

## Preliminary Results 2003

# Preliminary Results

for the year ended 31 December 2003

Allied Irish Banks, p.l.c.





# Forward looking statement

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 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.

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# Preliminary Results

Michael Buckley  
*Group Chief Executive*



Reported	
Adjusted EPS	↓ 11%
Dividend	↑ 10%
Tangible Return on Equity	20%*

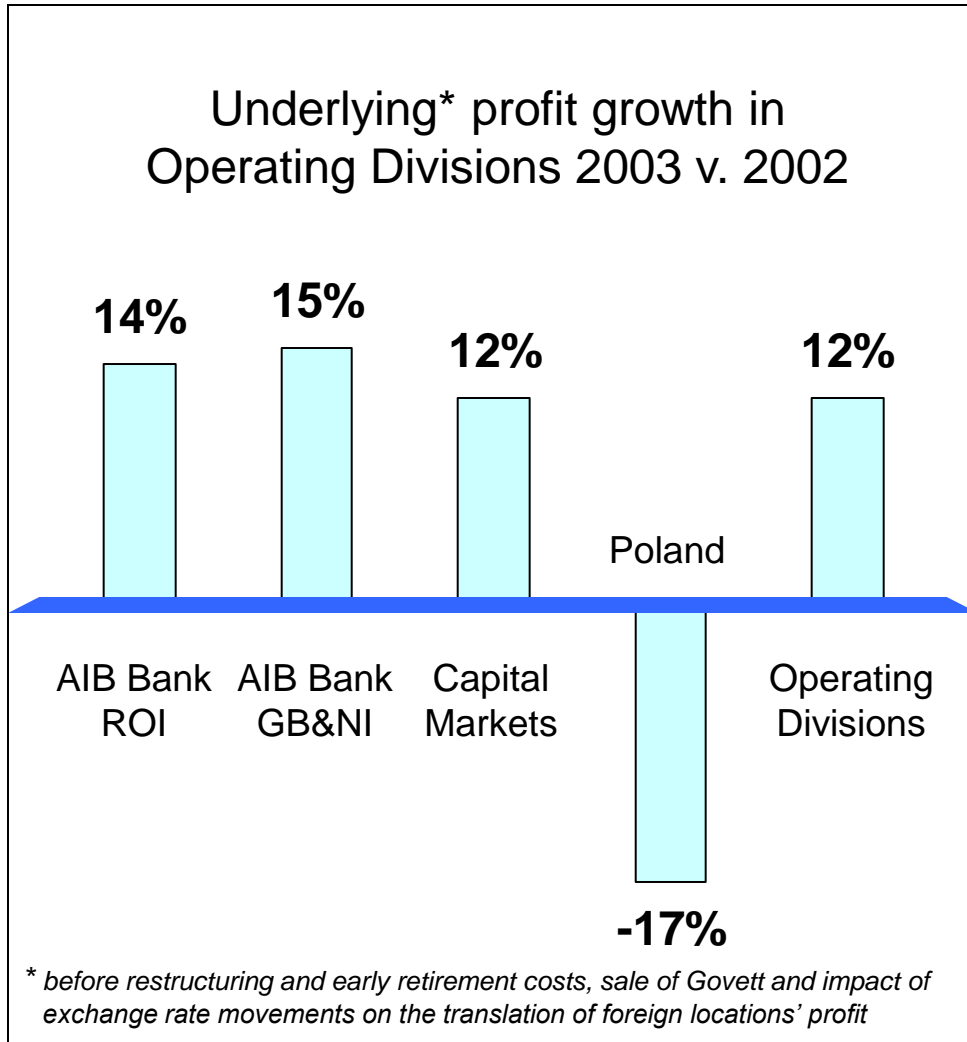
Underlying**	
Adjusted EPS	↑ 3%
Excl. currency	↑ 7%

\* includes loss on disposal of Govett, restructuring / early retirement costs, and impact of Allfirst disposal on Profit & Loss account

\*\* excludes impact of lower Other Finance Income, Government levy, restructuring / early retirement costs, and impact of Allfirst disposal on Profit & Loss account

- Volume growth more than offsetting margin attrition
  - income ↑ 6.5%
- Investment for growth and efficiency
  - costs ↑ 6%
  - sustaining operating performance
  - building an enterprise-wide business support model
- Strong asset quality
  - improved trends in non-performing loans in all divisions
  - good provision cover (total provisions / NPLs 94%)

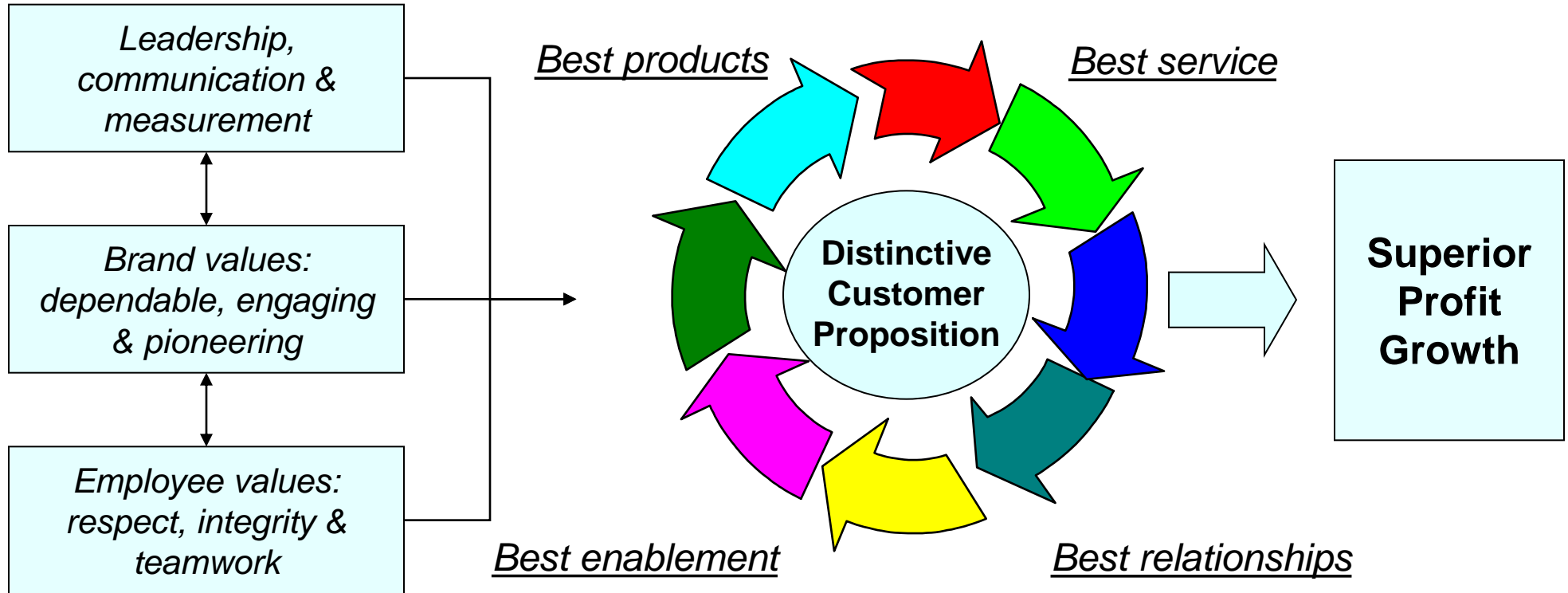
# Operating performance - a high growth story



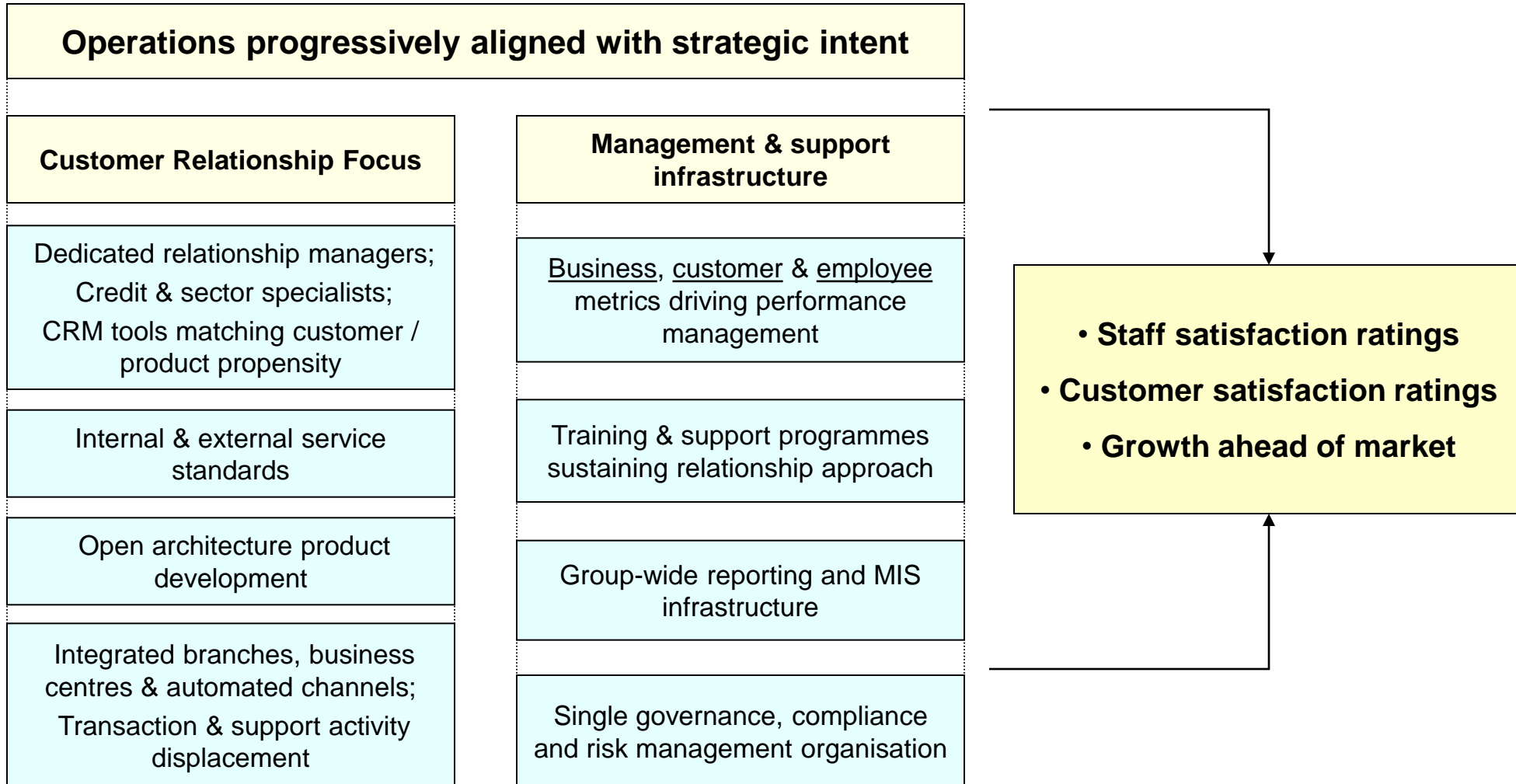
Reconciliation of growth to underlying adjusted EPS:

Operating Divisions	12 %
M&T / Allfirst / share buyback	<i>eps neutral</i> *
Sub-total	9.5%
Allfirst shares in trust / residual U.S. & other costs	-2.5%
Currency impact	-4 %
Underlying adjusted EPS	3 %

\* Neutral outcome reduces overall growth by 2.5 percentage points

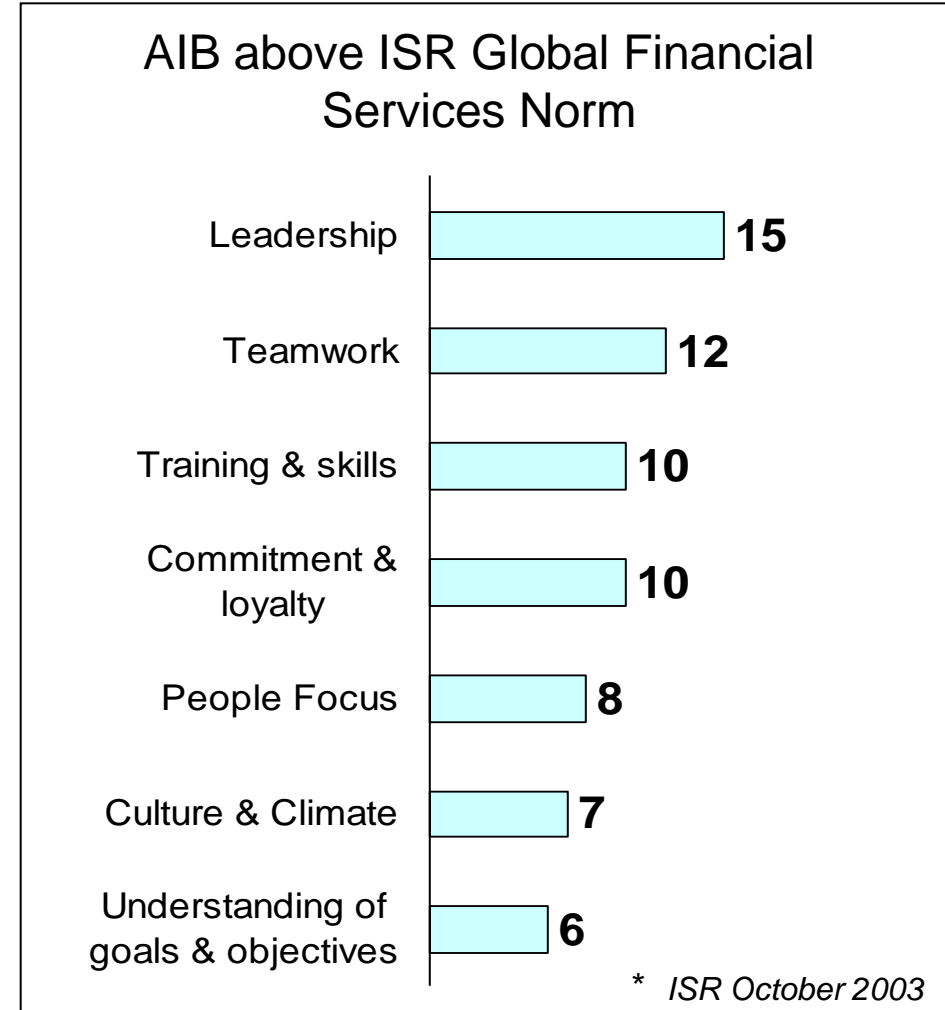


*One consistent approach across all businesses*





- AIB employee attitude survey since 1989
  - 86% employee participation
  - Employee attitude closely aligned to strategy
  - Continued improvement on all categories Group-wide



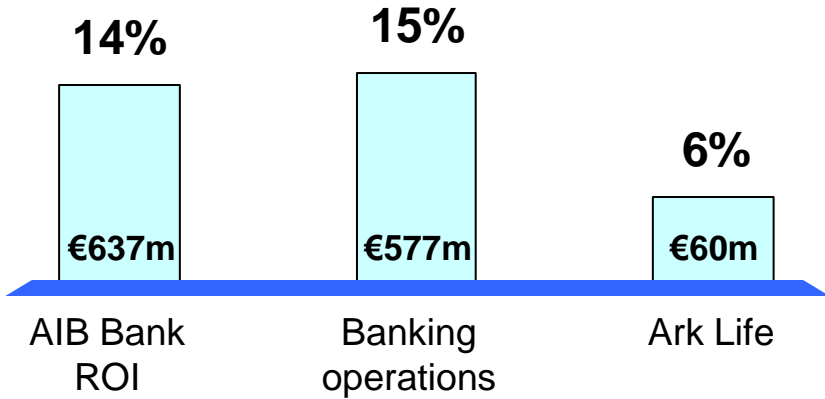
- United Kingdom
  - Customers rank us in top quartile of all UK companies
  - Voted “*Best Business Bank*” in GB since 1994
- Republic of Ireland
  - Strong upward trend in customer service ratings over past 2 years
  - Critical building block for authentic CRM
- Poland
  - Awarded gold medal position for services and products to SMEs
  - Rated amongst leading banks in customer surveys



# AIB Bank Republic of Ireland ↑ 14%

- Extending our lead over all other full service banks

Strong growth in banking operations;  
Ark Life profit growth resumed



Significant outperformance in loan volumes;  
Net new lending up €6bn

	<u>AIB</u>	<u>Market</u>
overall loans	↑ 28%	↑ 18%
business / other personal lending	↑ 25%	↑ 13%
mortgage lending	↑ 34%	↑ 26%

- Productivity

- cost / income ratio ↓ to 51% (52% in 2002)
- income ↑ 10%, costs ↑ 6%

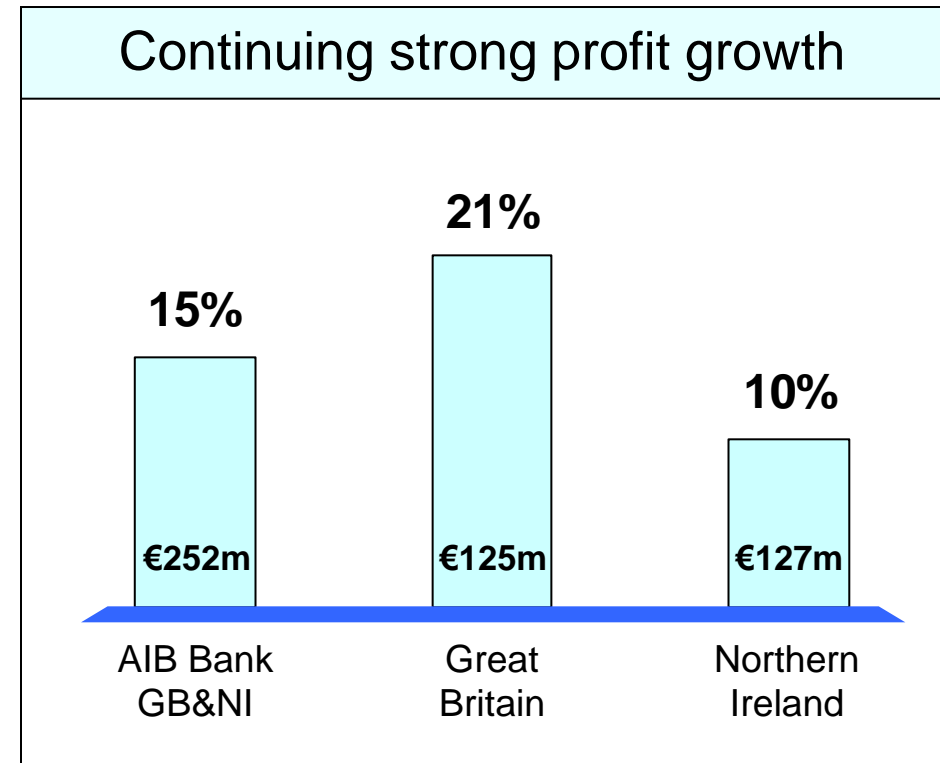
- Strong asset quality

- NPLs ↓ to 0.8% (Dec 2002 0.9%)



# AIB Bank Great Britain & Northern Ireland ↑ 15%

- Focused G.B. banking franchise creating premium brand
  - loans ↑ 28%, deposits ↑ 18%
- Gaining share in key N.I. markets
  - loans ↑ 21% (mortgages ↑ 32%), deposits ↑ 13%
- Milestone in UK productivity
  - cost / income ratio ↓ to 49% (50% in 2002)
  - income ↑ 10%, costs ↑ 8%
- Strong asset quality
  - NPLs ↓ to 0.8% (1% at end 2002)



- Corporate banking a top class domestic and international franchise - profit ↑ 15%
  - a leading CDO fund manager in Europe
- Solid performance in Treasury
  - low utilisation of risk limits
- Productivity
  - cost / income ratio 57% (57% in 2002)
  - income ↑ 2%, costs ↑ 2%
  - disposal / restructuring activity
- Robust asset quality
  - NPLs ↓ to 0.8% (1.1% at end 2002)

2003 v 2002 PLN m

- Profit impacted by:
  - sharp fall in interest rates effect on deposit income -200m
  - depreciation on new banking platform -82m
- Restructuring for efficiency programme successfully executed
  - other costs ↓ 12% +60m
  - cost / income ratio 78% (74% in 2002)
- Business gaining momentum in an improving economy
  - earning loans ↑ 10% +42m
  - non-interest income ↑ 20% +129m
- Best in class asset quality
  - NPLs ↓ to 11% (15% at end 2002)
  - reduced provision charge ↓ 23%

- Net income ↑ 26%
- Diluted net operating EPS ↑ 11%
- Run rate of merger cost savings now achieved
  - Allfirst integration on track
  - no further significant merger related expenses
- Efficiency ratio 53.6% (51.3% in 2002)
  - positive cost / income gap anticipated in 2004
- Improved asset quality
  - NPLs ↓ to 0.67% (0.84% at end 2002)

GDP Growth %	2004 (f)	2005 (f)
Rep. of Ireland	4.0	5.0
UK	3.0	2.8
USA	4.8	4.0
Poland	4.5	5.0
Eurozone	1.8	2.5
OECD	3.0	3.2



- Business banking franchise - 14% CAGR in profit 2001 - 2003
- Differentiated by our distinctive customer proposition in chosen niches
  - Significant market shares now e.g. > 10% in legal and education sectors
- On track to double capacity in 3 years to 2005
- Opportunity to develop high quality personal banking

- Top class retail & commercial banking franchise
  - investment programme to optimise locations, business support and efficiency now complete
- 5 strategically positioned business centres opened
  - superior delivery channel to mid-corporate and SME markets
  - complements extensive branch and automated channels
- Expect to deliver strong growth in 2004 and beyond
  - double digit increase in loans expected
  - full cost benefit of restructuring
- Aim - to be a top 3 performing bank
  - does not need acquisitions / mergers

- M&T partnership restores momentum to our US business
  - double digit earnings growth forecast in 2004
- Already achieving mutual measurable benefits
  - AIB's input to maximising integration synergies
  - \$ value of investment ↑ 25% since merger announcement  
*(at close of business on 19/02/04)*
- Principal consideration continues to be:
  - value creation & strategic influence

## Continuing focus on our priorities .....

- Growing income faster than costs, without increasing our risk profile (positive gap to widen in 2004)
- Investing in people, locations and systems
- Investing in a transportable business model
- Investing to build world class governance and risk management practices
- Maintaining a progressive dividend policy without impairing strong capital position
- Forecasting Tangible Return on Equity to remain > 20%

# Preliminary Results

Gary Kennedy

*Group Director,*

*Finance & Enterprise Technology*



2002	€m	2003	Underlying change %*
1,830	Net interest income	1,840	6
63	Other finance income	14	-
1,055	Other income	1,124	8
<u>2,948</u>	Total operating income	<u>2,978</u>	6.5
37.9%	<i>Other income ratio</i>	38.2%	

\* excludes the impact of currency movements and reduction in other finance income (FRS 17)

- Interest income driven by strong loan growth ↑ 21% and deposit growth ↑ 11%
- Loan growth also a key driver of non interest income ↑ 8%
  - banking fees & commissions ↑ 15%
- Loan growth benefits outweigh associated cost
  - Margin attrition of 21 bps primarily due to
    - (a) loans growing x 2 times faster than deposits
    - (b) business mix.



# Net Interest Margin

(continuing activities)

	2002 %	2003 %	Change on 2002 bps
Group	2.91	2.70	-21
Domestic	2.73	2.54	-19
Foreign	3.20	2.98	-22



# Operating expenses

(continuing activities)

2002	€m	2003	Underlying * change %
1,046	Staff costs	1,082	8
536	Other costs	515	1
165	Depr. & amort.	170	9
<u>1,747</u>	Operating expenses	<u>1,767</u>	6
-	Restructuring / integration	72	
<u>1,747</u>	Total Operating expenses	<u>1,839</u>	
<u>58%</u>	<i>Tangible cost / income ratio</i>	<u>58%</u>	

- Continued investment in our franchises
- Building scaleable, integrated and efficient enablement systems
  - seeking to invest once for groupwide benefit
  - shared services and expertise
  - IAS, Basel II, best in class governance & compliance
- First year depreciation charge on new technology platform in Poland contributes 1% to Group cost increase
- Significant non-recurring / non-incremental costs
- Restructuring / early retirement to drive savings



# Restructuring / Early Retirement Programmes

- **Sale of Govett** €153m  
*Goodwill previously written off to reserves, charged to P&L following sale of management contracts to Gartmore Investment Management p.l.c.*
- **Early retirement** €62m  
*Provision for early retirement option offered to employees in RoI, NI & GB (where repatriation rights apply)*
- **M&T restructuring** €20m  
*AIB share of M&T restructuring charge following acquisition of Allfirst*
- **Poland restructuring** €10m  
*Closure of certain branches and writedown in value of properties & branch equipment.*

- NPL's ↓ 1.4% of average volumes (2% at Dec 2002)
- Provision charge ↓ to 0.33% of average balances (0.37% at Dec 2002)
- No quality compromise to achieve loan growth outperformance
  - Criticised loans / total loans ↓ in all divisions
- Good provision cover
  - total provisions / NPL's 94%
  - general provisions / advances 0.6%

€m	2002	2003
Bad and doubtful debts	110 <sup>*</sup>	142
Contingent liabilities & commitments	2	9
Investment provisions	43	16
<b>Total Provisions</b>	<u>155</u>	<u>167</u>

\*€150 million before release of €40 million unallocated credit provision relating to one specific case in Allfirst

# Underlying bad debt provisions

(continuing activities)

	2002	2003
	bps	bps
Bad and doubtful debts	27	31*
Release from unallocated	10	-
<b>Gross provision rate</b>	<u>37</u>	<u>31</u>
Off balance sheet	-	2
<b>Underlying rate</b>	<u><u>37</u></u>	<u><u>33</u></u>

\* includes relevant charge relating to credit element for fixed asset investments



# Actuarial valuation of Group Pension Schemes

- Actuarial review completed in H2 2003
- Valuation results in line with expectations
- Increase in cash contribution rate to defined benefit schemes recommended
- Minimal impact on 2004 Profit & Loss Account or Earnings Per Share

# Impact of currency translation & hedging activity

	2003		2002
	Average Accounting Rates	Average Effective Rates	Average Effective Rates
US Dollar	1.1346	1.01	0.90
Sterling	0.6901	0.67	0.63
Polish Zloty	4.4157	4.28	4.13

- US dollar, sterling and Polish zloty weakened relative to the euro by 17%, 9% and 13% respectively in 2003
- Net 4% negative impact on adjusted earnings per share growth
  - negative impact on earnings partly offset by hedging profit of €28m

- > 70% of projected 2004 foreign earnings hedged (including >90% of projected US \$ earnings)
- 2004 negative impact estimated at c.3% in adjusted EPS growth



- Continuing strong volume growth
  - c.20% loan growth expected in RoI and GB & NI divisions
  - margin attrition in a range of 20 - 25 bps
- Positive gap between income and cost growth widening
  - further c. €20m investment in groupwide enablement will be absorbed
- Robust asset quality - provision bps charge similar to 2003
- Strong capital ratios
- Double digit earnings growth in all operating divisions & M&T
- High single digit underlying adjusted EPS growth
  - higher minority interests in Poland and higher effective tax rate
  - growth rate lower in first half with trend improving in second half
  - excludes negative currency impact of c.3%

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# Additional Information

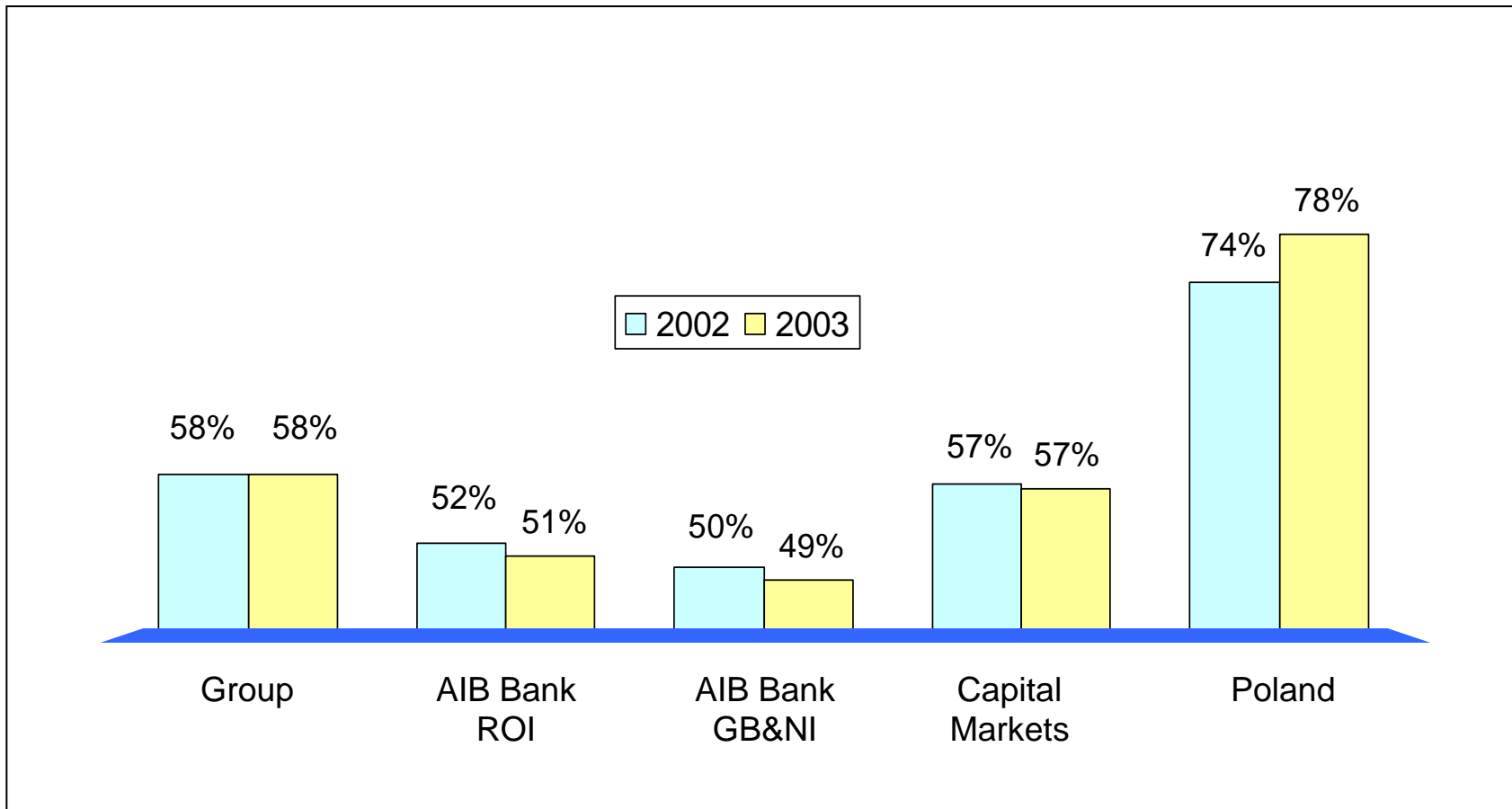
2003	PLN	€m	%
BZWBK consolidated Polish GAAP *	305	69	-22
BZ Goodwill amortisation		(25)	
Other Group adjustments **		(24)	
Poland division		<u>20</u>	-17

\* *excluding restructuring costs*

\*\* *including central costs, transfer of Poland treasury profits to Capital Markets Division, capital adjustment and alignment with Group accounting policies*

# Tangible cost / income ratios\*

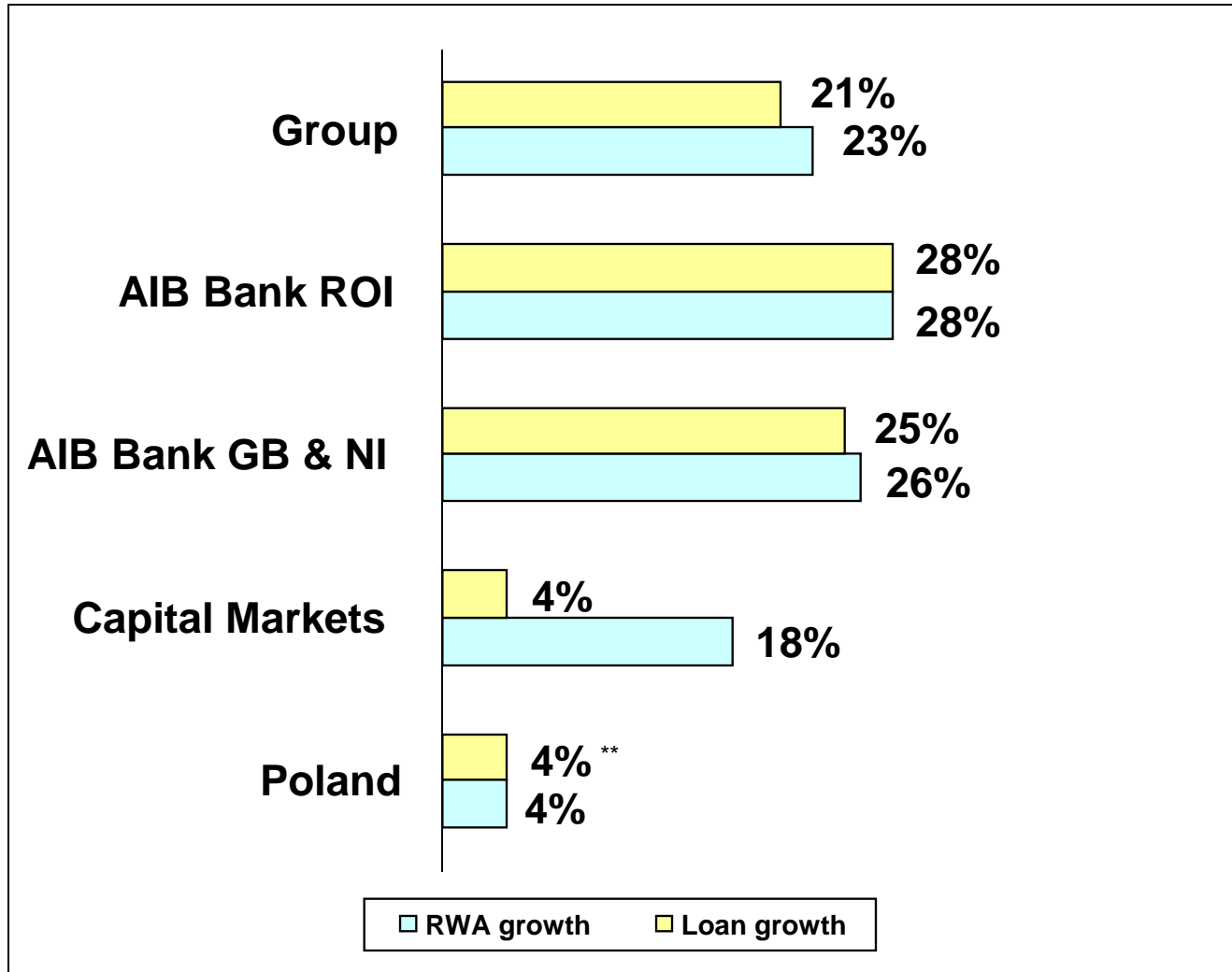
(continuing activities)



\* excluding goodwill & restructuring / early retirement costs

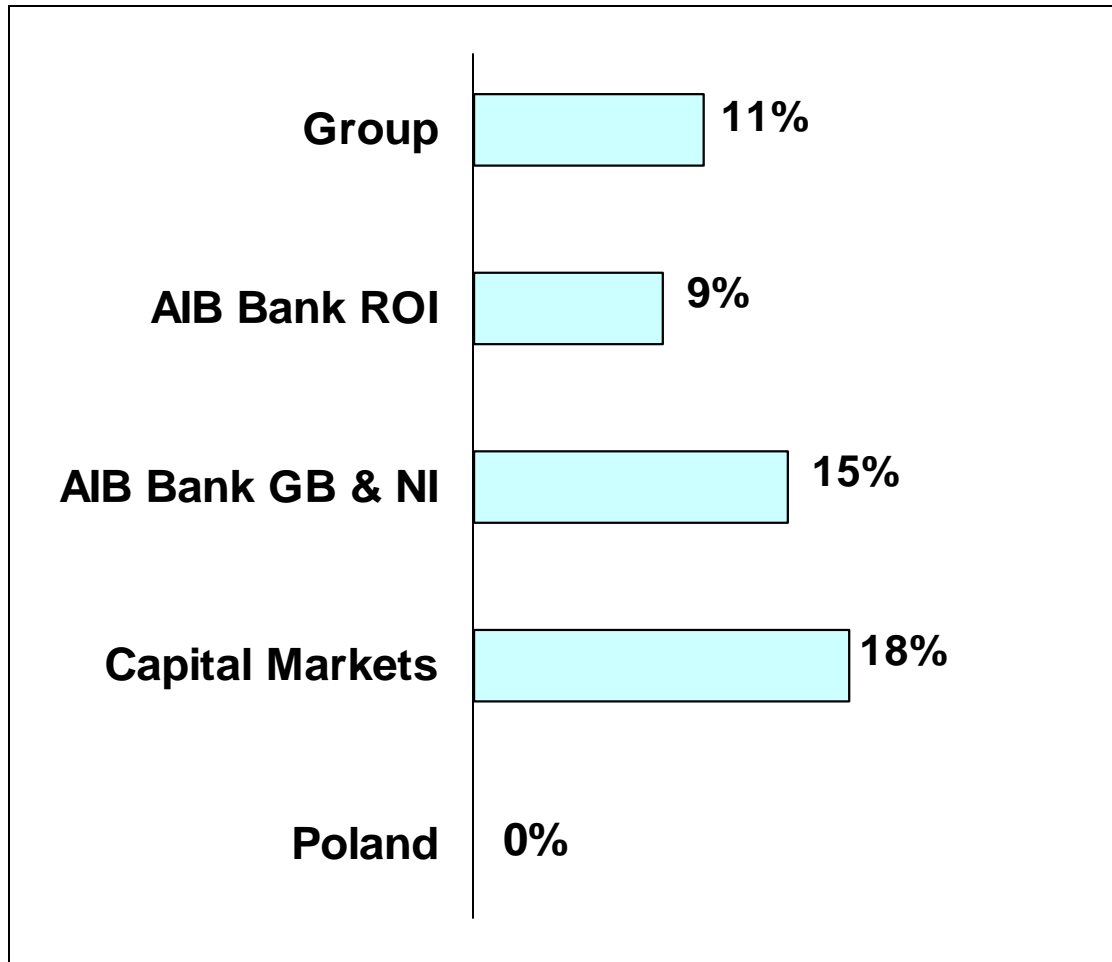
# Risk weighted asset & loan growth\*

(continuing activities)



\* excludes the impact of currency movements

\*\* 6% excluding central writedowns



\* excludes the impact of currency movements



# Bad debt provisions by division

(continuing activities)

2002	Average Loans %	€m	2003	Average Loans %
52	0.26	AIB Bank ROI	58	0.24
22	0.26	AIB Bank GB & NI	19	0.21
36	0.35	Capital Markets	27	0.42*
41	1.22	Poland	32	1.03
(40)		Group	5	
<u>110</u>	0.27	Total	<u>142</u>	0.33*

\* includes relevant charge relating to credit element of contingent liabilities and commitments and allocation of general provisions to cover amounts written off fixed asset investments





# Non-Performing Loans by Division

(continuing activities)

As at December 31, 2002				As at December 31, 2003		
NPLs	NPLs/ Actual Advances	Total Provisions/ NPLs		NPLs	NPLs/ Actual Advances	Total Provisions/ NPLs
€m	%	%		€m	%	%
194	0.9	108	AIB Bank Rep Ire	209	0.8	109
88	1.0	138	AIB Bank GB & NI	84	0.8	148
115	1.1	110	Capital Markets	82	0.8	149
486	14.8	50	Poland - €m	332	10.9	52
<i>1,954</i>			- <i>Pln m</i>	<i>1,560</i>		
<u>883</u>	2.0	80	Total	<u>707</u>	1.4	94

31 Dec 2002	€m Assets:	31 Dec 2003	Underlying * change %
44,193	Loans to customers #	50,999	21
38,568	Customer accounts #	40,984	11
70,397	Total assets	80,960	21

\* excludes the impact of currency movements and sale of Allfirst

# excludes money market funds

		Dec	
2002 Tier 1	Dec 2003	6.9%	7.1%
Total		10.1%	10.4%

	Dec	2002
Dec 2003		
Tangible return on equity*#	27.4%	20.0%
Reported return on equity*	23.7%	14.5%

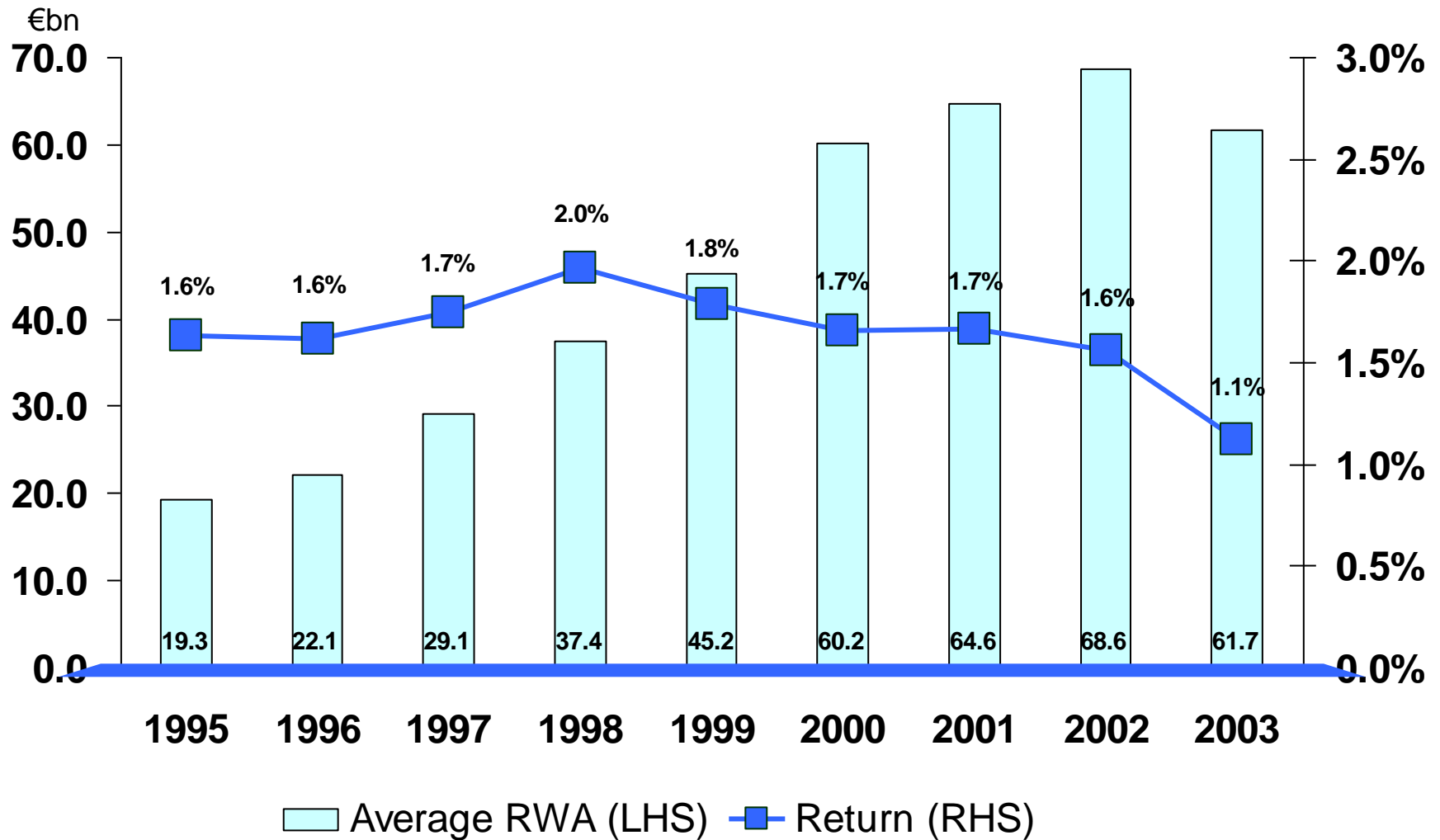
\* not comparable year on year due to Allfirst / M&T transaction

# excludes the impact of goodwill

31 Dec 2002	€m	31 Dec 2003	Underlying Change %*
18,821	AIB Bank Rol	24,119	28
8,666	AIB Bank GB & NI	10,055	26
22,833	Capital Markets	24,506	18
3,549	Poland	3,259	4
<b>54,126</b>	<b>Total RWA</b>	<b>62,615</b>	<b>23</b>

\* excludes the impact of currency movements

# Return on risk weighted assets



*2003 return on risk weighted assets, having absorbed loss on disposal of Govett, restructuring and early retirement costs and impact of Allfirst dividend withholding tax on Profit & Loss account*

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

Alan Kelly	<i>alan.j.kelly@aib.ie</i>		+353-1-6412162
David O'Callaghan	<i>david.a.o'callaghan@aib.ie</i>		+353-1-6414191
Pat Clarke	<i>patricia.m.clarke@aib.ie</i>		+353-1-6412381
Mary Gethings	<i>mary.gethings@aib.ie</i>		+353-1-6413469



+353-1-660 0311



+353-1-641 2075