

# 2006

*Preliminary Results*

For the year ended 31 December 2006, Allied Irish Banks, p.l.c.



A number of statements we will be making in our presentation and in the accompanying slides will not be based on historical fact, but will be “forward-looking” statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected in the forward looking statements. Factors that could cause actual results to differ materially from those in the forward looking statements include, but are not limited to, global, national and regional economic conditions, levels of market interest rates, credit or other risks of lending and investment activities, competitive and regulatory factors and technology change. Any ‘forward-looking statements made by or on behalf of the Group speak only as of the date they are made.

The results for the year ended 31 December 2006 have been restated to represent Ark Life as a discontinued operation. The following commentary is on a continuing operations basis. The growth percentages (excl. EPS) are shown on an underlying basis, adjusted for the impact of exchange rate movements on the translation of foreign locations’ profit and excluding interest rate hedge volatility under IFRS.

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**Eugene Sheehy**  
Group Chief Executive

Clear no. 1 Irish banking franchise operating in a high growth economy with rich potential

+

Premium banking franchises focused on high growth markets / sectors in UK and Poland

+

Fast, consistently growing international and domestic corporate businesses operating in carefully selected high potential markets / niches

+

Active partnership with outstanding US regional bank

GDP %	2006 (e)	2007 (f)
Ireland	6.2	5.5
UK	2.7	2.8
USA	3.4	2.5
Poland	5.8	5.4
Eurozone	2.7	2.6

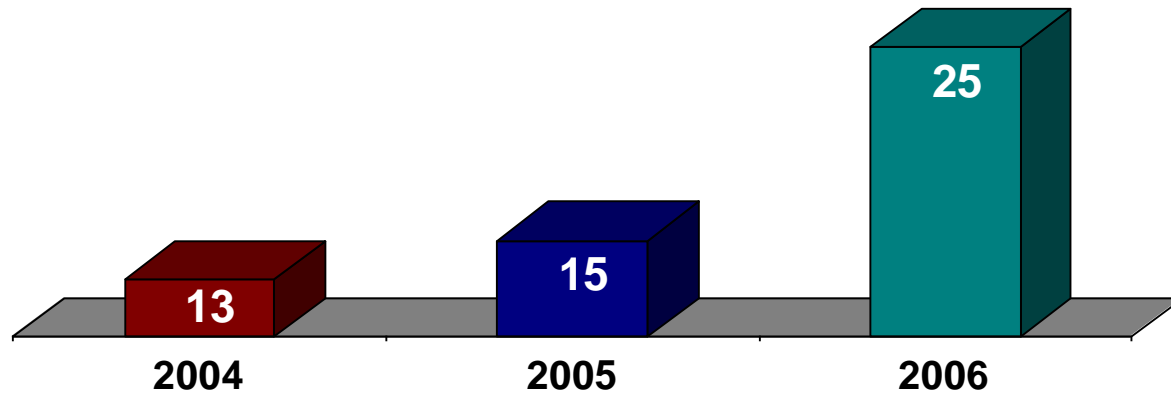
Basic earnings per share	246.8c	
- basic adjusted *	182.8c	↑ 25% **
Positive income / cost gap		4%
Cost / income ratio		↓ 1.7%
Impaired loans		0.9%
Dividend		↑ 10%
Return on equity		29%
Tier 1 capital ratio		8.2%***

\* Basic earnings per share less profit on disposal/development of properties, businesses and interest rate hedge volatility

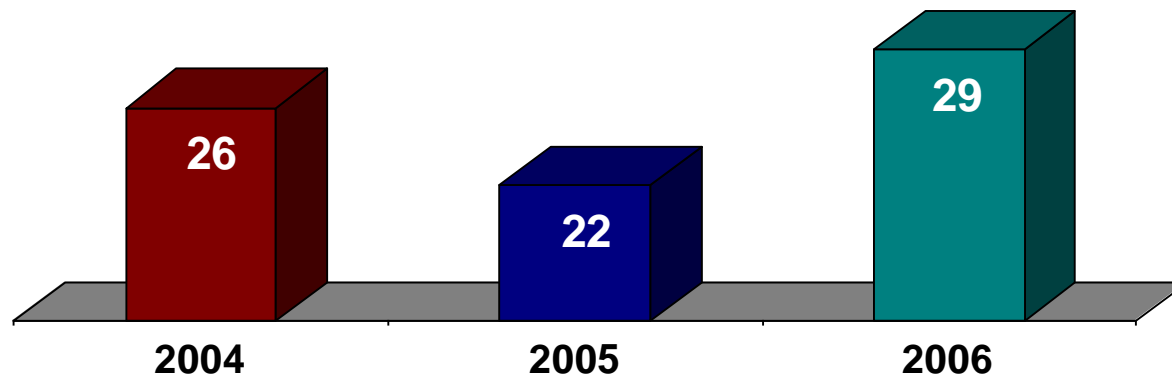
\*\* Relative to 2005 base figure of 145.9c

\*\*\* 7.9% if final dividend is excluded

## EPS Growth *(basic adjusted)*

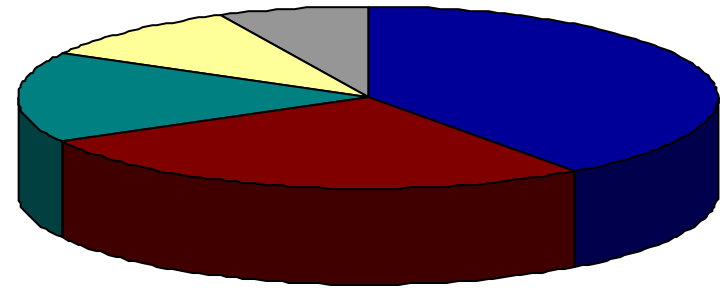


## Total Shareholder Return



■ AIB Bank Rol	€942m	↑	23%
■ Capital Markets	€508m	↑	29%
■ AIB Bank UK	€378m	↑	18%
■ Poland	€201m	↑	52%
■ M&T*	€141m	↓	4%

**Operating profit by division**



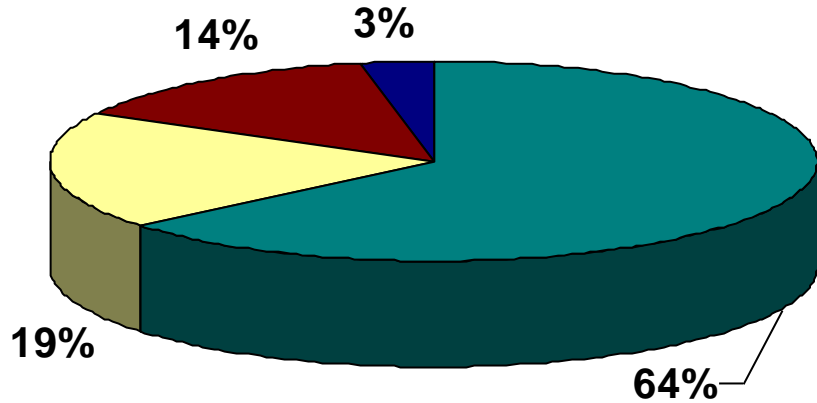
■ AIB Bank Rol	43%
■ Capital Markets	23%
■ AIB Bank UK	18%
■ Poland	9%
■ M&T	7%

\* after tax contribution

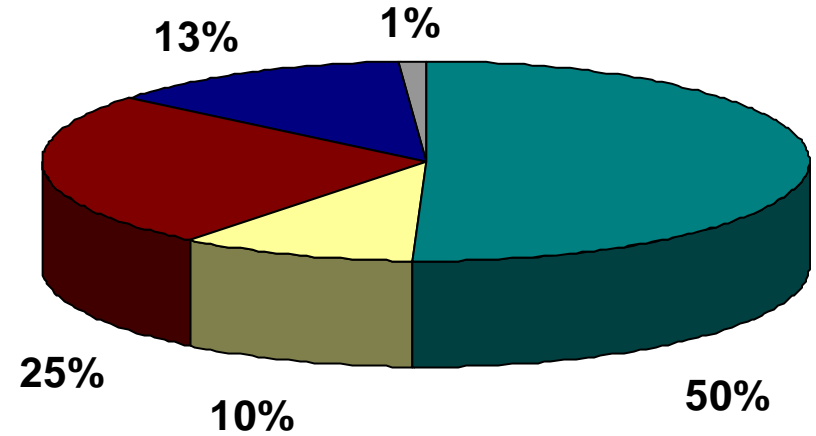


## Pre-tax profit by geography

December 2003



December 2006\*



- ROI
- USA
- UK
- Poland
- RoW

\* Continuing operations less profit on disposal / development of properties & businesses and interest rate hedge volatility

Income / cost gap + 4%

Income  $\uparrow$  19%

- Making competitive gains from a prime position

● Deposits	$\uparrow$ 20%	- gaining market share
● Business lending	$\uparrow$ 38%	- gaining market share
● Personal lending	$\uparrow$ 27%	- gaining market share
● Mortgage lending	$\uparrow$ 26%	- maintaining market share

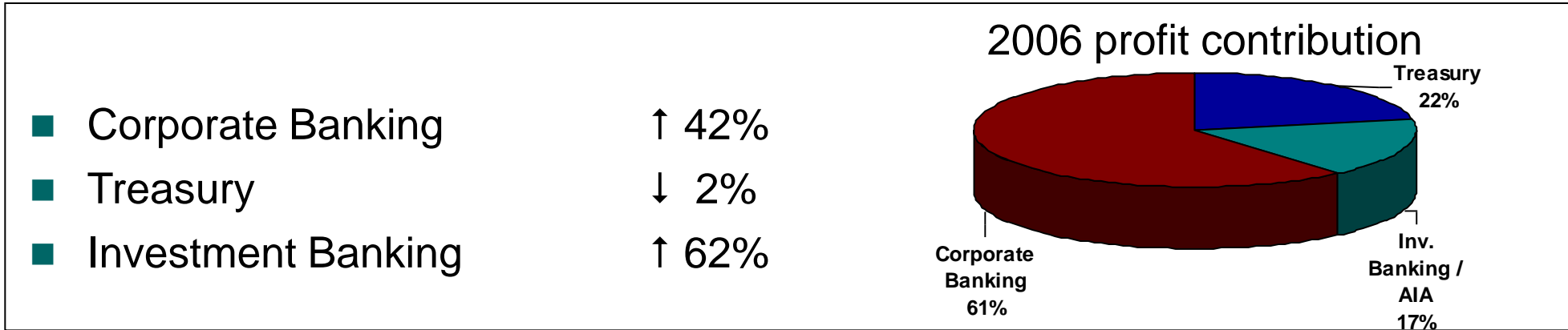
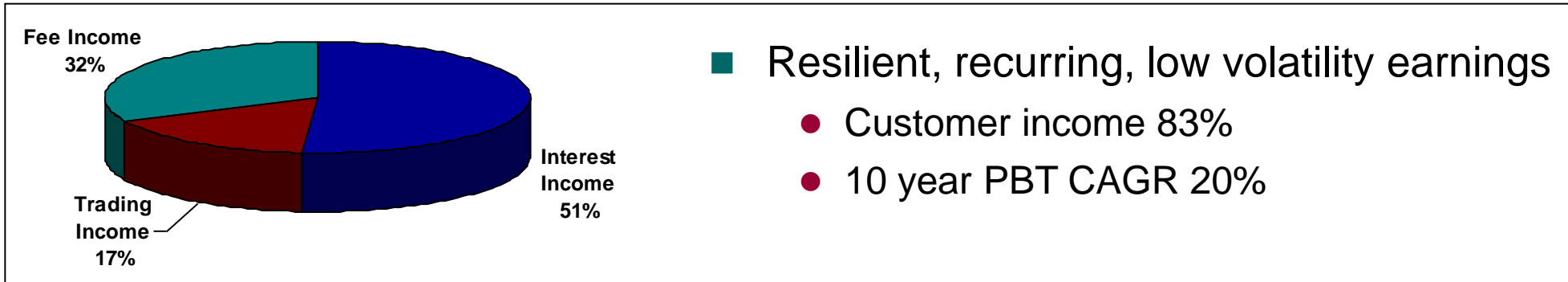
- Setting the improved customer proposition agenda

- Attacking an underweight position in the retail market
- C. 100,000 more active customers in 2006
- More regular savers today than at 1<sup>st</sup> SSIA maturity

- Strong progress in wealth management

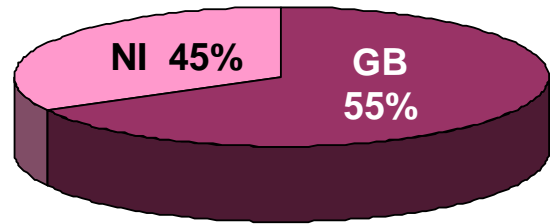
- Costs  $\uparrow$  15%; includes significant element of one-off / non-recurring items

- Income / cost gap + 3%



- Rigorous pricing and return discipline
- Proven skills transfer capability
  - c. 76% of Corporate Banking profit earned internationally
- Outstanding credit risk management; early and conservative recognition of impaired loans and provision requirements

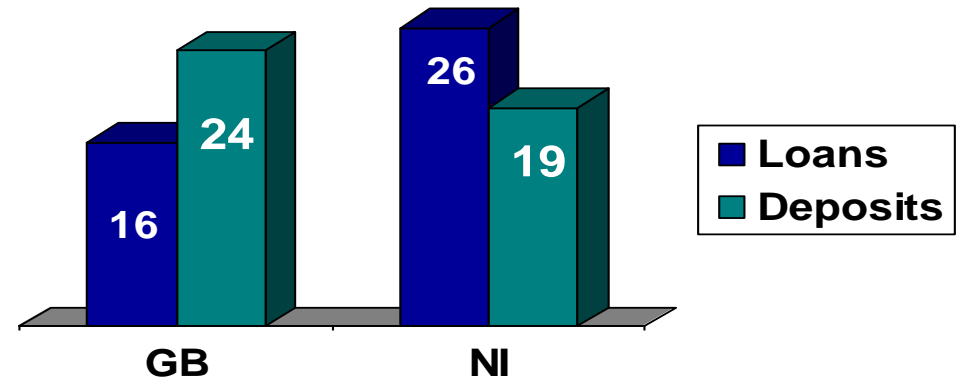
- Income / cost gap + 6%



### 2006 profit contribution

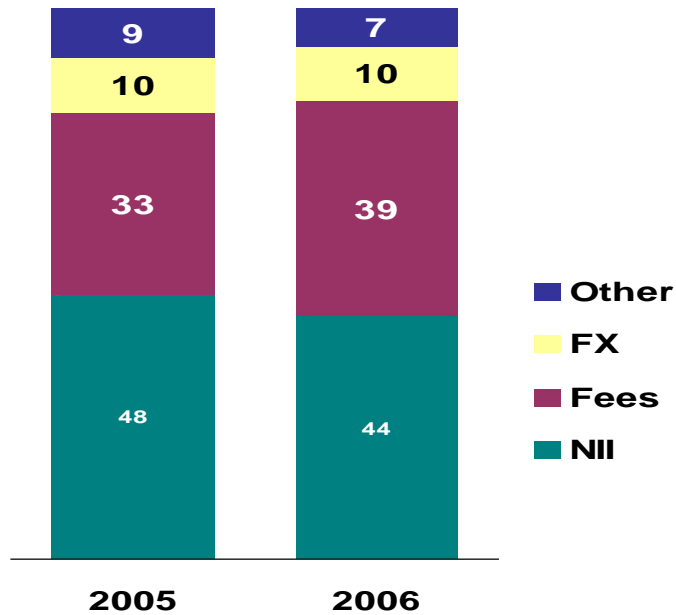
- Great Britain ↑ 23%
- Northern Ireland ↑ 11%

- Franchise quality reflected by broad volume growth



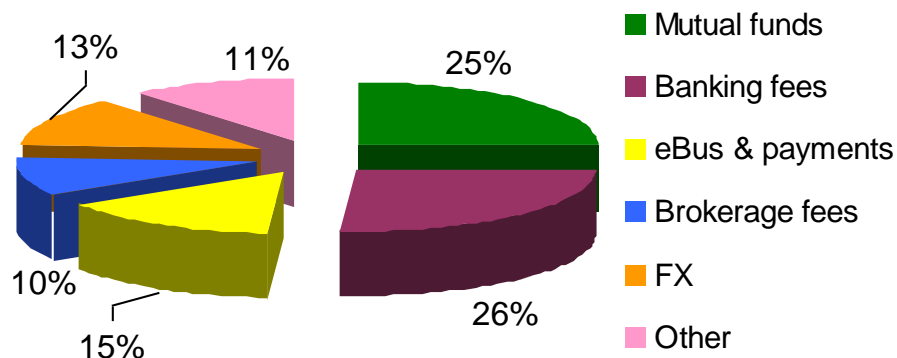
- Investing in people, locations and delivery channels
- Diversifying and developing income streams
- Established “bank of choice” in chosen mid market sectors driving income & avoiding adverse selection

### Total income % mix



- Income / cost gap + 10%
- Strong business volume increases in a high growth economy
  - Business lending ↑ 25%
  - Retail cash lending ↑ 54%
  - Mortgages ↑ 26%
  - Business deposits ↑ 26%
  - Personal deposits ↑ 8%
- Expanding and deepening our footprint; adding branches, business centres, channels

### Broad based fee income



- Investment funds ↑ 123%
  - No. 2 market position
  - c. 250,000 customers
- Brokerage services ↑ 84%
  - No. 1 market position



Reconfiguring, redeploying,  
simplifying, standardising .....

## Objectives

- Rapid speed to market
- Volume growth cost indifference
- Support business volume growth
- Business acquisition capability



## Update on work in progress

- 40+ change programmes impacting every AIB business unit including new banking platforms, branch activity displacement, new data centres
- 4,000 people deployed
- 2006-2009 €400m investment; 40% now spent

- Significant gains in unit cost of production / procurement
  - Ramp up in use of channels & technology

- EPS ↑ 10%; 13<sup>th</sup> consecutive year of double digit growth
- Contribution to AIB reduced by one off reclassification of provisions
- Tight cost management in a lower income growth environment
- Q4 cost / income ratio ↓ 50.2%
- Solid asset quality; NPLs 0.52%; allowance for credit losses 1.51% of total loans
- AIB shareholding 24.2%

- Significant progress made on our 3 key priorities

Existing Markets - maximising organic growth opportunities

Selected international markets / niches – transferring skills profitably

Single enterprise support framework – achieving efficiency and productivity gains





**John O'Donnell**  
Group Finance Director

2005	€m	2006	ccy change %
3,647	Total operating income	4,326	18
2,011	Total operating expenses	2,314	14
1,636	Group operating profit before provisions	2,012	22
143	Total provisions	104	-19
1,493	Group operating profit	1,908	26
1,706	Group profit before tax	2,615	52
151.0c	EPS – basic *	246.8c	63
145.9c	EPS – basic adjusted *	182.8c	25

■ Effective tax rate 16.6%

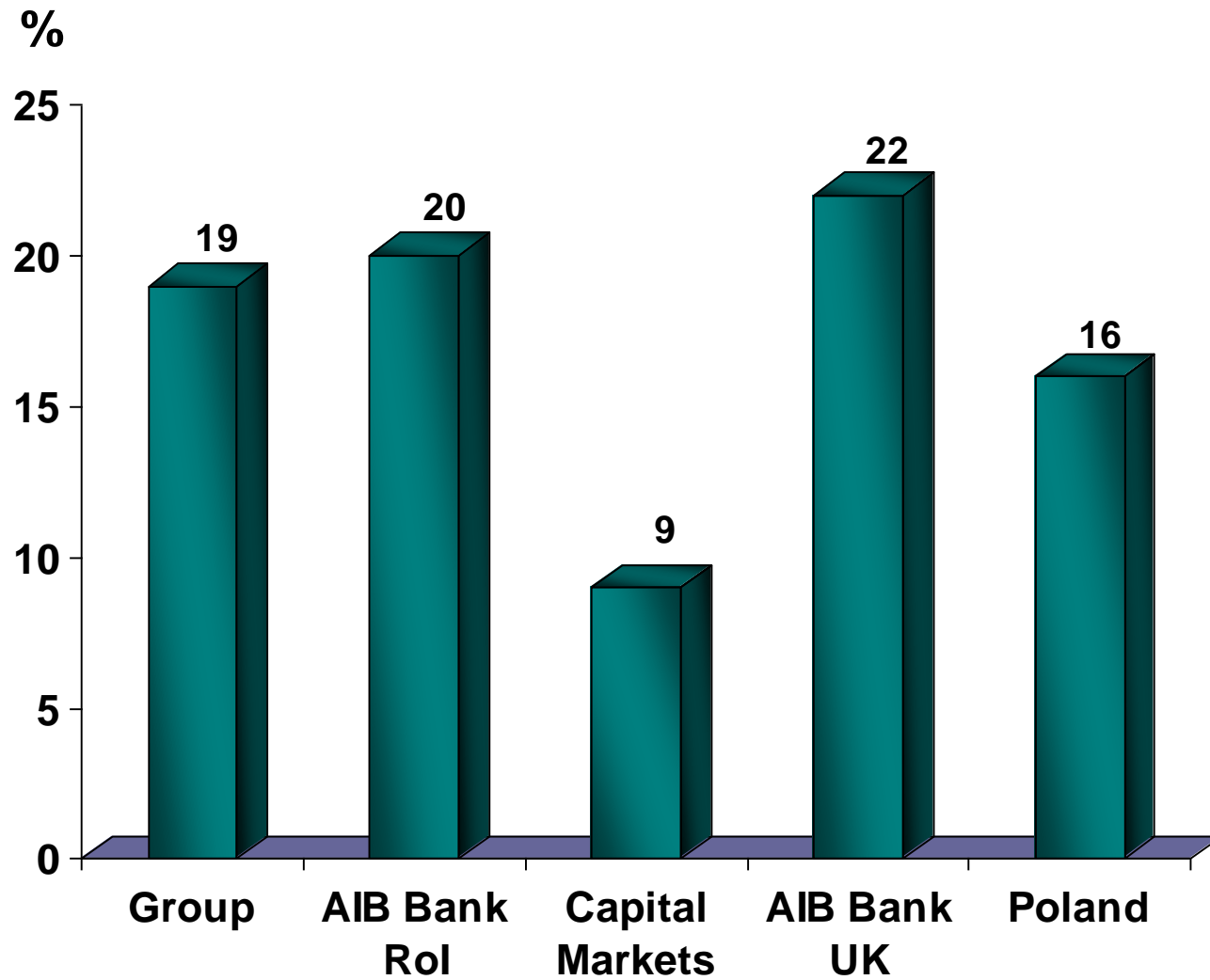
*\*not constant currency*

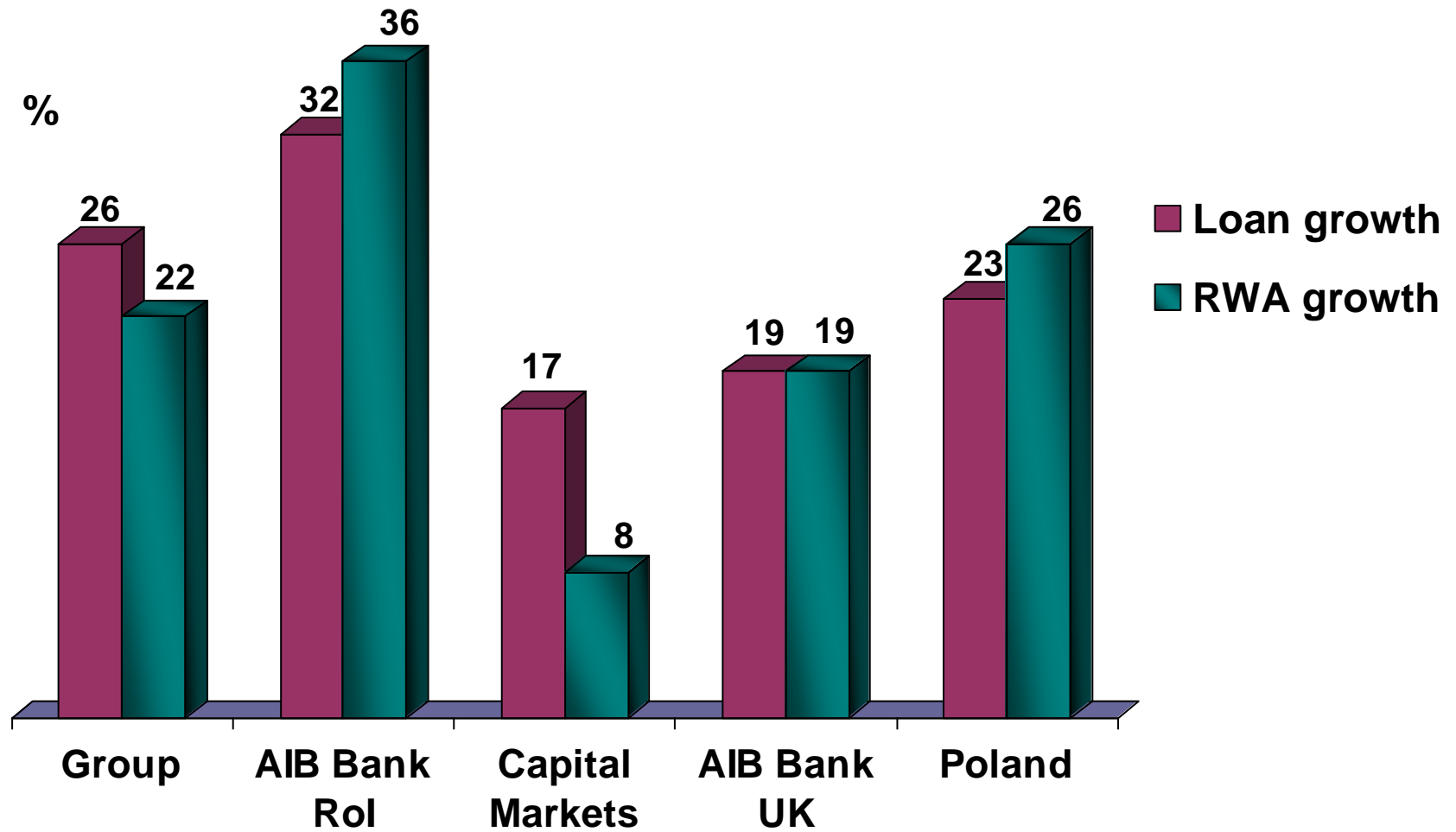
% vs Dec 2005

Basic earnings per share	246.8c	63
Profit on disposal/development of property	(42.8c)	
Profit on disposal of business	(21.7c)	
IFRS interest rate hedge volatility	<u>0.5c</u>	
Adjusted basic EPS	182.8c	25

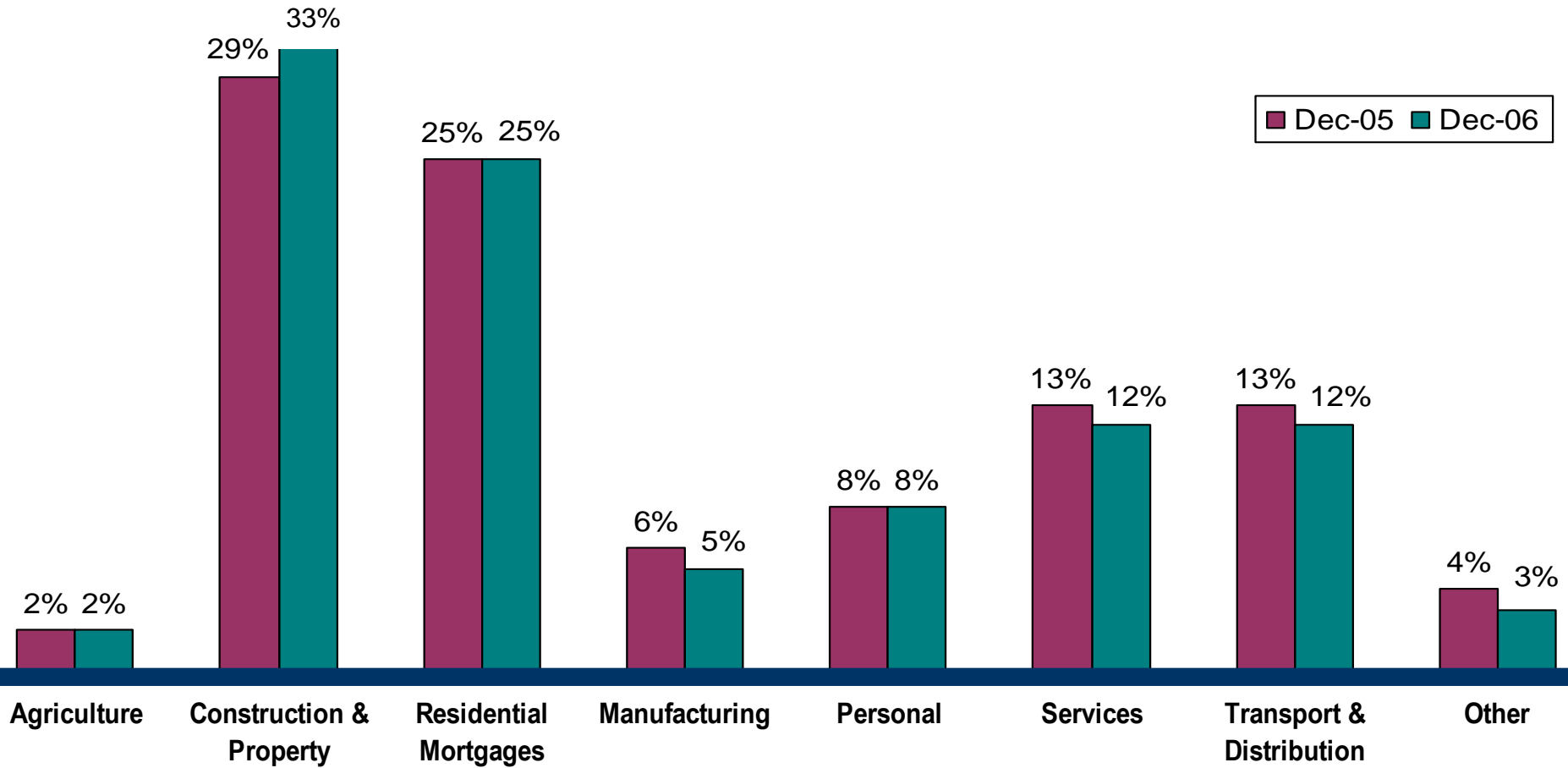
- 4% reduction in contribution reflects technical accounting treatment of provisions

	2005 \$m	2006 \$m	change %
Reported contribution to AIB	185	177	-4
Excluding reclassification of allocated / unallocated provisions	(6)	19	
“Like for like” contribution	<u>179</u>	<u>196</u>	10











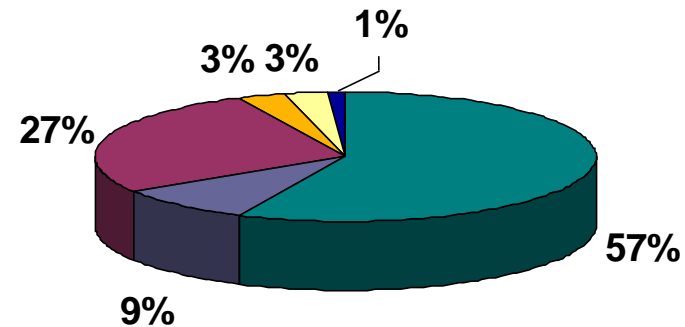
% of Group loan portfolio



# Property & construction – high quality portfolios

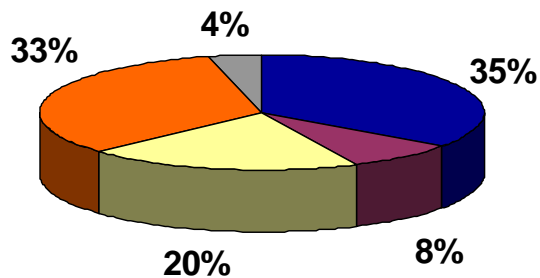
- Impaired loans 0.4%; total AIB impaired loans 0.9%
- Loan portfolios diversified by geography






 Republic of Ireland	 USA
 Northern Ireland	 Poland
 Great Britain	 Other



..... and further diversified by a wide range of sub sectors & borrowers

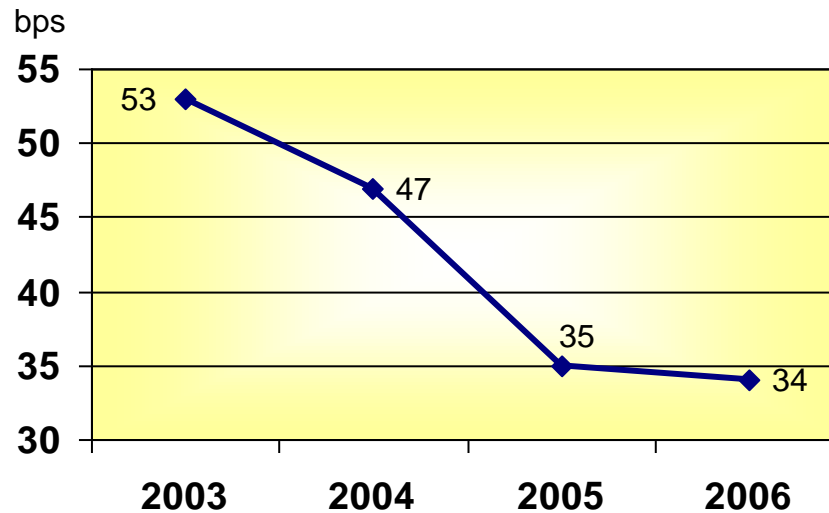
AIB Bank RoI Division portfolios



-  **Commercial investment:** spread by sector, tenant & covenant, retail 27%, office 32%, industrial 8%, mixed 34%
-  **Residential investment:** wide tenant spread, highly granular / small bite sizes, conservative approach to location, occupancy, repayment capacity and LTV
-  **Commercial development:** emphasis on pre-sales / pre-lets / recourse to independent cash flows, typical LTV 70-75% for proven developers in favourable locations, low exposure to speculative development
-  **Residential development:** finance usually phased / linked to pre-sales / recourse to independent cash flows for proven developers, typical LTV 70 – 80%, focus on loan reduction in 1 -2 year timeframe
-  **Contracting:** working capital for established players



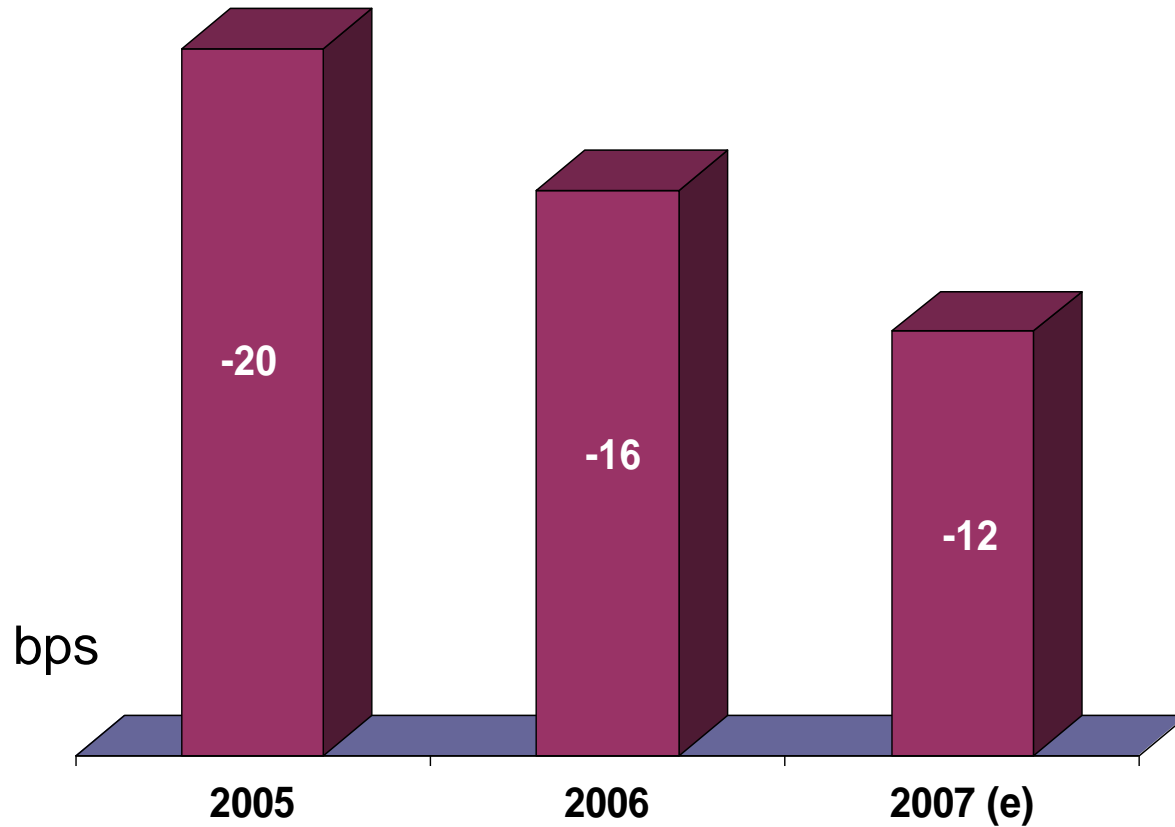
- Very solid, resilient portfolio
  - Arrears profile continues to decline



- Primary emphasis remains on repayment capacity
- Conservative LTVs remain a feature
- Aggressive posture on quality business

2006	2005	change
2.26%	2.38%	-12 bps

- Business factors affecting net interest margin; est. -16 bps
- Lower growth in treasury assets; est. + 4 bps  
-12 bps
- Business factors include
  - Loans growing faster than deposits; single biggest though reducing factor
  - Re-investment of customer account funds; reducing factor
  - Business mix & competition; unchanged factor
- Product margin features in 2006
  - Irish deposit margins increasing, mortgage margins continue to fall
  - Broadly stable margins across other domestic and foreign products in H2  
- following earlier moderate decreases



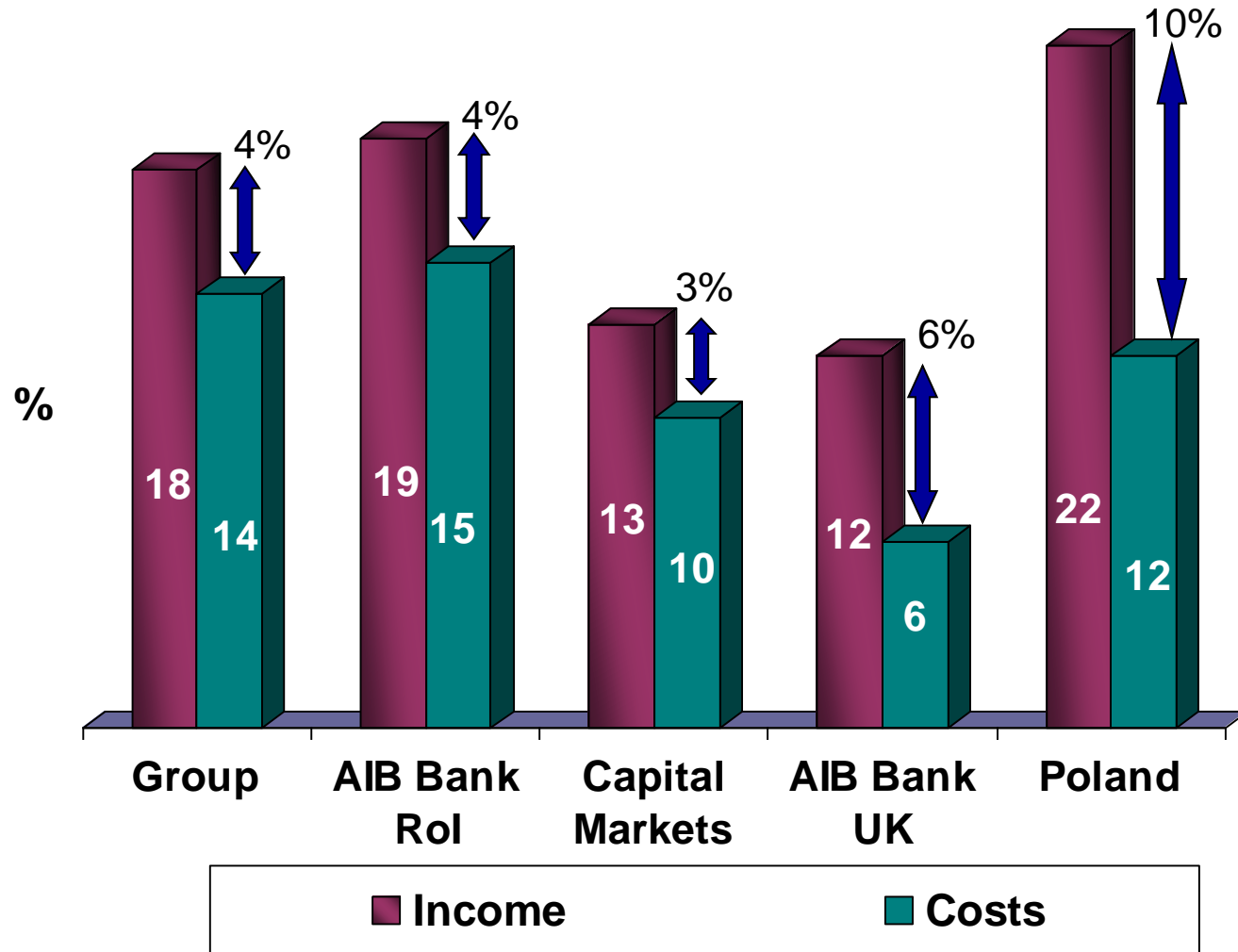
- 2007 business factor guidance: c. 12 bps (*vs 16 bps in 2006, excludes effect of treasury assets*)

# Costs – investing for growth & resilience

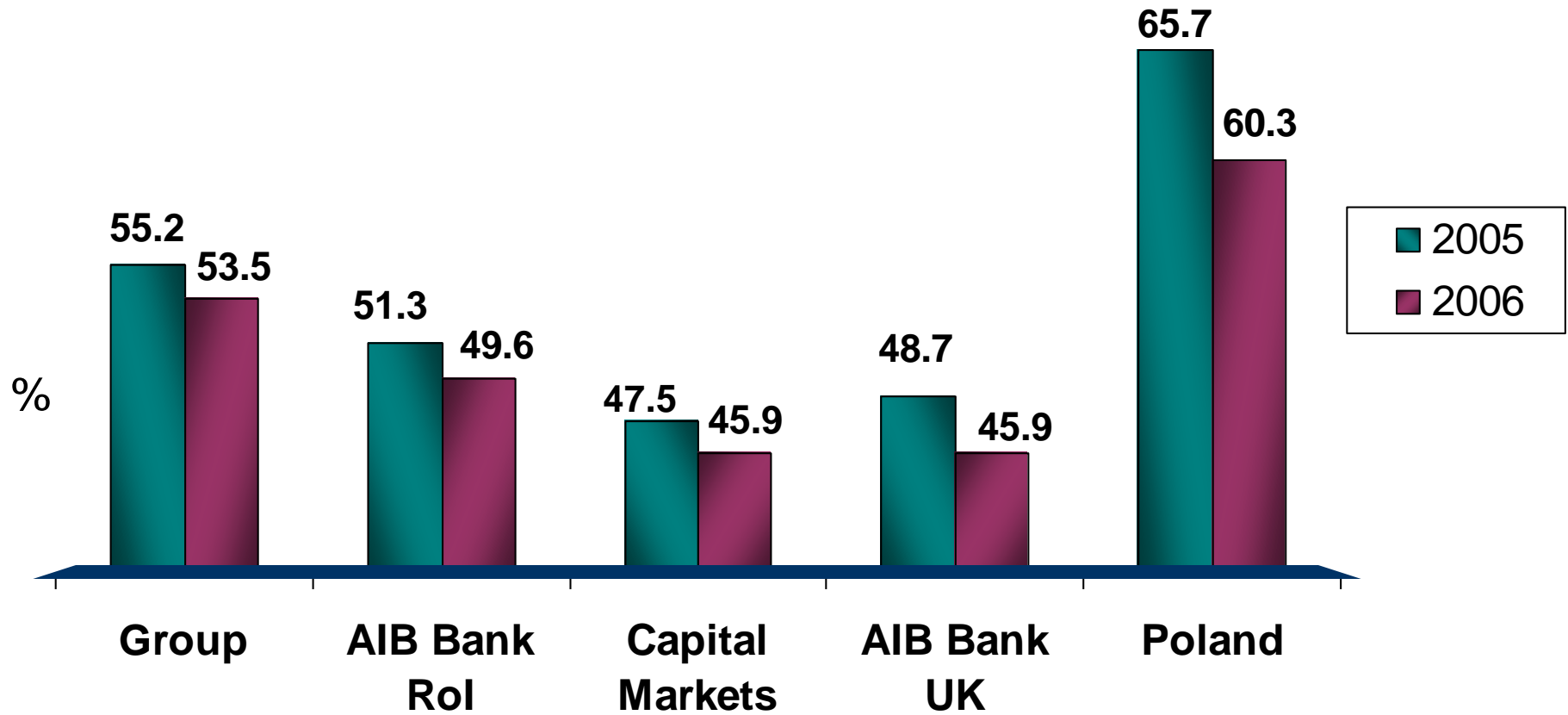
2005	€m	2006	Underlying * change %
1,298	Staff costs	1,502	15
583	Other costs	672	14
<u>130</u>	Depreciation & amortisation	<u>140</u>	6
<u><u>2,011</u></u>	Operating expenses	<u><u>2,314</u></u>	14

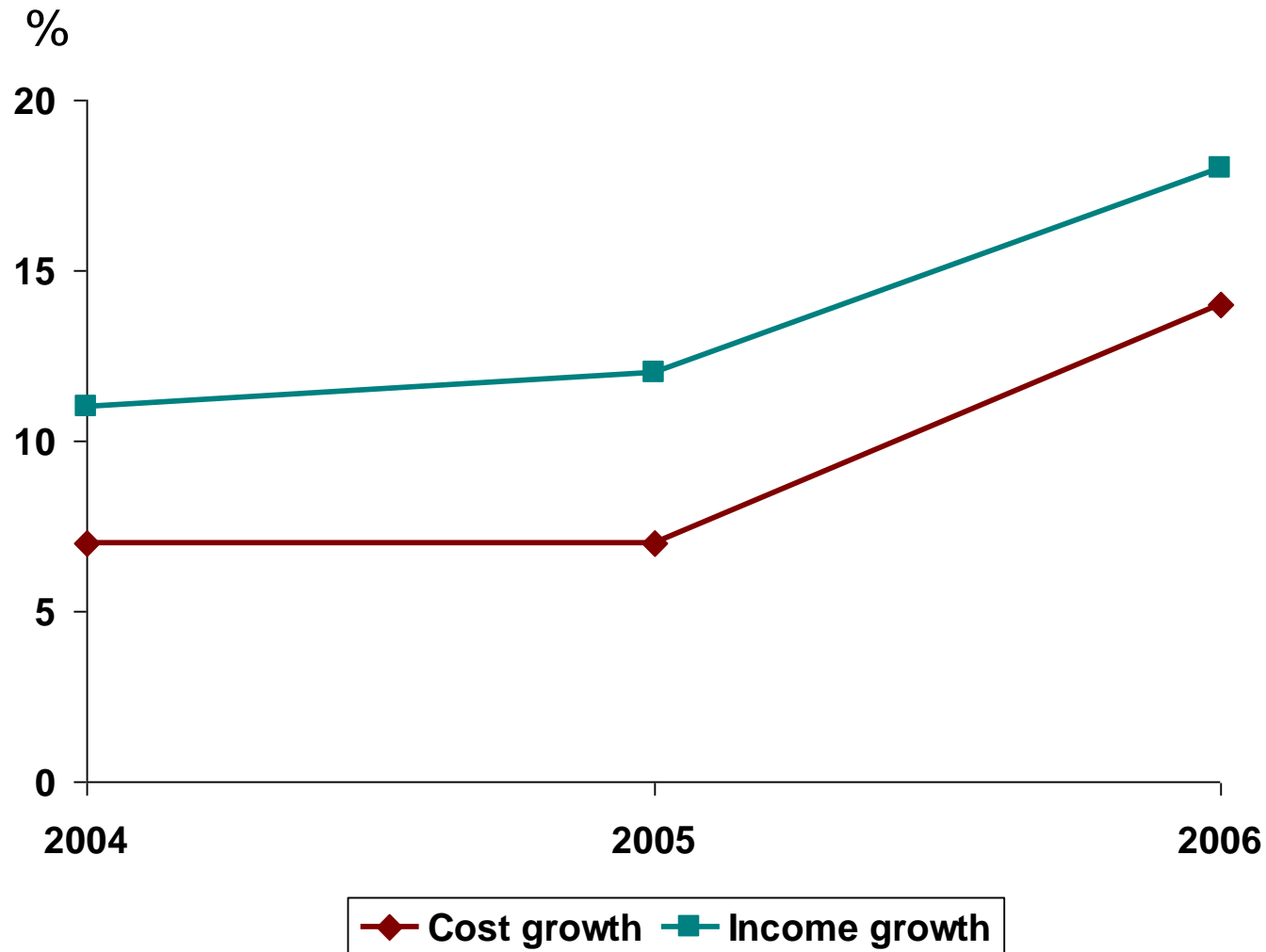
Guidance	2006	2007(e)	
Run rate in current <b>high growth</b> environment	+9%	+9%	• includes <b>variable</b> pay elements & enterprise investment programme
“Additional” performance remuneration	+3%		• very strong income growth in ‘06
Regulatory spend	+2%		• includes Basel II, SOX
	<u>+14%</u>	<u>+9%</u>	

\* excludes impact of currency movements



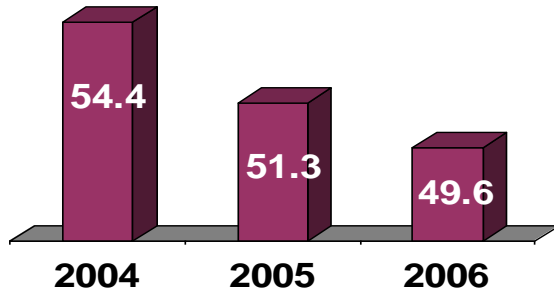
# Cost / income ratio ↓ in all divisions



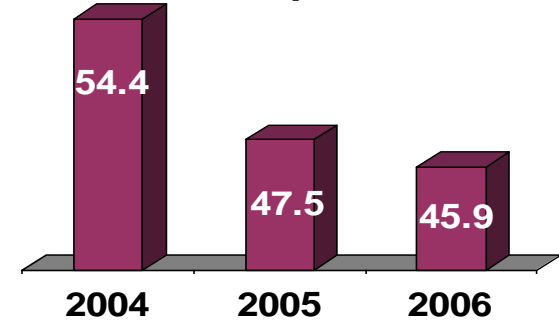


# Cost / income ratio – continuing gains across the enterprise

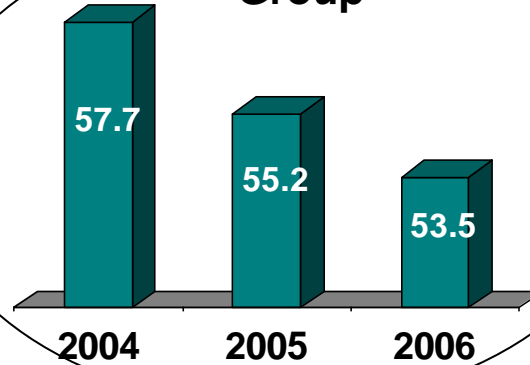
### AIB Bank Republic of Ireland



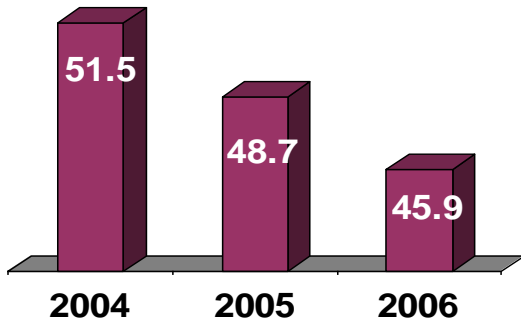
### AIB Capital Markets



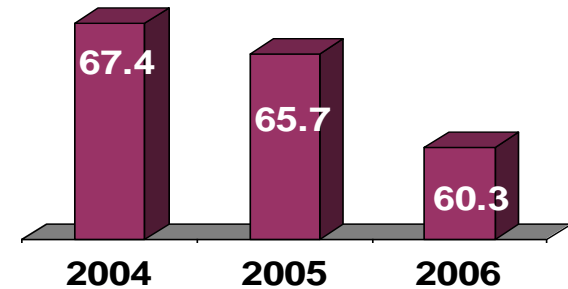
### Group



### AIB Bank UK



### AIB Poland



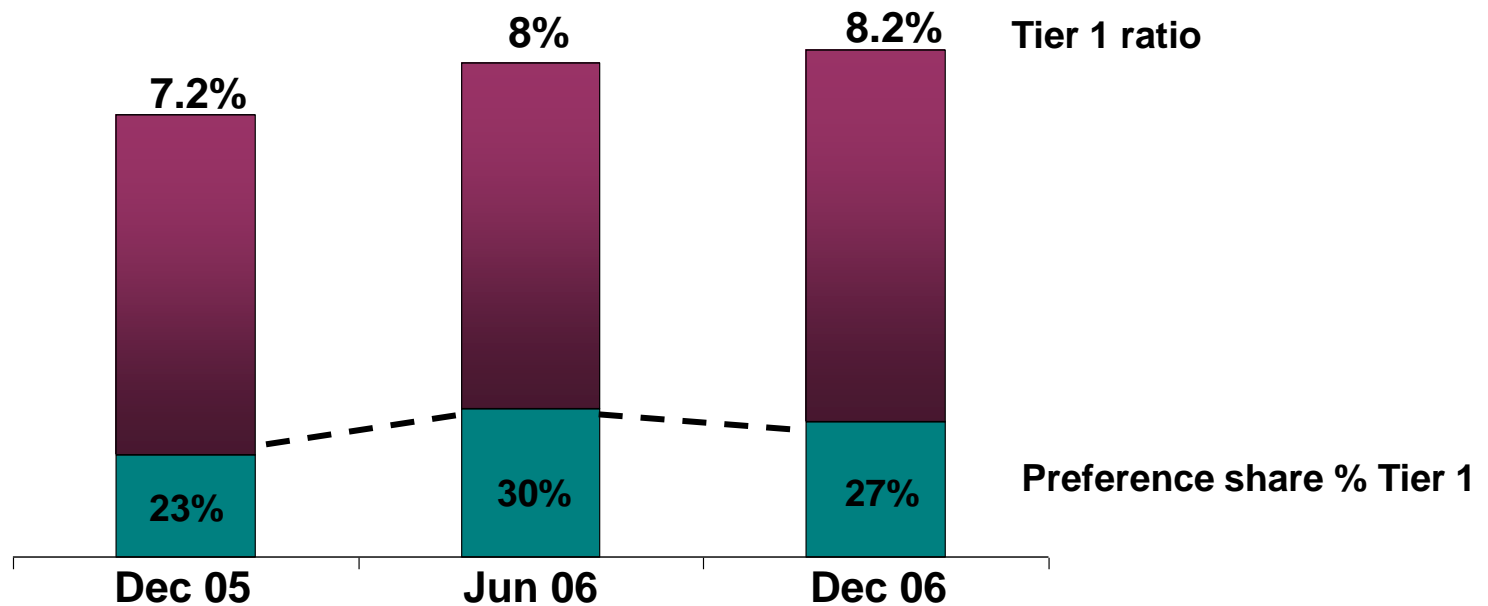


2005		2006	
1.0	Impaired loans (ILs)	%	0.9
5.2	Criticised loans / total loans	%	4.9
0.4	Gross new ILs	%	0.4
78	Total provisions / ILs	%	76
15	Bad debt charge	bps	12

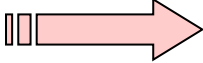
As at December 31, 2005				As at December 31, 2006		
ILs €m	ILs/ Actual Advances %	Total Provisions/ ILs %		ILs €m	ILs/ Actual Advances %	Total Provisions/ ILs %
308	0.7	84	AIB Bank ROI	366	0.6	81
132	0.7	78	Capital Markets	130	0.6	74
166	0.9	75	AIB Bank UK	205	0.9	71
262	6.8	72	Poland	232	4.9	73
<u>868</u>	1.0	78	Total	<u>933</u>	0.9	76

2005	Average Loans %	€m		2006	Average Loans %
45	0.11	AIB Bank ROI		78	0.15
35	0.22	Capital Markets		5	0.02
20	0.13	AIB Bank UK		26	0.13
15	0.40	Poland		9	0.23
<u>115</u>	0.15	Total		<u>118</u>	0.12

- 2007 full year guidance c. 15 bps

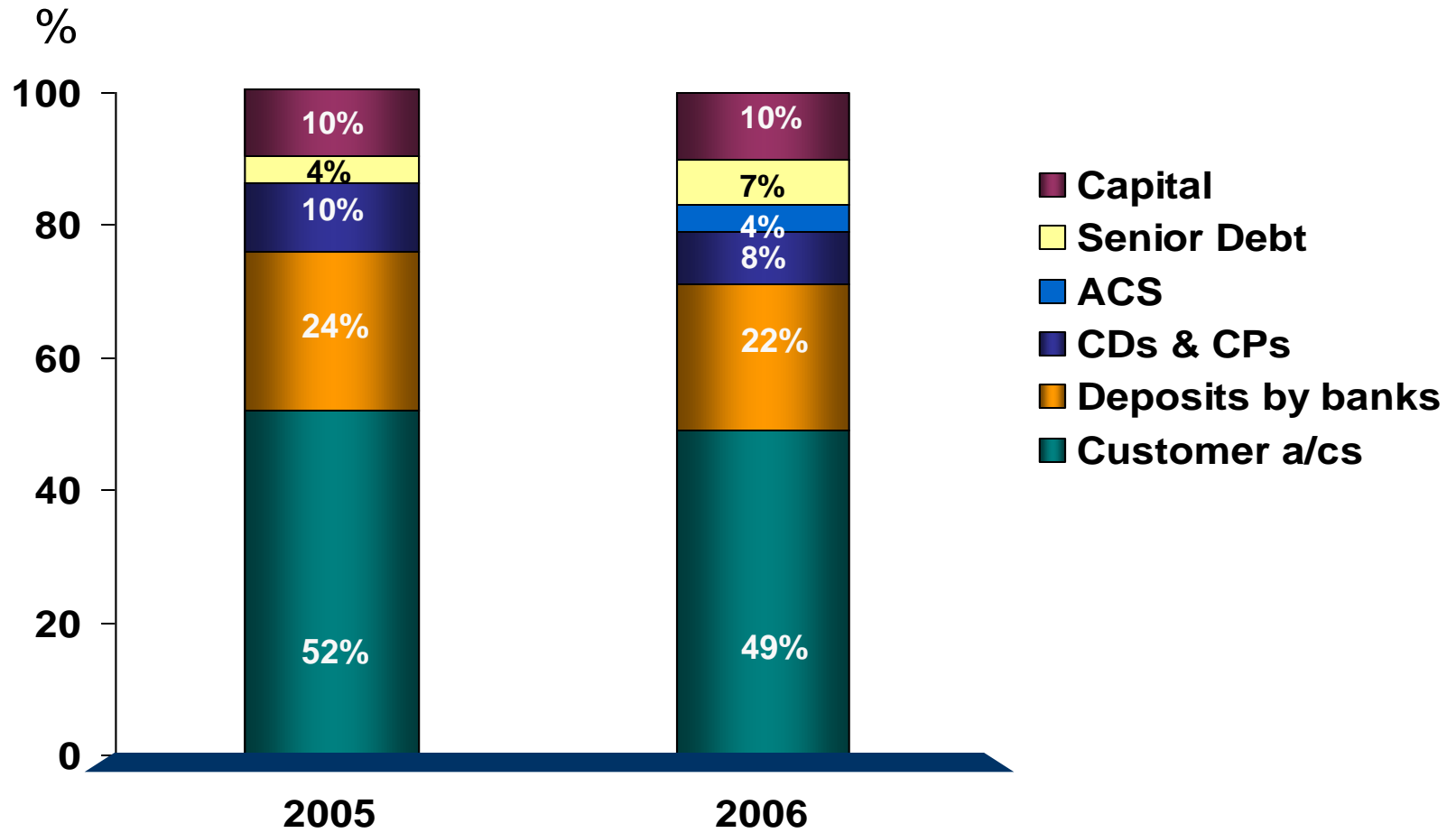


- Total capital ratio 11.1%
- Tier 1 8.2% (target minimum c. 7%)
- Core tier 1 6.0% (preference shares 27%, target range 20 – 30%)

- 16% capital generation rate 
- “Excess” RWA growth will continue to be supported by management actions
  - Asset sales & leasebacks
  - Further options e.g. securitisations
- Return on capital must exceed alternative uses
- Recourse to shareholders not on agenda
- Targeting FIRB approach to Basel II
  - Work in progress, engaging with regulator
  - Maintaining our stance of expecting no overall capital release

## Assumptions

ROE	20%
40% Div payout	<u>(8%)</u>
	12%
25% Leverage	<u>4%</u>
	16%



- Strong, well spread, high quality growth in 2006
- Key dynamics expected to recur in 2007
  - Operating in outperforming, resilient economies and sectors
  - Buoyant customer demand driving income
  - Investing to sustain growth
  - Improving productivity; income / cost growth  $\geq + 3\%$
  - Solid asset quality
- Targeting low double digit EPS\* growth in 2007 (off 2006 base of 182.8c)

\* *adjusted basic*







# Appendices

2005	€m	2006	Change %
1,314	Net interest income	1,581	20
<u>376</u>	Other income	<u>434</u>	15
1,690	Total operating income	2,015	19
<u>867</u>	Total operating expenses	<u>1,000</u>	15
823	Operating profit before provisions	1,015	23
<u>55</u>	Total Provisions	<u>73</u>	33
768	Operating profit	942	23
12	Profit on disposal of property	6	-47
<u>(1)</u>	Associated Undertakings	<u>18</u>	-
<u><u>779</u></u>	Profit before taxation	<u><u>966</u></u>	24




2005	€m	2006	Change %
435	Net interest income	490	13
<u>407</u>	Other income	<u>464</u>	14
842	Total operating income	954	13
<u>400</u>	Total operating expenses	<u>438</u>	10
442	Operating profit before provisions	516	17
<u>46</u>	Total Provisions	<u>8</u>	-84
396	Operating profit	508	29
2	Associated Undertakings	2	-
<u>5</u>	Profit on disposal of business	<u>79</u>	-
<u><u>403</u></u>	Profit before taxation	<u><u>589</u></u>	46

2005	€m	2006	Change %
516	Net interest income	593	14
<u>148</u>	Other income	<u>154</u>	4
664	Total operating income	747	12
<u>323</u>	Total operating expenses	<u>343</u>	6
341	Operating profit before provisions	404	18
<u>21</u>	Total Provisions	<u>26</u>	26
320	Operating profit	378	18
<u>2</u>	Profit on disposal of property	<u>1</u>	-
<u><u>322</u></u>	Profit before tax	<u><u>379</u></u>	17

2005	€m	2006	Change %
205	Net interest income	236	11
<u>222</u>	Other income	<u>302</u>	32
427	Total operating income	538	22
<u>280</u>	Total operating expenses	<u>330</u>	12
147	Operating profit before provisions	208	41
<u>15</u>	Total Provisions	<u>7</u>	-53
132	Operating profit	201	52
<u>-</u>	Associated undertakings	<u>6</u>	-
<u><u>132</u></u>	Profit before tax	<u><u>207</u></u>	56

2005	€m	2006
60	Net interest income	99
<u>(36)</u>	Other income	<u>(27)</u>
24	Total operating income	72
141	Total operating expenses	203
<u>6</u>	Total Provisions	<u>(10)</u>
(123)	Operating loss	(121)
148	Share of results of associates – M&T	141
-	Profit on disposal of property	358
<u>45</u>	Construction contract income	<u>96</u>
<u><u>70</u></u>	Profit before tax	<u><u>474</u></u>

Our Group Investor Relations Department will be happy to facilitate your requests for any further information

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