The Irish Economic Update

Still good growth, but noticeable softening in activity indicators

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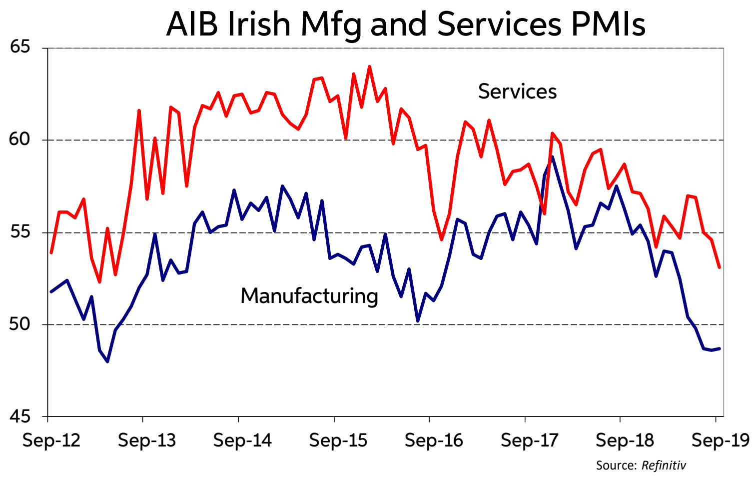
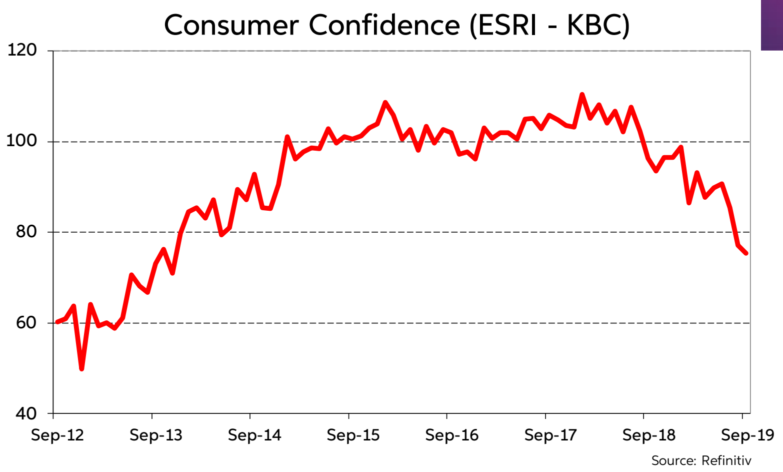
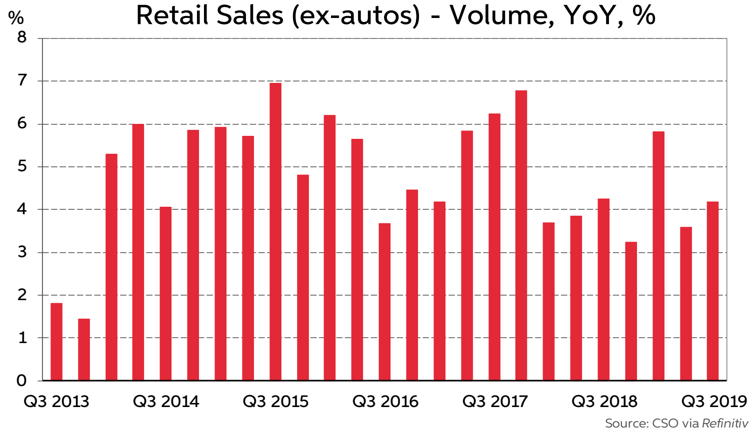
Strong growth by Irish economy in 2013-2018 period

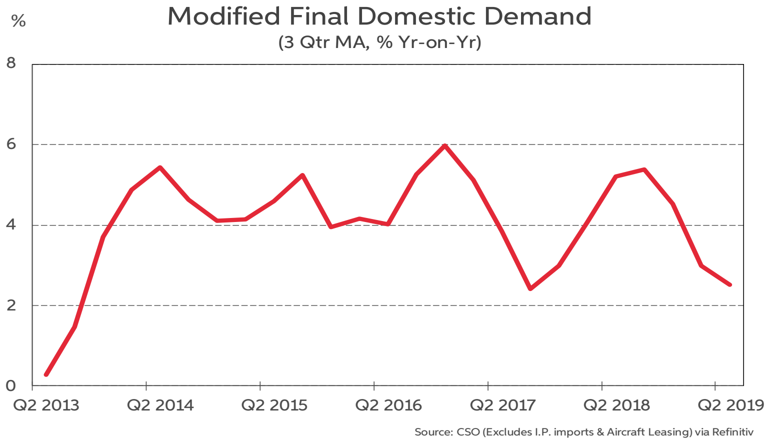
- Irish economy boomed from 1993 to 2007 with GDP up by over 250% – Celtic Tiger
- Very severe recession in Ireland in 2008-2009. GDP fell by 8.5% and GNP down 11%
- Collapse in construction activity and banking system, severe fiscal tightening, high unemployment. Ireland entered a 3 year EU/IMF assistance programme from 2010-2013
- GDP at end of 2008-09 recession was still over 25% higher than in 2001, highlighting that the economic crash came after a long period of very strong growth
- Ireland tackled its problems aggressively in the public finances, banking sector and property market. Imbalances in economy unwound – housing, debt levels, competitiveness, BoP
- Ireland focused on generating growth via its large export base as the route to recovery
- Economy grew very strongly over 2013-18 – underlying growth averaged 4.5% for the period
- Domestic economy has recovered strongly, led by rebound in investment and retail spending
- Strong jobs growth. Unemployment rate fell from 16% in early 2012 to near 5% in H1 2019
- Budget deficit eliminated at a quicker than expected pace. Public finances now in surplus

Survey data point to slowing activity









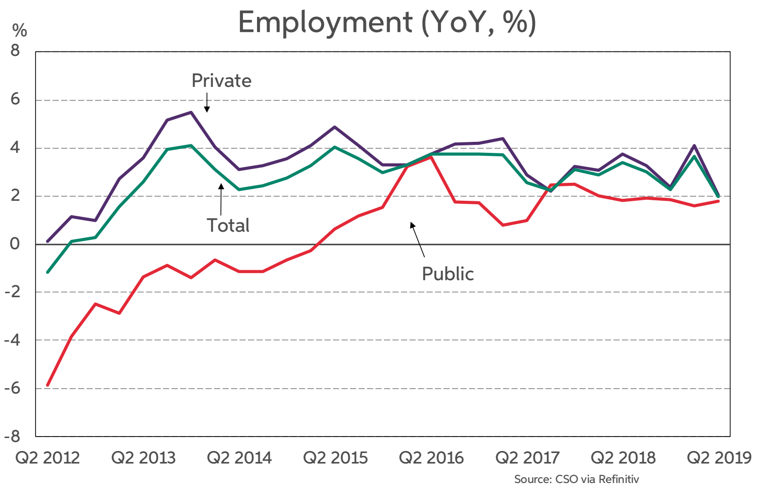
Some real indicators soften, activity surveys weaken

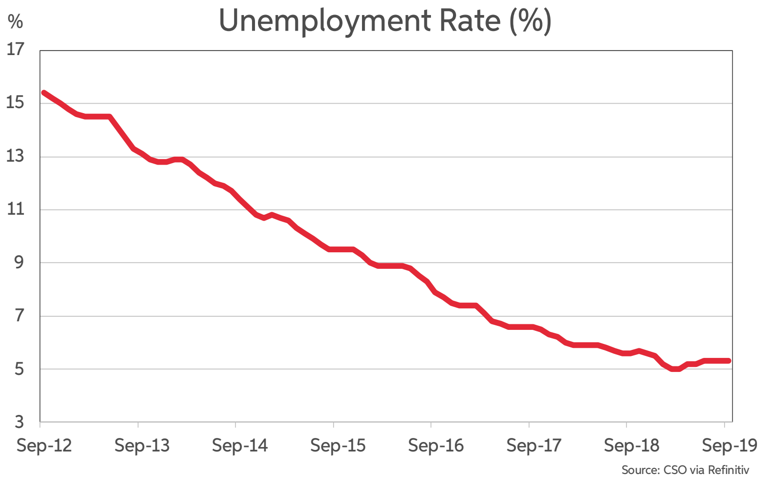
- Still good jobs growth – employment rose by 2% yoy in Q2 2019, but slowest rate since 2013
- Downtrend in unemployment rate stalls near 5%. Live Register levelling out in recent months
- Further increase in housing completions in H1 2019 – up 17% yoy, but slower rate than in 2018
- Rising housing commencements – also up 17% yoy in H1 2019, but again down on 2018 growth rate
- Mortgage lending slows to 11% yoy in H1 2019. But mortgage approvals have picked up this year
- Construction PMI falls to 48.3 in Sept. First sub-50 reading in 6 years. Housing PMI falls to 52.9
- Retail sales (ex-motor trade) up robust 4.5% yoy in Jan-Sept 2019, after 3.7% growth in 2018
- Total car registrations (new + second hand imports) down 1.8% yoy to end Sept – still very high level
- Manufacturing PMI weakens markedly over past year – hits 6-year lows of 48.6-48.7 during Q3
- Services PMI falls to 53.1 in Sept, fourth consecutive monthly decline to 6-year low also
- Consumer confidence falls further during Q3. At 6 year lows as Brexit fears weigh on sentiment
- Strong growth of 8.7% yoy in tax receipts to end Q3. Budget surplus of €670m expected in 2019

Jobs growth slowing; downtrend in unemployment stalls

Year Average	2016	2017	2018	2019(f)	2020(f)	2021(f)
Unemployment Rate %	8.4	6.8	5.8	5.2	5.0	4.8
Labour Force Growth %	1.9	1.1	1.8	1.8	1.6	1.8
Employment Growth %	3.7	2.9	2.9	2.5	1.8	2.0
Net Migration : Year to April ('000)	16.2	19.8	34.0	34.0	35.0	35.0

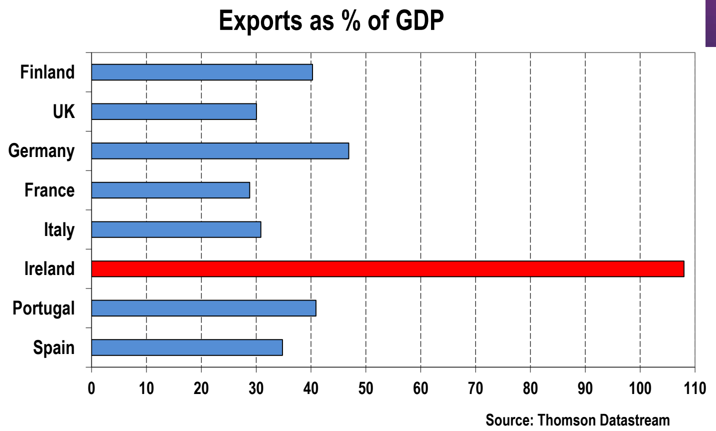
Source: CSO and AIB ERU forecasts

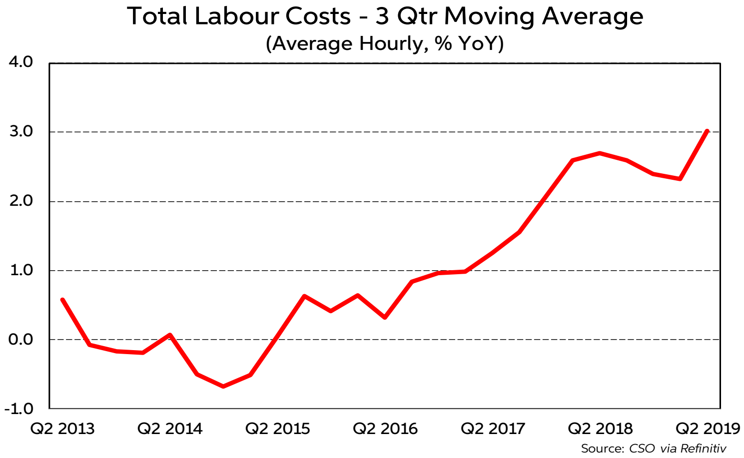


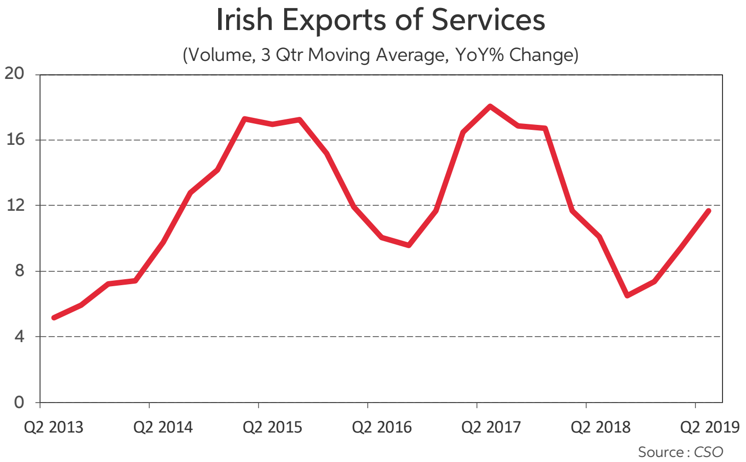


Large Irish export base performing very well

- Ireland a very open economy – exports, driven by enormous FDI, equate to well over 100% of GDP
- Major gains in Irish competitiveness earlier in decade - weaker euro also helpful
- Exports rise strongly, helped by large FDI inflows
- Total exports up by 10.4% in 2018, with a further big rise of 12.4% yoy in H1 2019







FDI and the Irish economy

WHAT ATTRACTS FDI TO IRELAND?

- Access to European markets
- Low corporate tax rate of 12.5%
- English speaking country
- Well educated, flexible workforce
- Common law legal system
- Stable political framework
- Long history of successful FDI
- Access to decision makers

KEY FDI IMPACTS ON THE IRISH ECONOMY

- Some 1,200 multinational companies
- €189bn in Exports
- 230,000 Jobs in FDI, 390,000 in total
- €7bn in Corporation Tax (67% of total)
- 33% of State's income tax/PRSI/USC
- €13.2bn Spending on Irish services/materials
- €11.7bn in Payroll
- 67% of Business R&D expenditure

WORLD LEADERS CHOOSE IRELAND

- 17 of the top 20 in ICT
- 10 of the top 10 in Pharmaceuticals
- 14 of the top 15 in Medical Devices
- 8 of the top 10 Industrial Automation
- 10 of the 'top born on the Internet' firms
- 20 of the top 25 Financial Services firms
- UK becoming less attractive for FDI owing to Brexit

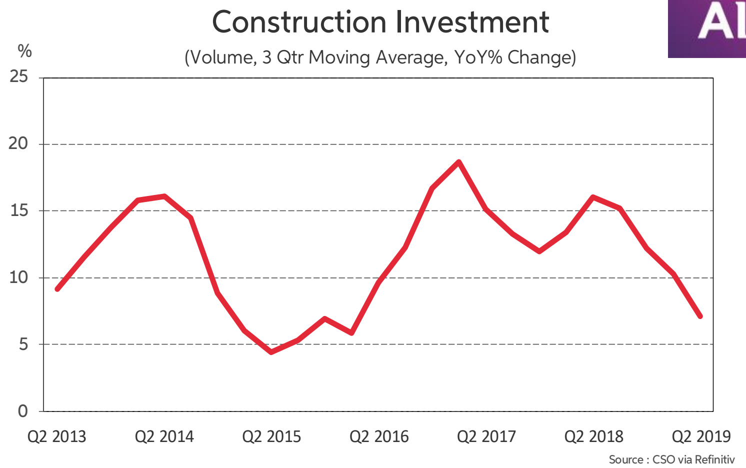
US TAX CHANGES HAVE NOT HIT FDI

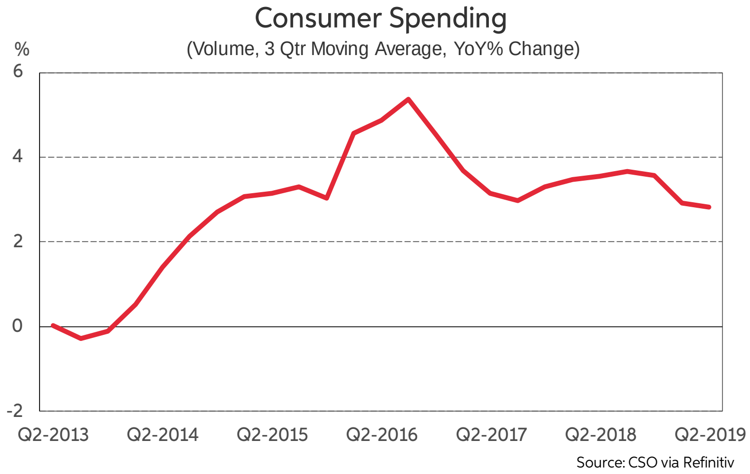
- US firms have well established operations here
- Need highly skilled, multi-lingual workforce
- Firms do not move Ireland to avoid US tax
- Ireland is base to service their European markets
- Easier to operate in local rather than US time zone
- Still wide gap between US & Irish corporate tax rates
- Very strong year for FDI in 2018

Many top global companies have big operations in Ireland

Domestic economy has rebounded strongly

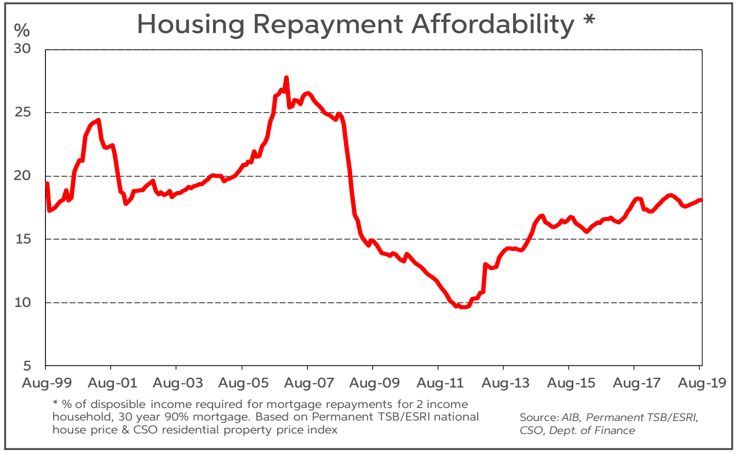
- Domestic economy contracted by 20% in period from 2008-2012, with particularly big fall in construction
- Construction sees strong recovery since 2013. Output up nearly 12% on average in last three years
- Output in construction rose 8.2 % yoy in H1 2019
- Business investment (ex aircraft/intangibles) has picked up strongly since 2013, but hit by Brexit uncertainty
- Consumer spending grew by 3.5% on average over 2014-2018 period. Up by 2.8% yoy in H1 2019
- Core retail sales rose by a strong 3.9% in 2018, and were up 4.5% yoy in Jan-Sept 2019
- Total car regs (new + used imports) rose to high levels in 2017-18. Down by modest 1.8% yoy Jan-Sept 2019
- Modified final domestic demand grew at 4.4% rate in 2014-2018 period. Up 2.9% yoy in Q2 2019





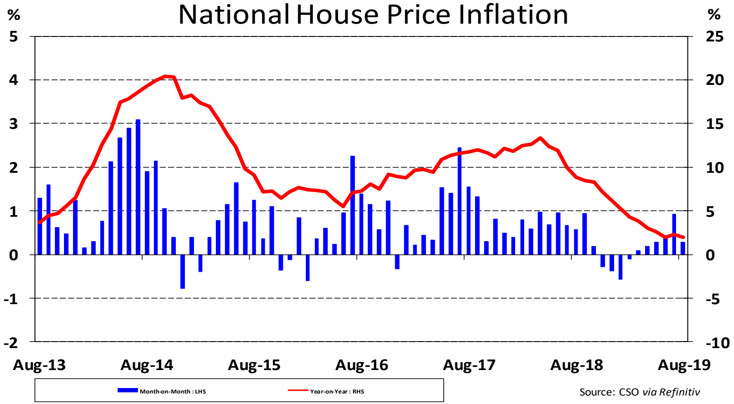
House building on the rise, but still at quite a low level

- Housing completions up 17% yoy in H1 2019 - rose by 25% to over 18,000 in 2018
- Housing commencements also rose 17% yoy during H1 2019 after a 28% increase in 2018
- Planning permissions up 18% in H1 2019, with 12 month running total now above 30,000
- Measures put in place to boost new house building. More involvement of Local Authorities and NAMA
- Housing output still running well below annual new housing demand, estimated at 35,000 units
- Completions of 21-22k this year; forecast 25k in 2020
- Mortgage lending +20% in 2018, but slowed to 11% in H1 2019. Mortgage approvals pick up year-to-date
- Rising house price have impacted affordability, but it remains at a relatively accommodative level

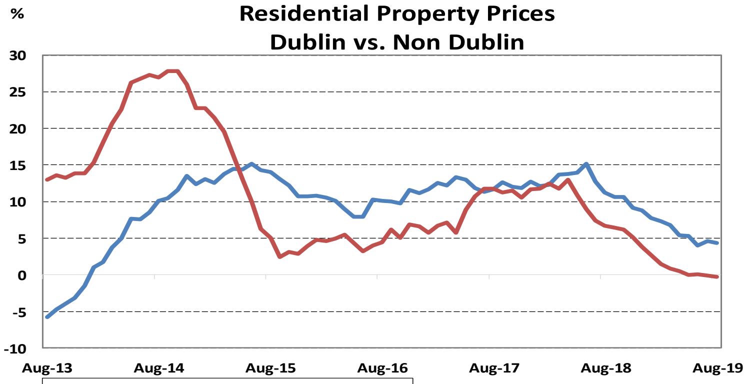


House price inflation slows sharply

- House prices declined by a very sharp 55% between their peak in late 2007 and early 2013
- House prices have since rebounded as big housing shortage emerged after 90% fall in house building
- Prices up 85% by Aug 2019 from low in March 2013 – Dublin prices up by 95%, non-Dublin rise 84%
- But house prices still some 17% below 2007 peak
- House price inflation slows sharply reflecting Central Bank rules, though signs recently may be stabilising
- Prices up 2% yoy nationally in August 2019, down from high of 13.3% in April 2018
- Dublin prices fall 0.3% yoy in Aug, down from +13% in Apr '18; non-Dublin slows to 4.4% from 15% last year
- Rents have also rebounded strongly –31.5% above previous peak reached in 2008, per CSO data



Source: CSO *via Refinitiv*



Source: CSO *via Refinitiv*

AIB Model of Estimated Housing Demand

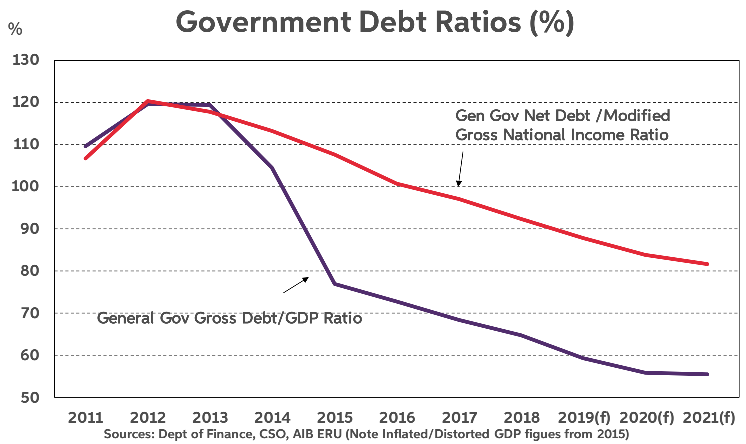
- Rising headship rates added circa 8,000 per year to housing demand in 2002-2011 period
- Shortage of housing, high rents, tighter lending rules saw average household size rise in 2011-16. Thus, headship fell – was a drag of circa 10,000 p.a. on housing demand
- Assume no change in headship in 2016-2020 – note long-term trend is upwards, adding to demand
- Pent-up demand has also built up in recent years from lack of supply
- Thus, forecast table may be under-estimating actual real level of housing demand
- Shortfall in supply met from run down of vacant stock and demand being reduced by fall in headship rate. Both factors very evident in 2011-16 and most likely in 2016-20

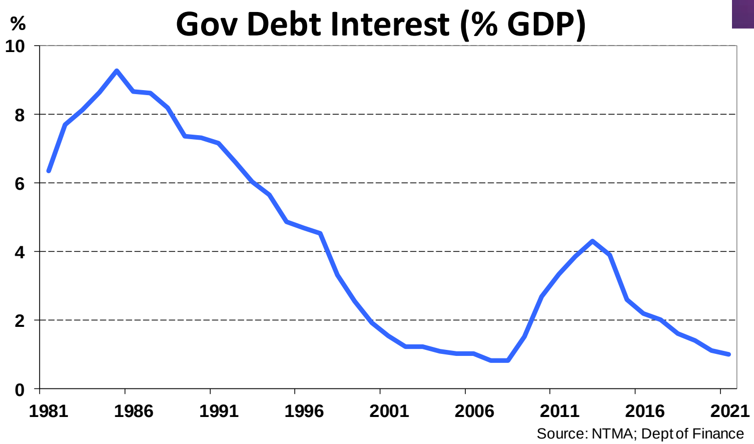
Calendar Year	2016	2017	2018	2019	2020
Household Formation	26,500	26,500	26,500	27,500	27,500
of which					
Indigenous Population Growth	*18,000*	*18,500*	*17,500*	*16,500*	*14,500*
Migration Flows	*8,500*	*9,500*	*12,000*	*13,000*	*13,000*
Headship Change*	*0*	*0*	*0*	*0*	*0*
Second Homes	500	500	500	500	500
Replacement of Obsolete Units	5,000	5,000	5,000	5,000	5,000
Estimated Demand	**32,000**	**33,500**	**35,000**	**35,000**	**33,000**
Completions	**9,900**	**14,400**	**18,100**	**21,500**	**25,000**
Shortfall in Supply	***-22,100***	***-19,100***	***-16,900***	***-13,500***	***-8,000***

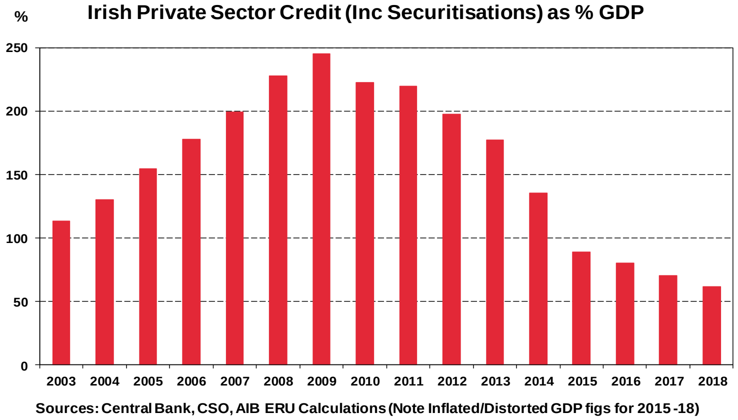
**Headship is % of population that are heads of households.*

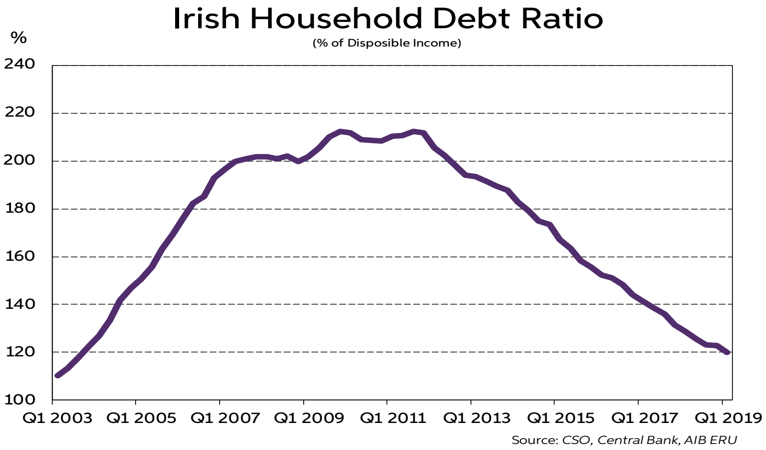
Sources: CSO, DoECLG, AIB ERU

Govt debt ratios fall, private sector deleverages



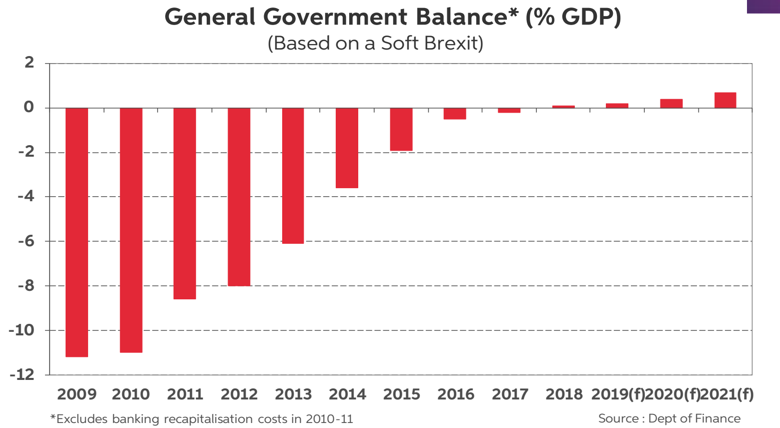


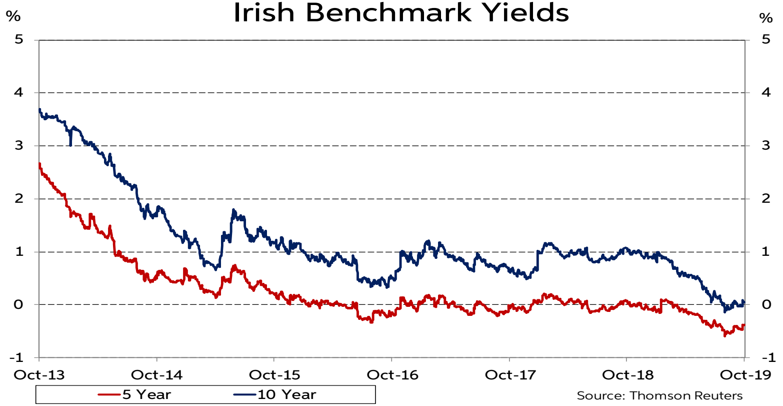




Government finances return to surplus in 2018/19

- Budget deficit has fallen sharply in past decade. Declined to 0.2% of GDP in 2017
- A small surplus was recorded in 2018, estimated at less than 0.1% of GDP
- Public finances slightly ahead of target this year – strong tax receipts, up 8.7% yoy to end Sept
- Surplus projected to rise to €670m (0.2% of GDP) in 2019
- Primary budget surplus (i.e. excluding debt interest) of 1.6% of GDP in 2019
- Debt interest costs very low – at 1.4% of GDP
- Budget 2020 assumes a hard Brexit that would see a return to modest deficit of 0.6% of GDP
- Gross Gov Debt/GDP ratio has fallen sharply
- Irish bonds yields turn negative out to 10 years
- Sovereign debt ratings upgraded in recent years; S&P at A+, Fitch at A+, Moody's A2 for Ireland





Further extension to Article 50 as ‘Brexit’ election looms

- March exit date deferred as UK Parliament was unable to support Withdrawal Agreement
- EU granted an extension to Article 50 up to end October
- EU and UK agree revised Brexit deal at mid-October Heads of State Summit
- Deal does not get through Parliament, though Bill passed the second stage
- Further extension to Article 50 to 31 January 2020 granted by EU
- Deal basically is a soft Brexit for NI, but could prove a hard Brexit for rest of UK
- NI to remain within Single Market for goods and have dual EU-UK customs system
- UK election called for 12th of December. Outcome will have big bearing on Brexit
- Hung Parliament would be problematic as EU unlikely to keep extending Article 50
- If the revised deal approved, then trade talks next year will determine final shape of Brexit
- Risk of minimal trade deal if Conservatives win and put focus on ‘taking back control’

Brexit expected to lower growth rate of Irish economy

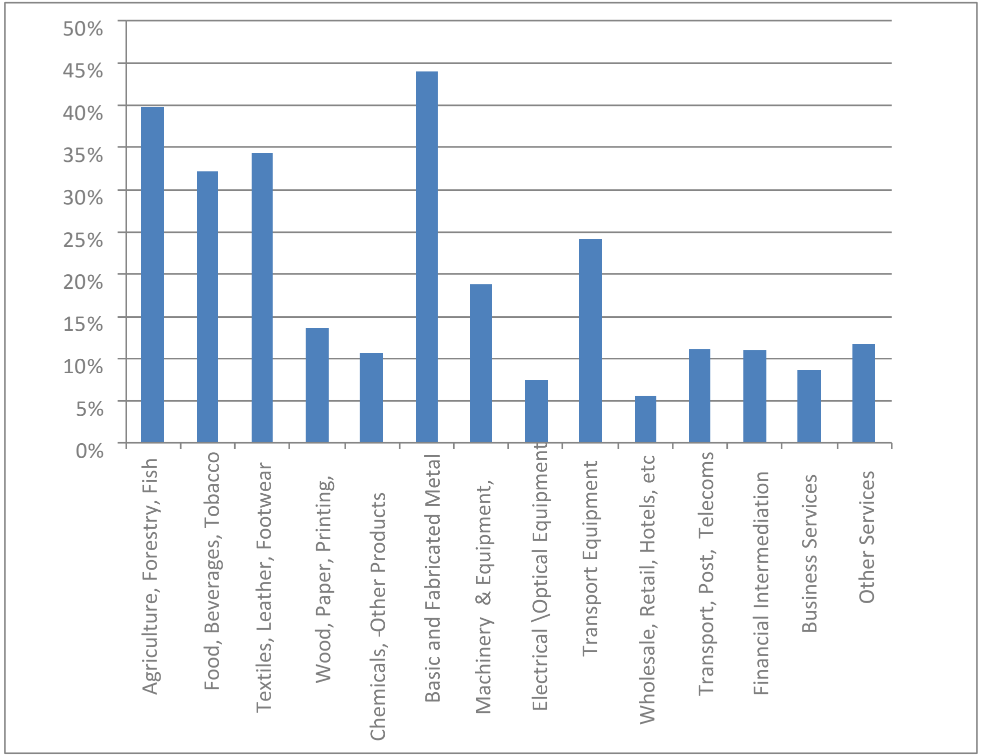
- **ESRI** estimate that Irish output would be reduced over time by **2.6% under a benign 'deal' scenario** in the long run (i.e. after 10 years). Unemployment rate is 1% higher
- **Multiple hits to the Irish economy from a no-deal Brexit**: further collapse in sterling, recession in UK, disruption to trade/supply lines, tariffs, new adm. and regulatory costs
- Sharp fall-off in trade with UK likely on a no-deal Brexit, with this **shock front loaded -** around half of the impact on trade would take place in the first two years, per ESRI
- In a '**disorderly no deal'** scenario, ESRI estimates that GDP would be **5% lower** after 10 years. Unemployment rate would be 2 percentage points higher
- **Central Bank** say a disorderly hard Brexit could reduce Irish growth by 4% in first year and 6% in long run

- **Copenhagen Economics** Report considered costs of regulatory divergence for goods and services and of border checks, as well as tariffs in assessing impact of Brexit
- Estimates impact by 2030 is to **reduce Irish GDP by** 2.8% under a soft Brexit (EEA), **4.3% in a FTA** and 7% in a no-deal, hard Brexit WTO scenario

Agri. sector would be severely impacted by hard Brexit

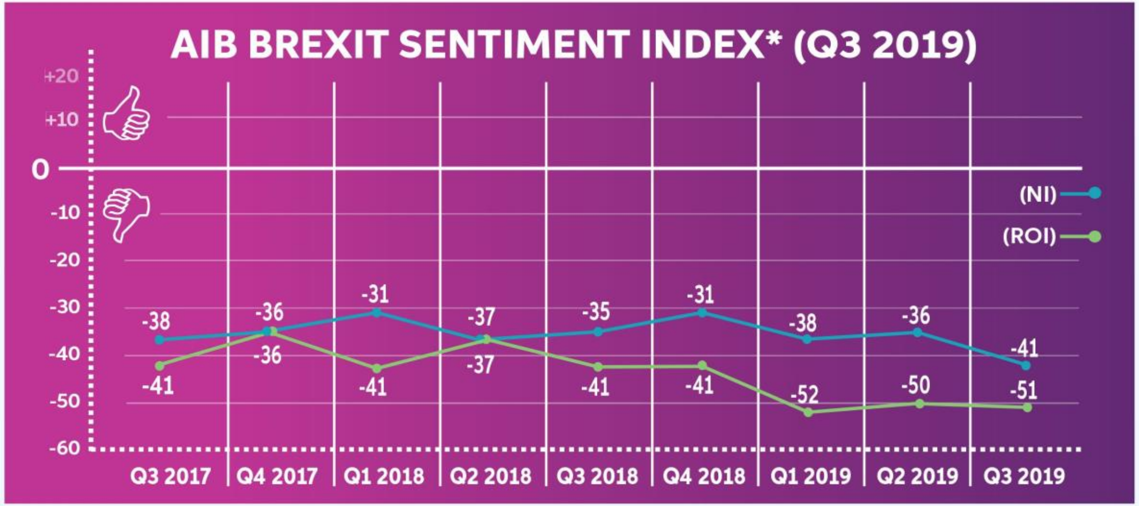
- Main EU tariffs relate to food products, keeping prices high. UK may also impose tariffs on all food imports post Brexit
- Food and Beverages account for 25% of total Irish exports to UK
- Around 40% of Irish food exports go to the UK – key market for beef and cheese
- Other sectors very dependent on UK market include machinery and transport, metal products, textiles
- Some 40% of indigenous Irish exports go to UK compared to 10% for foreign owned companies

Share of Exports by Industry Destined for the UK (ESRI)



AIB Brexit Sentiment Index – Q3 2019

- A total of ***700 SME's (with up to 250 employees)*** across the island of Ireland



Source: Ipsos MRBI

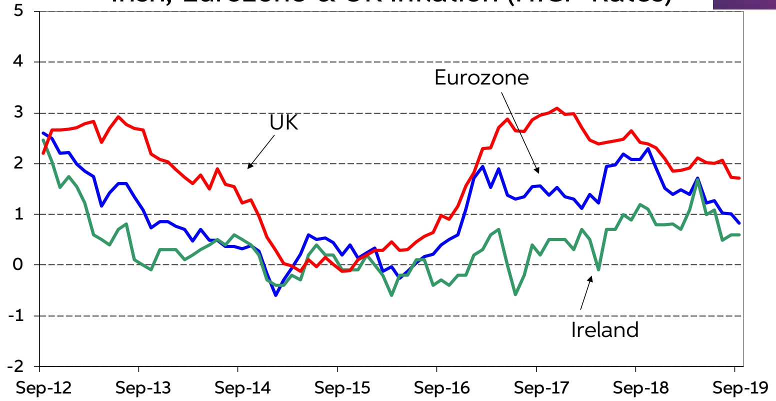
*The Index reflects and measures the sentiment of Irish SMEs in the Republic of Ireland and Northern Ireland towards Brexit, summarised as a single number, with a potential range from +100 to -100. It takes the difference between the positive and negative responses across four key measures: Impact on business now, Impact on future business (next 5 years), Level of visibility and, finally, the Wider economic impact of Brexit.

- Headline index **weak again** in Q3. One of the most notable features of the survey this year is the number of firms that say Brexit is having a negative **impact on their business now**
- Manufacturing, Food & Drink, Transport, Tourism and Retail **sectors most concerned** about Brexit
- 50% of RoI and 66% of NI firms who had **investment plans** say they have been **cancelled or postponed** owing to Brexit.
- **Big jump in expectations of a hard Brexit** to 59% in RoI and 32% in NI

Good Irish growth can continue if external risks avoided

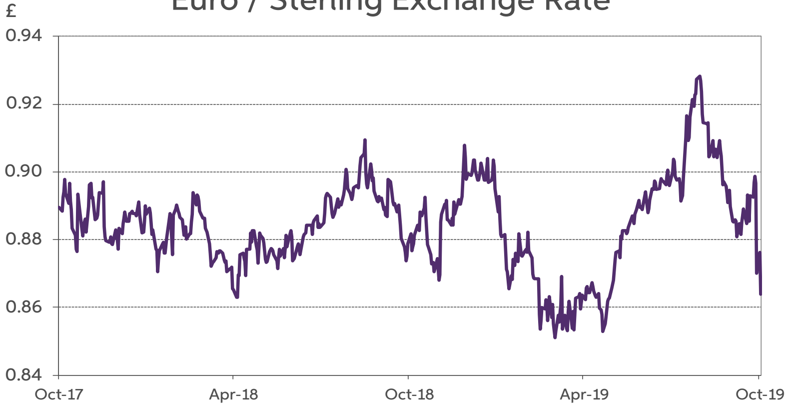
- Irish economy should continue to grow at impressive pace, but not as strongly as in recent years
- Construction picking up from still low output levels
- Public spending on the rise
- Activity supported by low interest rate environment
- Good growth in household incomes
- Continuing strong inflows of FDI
- Irish inflation still very low
- However, Brexit is a real challenge for the economy
- Important also that global economy avoids downturn
- GDP growth forecast at 3.25% in 2020 & 3% in 2021, assuming hard Brexit/global downturn avoided
- ESRI has estimated medium-term growth rate of economy at around 3.25% in the period 2020-2025

Irish, Eurozone & UK Inflation (HICP Rates)



Source: Refinitiv

Euro / Sterling Exchange Rate



Source: Refinitiv

AIB Irish Economic Forecasts

% change in real terms unless stated	2017	2018	2019 (f)	2020 (f)	2021 (f)
GDP	**8.1**	**8.2**	**5.0**	**3.25**	**3.0**
GNP	5.1	6.5	3.0	3.0	2.75
Personal Consumption	3.0	3.4	3.0	2.5	2.2
Government Spending	3.9	4.4	4.0	3.0	3.0
Fixed Investment	-6.6	-21.1	51.5	6.0	5.0
Core Fixed Investment*	4.0	13.0	5.0	5.0	5.0
Exports	9.2	10.4	10.0	5.0	4.5
Imports	1.1	-2.9	23.5	5.5	5.0
HICP Inflation (%)	0.3	0.7	0.9	1.1	1.3
Unemployment Rate (%)	6.8	5.8	5.2	5.0	4.8
Budget Balance (% GDP)	-0.2	0.1	0.2	0.4	0.5
Gross General Gov Debt (% GDP)	68.0	63.5	59.3	55.5	55.0

*Excludes investment in aircraft and intangibles

Source: CSO, D/Finance; AIB ERU Forecasts

Risks to the Irish economy

- Main risks to Irish recovery no longer internal but external, in particular Brexit
- Brexit major issue for Ireland given its strong trading links with UK and sharp fall by sterling
- Slowing external environment, with growing downside risks to global growth from increasing protectionism/tariffs, declining world trade/manufacturing activity, weak European economy
- Questions around Ireland’s corporation tax regime (Apple ruling, moves on tax harmonisation in EU, cuts in US/UK rates, OECD tax reform proposals) could impact FDI
- Supply constraints in new house building activity, which is recovering at a slow pace with output still at low levels
- Competitiveness issues - high Dublin house prices, high rents, high personal taxes, rising wages
- Credit constraints – tightening of lending rules, on-going deleveraging, weak credit demand

Note: All Irish data in tables are sourced from the CSO unless otherwise stated. Non-Irish data are from the IMF, OECD and Thomson Financial. Irish forecasts are from AIB Economic Research Unit. This presentation is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This presentation is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by First Trust Bank. In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and First Trust Bank are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.