bonds, as you can see from the analysis of the portfolio shown on this slide.

We have an exposure to only one structured investment vehicle amounting to €38m. We have taken a very prudent approach to this exposure and created a provision of €3m against it at the year end.....even though we are up to date with all scheduled payments from the investment. Within the Life business, and indeed the entire Group, this is the one and only such exposure.

The cautious approach to risk even extends into the investment of our Life capital which is substantially held in cash and owner occupied property

## **Slide 16      Asset Quality - Bank**

Staying with this theme and turning to the bank's investments within its liquidity portfolio. At the year-end we had a range of investments covering sovereign bonds, Bank FRNs and prime residential mortgage backed securities. Almost 60% of the holdings were in sovereign bonds and rated AAA and this is the investment to which I referred earlier as having been sold after the year end.

Within the Bank FRN portfolio totalling €1.2 billion, 80% are double and triple A rated and we don't go below single A in this category.

The prime RMBS portfolio totals €540 million, 95% is Euro denominated and virtually the entire portfolio is in triple A rated. These are typically of a short duration and we have no concerns over the quality of any of these investments.

That's the entire of the Bank's investment portfolio. There are no risks to the sub prime market, CDO's, CLA's, monolines etc.

Both the FRNs and RMBS portfolios are held in the balance sheet within the "available for sale" category and subject to a mark to market with any adjustment reflected through reserves. The 2007 year end adjustment was a negative €19m, or just less than 1% of the value of the portfolio, and which we don't expect to have as a permanent diminution in value.

So, overall within the Group, we have kept our shareholders well away from the material risk factors which have effected so many other financial institutions.

## **Slide 17      Bank Funding**

Having said that, all banks, irrespective of the investment risk being carried in or absent from Balance Sheets, are feeling the effects of the credit crunch which was precipitated by such risk.

I thought that it would be useful to give you an update on our funding profile and the outlook for the current year.

Firstly, comparing the profile at the end of 2007 with 2006, almost two thirds of our funding remains in the long term categories along with customer accounts which have been pretty resilient throughout the entire period. Indeed, the only noticeable shift between the two years relates to extendible notes which have now been called and which therefore no longer rank as long term debt at the end of 2007.

The short-term debt markets had quite a bumpy ride up to the year end and spreads reached extraordinary levels. We experienced a tightening of supply in the CP markets and compensated for this by using the ECB Repo facility. As at the year end, we had close to €20bln of collateralised assets capable of being used to provide around €17bln of ECB drawings. The usage on this at the year end was €5.3bln which has now reduced to €4.6bln as a result of the CP markets recovering with pricing at more economic levels.

So the conclusion is that we managed our funding very well over the year end and, as you saw from the margin analysis, without a huge negative impact on profitability.

As I said earlier this morning, as of today the outlook in the long term debt markets in 2008 continues to look difficult. Despite some easing in the short term market, investors are shy about extending durations and some senior 5 year deals recently completed were done at very high cost. Our attention is focused towards Quarter 3 when the extendible note programme matures and around €3bln of funding rolls off. That's some six months away and we would be hopeful that the supply and cost constraints will have eased by then.

In the meantime, we continue to comply with the liquidity requirements of the new protocol introduced by the Financial Regulator last year and which is based on pretty tough, stressed cash flow tests. We also have, what amounts to a very effective standby facility from the ECB in terms of the Repo programme and we will continue to add to the pool of collateralised assets going forward. So, whilst there are challenges, we can face them with confidence.

## **Slide 18      Life Capital**

Moving on to capital and starting with the Life Group. In previous presentations, we have highlighted the substantial earnings or surpluses which are arising from the growing in-force block of business. In 2007 this has totalled €297m, compared to €203m in 2006. This demonstrates the profitability of the new business which we have been writing over the years. Indeed, given the low risk nature of the business which we have already spoken about, and the level of prudence or conservatism within the assumptions and reserving underlying our products, it's a fairly safe bet to say that the progression of earnings will be positive in the long term. That provides us with strength and flexibility in meeting our capital needs in the future.

That surplus is somewhat reduced by the negative investment fluctuations in the year, but again, as I said earlier, over the last 5 years these have proven to be a net positive.

How have we deployed that capital?

Traditionally, first call on the Life's capital generation has been to support the strain associated with new business. That support amounted to €180m in 2007 and this is the investment to which I referred in an earlier slide as having a payback period of around 6 years on average. This has been a pretty big number over the last few years given the massive growth in new business, albeit well covered by internal capital generation.

With regards to the future, there are two points to make here, firstly, as we look into 2008, the new business growth could moderate somewhat compared to the record levels achieved in recent years - for example protection, which is capital intensive, on the back of a slower mortgage market. Secondly, and more importantly, whether or not we continue to run the Life business on the existing self sufficient model, is a matter of choice and economic expediency for ourselves. There are various alternative financing options available, including financing of the new business strain, and this is now a real option for us in allowing Life generated capital to be deployed anywhere across the Group.

Indeed, we took the first step in this direction in 2007 in raising €200m of debt capital within the Life business and following that with a substantial dividend up to the parent company.

As it stood at the year end, we had a very healthy level of capital in the Life business and there is currently around €90m of surplus which can be paid up to the parent company on top of the €246m already paid in the course of 2007.

## **Slide 19      Bank Capital**

Turning now to the parent company which is the bank, I have summarised the movements from the opening capital figure for 2007 of €2.152bln. Reserves have increased by a net €171m within the bank itself, reflecting the increase in distributable profits. Dividends totalling €297m have been paid up by all the other companies within the Group, mostly coming from the rebalancing of the capital base of the main Life company of €200m. €194m of this capital generated was used to finance the dividend and net of sundry other items of €7m, left us with a balance of €2,433bln at the year end.

This net growth of just over €300m was more than enough to cover the growth in risk weighted assets on the bank's balance sheet. At the year end, we had a risk asset ratio based on Basle 1 of 10.4% and the excess over our regulatory requirement amounts to circa €200m, which provides a valuable capital cushion as we go into 2008. Lastly, I emphasise the point that the bank's capital base contains no hybrids or preference share capital.

## **Slide 20      Capital 2008**

Having raised 2008 in context of capital, it's appropriate to expand on some of the possible scenarios for the current year.

As in any other year, there are, three main applications for capital. Firstly, we have business growth and I've already mentioned that the Life company has been enjoying huge increases in new business volumes which may abate somewhat in 2008, generating a lower new business strain. Denis will talk about the outlook for the mortgage market, but it is not unreasonable to expect a lower level of growth in the Bank's risk weighted assets in 2008. Therefore, within both the Bank and the Life companies, we are expecting a somewhat lower call on capital this year as compared to previous years. Secondly in 2008, we have €200m of Tier 2 capital which will mature. Lastly, we have to meet our shareholders reasonable expectations for dividends.

With regards to sources of capital. We are starting off, as I said earlier, with €200m of surplus capital carried forward from 2007. To this is added our retained earnings across the Group. Whilst there will be some pressure on the Bank's performance depending on how funding costs develop, within the Life balance sheet there is an incredibly resilient engine pumping out statutory earnings.

Next we have the implementation of Basle 2 which started on 1 January 2008 and for which we have received IRB accreditation. In previous presentations when we were an aspiring candidate for IRB we indicated that, if successful, we could expect a 10%

reduction in our regulatory capital in 2008, as we migrate to full economic capital model. Regulators across Europe are generally being more cautious in implementing Basle 2 and the Irish Financial Regulator has imposed a maximum reduction from the Basle 1 capital requirement of 5% rather than the full 10% permitted. This 5% relief, whilst lower than expectations, is still very valuable, amounting to €130m and we continue to hold the view that we will be a major beneficiary from the Basle 2 protocol as and when it is fully implemented.

Taking these three sources of capital together, we are confident that these will cover the requirement, as we see it, for business growth and dividends. We are, accordingly, self sufficient in capital terms and it is only the replacement of maturing tier 2 capital which may give rise to the need to refinance all or part of this €200m in the debt markets. In this respect, we have a range of options as to how we would approach this. In respect of the Bank there are tier 1 and tier 2 debt capital options available to us, albeit at a cost. There are also the options already outlined within the Life business to free up more of the Life capital flows for use throughout the Group.

All in all, we are as confident as ever about our ability to meet our capital requirements and to do so without resorting to the equity markets - so a rights issue, which is a rumour which has been persisting in the market for quite some time - is not on our agenda and I trust that I have fully laid this one to rest this morning.

## **Slide 21      EPS & Dividend**

Lastly then, a few remarks on the dividend. Dividend growth is traditionally benchmarked off the growth in operating EPS, which in 2007 has grown by 9%. The below the line items which have driven total EPS into negative growth territory are assumed to effectively even out over time.

EPS growth, which includes embedded value earnings, is then overlaid by capital generation which I have shown to have been very positive in 2007. Taken together, that allows us to meet market consensus and to grow the dividend by 10% for the full year, coming in at 75 cent per share.

This represents a yield of over 7% on the recent share price which itself is trading at a 17% discount to net asset value. When you combine this with a low risk model, which we have across the Group, the conclusions regarding the share price are obvious.

Let me now hand back to Denis for some further comments on 2007 and the outlook for 2008.

## **Slide 22 Business Review (Denis Casey, CEO)**

Thank you Peter.

So that's the financial result for 2007. Now I'm going to walk you through the main business units to highlight some of the key factors influencing the performance in each and then spend a few minutes talking about how we see the year ahead.

Let's start with the life business.

## **Slide 23 Life & Investment Business**

Well Irish Life has posted a series of outstanding performances over most of the last decade and 2007 was no different.

- In our life business Kevin Murphy and his team there are doing a fantastic job delivering another year of very strong growth in life and pension sales.
- We've continued to outperform our competitors and once again to grow our share in that market.
- And under Gerry Keenan's leadership Irish Life Investment Managers just goes from strength to strength and now dominates the Irish funds management landscape

## **Slide 24 Life & Investment Sales.**

In 2007 sales were buoyant right across the life business – rising in aggregate by 44% to just over €1 billion

- In Retail, with demand buoyed by the maturing SSIsAs in the first half of the year, sales rose 31% to €412 million.
- In Corporate Business, good growth in employment and incomes fuelled the demand for pensions resulting in a sales of €220 million - up 33%
- And in ILIM, our funds management business, we had a phenomenal year with gross investment inflows of €3.4 billion – a 79% increase on 2006.

We've recently appointed new CEO's, Gerry Hassett and David Harney to run our Retail and Corporate Divisions. These are two high calibre executives who have grown up in Irish Life and who have ambitious plans to take these businesses to the next level.

## **Slide 25 Life Products**

This next slide looks at a product analysis of Retail and Corporate life sales.

I guess one of the key points here is the strength of our pension sales...which last year accounted for 59% of total Retail and Corporate sales.

We've long identified pensions as a strategic priority for us. The strong economy, continuing public policy support and a very favourable demographic profile all point to sustained growth in retirement savings and we are succeeding in our strategic objective to position Irish Life as the dominant pension solutions provider in Ireland. Of course the continued strength of ILIM's fund performance is hugely supportive for our sales efforts in this area

During the year pension sales in Retail were helped by the introduction of a new self administered pension product which has performed particularly well and also by good success attracting maturing SSIA moneys into lump sum pension investments.

In Corporate Business our superior service and investment proposition drove an increase of 30% in sales of new defined contribution schemes. Another factor here was strong annuity sales - ahead by 65% supported by some annuity purchases to buy out defined benefit pension scheme liabilities.

Investment bond and savings sales ahead by 23% and 50% respectively both benefited from maturing SSIA's and our diverse distributions performed exceptionally well capturing a strong share of this business. As the year progressed we saw some slowdown in investment sales as adverse conditions in equity and property markets affected investor sentiment and demand.

One area where growth was slower in 2007 was protection products in the retail division. Growth here was a modest 2% or so as the sale of mortgage protection products declined in line with the residential mortgage market. On the other hand, sales of protection products in Corporate Business grew strongly.

## **Slide 26      Life Distribution**

Let's turn then to look at the performance of the Group's key distribution channels.

Over the last number of years, we've developed a diverse and powerful distribution network for our life products encompassing bancassurance, independent intermediaries, pension consultants, a direct sales force and our Onesource franchise channel.

Our bancassurance reach continues to grow and we now have distribution agreements in place with five separate institutions in addition to permanent tsb. All told that gives us access to over 400 bank and building society branches throughout the country. During 2007, our new relationship with EBS came on stream and enjoyed a successful start contributing to the impressive 49% increase in institutional sales last year.

We see excellent opportunities to increase our sales through these institutional relationships and I guess our expectations in that regard are informed by our outstanding performance in permanent tsb where we've really perfected the bancassurance model with sales there up 19% in 2007 ... passing the €100 million APE mark for the first time last year.

Our broker channel performed exceptionally well during 2007 and we saw sales there grow by 42% supported by innovative products, outstanding investment performance and top class service and support.

A final point to make on distribution is the potential we see to use our existing distribution channels as a platform to roll out our offering for Mass Affluent and High Net Worth customers. During 2007 we established a dedicated unit led by Dervla Tomlin to progress our plans for this area and we expect to see an impact from that beginning to be felt from this year.

## **Slide 27 Investment Management**

I've referred a number of times, the benefit the entire group is getting through the exceptional performance of Irish Life Investment Managers.

ILIM has now firmly established itself as the market leader in the Irish funds management industry. It has long led the way in product development and innovation in both its passive and active businesses and a consistent strong relative performance record is being rewarded by growing market share and outstanding sales results. During 2007, gross new inflows reached an impressive €3.4 billion. Included within this was €645 million of funds from our EBS relationship but even excluding that exceptional sale the performance in 2007 was substantially ahead of a strong 2006 result.

As a consequence, funds under management at ILIM increased by 10% to €33.8 billion during the year – notwithstanding the falls in global equity markets in the second half.

## **Slide 28 Life Market Share**

To wrap up on the life business, I want to draw your attention to our sustained market share performance.

We closed out on 2007 with a market share of 30% - a 2% increase in the year. That represents our 8<sup>th</sup> consecutive year of market share growth - a massive 11 points higher than the 19% we recorded at the start of this decade.

I think those figures reflect the unrivalled strength of our franchise in the life & pensions business in Ireland where Irish Life is now THE key player in these markets.

We've demonstrated a real ability to innovate around product design and distribution development and in the process we've created the most effective asset gathering business in Ireland today.

You know while the market in 2008 will inevitably be more challenging than we've experienced over recent years, I'm confident that the fundamental strength of our business model will ensure that we can compete and deal more effectively with the changed environment than any of our competitors.

## Slide 29      Banking

So to our banking operation – **permanent tsb**.

Over the coming slides, I want to touch on a number of different aspects of the bank's performance including

- Our strong loan book growth during 2007
- Our continued success in customer acquisition and in continuing to grow our retail franchise.
- And, very importantly, our excellent credit experience

## Slide 30      Bank Loan Book

Let's start with the bank's loan book.

On the left hand side of this slide, you'll see a break down of the bank's loan book which stood at €39 billion at end 2007 – an increase of 16% over the year. This analysis underlines the very low risk nature of our lending.

98% of customer loans are secured. Over two thirds of our lending is secured against residential properties in Ireland with 21% secured against UK residential properties and some 6% is commercial lending secured with first charge mortgages on dry investment properties.

The unsecured portion of our lending – representing just 2% of balances – comprises personal term loans, credit cards and current account facilities for our growing retail customer base.

We have no material business banking or property development finance exposures.

The big feature of the market during the year was, of course, the slowdown in the Irish housing market where after a decade of exceptional growth, the market came off the boil in 2007. We saw demand soften and prices ease back resulting in a contraction in the supply of new houses as developers responded quickly to the changing environment.

This of course is an example of a market working effectively....reduced demand...leading to reduced prices...leading in turn to reduced supply.

For our part, new residential mortgage lending in Ireland finished the year at €7 billion, down 19%. That outcome is exactly in line, you might recall, with an estimate that we gave as early as June of last year. Our market share for the year was just under 21% so we've managed to protect substantially all of the market share gains we won in 2006 notwithstanding a fiercely competitive mortgage marketplace throughout 2007.

Another very positive feature of our mortgage performance in 2007 has been our success with customer retention in permanent tsb – we've worked very hard at this and

we've done really well here ...and this has been a factor that has helped us to achieve mortgage book growth of 14%.

Conditions in global credit markets have clearly had an impact on mortgage margins and we've been alert and proactive in seeking opportunities to protect the profitability of this business. At the end of last year we increased our tracker rates for new business and for maturing fixed term mortgages by between 10 and 25bps and we've recently increased our Standard Variable Rate by 9bps. You'll also have seen that we've signalled our intention to begin a process of rebasing intermediary mortgage commissions from the middle of this year.

We'll be keeping our mortgage pricing under review throughout 2008 as the credit situation unfolds.

With regard to the outlook for the Irish mortgage market in 2008 our early experience points to the 2007 pattern carrying over into the new-year. Buyer sentiment is generally weak currently and new housing output is likely to fall from 78,000 units in 2007 to around 50,000 units in the current year.

On the positive side that contraction in supply will help prices to stabilise and it's interesting to note the recent Hooke and MacDonald report which estimates that there are in fact only about 5,500 new homes completed and available for sale in Dublin. This is much lower than some earlier estimates and represents less than six months of normal demand.

A reduction in Eurozone interest rates which is highly likely around the middle of the year could mark a turning point for the Irish housing market and see a return to more normal activity levels. Over recent weeks it's been instructive to watch how quickly First Time Buyers have re-emerged where developers have been willing to notch back asking prices on new developments.

Overall we are expecting gross new mortgage lending across the market to be down by around mid teens percent in 2008 which will translate into portfolio growth at permanent tsb of mid to high single digits.

In the UK market in 2007, our CHL business grew its loan book by 31% with a rise in new issues of 48% to STG£2.3 billion. A key factor here has been our investment in additional distribution capability in the UK and I'll come back to CHL a little later in the presentation.

### **Slide 31      ROI Mortgage Credit Quality**

This is an important slide that highlights the excellent credit quality of our Irish mortgage book - something Peter has already touched on in his presentation.

The number of mortgage customers in arrears has fallen again during 2007. And just to remind you the measure of arrears here is a tough one counting all customers 30 days or more overdue. So notwithstanding good growth in our loan book we had fewer customers in arrears at the end of 2007 than at any time over the last five years.

For me this is the clearest demonstration of the sound lending practices followed by the bank. Amounts lent to our customers are conservative – driven by affordability criteria and stress-testing that assesses a borrower's ability to repay where interest rates rise. This conservative approach has and continues to stand us and our customers in good stead.

With regard to LTV's – we have seen LTV's for first time buyers fall by 3 percentage points from 87% to 84% in 2007 reflecting the impact of higher interest rates on our affordability models and also reflecting our decision in the third quarter to scale back our 100% First Time Buyer offering.

In aggregate LTV's for new lending eased back 1 percentage point from 66% to 65% during the year.

### **Slide 32 UK Mortgages (CHL)**

Turning then to CHL our UK mortgage business.

CHL as you know specialises in the professional landlord Buy to Let market and the business enjoyed a very successful year in 2007 with new lending up 48% to stg£2.3 billion. As we explained at the interim stage we have been investing in additional front line resources to expand CHL's distribution reach and that strategy has been rewarded with a strong uplift in business in 2007.

Credit quality in CHL remains excellent and our arrears experience is consistently better than the UK Council of Mortgage Lenders Buy to Let market data. [At end 2007, the number of CHL's buy to let cases which were 90 days plus in arrears in stood at just 0.4% of the total number of loans - half the CML third quarter industry number.]

At year end CHL's portfolio average LTV's stood at 67% compared to 66% at end 2006.

We remain positive about the prospects for our niche in the UK buy to let market. Credit market conditions have resulted in a contraction in the number of mortgage suppliers serving this market and we're taking advantage of the improved competitive environment to tighten our lending criteria and to protect our margins. We would expect to write about the same volume of new lending in the UK in 2008 as we did in 2007.

### **Slide 33 Customer Acquisition**

Moving on from lending then one of the outstanding achievements of **permanent tsb** during 2007 has been the continued success of our customer acquisition strategy notwithstanding the vigorous competition in the current account arena.

The bank has added a further 69,000 new current account customers during the period building on the success of recent years. With over half a million current account customers, permanent tsb now has a significant and growing presence in the current account market and this expanding customer base represents fuel for future growth in the bank.

Customers join us attracted by our youthful dynamic brand, our attention grabbing marketing and our outstanding product offering. They stay with us and they choose to expand their product relationship with us because of our fantastic service and our highly effective advice and sales processes.

Our entire proposition is built around a superior service promise – what we call the permanent tsb “X factor” and just this week our independent customer satisfaction tracking partner has confirmed that our 2007 Customer satisfaction score has reached its highest point ever – at 84%... up 3% on the 2006 score.

There is a genuine and a tangible commitment across **permanent tsb** to provide our customers with a truly fantastic service. It’s a commitment shared by all of our staff and this most recent acknowledgment by our customers clearly confirms that they notice and appreciate the things we do well.

Again we have a new CEO at permanent tsb and Dave Guinane who now heads up the bank is passionate about growing that business and about delivering an unrivalled service to the swelling numbers of customers we now serve.

#### **Slide 34      Outlook**

So that’s the year that was.

Of course, I know a lot of your interest will revolve around the current year and our expectations so let me say a few words about that.

There are a couple of important factors to bear in mind in any analysis of the year ahead.

- Firstly I think we’ve demonstrated through this presentation that our key businesses have strong leadership positions in their core markets, energetic management and a proven record of achievement. Whether it’s Irish Life, Irish Life Investment Managers or permanent tsb bank, these are exceptional franchises with enormous value.
- Secondly the low risk nature of our business model shines through in our 2007 results and this is going to continue to be a real strength going forward.
- Thirdly Peter has demonstrated that we are well positioned in terms of our funding and self-sufficient in terms of our capital requirements in 2008 – and hopefully that dispels some of the hopelessly wide of the mark chattering being peddled in some quarters.

These different factors mean that we are well positioned to meet any challenges that 2008 may present.

In our pre-close period trading statement in December we guided that the outcome for group earnings in 2008 could be in the range of flat or slightly ahead on the 2007 result

to high single digit negative depending on which of the alternative credit market scenarios prevailed in 2008.

Revisiting that guidance two months on and taking into account the current market conditions (where the cost of short term money has eased since year end) and the actions which we have already taken, we are now guiding an improved outcome with group operating profit for 2008 expected at the upper end of that range and marginally ahead of 2007.

This guidance reflects our current best estimate of the trends in volume growth and margins for 2008 :

- Bank loan book growth of high single digit percent (with the Irish mortgage book growth slightly lower than this) and with the bank's net interest margin in the range of 100 to 105 bps and,

*on the life side of the business*

- Life & Investment sales growth in the mid-single digit range with the expected sales mix (less protection and investment bonds) giving a new business margin a percentage point or so down on 2007.

And we think these would be very good trading outcomes given the very strong 2007 performance and the more challenging market conditions likely to pertain in 2008.

So I will finish on that good bit of news and Peter and myself will now be delighted to deal with any questions you may have and perhaps we will start by taking questions from our London audience first.