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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to your Irish Life and Permanent 2011 interim results conference call. Throughout the call, all participants will be on listen-only mode, and afterwards there will be a question and answer session. Just to remind you this conference call is being recorded.

Today, I am pleased to present your host, Kevin Murphy, Group Chief Executive. Please begin your meeting.

Kevin Murphy - *Irish Life and Permanent Plc - Group Chief Executive*

Good morning, everyone. Kevin Murphy here and welcome to our conference call on our interim results for the first half 2011 which we issued earlier today.

I am joined this morning by my colleague Dave McCarthy, Group Financial Director.

The focus of this morning's call is an update on trading and strategic developments, however, you will appreciate that we will not be able to go into any detail in relation to the disposal of the Life Company given its current live state.

As we're in a period of significant transition of the Group, I will focus this morning on the performance of our two key operating businesses, Permanent TSB Bank and the Life business.

Both the Bank and the Life company are of course impacted by the continuing difficulties in the broader economy, where we're seeing rising unemployment, reduced levels of disposable income and inevitably weak consumer confidence.

The relative strong performance of the export sector has not been mirrored in the domestic parts of the economy and that clearly impacts on our businesses in terms of sales, arrears and persistency.

Turning to the next slide, if I could talk firstly about the performance of the Permanent TSB. On the positive side here, we have an improvement in the net interest margin from 86 basis points to 97 basis points. We've made good progress on our funding agenda with the acquisition of the Irish Nationwide and yesterday the acquisition of the Northern Rock deposits.

We've good results from our liability management exercise at the half year; at the half year we were about three-quarters of the way through this exercise and obviously we've completed the balance of the exercise since then.

This LME has generated a considerable profit for the Bank.

However, on the negative side, we have arrears and house prices continuing to deteriorate, which means we have to increase our provisions, and we've had a significant increase in the cost of our funding guarantee.

If we turn to the Bank earnings slide, looking more specifically at Bank's earnings; you'll see from this slide that we have strong profit figures in both the operating profit and profit after tax lines, where these two lines that are started by the inclusion of the results of the liability management which produced a net profit of EUR740 million.

Stripping this out, the effect means that the Bank's actual operating result is a loss of EUR364 million versus EUR131 million in 2010.

There are three factors behind that; an increase in impairment provisions; the increased cost of the government guarantee; and restructuring costs.

Working our way through the P&L, on the top line you see the net interest income is up 10% on 2010. As I said earlier, NII margin was 97 basis points versus 86 basis points last year.

Margin has been helped by the re-pricing of our book in February when we increased our variable mortgage rate by 1%. We've had some slight gain on our deposit margin due to an increase in ECB rates; where we're offsetting that is increased cost of funding. And overall, our margin at this stage is pretty close to our target margin of 100 basis points.

On the guarantee line, the government guarantee line, you can see the funding costs have gone from EUR45 million in 2010 to EUR94 million in 2011. Two factors here. There's been an increase in the actual rate to be charged under the guarantee when it was extended in December 2010. And secondly, we've considerably increased our assets under guarantee, the Irish Nationwide deposits being the biggest add on.

On the cost front, we incurred costs of EUR43 million during the first half of the year on the implementation of our restructuring agenda, which secured reduction of NS in excess of 400 staff which will lead to annual cost savings of some EUR30 million.

Impairment provisions have risen significantly during the period, up from EUR150 million to EUR333 million. This was increased -- it reflects the increase in our loan arrears; I'll come back to details on that in a moment, and a continued fall in the house prices.

At this level of provisioning, we're now broadly in line with our PCAR base case of EUR660 million for the full year of 2011; we went through the details of that in our PCAR PLAR presentation earlier this year.

We are, together with all other banks, currently in discussion with the Irish regulator on impairment provisioning methodology and the results of that will be seen in our full-year results.

I've already referred to the LME, which is about 75% complete at the end of June. The redemption of this generated a profit of EUR763 million. Against this, the Bank incurred a loss of EUR23 million on its own holding of Tier 2, leading to a net benefit of EUR740 million.

On the next slide, I cover bank mortgage arrears. This slide reflects the increasing arrears level here. Rising arrear levels have played a key role in the significant increase in our impairment provisions. This time last year, we -- last year we reported 6.8% in arrears in the 90 days plus category at the start of the year, and this has now risen to 8.8%.

This is being driven by the increasing unemployment levels in Ireland, the significant reduction in net take home pay for those in employment, a result of lower earnings and increased taxes.

I'd like now to give you details on bank funding. Our funding profile benefit from the acquisition of the Irish Nationwide, but that was offset by losses in corporate deposits, particularly at the start of the year. In aggregate, our deposit levels at the half year increased to EUR15.5 billion from EUR14.8 billion.

In terms of the balance of our funding, our alliance and monetary authorities funding at the half year was broadly in line with the end 2010. The main effect of the increase in deposits has been a reduction in our long-term funding. Overall, loan to deposit ratio is now 227% against 249% at the start of the year.

Finally, then, I'm pleased to announce today that we have raised unguaranteed secured funding in the market this week. This totals GBP1.4 billion and that has been secured against our UK mortgage book. This is a very positive development for our funding position.

Finally then, on the Bank, if we look -- cover the main strategic developments. The big item has been the recapitalization agenda which moved rapidly since the outcome of PCAR PLAR in March. As we outlined to you before, we received government capital of EUR2.7 billion and that has significantly strengthened the capital position of the Bank.

We're working through the LME exercise, as mentioned before, and we're in the midst of the disposal of the Life business.

In tandem with this, the Bank has prepared a restructuring plan which was submitted to the EU at the end of July. This plan focuses on the business of the Bank, post the current and the expected credit losses over the next three or four years, and post the deleveraging of the Bank from its current loan to deposit ratio down to 122.5%.

We've outlined a very strong business case here, which shows profitability in 2014, and by 2015 we will meet our long-term business targets of NII in excess of 1%; impairments normalized; strong capital position; and loan to deposit ratio of 122.5%.

In terms of delivering the 122.5%, I suppose there are two steps really. Firstly, we're progressing our deleveraging plan by the sale of our UK mortgage book and certain other non-core assets. And secondly, we're actively growing our deposit book, both organically and by acquisition.

As you know, we acquired the Nationwide book in February, and now the Northern Rock book, so that's two important steps on our route to 122.5%.

At this stage then, I'd like to turn to our slide for the Life & Fund Management arm of the Group. On the positive side, we have sales up 6% in 2010. Risk experience on the existing book is a positive, though less so than 2010. The capital ratio of the Life company continues to be strong and has increased to 179%. Last week we got a very positive rating report from S&P.

Against that, on the negative side in the Life company, sales margins are down reflecting the assumption changes from 2010. Retail persistency levels remain elevated and recently we've paid on behalf of our customers the pension levy for 2011 which, because of the size of our pension business, amounts to EUR110 million. We expect to pay a similar amount in each of the next three years.

So let's start with the new business earnings for the Life company. As I said, aggregate sales are up 6% on the first half 2010, which is broadly in line with the expected trends from last year. There are three moving parts behind that figure. Retail sales are up 5%; corporate business sales are down 6%; ILIM sales are up 14%.

The pattern of 2010 has also continued in terms of AP/SP mix. SP sales continue to be strong, up 24%, while annual premium sales remain weak, and are down 15%.

But while overall sales increased in the first half of the year, reported new business margins reduced. This mainly reflects persistency adjustments made at the end of 2010.

If we turn then to the main Life co P&L account, on an EV basis. Operating earnings are EUR64 million, compared to EUR118 million in the first half 2010. This reflects lower new business earnings, higher persistency losses, plus the one-off costs of the pension levy and the VSS scheme, where we were targeting to be back close to 2010 levels by the year end.

In terms of new business earnings, new business earnings are down from EUR28 million to EUR19 million, for the reasons stated. In terms of in-force earnings, pre-exceptional, they're also down from EUR77 million to EUR60 million. This reflects the interplay between the two critical assumptions, persistency and risk.

On persistency, the experience has stabilized in line with our expectations in corporate business. However, retail persistency remains problematic, which we believe is down to the macroeconomic environment, which we have already discussed.

In Q1, retail persistency experience was 10% off, compared to last year, and off a further 6% in Q2. As such, the persistency losses for the half year of EUR13 million, are almost double the 2010 equivalent losses of EUR7 million.

Offsetting this is our risk experience, and we've continued to make profits here, albeit lower than last year. Group risk is once again proving particularly profitable in corporate business. Risk profits for 2011 are EUR9 million, versus 2010 exceptional levels of EUR19 million.

Finally then, our operating line is affected by some one-offs. Firstly, the payment of the pension levy, which I mentioned earlier, has an EV impact of EUR13 million, due to the loss of management fees on these funds in the future. And secondly, the expense line includes the cost of a voluntary severance scheme at the Life company, which cost EUR11 million.

That's the operating profit. Below the line then, there are two further adjustments to the EV. Because of the fall in equity and property markets, there's a charge of EUR46 million, and due to change in economic assumptions, there's a further cost of EUR28 million.

So looking forward for a moment, we are still expecting that the outcome for the Life business for the full year, broadly in line 2010. We do expect to have to make further persistency adjustments, given experience to date, to be the order of EUR25 million to EUR50 million, at year end. However, offsetting these will be some capitalization of the risk profits, where we are consistently outperforming the EV assumptions.

If we turn then to Life capital, the Life company remains very strongly capitalized. Our total available capital this year is EUR708 million, capital requirement EUR395 million. That gives us an excess capital position of EUR313 million.

At this stage, we've improved the capital position from 159% in 2009, to 175% 2010, and now mid 2011, we're at 179%.

Finally then, on the strategic side, preparations for the disposal of Irish Life are progressing well. The object of this disposal is to maximize return from this asset for the Company, and in so doing, to minimize the additional capital required from the taxpayer and the shareholders.

With that in mind, it was recommended by the Company advisors, the Company explore both a trade sale and IPO, to ascertain which route might deliver most value. In terms of a possible trade sale, you're already aware we issued an information memorandum to interested parties, in the summer, and we've now identified a number of parties with whom we're having more intensive discussions.

At the same time, our advisors are exploring potential interest in the IPO route. This includes the preparation of a prospectus document, and discussion with potential investors.

And finally, we have today concluded the disposal of Irish Life International, which we previously flagged to the market.

So if I could summarize at this stage. The business has a clear set of business and strategic objectives, and despite a difficult operating environment, we're making progress on these targets.

Both the Bank and the Life company are now in a strong capital position. The Bank is now capitalized at 26% Tier 1 ratio, after the recap in July 2011. And the Life company has capital in excess of 179% of the required margin.

We are making good progress in respect of the deleveraging agenda at the Bank, and the Bank's restructuring plan, on the one hand. And then we're also making good progress on the new ownership structure for the Life company, which will enable the business to grow successfully from here.

So that's a summary of our results for the half year, and both David and I would be happy to take questions from analysts, at this stage.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Piotr Skoczylas, Scotchstone Capital.

Piotr Skoczylas - *Scotchstone Capital - Analyst*

Kevin, on May 18 you said that, based on trends to date, and on current assumptions, loan impairment provisions would be broadly similar to last year. However, using PCAR assumptions, the figure would be closer to EUR620 million. Can you just tell us if anything has changed since May 18 regarding this statement? Is this statement correct?

Kevin Murphy - *Irish Life and Permanent Plc - Group Chief Executive*

Well, [associated May] arrears have worsened and ultimately our arrears were -- if you look at the graph, were worst in May, June, July, and considering trends in August. So in light of that, ultimately we've upped our provisions to reflect the new arrears trends.

And secondly, since then we've had a continuous update, monthly, on the price of houses in Ireland, and they've continued to fall, and there was a substantial fall in July, in particular. So there has been a change in both the arrears assumptions and both the house assumptions, since the last update.

Piotr Skoczylas - *Scotchstone Capital - Analyst*

All right. But July is not included in the results, is it?

Kevin Murphy - *Irish Life and Permanent Plc - Group Chief Executive*

No, no, but ultimately, when we're forecasting future provisions, clearly we will update it for all known experience.

Piotr Skoczylas - *Scotchstone Capital - Analyst*

All right. And then on PCAR, this year will include you said, EUR660 million of loan loss write-downs, according to PCAR, right?

Kevin Murphy - *Irish Life and Permanent Plc - Group Chief Executive*

Yes.

Piotr Skoczylas - *Scotchstone Capital - Analyst*

So the total PCAR was EUR1.1 billion for three years, so 60% of the PCAR loan loss provisions will be written down this year only.

David McCarthy - *Irish Life and Permanent Plc - Group Finance Director*

Peter, as we said, we're in discussion, as are all of the Irish banking system, with the regulator, as to the methodologies and the assumptions that we will use in setting provision levels for the full year. Those discussions have just begun and ultimately that's what will drive the provision levels that we book in this second half of the year.

And we're not providing at this point any guidance as to what that number might be, because frankly, we don't have a clear sight of it.

Piotr Skoczylas - *Scotchstone Capital - Analyst*

Okay. So put differently, out of the six semesters, you will write down this semester only, about 30% of the total PCAR and PLAR loan loss provisions, of EUR1.1 billion, that was supposed to cover three years.

Kevin Murphy - *Irish Life and Permanent Plc - Group Chief Executive*

I think that EUR1.1 billion was the incremental effect, on top of our current assumptions. That was the incremental capital that was needed to cover the additional, I think that's not the full figure.

Piotr Skoczylas - *Scotchstone Capital - Analyst*

Right. But 300 -- you just said in the result, that EUR333 million write-down this year is resultant from the PCAR assumptions.

Kevin Murphy - *Irish Life and Permanent Plc - Group Chief Executive*

Yes, so that's the EUR660 million. So I'm just saying that the EUR1.1 billion is not the aggregate expected provisions over the next three years. I think the EUR1.1 billion was the incremental provisions on top of our ones.

Piotr Skoczylas - *Scotchstone Capital - Analyst*

No, I understand that was incremental but EUR333 million this quarter is resulting also incrementally from the PCAR assumptions. Had there been no PCAR there would have not been the EUR333 million.

David McCarthy - *Irish Life and Permanent Plc - Group Finance Director*

No the EUR333 million, Piotr, is independent of the PCAR. That's the provisions that our own models and our own assumptions essentially [throughout] the modeling. It's completely divorced and independent of the PCAR. It just happens that it's given a broadly similar result, given where the arrears level has gone to at this point in the cycle and where house prices have gone to.

Piotr Skoczylas - *Scotchstone Capital - Analyst*

Okay. And can you tell me how much the core Tier 1 ratio would be on a comparable basis to December 31, when the core Tier 1 was paid 10.6%? Because it's difficult to reconcile all those numbers because there are so many moving parts. There is a PCAR obviously, write-downs, then there is capital infusion. So would you be able to say December 31, the core Tier 1 ratio was 10.6%; on a comparable basis June 30, the core Tier 1 ratio would be?

David McCarthy - *Irish Life and Permanent Plc - Group Finance Director*

Well, the core Tier 1 ratio post the capital injection is 26%, that's the only real number that's of any relevance frankly.

Piotr Skoczylas - *Scotchstone Capital - Analyst*

Right, but this number is just not comparable to the -- it's difficult to show any trends; we don't know, is the situation improving or deteriorating because we don't know what will it be. By the way, at June 30 there was no capital, so I don't even understand why you reported with the capital infusion. On June 30, there was no capital.

David McCarthy - *Irish Life and Permanent Plc - Group Finance Director*

On June 30, the number was 8.4% without the capital injection. So it's quite clear -- it's quite easy to reconcile the movement from 10.6% to 8.4% and I'd happily send that onto you later.

Piotr Skoczylas - *Scotchstone Capital - Analyst*

And then 8.4% includes the EUR333 million right?

David McCarthy - *Irish Life and Permanent Plc - Group Finance Director*

It does, yes. The EUR333 million is slightly irrelevant because you essentially back that out given the methodology that you require to be used under Basel II, so the provisions actually added back in and then you provide within the capital structure for the probabilities of fault and otherwise.

Piotr Skoczylas - *Scotchstone Capital - Analyst*

All right. And then you know the LME yielded EUR700 million-odd additional extra, so this is good news. Now the LME, plus the sale of the Life business was supposed to yield extra capital of EUR1.1 billion. So in the context of this good news in terms of LME, what would you expect the EUR1.1 billion to go up to?

Kevin Murphy - *Irish Life and Permanent Plc - Group Chief Executive*

The EUR1.1 -- the precision -- the LME are exactly in line with budget. So we wouldn't expect any change from that.

Piotr Skoczylas - *Scotchstone Capital - Analyst*

So therefore, anyone who can add would say that the extra incremental capital that you expect from the sale of the Life company, Life business is only EUR0.4 billion?

Kevin Murphy - *Irish Life and Permanent Plc - Group Chief Executive*

No, no, you have to add the value of the proceeds from the sale. You have to add in the LME. You then have to adjust for the current holding value of the Life company in the Bank as it is at the moment (inaudible) figure.

Piotr Skoczylas - *Scotchstone Capital - Analyst*

I have --

David McCarthy - *Irish Life and Permanent Plc - Group Finance Director*

Peter, you clearly have a long list and a long agenda here. I'm happy to do a one-on-one with you subsequent to this conversation but we do have a large number of people on the line who may also wish to ask us questions.

Piotr Skoczylas - *Scotchstone Capital - Analyst*

Okay.

Operator

Emer Lang, Davy.

Emer Lang - *Davy Stockbrokers - Analyst*

Just two questions if I might. The first one, on the pension side obviously, we've seen the levy. Have you any sense at this stage what they might do to the tax relief on pensions or when we might get some clarification of that?

And the other question just on the banking side; can you give any sense within the arrears figures of what's owner occupied and what's buy-to-let?

Kevin Murphy - *Irish Life and Permanent Plc - Group Chief Executive*

In terms of the tax relief, we don't expect really to get any feedback until pretty close to the budget because ultimately what's going to be done on any individual item in the budget is part of a package. Obviously from the Life company's point of view, we're seeking -- we feel the pension levy is sufficient charge to the pensions industry in terms of tax contribution and therefore, we're essentially seeking that the current tax relief or agents would be left alone. But whether that will be an acceptable position or not, we await the budget.

In terms of the split between the arrears, Dave will give you that.

David McCarthy - *Irish Life and Permanent Plc - Group Finance Director*

The arrears levels in the [RIF] are slightly worse than in the residential portfolio, in the RIF portfolio, which is about 25% of the entire; it's running over 9% against residential, which is under 8.5%. So there's a marginally worse outcome on the RIF portfolio, which is what you would expect me to answer.

Operator

Eamonn Hughes, Goodbody Stockbrokers.

Eamonn Hughes - *Goodbody Stockbrokers - Analyst*

Just on the Life side, can we maybe get a sense in terms of the new business sales momentum in the first half directionally positively in retail, down in corporate; if those sort of trends are looking like they could continue to the end of the year? And maybe any sort of feel around potential on the momentum in ILIM as well if that's possible? That's kind of the first one.

Maybe I'll try on a second question when you've finished that one maybe.

Kevin Murphy - *Irish Life and Permanent Plc - Group Chief Executive*

Okay, so I would say the momentum on the retail side would be slowing down a touch. During the summer, sales were less strong than they had been during the first half of the year. Momentum and corporate business improved, so net net we would expect maybe a flat end of the year when you pull the two of them together.

And the momentum in ILIM continues to be broadly the same and we would expect broadly the same pattern by the end of the year.

Eamonn Hughes - *Goodbody Stockbrokers - Analyst*

Okay. Will there be any sort of shifts, Kevin, around the margin; it looks like it was a little bit weaker maybe than we'd penciled in, just as to whether there's any recoup at the end of the year? Or could we be thinking of those similar figures again for the full year?

David McCarthy - *Irish Life and Permanent Plc - Group Finance Director*

I think they'll be broadly similar, Eamonn. (Inaudible) the reduction is largely driven by persistency. As I say persistency is the assumption changes that we made last year rather because they obviously feed into the VNB margins on an APE basis. So we'd expect it to come in broadly -- the second half to come in broadly speaking similar to the first half.

Eamonn Hughes - *Goodbody Stockbrokers - Analyst*

Okay. And just switching to the Bank, you mentioned there about there was an annualized cost sales of around about EUR30 million or so. Is that flowing through over the coming 12 months or could we take it that that's something we should be looking in terms of a step down next year or how should we try and model that one?

Kevin Murphy - *Irish Life and Permanent Plc - Group Chief Executive*

I'd [bottle] that at about half -- ultimately the exits are being staggered over a period, so possibly half it next year and then 100% in the year after.

Eamonn Hughes - *Goodbody Stockbrokers - Analyst*

Okay. And just in relation, the ELG costs obviously stepped up quite a bit at EUR94 million. Could we be looking at a similar figure then for the second half as well just given the, as you said the size of the balance sheet now and the moves that were made at the start of the year with the deposits and the liabilities?

Kevin Murphy - *Irish Life and Permanent Plc - Group Chief Executive*

Ultimately we would expect the same figure in the second half of the year.

Eamonn Hughes - *Goodbody Stockbrokers - Analyst*

Okay. And just one final question; I wonder if it's (inaudible) the earlier guy, but just I know you premised your comments at the start around that there's not much you can say in terms of the disposal or sale process or whatever. But just in terms of timing, I think, was the original target end October, whether that's still pretty much in place or is there any slippage around that?

David McCarthy - *Irish Life and Permanent Plc - Group Finance Director*

Eamonn, we're involved in the process but we can't comment on it at this point.

Eamonn Hughes - *Goodbody Stockbrokers - Analyst*

Okay, thanks very much.

Operator

(Operator Instructions).

Kevin Murphy - *Irish Life and Permanent Plc - Group Chief Executive*

Okay, at this stage, we're happy to draw to the close. Thank you very much for listening in. Thank you. Bye.

Operator

Thank you, ladies and gentlemen. That concludes your conference call. You may now disconnect. Have a great day.

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