

Interim Results 2006

# Interim Results

for the half-year ended 30 June 2006

Allied Irish Banks, p.l.c.



# Forward looking statements

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 half-year ended 30 June 2005 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

- Harvest organic growth opportunities in existing markets
- Transfer skills internationally to markets where we identify profitable sectors / niches
- Achieve efficiency and productivity gains driven by a single enterprise support framework

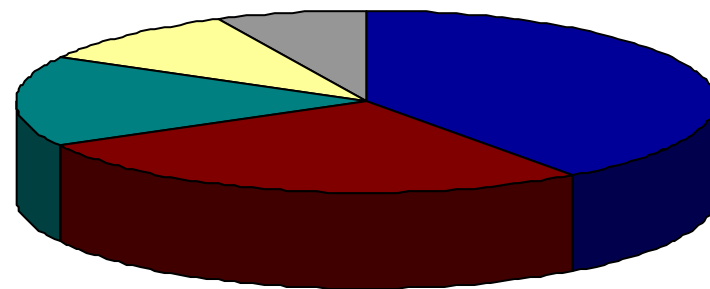
Basic earnings per share	121.2 c	
- basic adjusted *	93.7 c	↑ 29 %
Positive income / cost gap		6 %
Cost / income ratio		↓ 2.7 %
Impaired loans		0.8 %
Dividend		↑ 10 %
Return on equity		30.4 %
Tier 1 capital ratio		8.0 %

\* Excludes (i) interest rate hedge volatility (ii) profit on bankcentre transactions, and (iii) Ark Life

# Buoyant and diverse momentum

■ AIB Bank RoI	€453m	↑ 19%
■ Capital Markets	€300m	↑ 45%*
■ AIB Bank UK	€184m	↑ 18%
■ Poland	€114m	↑ 62%
■ M&T	€80m	↑ 11%

**Profit by division**



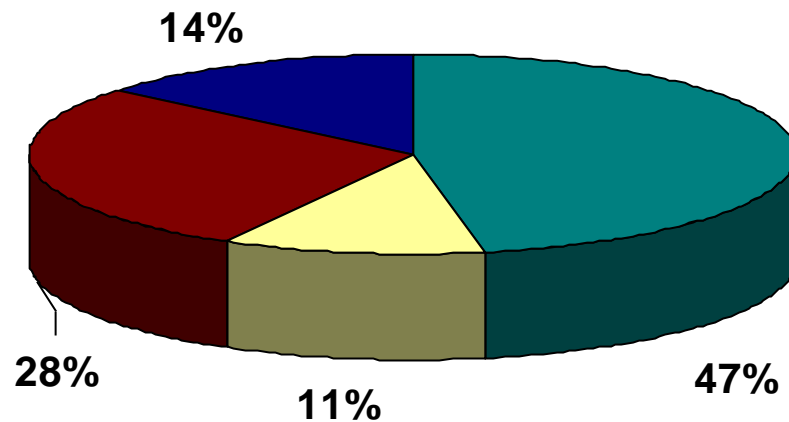
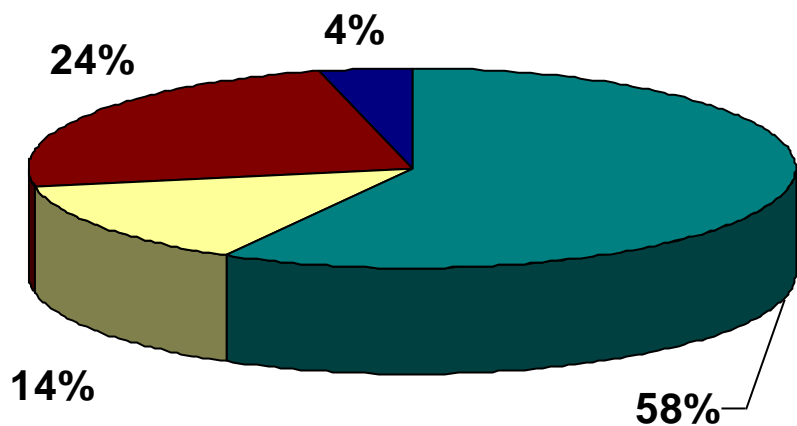
■ AIB Bank RoI	40%
■ Capital Markets	27%
■ AIB Bank UK	16%
■ Poland	10%
■ M&T	7%

\* ↑ 58% (€326m) including profit of certain investment contracts related to Ark Life sale

## Profit by geography

June 2003

June 2006 \*



\* Continuing operations, excl. profit on disposal of business & bankcentre transactions

# Positioned in attractive economies

GDP %	2006 (e)	2007 (f)
Ireland	5.5	5.8
UK	2.5	2.5
USA	3.4	2.7
Poland	5.1	5.0
Eurozone	2.3	1.8



- Health sustained by strong fundamentals
  - Growing population, positive age profile, full employment, increasing incomes & wealth, plentiful labour supply

Issues	Mitigants
<ul style="list-style-type: none"> <li>■ Increasing interest rates</li> <li>■ Increasing household debt levels</li> <li>■ Increasing house prices</li> </ul>	<ul style="list-style-type: none"> <li>■ high savings ratio (c.14%), SSIA maturities</li> <li>■ debt profile (mortgages predominant)</li> </ul>

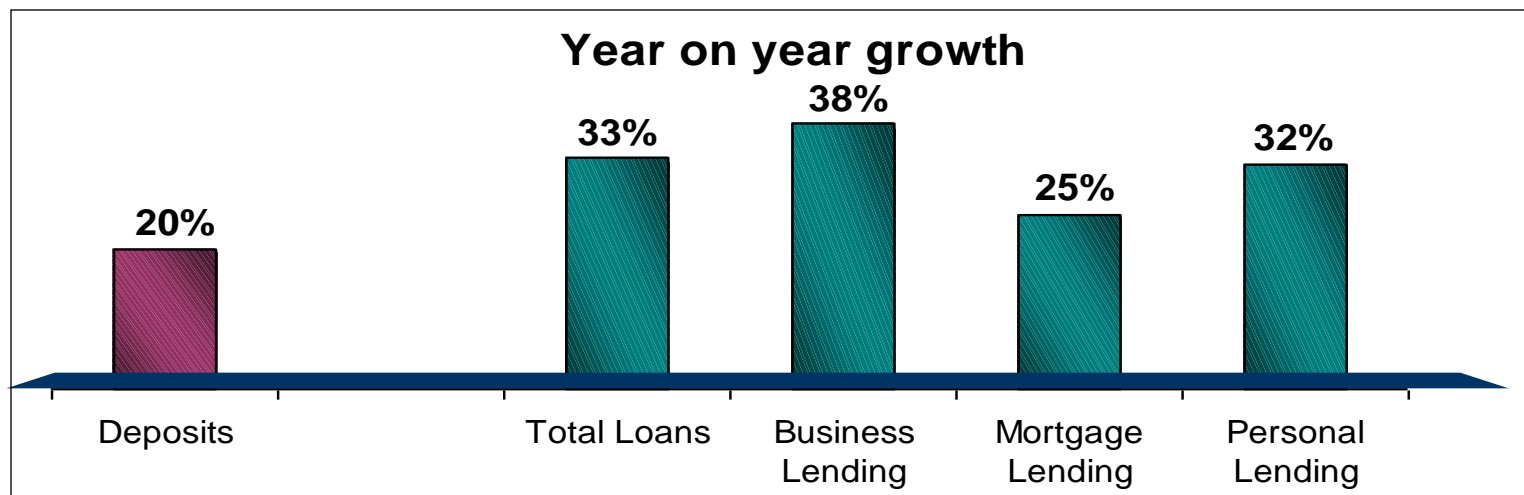


AIB mitigants
<ul style="list-style-type: none"> <li>■ Recognise and mindful of risks               <ul style="list-style-type: none"> <li>- prudent credit criteria (stress tests, LTVs and loan durations)</li> </ul> </li> </ul>



Positive outlook, gradual medium term slowdown

- Income / cost gap +4%
- Income ↑ 17%; buoyant customer demand

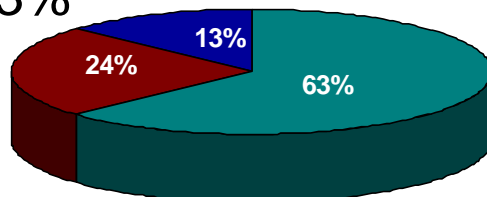


- Over 50,000 more active customers in the 6 months to June
- Prime competitive position; reinvigorated personal customer proposition
- Costs ↑ 13%; investing to sustain growth
- Building wealth management platform
  - 400 specialist advisers supporting 1,500 relationship managers

- Powerful mix of growth and resilience

- 10 year unbroken record of annual profit growth\*; CAGR 22%

- Income / cost gap + 13%



- Corporate Banking
- Treasury
- Investment Banking / Allied Irish America

- Corporate Banking ↑ 59%;

- Operating profit ↑ 24%
- Enhanced by exceptional bad debt experience
- Loans ↑ 21%; focus on optimising returns
- c. 80% profit earned in international franchises

- Global Treasury ↑ 36%

- Excellent momentum in customer businesses; well distributed across business lines and geographies
- Strong performance in challenging market conditions, low risk positions maintained

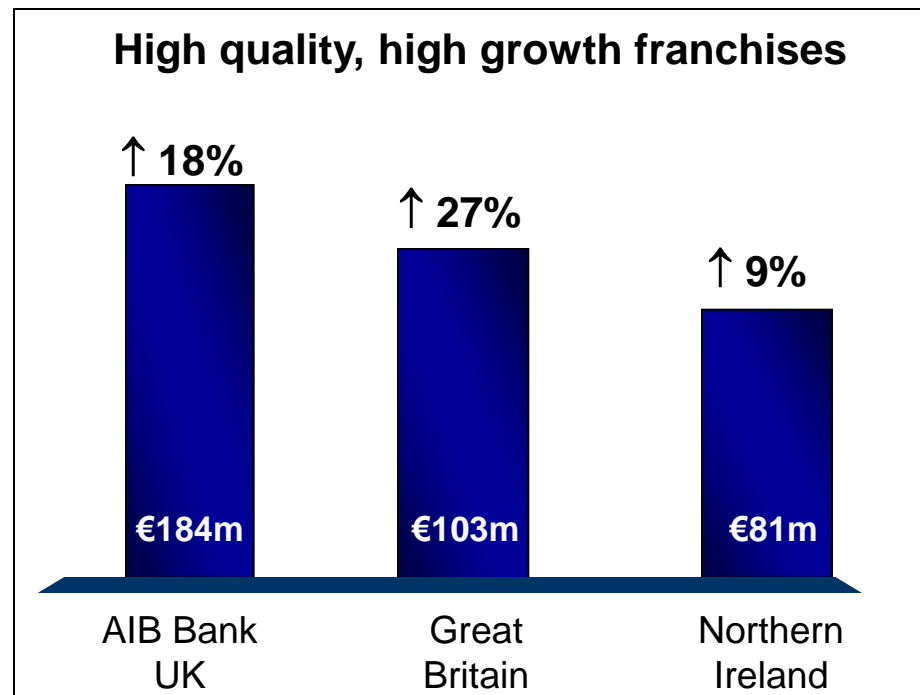
- Investment Banking ↑ 35%

- Well spread growth and good deal flow

- Income / cost gap + 5%

## Great Britain

- Deepening and extending our position in chosen markets
  - Loans ↑ 27%; deposits ↑ 21%
  - Full service provider; product range, systems & processes
  - 25% more locations in past 4 years
  - Business developers recruitment rate 10-15% per annum
  - Developing a complementary wealth management offering
- Foundations of high quality franchise carefully developed over 10 years
  - Consistently our no.1 market for investment to support growth



## Northern Ireland

- Solid performance in a challenging market
  - Loans ↑ 23%; deposits ↑ 15%
  - Strong focus on efficiency

- Income / cost gap + 17%
  - Relentless focus on productivity;  
cost/income ratio 56.2%, 3 years ago was 80%
- Customer demand gaining momentum
  - Loans ↑ 12%, deposits ↑ 7%
  - Well spread across sectors and products
- Outstanding growth in non-interest income, ↑ 34%
  - Top tier asset management franchise, AUM ↑ 230%
  - Customer activity levels driving fee income
- Best in class asset quality, impaired loans ↓ 6.3%

- Excellent performance in low growth environment
- Strong focus on efficiency, cost / income ratio ↓ 50.7%
- Solid asset quality, NPLs ↓ .38%
- AIB shareholding ↑ 23.9%

# Increasing international profile – supported by single enterprise approach

- C. 17% of all staff (4,000) and costs (€400m) now in Operations & Technology
- Business volume growth driving investment; launched €400m+ in capital spend to drive down unit cost
- Core business banking and payment system
  - 11 core systems moving to 1
  - Rollout early 2007, complete 2008
- Core retail banking system
  - Moving from multiple proprietary to 1 open system
  - Implementation 2007 - 2008
- Rollout of common UK and Irish branch banking front-end system to complete in November 2006
- Shared services centres operating to a single model
  - Delivering increased automation and STP%
  - Adopting Right First Time and ISO standards
- 2 new data centres
  - 1<sup>st</sup> complete Q4 2006, 2<sup>nd</sup> commences 2007



- Double digit growth in all principal franchises
- Cost / income ratio ↓ 2.7% and down in all divisions
- Investing in our people to underpin rates of retention & recruitment
- Operating profit ↑ 24%
- Strong asset quality, impaired loans ↓ to 0.8% and down / stable in all divisions
- Intense focus on single enterprise operations
- Robust capital and funding positions

Confident we will continue to achieve balanced and well managed growth





**John O'Donnell**

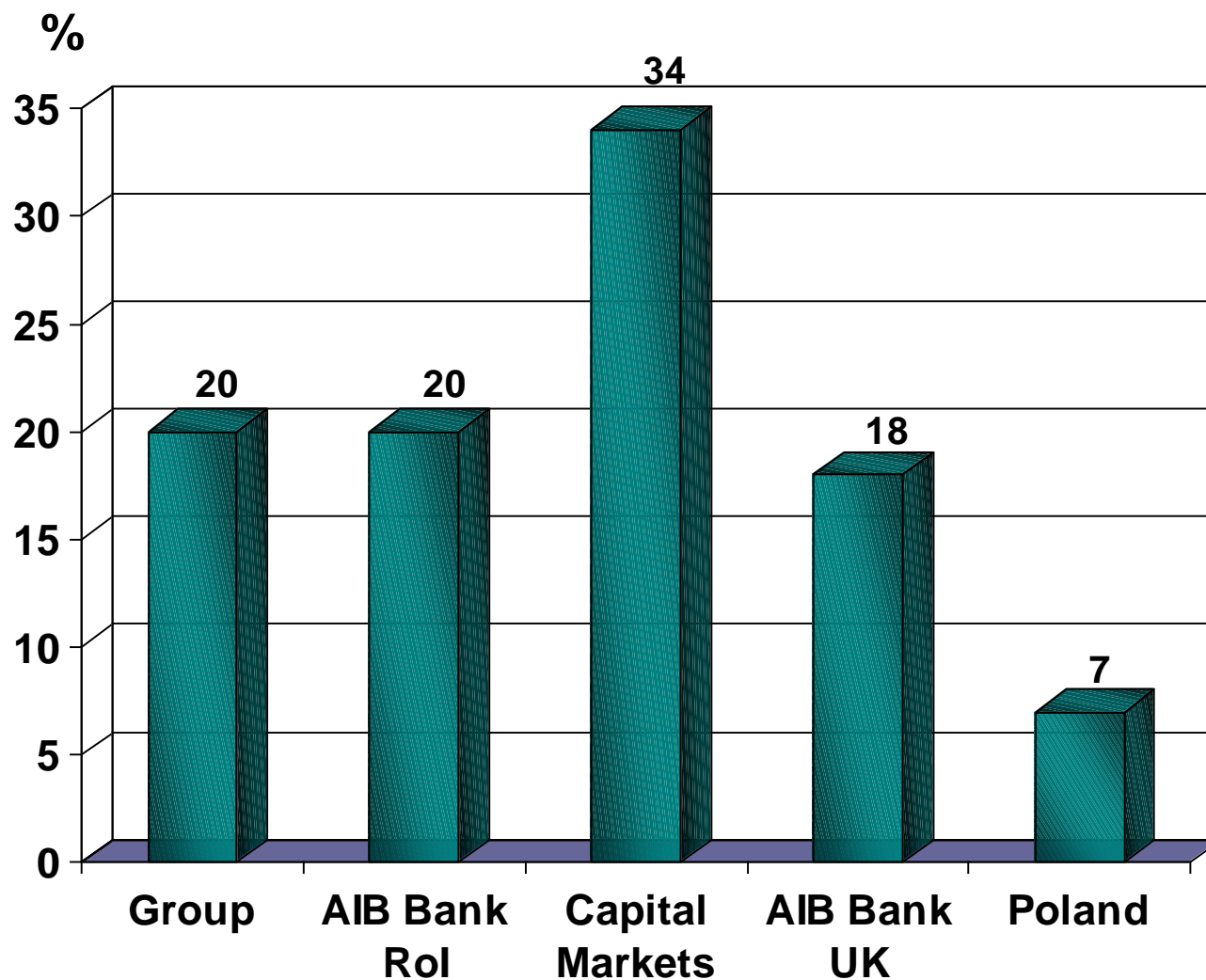
Group Finance Director

June 2005	€m	June 2006	ccy change %
1,764	Total operating income	2,078	17
972	Total operating expenses	1,088	11
792	Group operating profit before provisions	990	24
42	Total provisions	12	-69
750	Group operating profit	978	29
825	Group profit before tax	1,214	27
72.3c	EPS - total	121.2c	68
72.4c	EPS – basic adjusted	93.7c	29

- Effective tax rate 18.2%

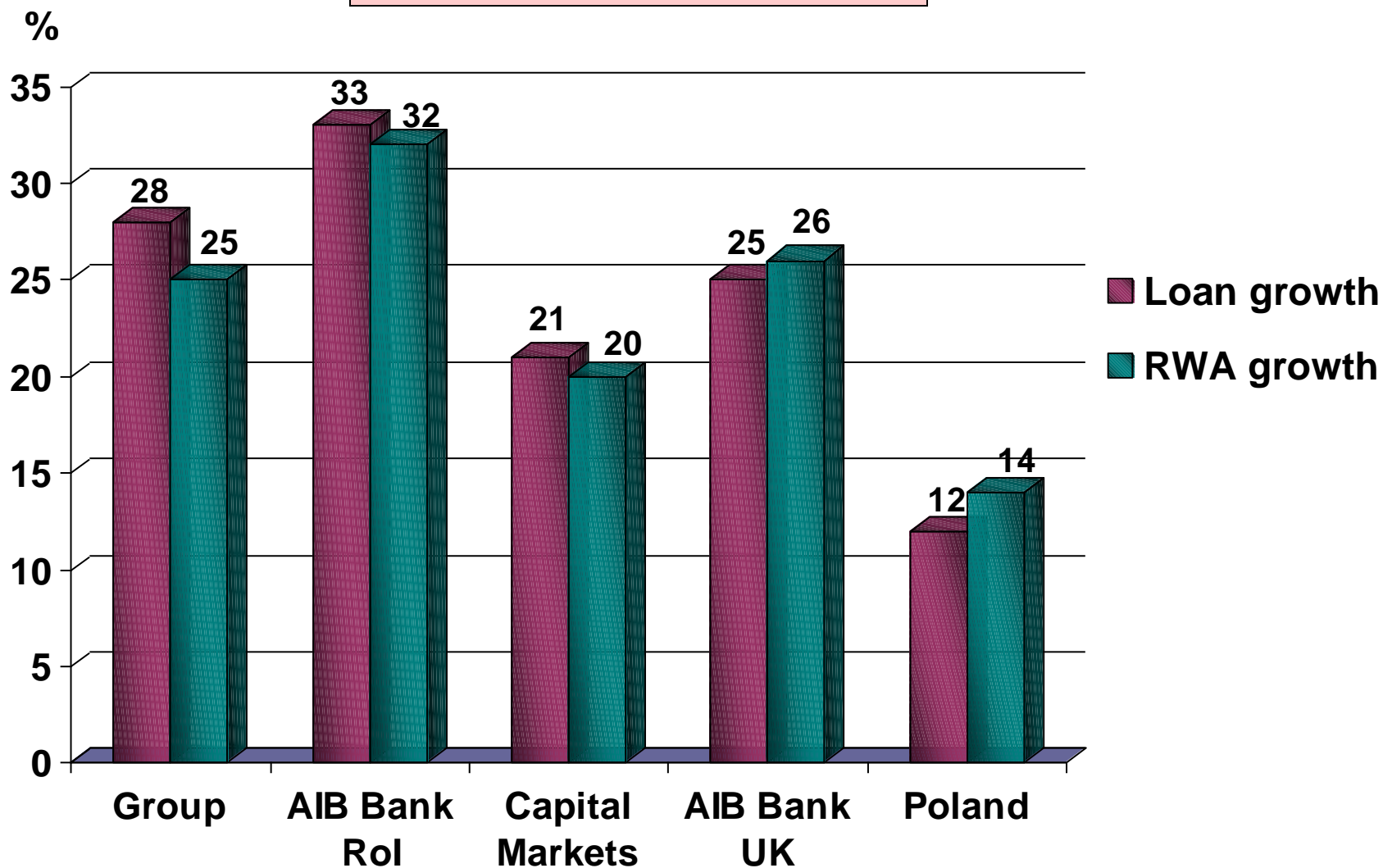
	c.	% vs June 2005
Basic earnings per share	121.2c	68
IFRS Interest rate hedge volatility	1.7c	
Ark Life	(18.2c)	
Bankcentre	(11.0c)	
Adjusted basic EPS	<u>93.7c</u>	29

Year on Year to June 2006



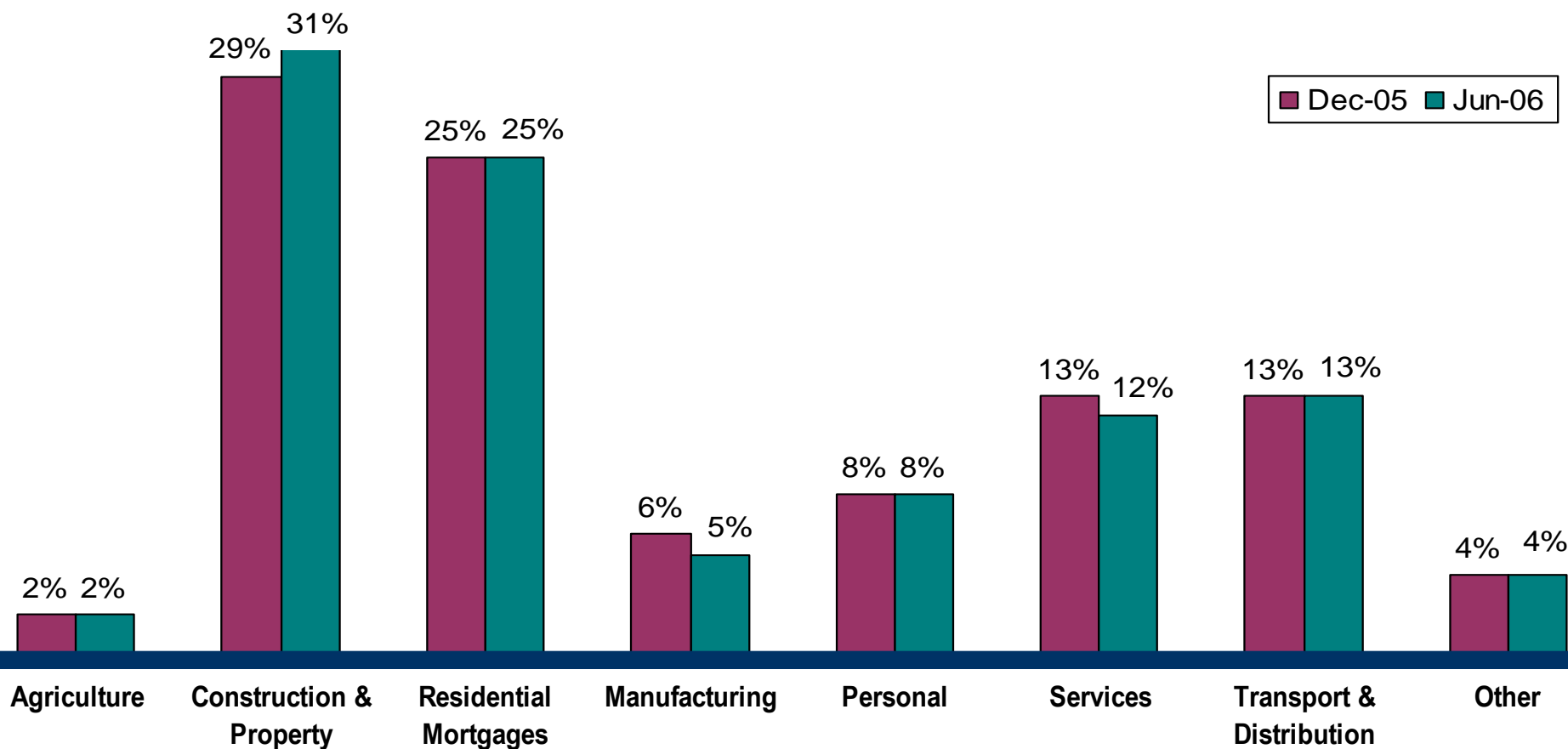
# Loan and risk weighted asset growth

Year on Year to June 2006



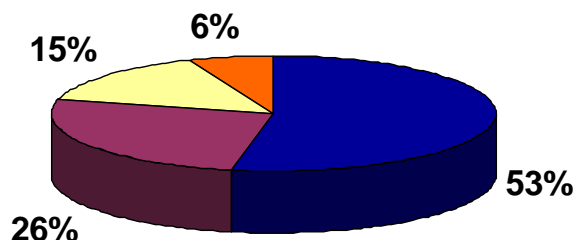
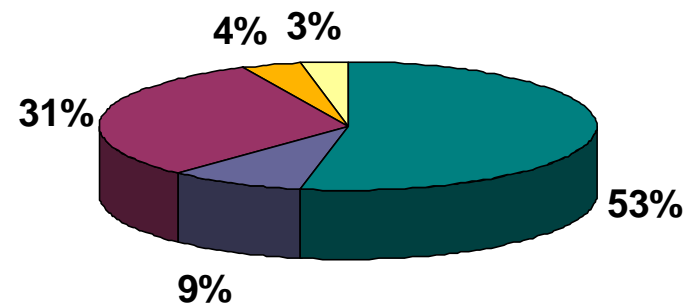
# Loan portfolios by sector

% of Group loan portfolio



# Property & construction – solid profile

- Underwriting: centralised decision making by sectoral experts
- Impaired loans: 0.4%, half overall loan book level
- Diversified by geography, type and borrower



- **Investment:** primary source of repayment is from diverse range of quality tenants
- **Residential development:** strong franchise with large proven players; emphasis on pre-sales / recourse
- **Commercial development:** low exposure to speculative development; emphasis on pre-sales / pre-lets / recourse
- **Contracting:** working capital for established players

- Primary focus on debt service ratio (repayment capacity)

New Business			
<u>Consistent LTVs</u> ( <i>% no's of drawdowns</i> )	<u>Dec 02</u>	<u>Dec 04</u>	<u>Jun 06</u>
< 75%	66	67	65
> 75% < 90%	26	24	21
> 90%	8	9	14
Total	100	100	100
<u>Strong arrears profile</u>	<u>Dec 02</u>	<u>Dec 04</u>	<u>Jun 06</u>
% total mortgage advances	0.8%	0.5%	0.4%



June 2006	June 2005	bps change
2.29%	2.47%	-18

## ■ Causes of margin attrition

## Expected future trend

● Loans growing faster than deposits	9 bps	reducing effect
● Re-investment of customer account funds	5 bps	reducing effect
● Business mix and competition	4 bps	unchanged
	<hr/> 18 bps	

## ■ 2006 full year guidance: close to -20 bps

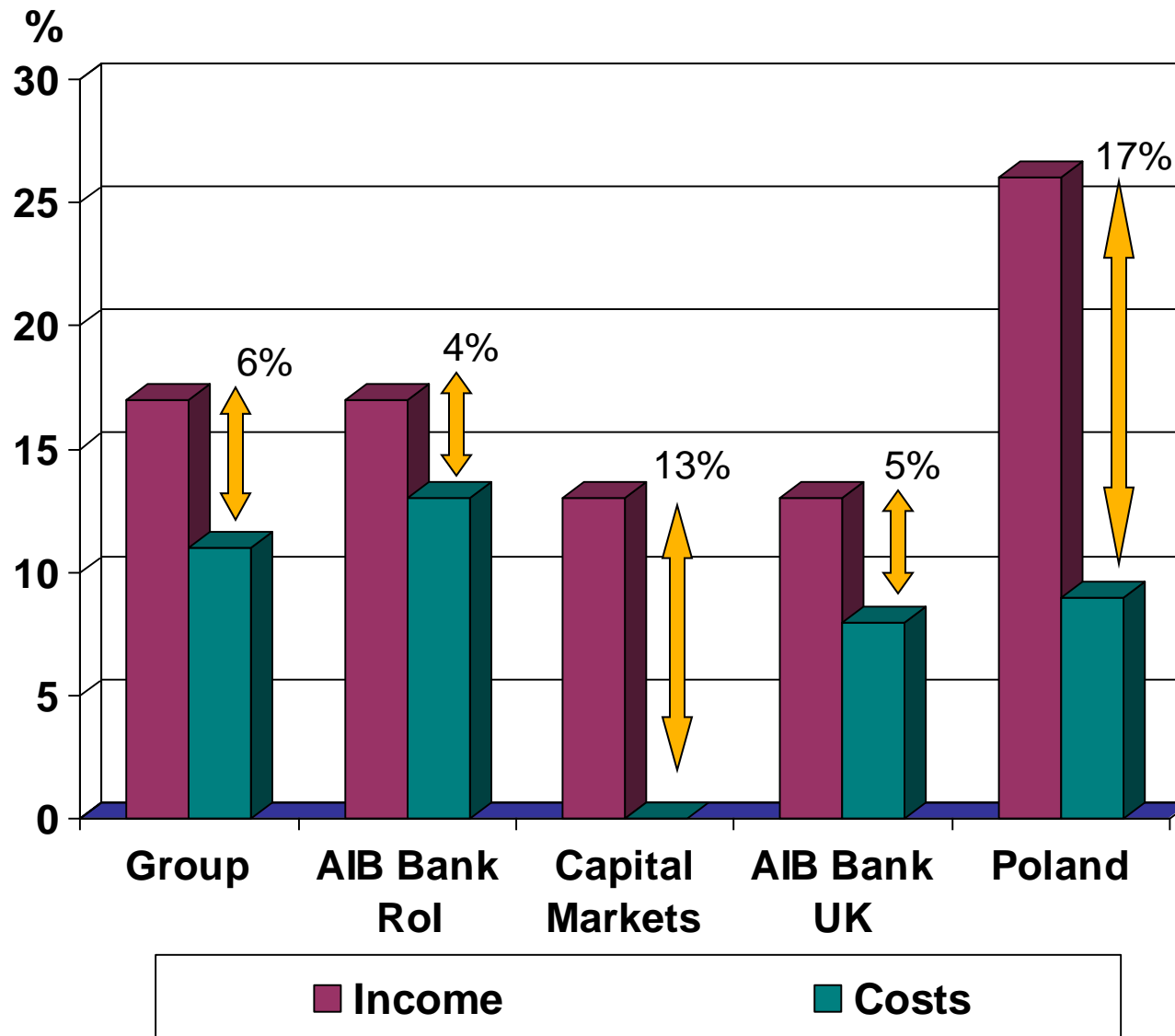
# Costs – investing to sustain growth

June 2005	€m	June 2006	Underlying * change %
630	Staff costs	699	10
277	Other costs	319	14
<u>65</u>	Depreciation & amortisation	<u>70</u>	7
<u><u>972</u></u>	Operating expenses	<u><u>1,088</u></u>	11

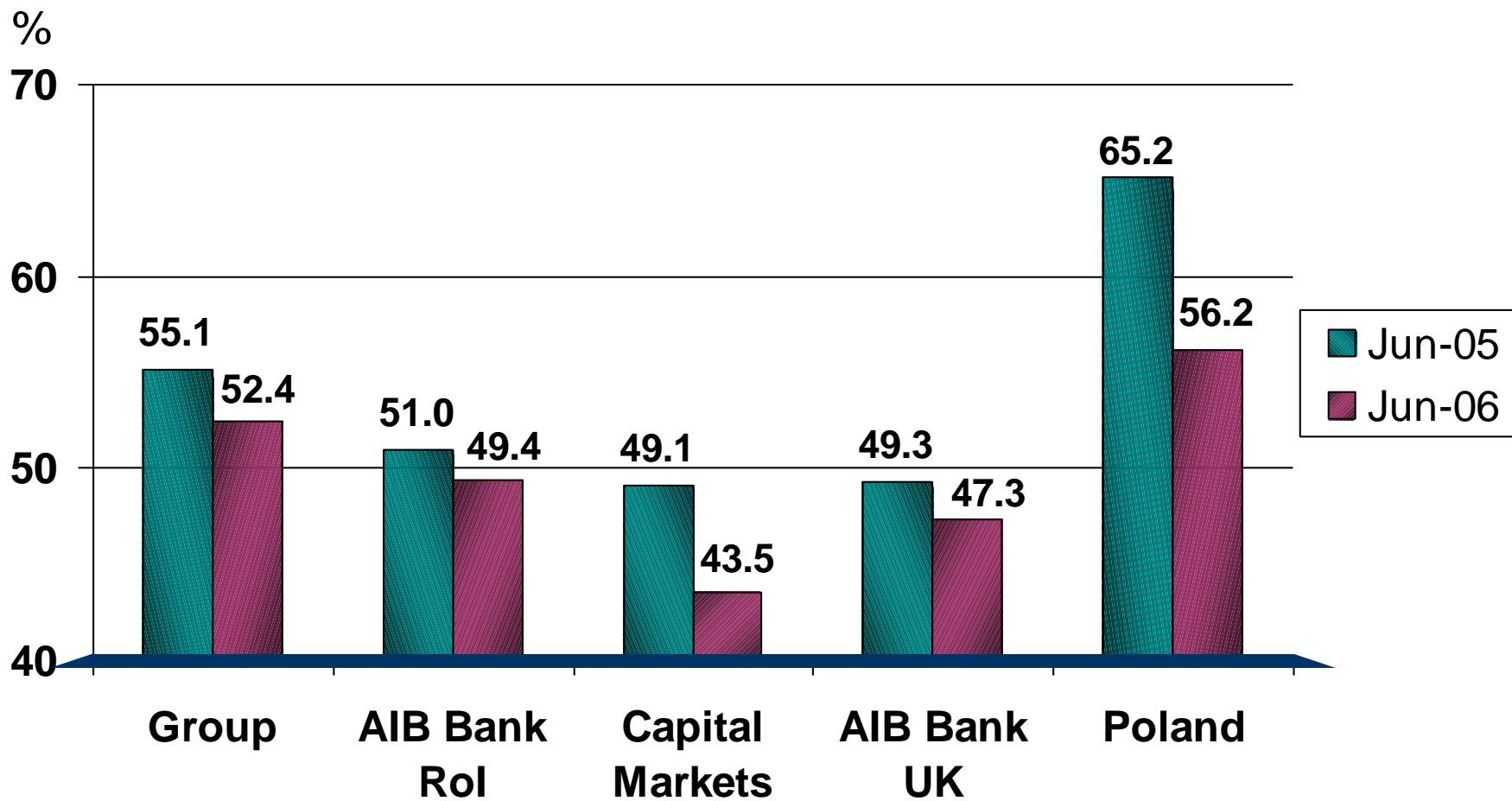
- Heavy investment in people, operations, governance and risk framework
  - Regulatory / compliance and performance pay adding 2 – 3% to cost growth
- 2006 full year guidance + 11%

\* excludes impact of currency movements

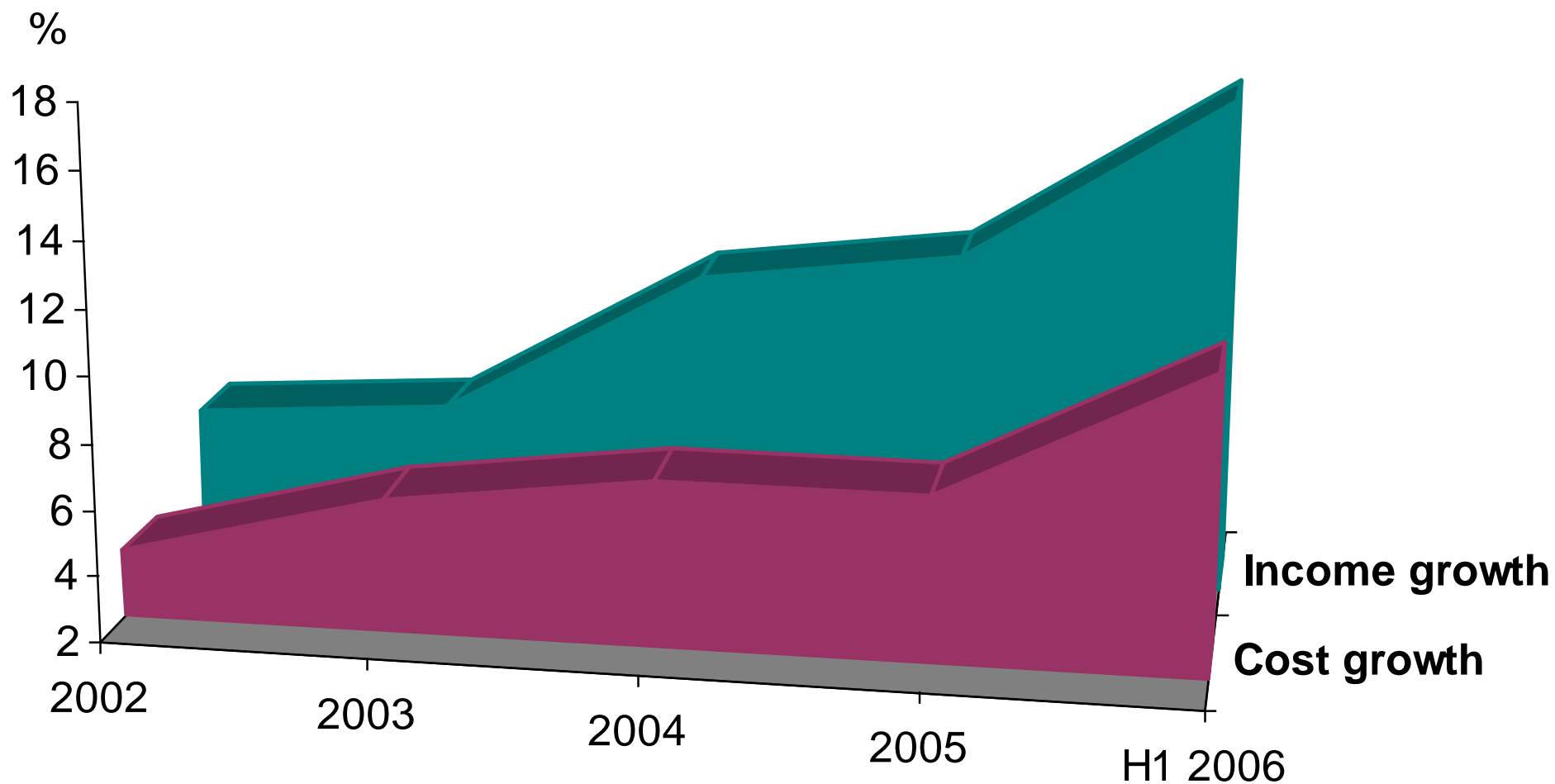
# Positive “jaws” in all franchises



# Cost / income ratio ↓ in all divisions



# Widening income / cost gap



December 2005			June 2006
1.0	Impaired loans (ILs)	%	0.8
5.1	Criticised loans / total loans	%	5.1
0.4	Gross new ILs	%	0.4
78	Total provisions / ILs	%	81
15	Bad debt charge	bps	3

# Impaired loans by Division

As at December 31, 2005				As at June 30, 2006		
ILs €m	ILs/ Actual Advances %	Total Provisions/ ILs %		ILs €m	ILs/ Actual Advances %	Total Provisions/ ILs %
308	0.7	84	AIB Bank ROI	313	0.6	89
132	0.7	78	Capital Markets	50	0.3	106
166	0.9	75	AIB Bank UK	176	0.9	72
262	6.8	72	Poland	248	6.3	73
<u>868</u>	1.0	78	Total	<u>787</u>	0.8	81

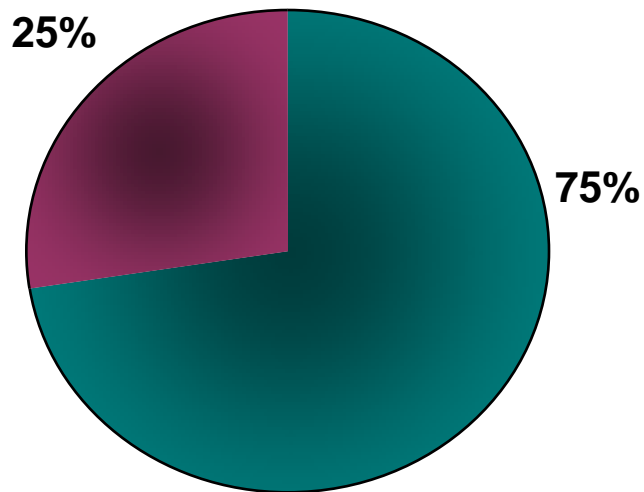
# Bad debt provisions by division

June 2005	Average Loans %	€m	June 2006	Average Loans %
26.3	0.14	AIB Bank ROI	35.4	0.14
6.9	0.10	Capital Markets	(37)	(0.39)
7.8	0.11	AIB Bank UK	7.5	0.08
4.6	0.26	Poland	6.1	0.31
<u>45.6</u>	0.13	Total	<u>12.1</u>	0.03

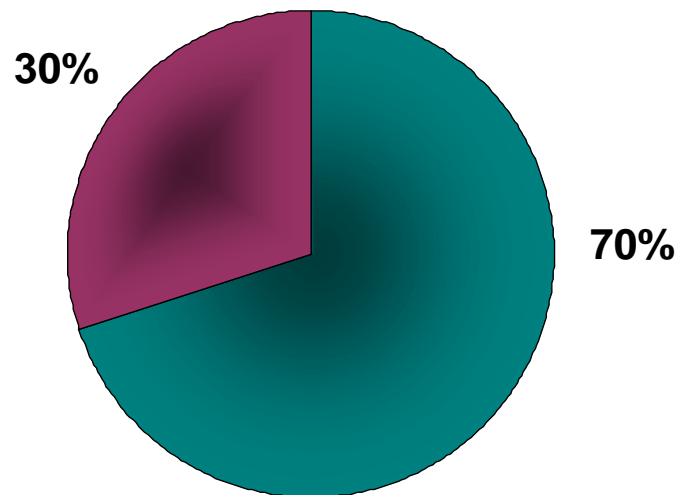
- 2006 full year guidance c. 0.12%



## June 2005



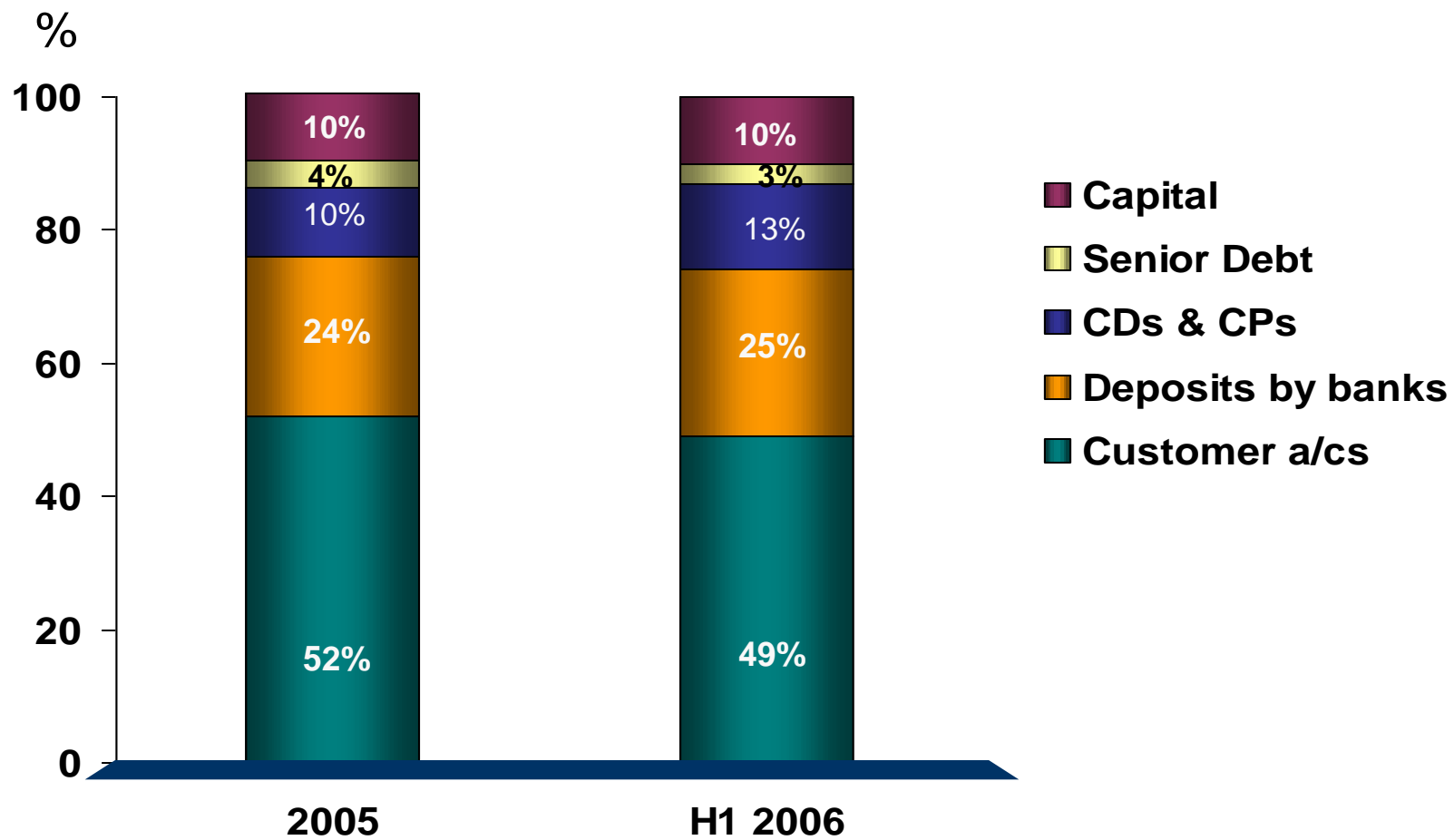
## June 2006



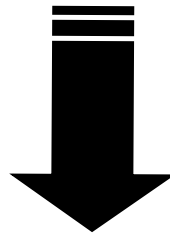
■ Equity ■ Preference Shares

Tier 1 capital ratio 7.7%

8.0%



- H1 underlines buoyant, well spread growth
- Strong operating momentum and pipelines
- Bad debt experience exceptional in H1



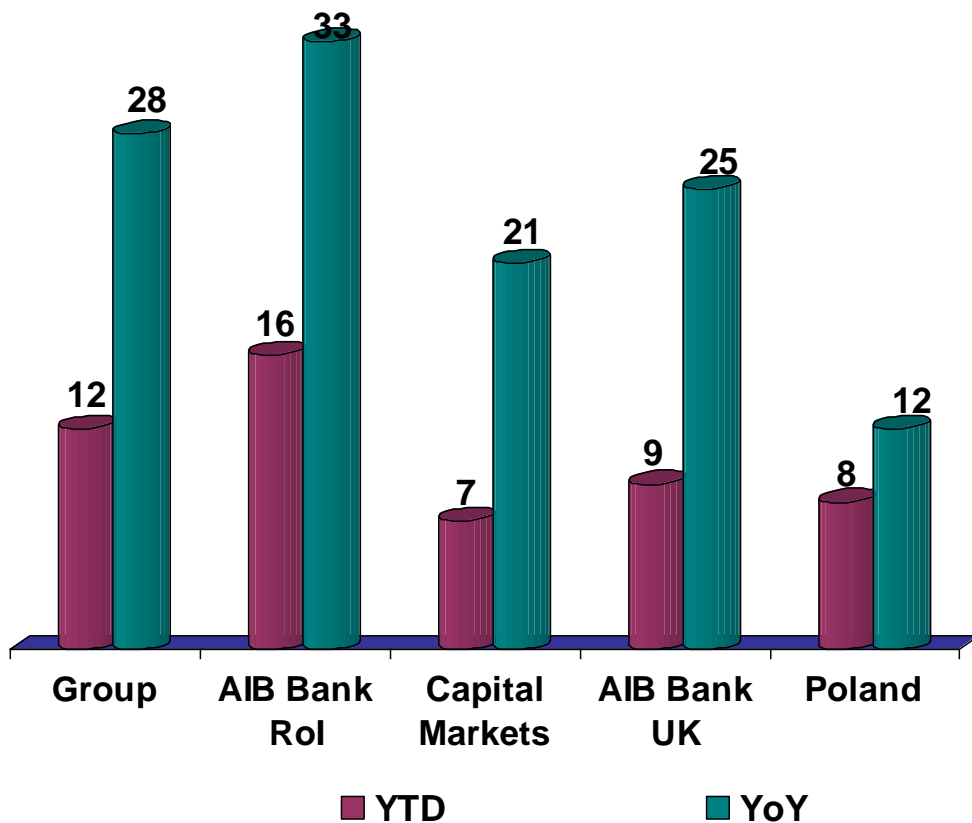
Now targetting 2006 growth of over 20% in EPS



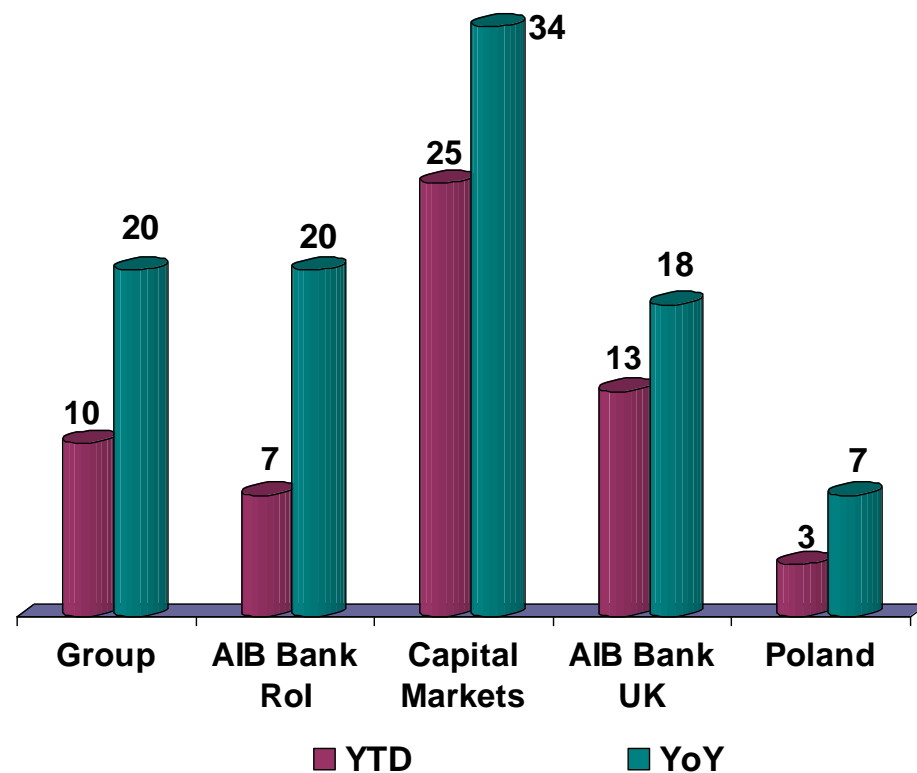


# Appendices

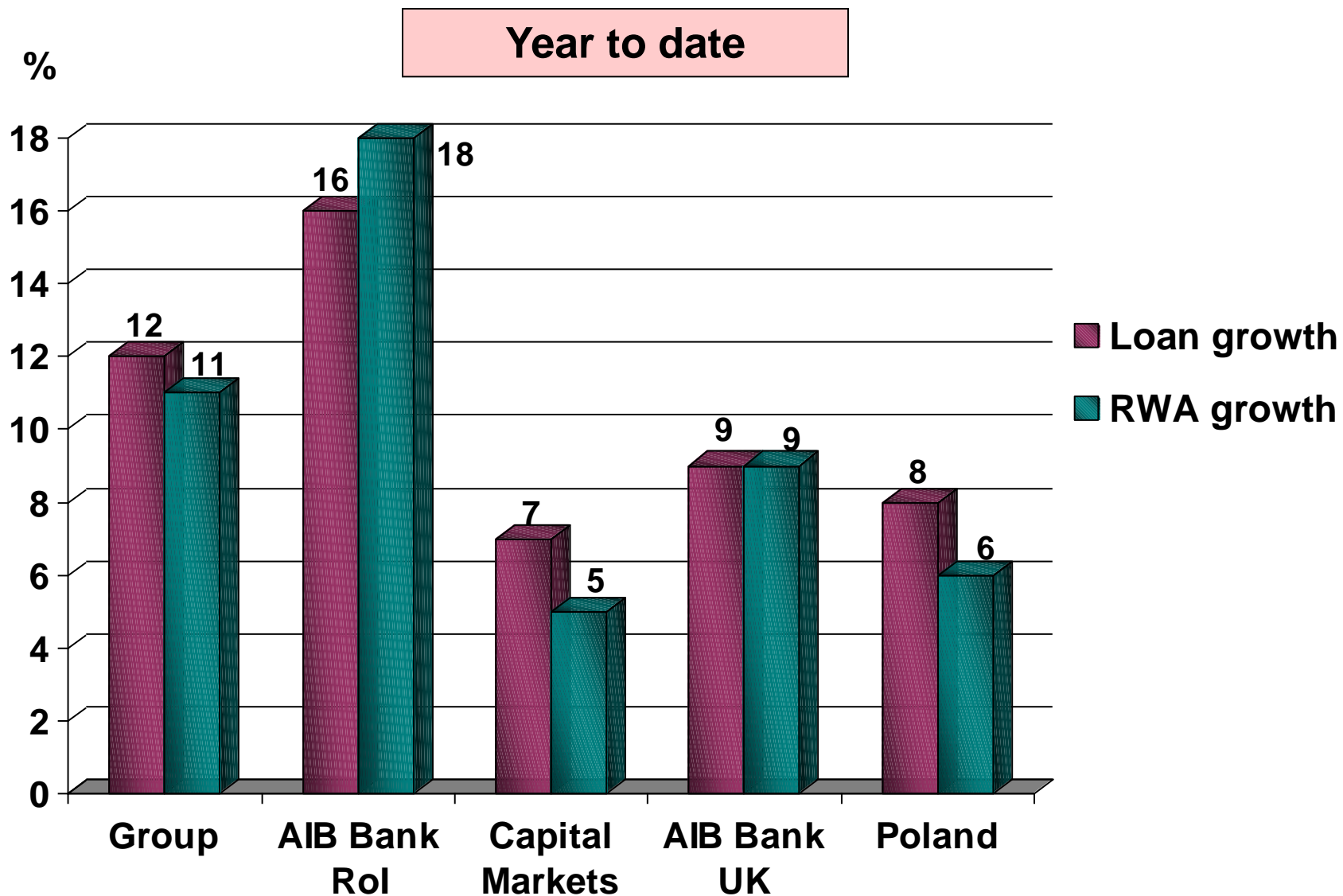
## Loans



## Deposits



# Loan and risk weighted asset growth



# AIB Bank RoI profit statement

H1 2005	€m	H1 2006	Change %
637	Net interest income	745	17
<u>183</u>	Other income	<u>212</u>	16
820	Total operating income	957	17
<u>417</u>	Total operating expenses	<u>473</u>	13
403	Operating profit before provisions	484	20
<u>27</u>	Provisions	<u>35</u>	35
376	Operating profit	449	19
4	Profit on disposal of property	-	-
-	Share of results of associates	4	-
<u><u>380</u></u>	Profit before taxation	<u><u>453</u></u>	19



# Capital Markets profit statement

H1 2005	€m	H1 2006	Change %
214	Net interest income	239	11
<u>194</u>	Other income	<u>227</u>	15
408	Total operating income	466	13
<u>200</u>	Total operating expenses	<u>202</u>	-
208	Operating profit before provisions	264	26
<u>3</u>	Provisions	<u>(34)</u>	-
205	Operating profit	298	45
1	Share of results of associates	2	47
-	Profit on disposal of business	26	-
<u>206</u>	Profit before taxation	<u>326</u>	58

# AIB Bank UK profit statement

H1 2005	€m	H1 2006	Change %
247	Net interest income	287	17
<u>74</u>	Other income	<u>75</u>	2
321	Total operating income	362	13
<u>158</u>	Total operating expenses	<u>171</u>	8
163	Operating profit before provisions	191	18
<u>8</u>	Provisions	<u>7</u>	-4
155	Operating profit	184	19
<u>1</u>	Profit on disposal of property	<u>-</u>	-
<u><u>156</u></u>	Profit before tax	<u><u>184</u></u>	18

H1 2005	€m	H1 2006	Change %
93	Net interest income	112	16
115	Other income	162	34
<u>208</u>	Total operating income	<u>274</u>	26
136	Total operating expenses	156	9
72	Operating profit before provisions	118	58
4	Provisions	4	-2
<u>68</u>	Profit before tax	<u>114</u>	62

H1 2005	€m	H1 2006
35	Net interest income	46
(28)	Other income	(27)
<u>7</u>	Total operating income	<u>19</u>
<u>61</u>	Total operating expenses	<u>86</u>
(54)	Operating loss	(67)
69	Share of results of associates – M&T	80
-	Profit on disposal of property	90
-	Construction contract income	34
<u>15</u>	Profit before tax	<u>137</u>

		€m
Euro Tier 1 Issue – step up		500
Sterling Tier 1 Issue – non step		500
Bankcentre		
Development	c.30	
Sale & leaseback	<u>c.70</u>	c.100
Ark Life		
Profit / change in supervisory deductions		c. 300

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

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