The Irish Economic Update

Economy Continues To Perform Well Despite Concerns Over Brexit

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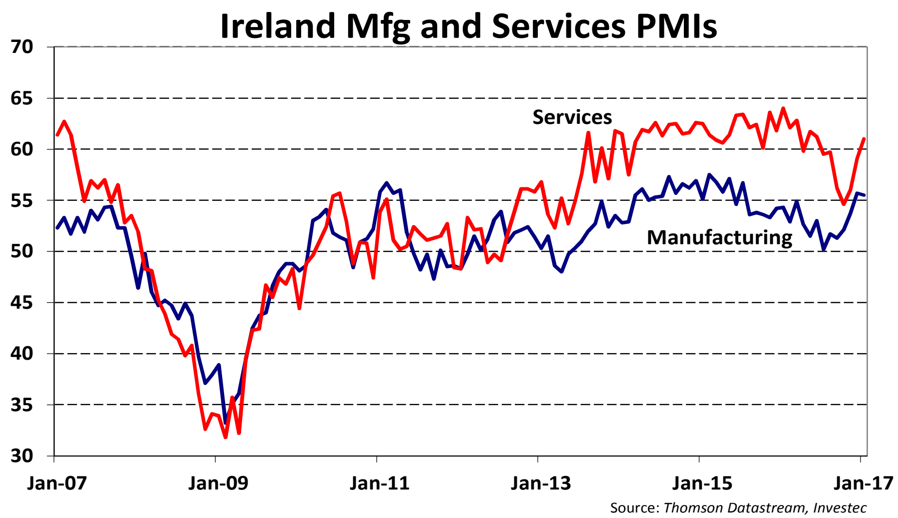
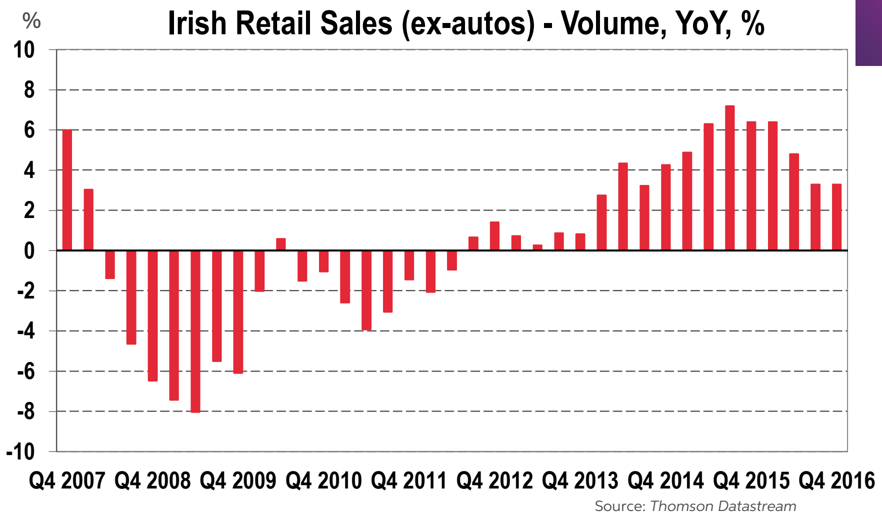
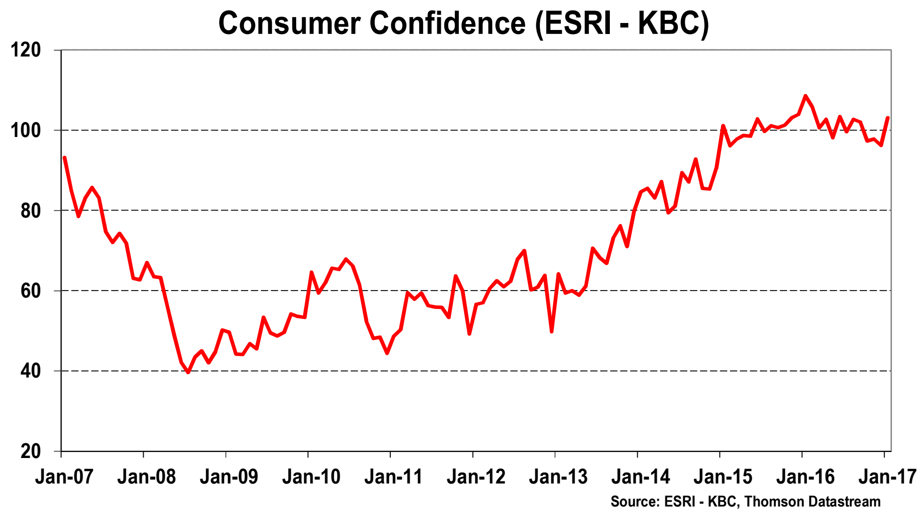
Strong recovery by Irish economy since 2013

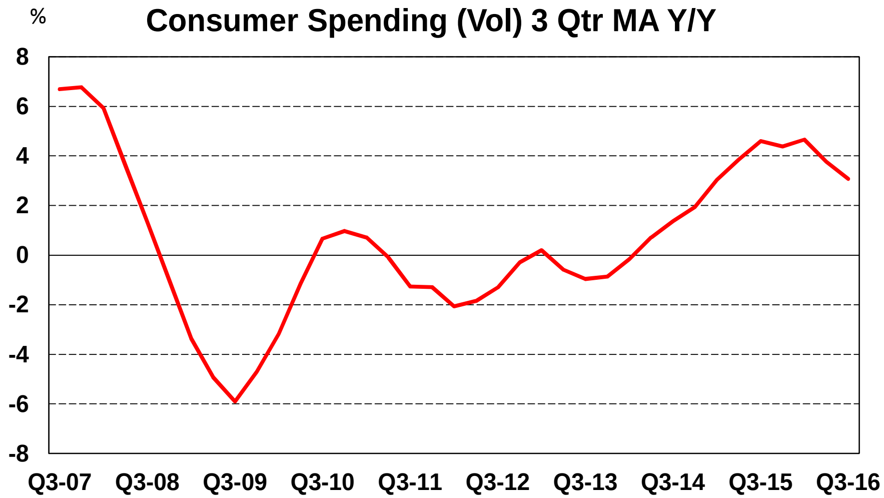
- Irish economy boomed from 1993 to 2007 with GDP up by over 250% – Celtic Tiger
- Very severe recession in Ireland in 2008-2009. GDP fell by 8% and GNP down 10%
- Collapse in construction activity and banking system, severe fiscal tightening, high unemployment. Ireland entered a 3 year EU/IMF assistance programme from 2010-2013
- GDP at end of 2008-09 recession still over 25% higher than in 2001, highlighting that the economic crash came after a very strong period of growth, unlike in other countries
- 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 rebounds strongly in 2013-16 period. (Note 2015 GDP/GNP data distorted)
- Domestic economy has recovered strongly, led by rebound in investment and retail spending
- Core domestic demand averaged growth of 4% in the period 2013-15
- Strong jobs growth. Unemployment rate fallen from 15% in 2012 to 7.3% in late 2016
- Budget deficit has declined at quicker than expected pace. Circa 1% of GDP in 2016

UK Brexit vote had limited impact on Irish data









Source: CSO

Strong start by economy to 2017

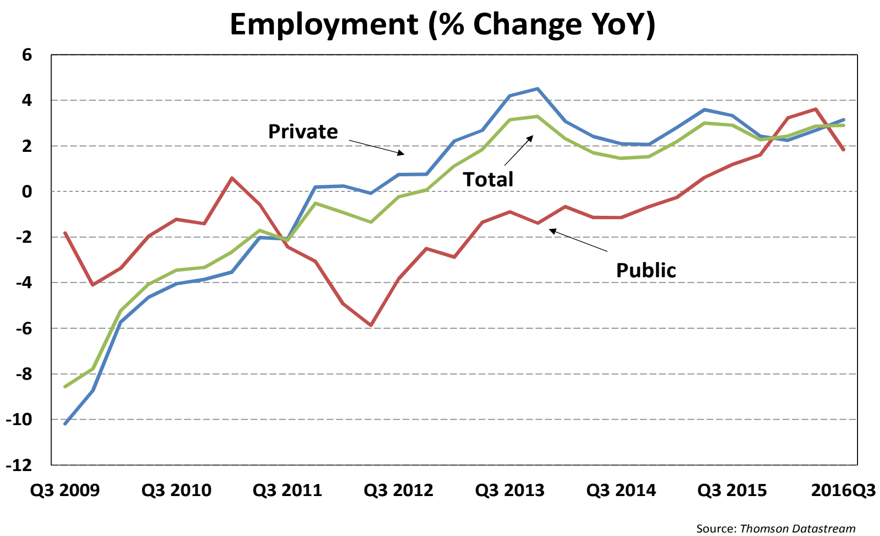
- GDP growth averaged strong 4.5% year-on-year in Q1-Q3 2016
- Slower growth in service exports of 6.5% yoy in Q1-Q3 2016 after a big rise in 2015
- Mfg PMI weakened after Brexit vote before rebounding strongly. At 55.5 in January
- Strong rebound by services PMI after marked decline on Brexit vote. Hits 61.0 in January
- Construction PMI performed strongly throughout 2016 – averaged around 60.
- Consumer confidence rebounds strongly in January – near 15 year highs hit in Q1'16
- Retail sales (ex-auto) resume strong growth in Q4 (+1.4%) after flat Q3 post Brexit vote
- New car sales remained at high level in January 2017 after surging in 2014-16 period
- Housing completions up by 17% yoy in first eleven months of 2016
- Mortgage lending picks up strongly during 2016 after slowing in 2015 on CB lending rules
- Strong employment growth in 2016 – up 2.9% yoy in both Q2 and Q3
- Live Register continued its decline in January. Jobless rate falls to 7.1% in January
- Strong growth in tax receipts in January. Rise by 6% yoy

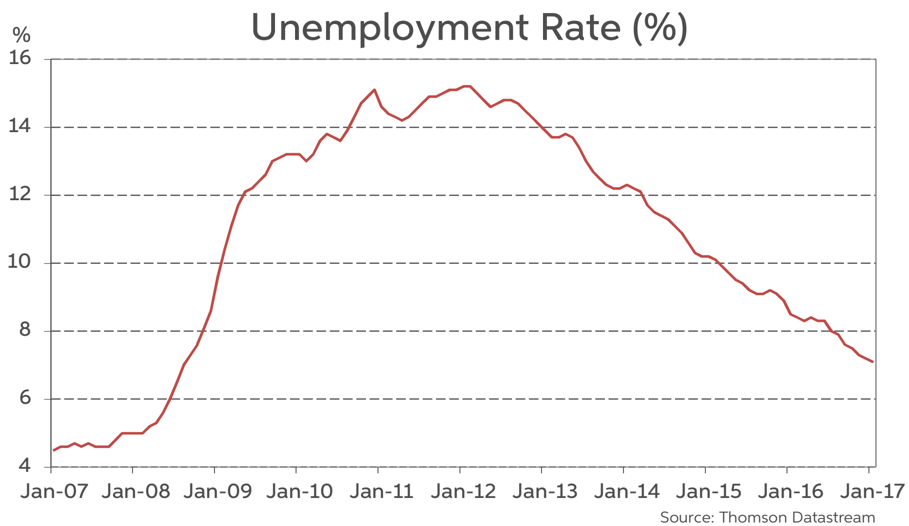
Strong jobs growth; unemployment falls sharply

Year Average	2013	2014	2015	2016(f)	2017(f)	2018(f)
Unemployment Rate %	13.1	11.3	9.5	8.1	7.2	6.6
Labour Force Growth %	0.4	-0.3	0.5	1.2	1.2	1.1
Employment Growth %	2.4*	1.7	2.6	2.8	2.1	1.7
Net Migration : Year to April ('000)	-33.1	-21.4	-11.6	3.0	10.0	15.0

** Employment ex Agriculture +1.3% in 2013*

Source: CSO and AIB ERU forecasts

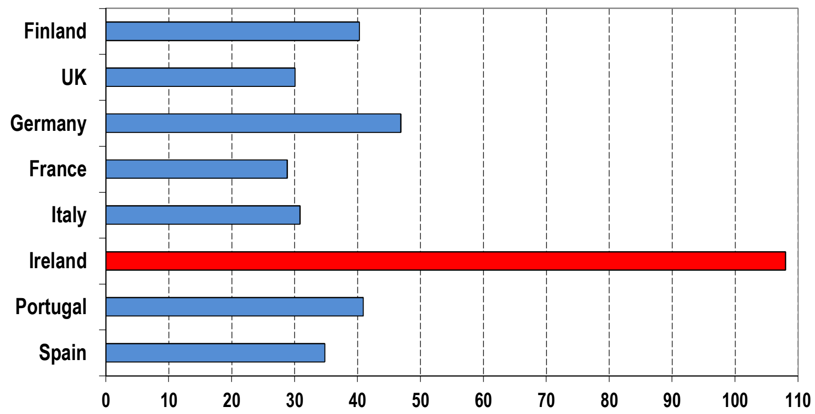




Large Irish export base performs well

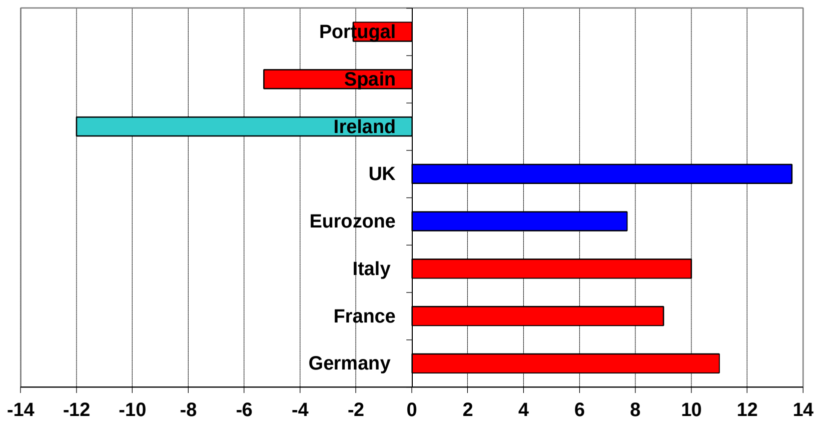
- Ireland a very open economy – exports, driven by huge FDI, equate to well over 100% of GDP
- Major gains in Irish competitiveness since 2009, with weakening of euro also helpful
- Exports have risen strongly, helped by large FDI inflows and recovery in global economy
- Sterling's sharp fall a challenge for exports to UK

Exports as % of GDP



Source: Thomson Datastream

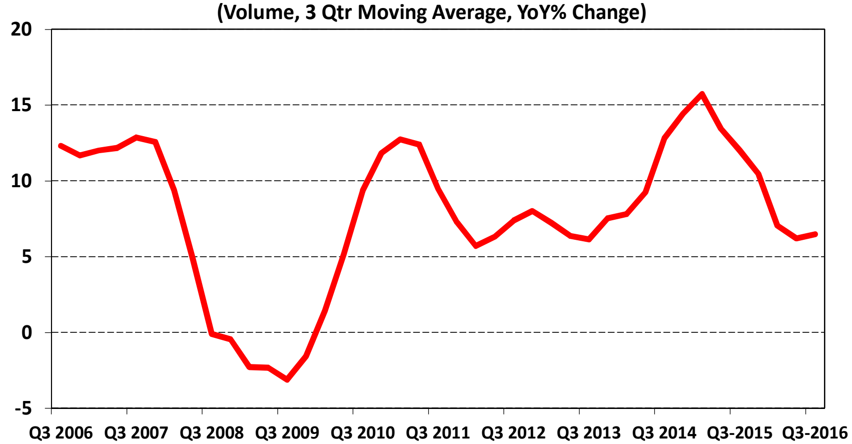
Unit Labour Costs 2009-2013 (% Change)



Source: EU Commission

Irish Exports of Services

(Volume, 3 Qtr Moving Average, YoY% Change)



Source : *CSO*

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
- Easy access to decision makers

KEY FDI IMPACTS ON THE IRISH ECONOMY

- 1,200 multinational companies
- €150bn Exports (64% of Irish exports)
- 200,000 Jobs in FDI, 340,000 in total
- 70% of Corporation Tax
- €8.7bn Spending on Irish services/materials
- €10bn in Payroll
- 67% of Business R&D expenditure

WORLD LEADERS CHOOSE IRELAND

- 8 of the top 10 in ICT
- 9 of the top 10 in Pharmaceuticals
- 17 of the top 25 in Medical Devices
- 3 of the top 5 Games companies
- 10 of the 'top born on the Internet' firms
- More than 50% of the world's leading Financial firms

TRUMP TAX CHANGES SHOULD 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
- Risk of protectionism means need bases abroad
- No certainty about future US tax policy
- More likely to repatriate profits if US taxes cut

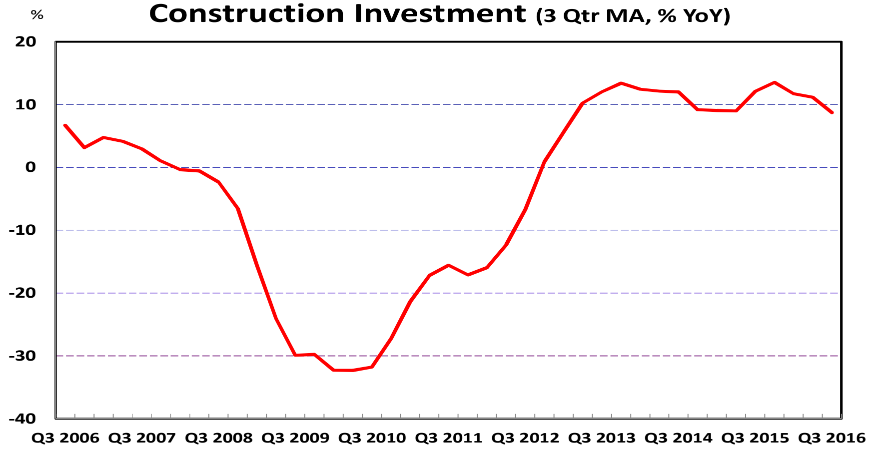
Many top global companies have big operations in Ireland

AIB

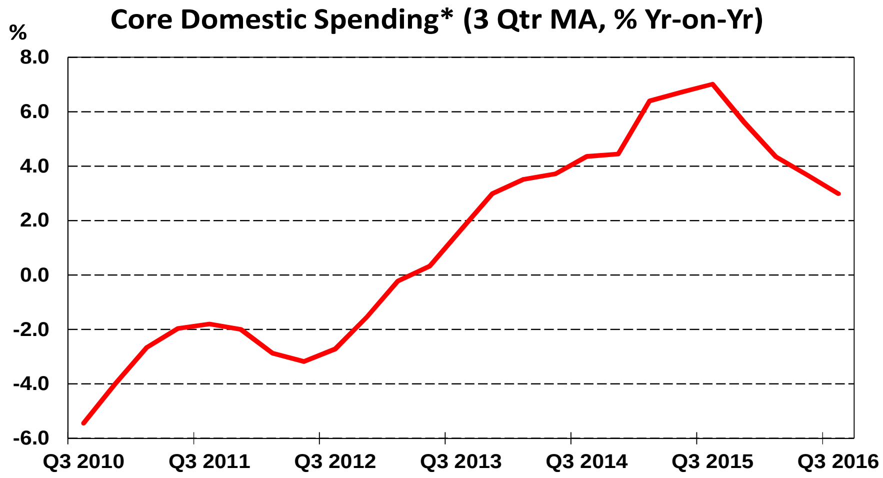
ebay
Abbott
Pfizer
Boston Scientific
facebook
gsk GlaxoSmithKline
BNY MELLON
Google
citi
ZURICH
EMC2 where information lives
DELL
IBM
intel
ANALOG DEVICES
SAP
NOVARTIS
Microsoft
SIEMENS
accenture
Johnson & Johnson
STATE STREET

Slower growth by domestic economy last year

- Domestic economy contracted by 20% from 2008-12
- Collapse in construction was big drag on GDP - fell from 13.5% of GDP in 2005-07 to 5.3% by 2012
- Construction has seen steady growth since 2013 of circa 10% per annum – continued in 2016
- Business investment (ex planes/R&D) more than doubled in 2013-2015 but fell back in 2016
- Consumer spending grew by 1.7% in 2014, 4.5% in 2015 and 3.2% yoy in Q1-Q3 2016
- Core domestic spending (ex aircraft, R&D, Intangibles) averaged growth of 4.4% in 2013-2015
- Slower growth of 3% yoy in core domestic spending in Q1-Q3 2016 as business investment declined
- Core retail sales rebound strongly in Q4 2016 after slowing on Brexit vote around mid-year
- Car sales remained at high level in January 2017



Source : CSO

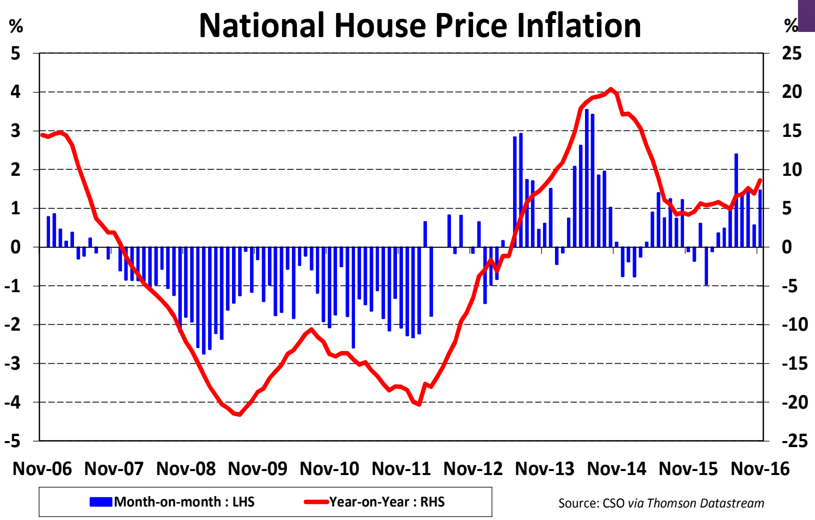


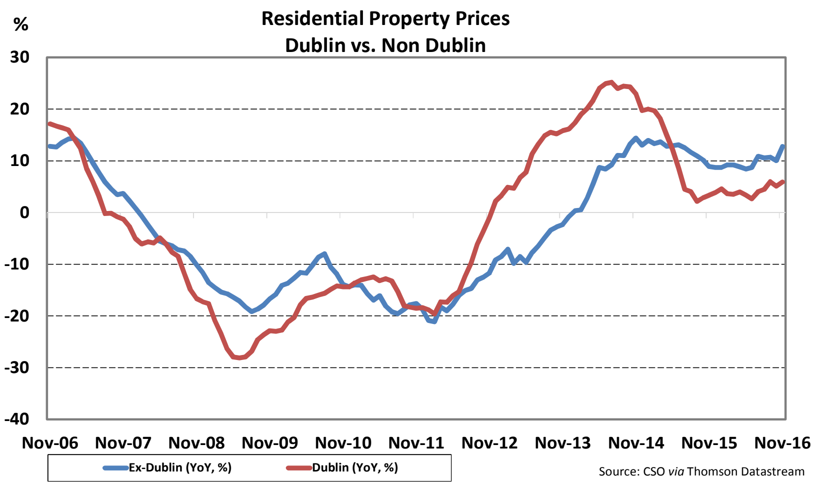
*Domestic Spending excluding investment in aircraft and intangibles

Source: CSO, AIB ERU Calculations

House prices rebound as big housing shortage emerges

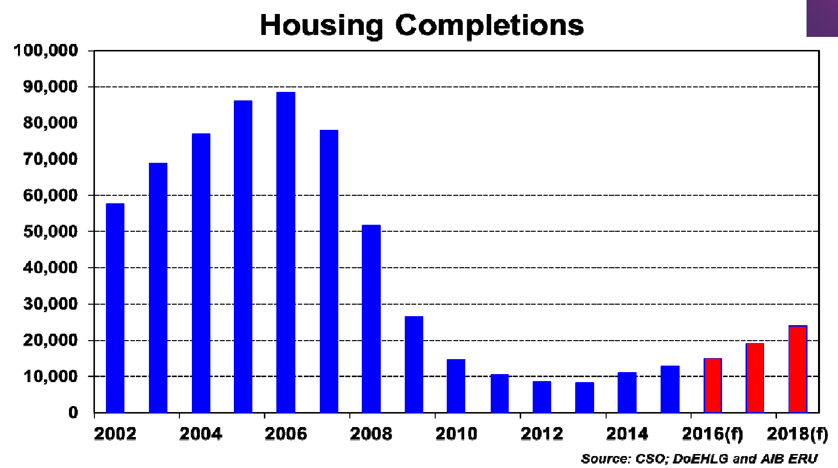
- House prices declined by a very sharp 55% between their peak in late 2007 and early 2013
- House prices then rebound as big housing shortage emerges after 90% fall in new house building
- Supply overhang eliminated with little stock for sale
- Prices up 50% by Nov 2016 from low in early 2013
- Dublin prices up by 65% from trough, with non-Dublin prices up by 48%
- House prices, though, including in Dublin, are still some 32% below peak levels hit in 2007
- Central Bank mortgage rules cooled Dublin house price inflation in 2015– fell from 25% to 3% yoy
- House prices inflation picked up again 2016. Prices up 8.6% yoy nationally in November, Dublin up 6%
- Rents have also rebounded strongly – now 12 % above previous peak reached in 2008

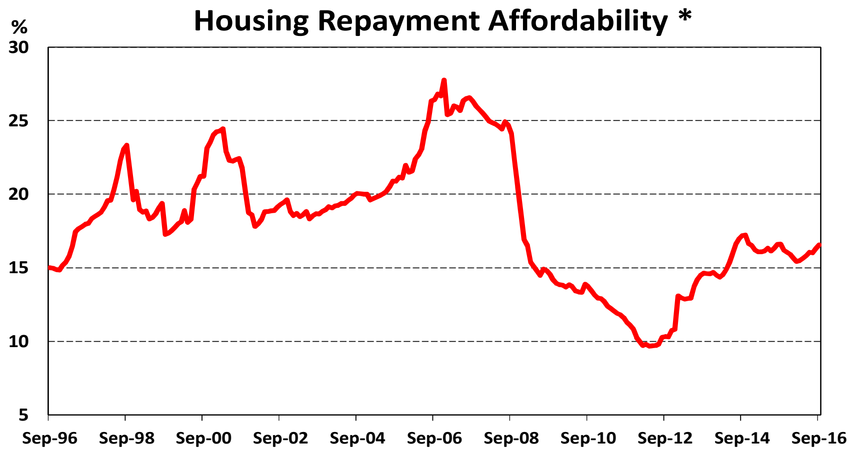




House building rising only slowly from very low levels

- Housing completions at 12,700 in 2015, up from 11,000 in 2014 and 8,300 in 2013
- Completions up 17% to November 2016. Should reach 15,000 units last year but still at low level
- Annual demand estimated at 25,000-30,000 units
- Measures being put in place to boost new house building. More Local Authority and NAMA building
- Central bank lending rules relaxed while tax rebate introduced in budget to help fund deposits for FTB
- Mortgage lending has picked up after slowing in 2015/early 2016 on introduction of CB rules
- Housing affordability helped by low mortgage rates
- Improving trend in new housing starts a positive sign that housing completions will continue rising
- However, likely to be 2018/19 before housing output rises to 25,000 units or above





* % of disposible income required for mortgage repayments for 2 income household, 30 year 90% mortgage. Based on Permanent TSB/ESRI national house price & CSO residential property price index

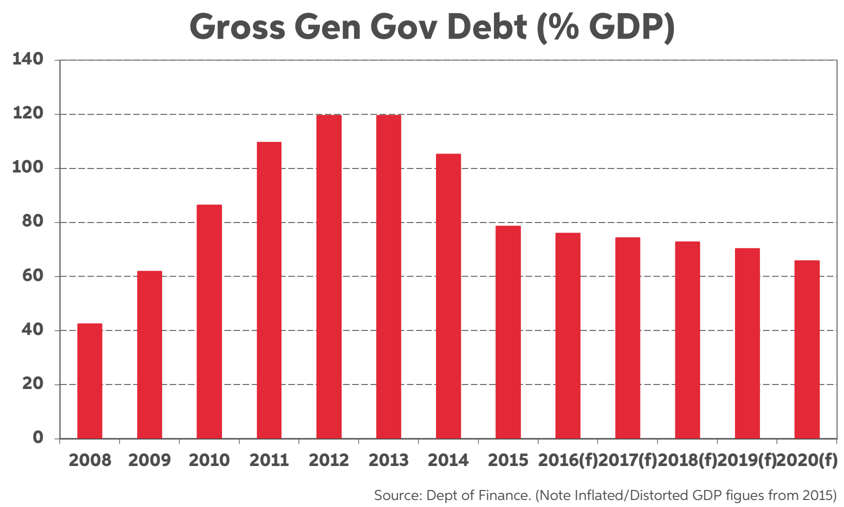
Source: *AIB, Permanent TSB/ESRI, CSO, Dept. of Finance*

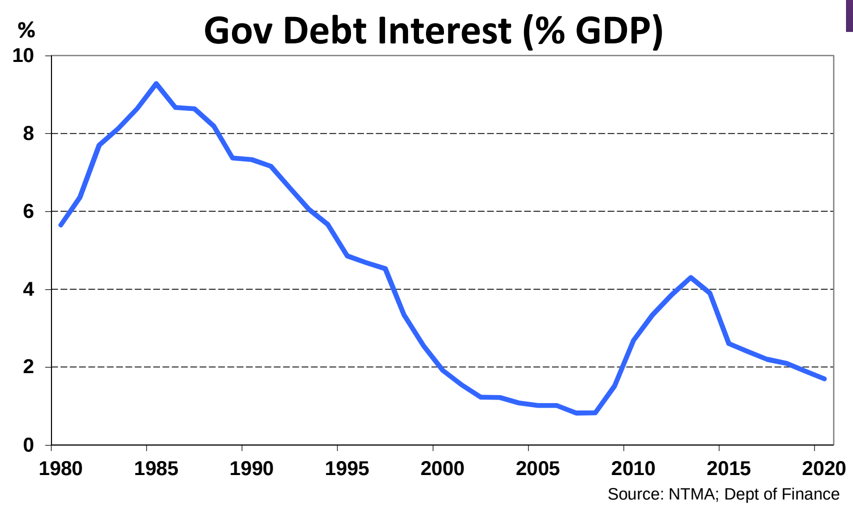
AIB Model of Potential Housing Demand

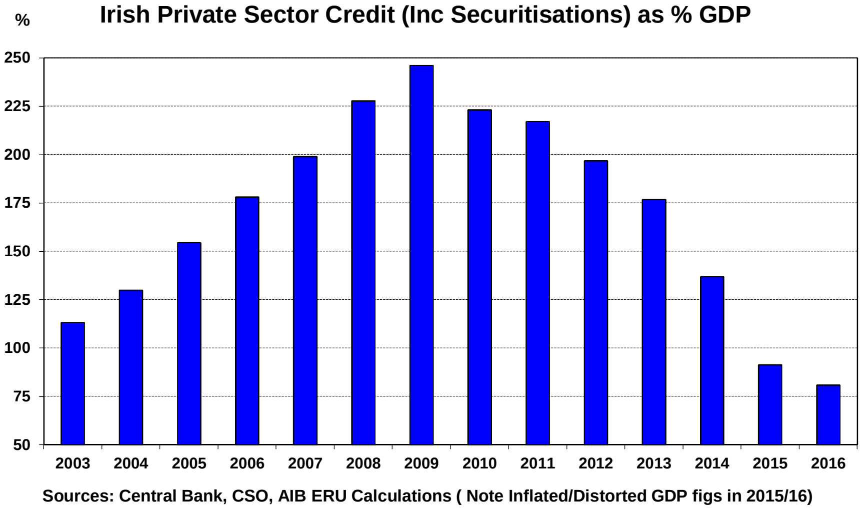
Calendar Year	2012	2013	2014	2015	2016	2017	2018
Household Formation	14,000	15,000	16,500	19,500	21,500	22,000	23,000
of which							
Indigenous Population Growth	*20,000*	*17,500*	*17,000*	*17,500*	*17,000*	*16,000*	*15,500*
Migration Flows	*-9,000*	*-5,500*	*-3,500*	*-1,500*	*1,000*	*2,500*	*3,500*
Increased Headship	*3,000*	*3,000*	*3,000*	*3,500*	*3,500*	*3,500*	*4,000*
Second Homes	1,000	1,000	1,000	1,000	1,000	1,500	1,500
Replacement of Obsolete Units	4,000	4,000	4,500	4,500	4,500	5,000	5,500
Total POTENTIAL Demand	**19,000**	**20,000**	**22,000**	**25,000**	**27,000**	**28,500**	**30,000**
Completions	**8,500**	**8,300**	**11,000**	**12,700**	**15,000**	**19,000**	**24,000**
POTENTIAL Impact on Vacant Stock	***-10,500***	***-11,700***	***-11,000***	***-12,300***	***-12,000***	***-9,500***	***-6,000***

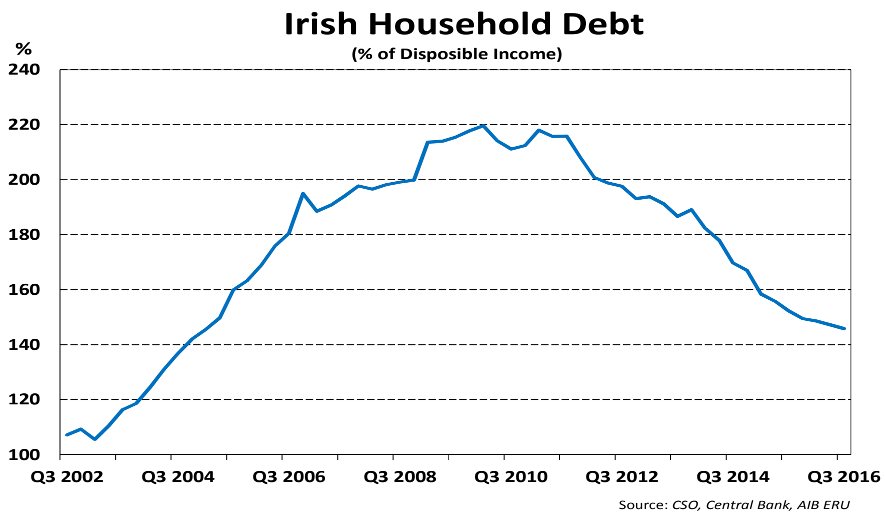
Sources: CSO, DoECLG, AIB ERU

Gov debt ratio falling, private sector deleveraging



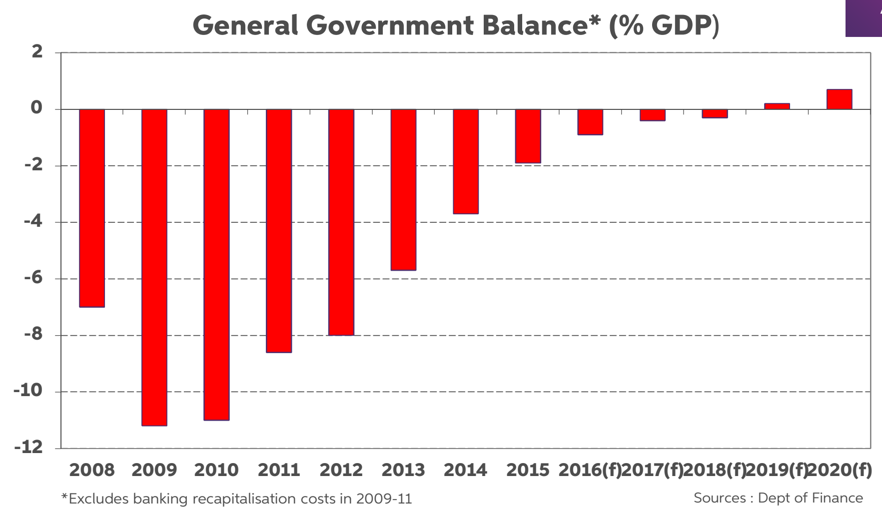


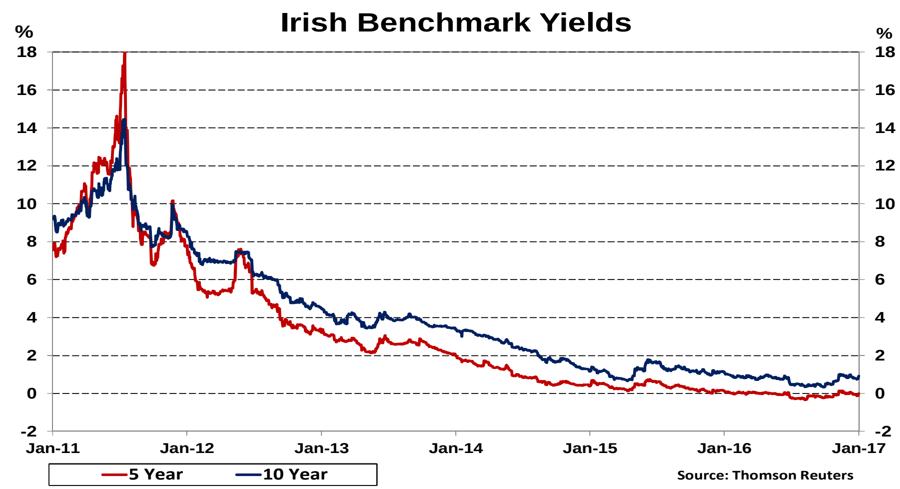




Budget deficit falls to very low level

- Some €30bn (18% of GDP) of fiscal tightening implemented in 2008-2014 period
- Budget deficit falls sharply to very low levels
- Deficit down to 1% of GDP in 2016
- Budget deficit forecast at below 0.5% of GDP for 2017 and 2018
- Fiscal policy now mildly expansionary
- Primary budget (i.e. excluding debt interest) surplus of around 1.5% of GDP in 2016
- Debt interest costs low – circa 2.5% of GDP
- Gross Gov Debt/GDP ratio in marked decline
- Irish bonds yields have fallen to very low levels
- Sovereign debt ratings upgraded; S&P have Ireland at A+, Fitch at A, Moody's A3





Brexit is a major headache for Ireland

- Brexit has serious implications given close economic/trade links with UK
- Trade with UK equates **to 35% of Irish GDP**. Thus, it is a key trading partner
- UK takes over **40% of Irish indigenous firm exports**, so very important trading partner
- Expected negative impact of Brexit on UK economy will have **knock-on effect** on Irish exports to there
- Agri, tourism, energy, retailing, financial sector most likely to be impacted by Brexit

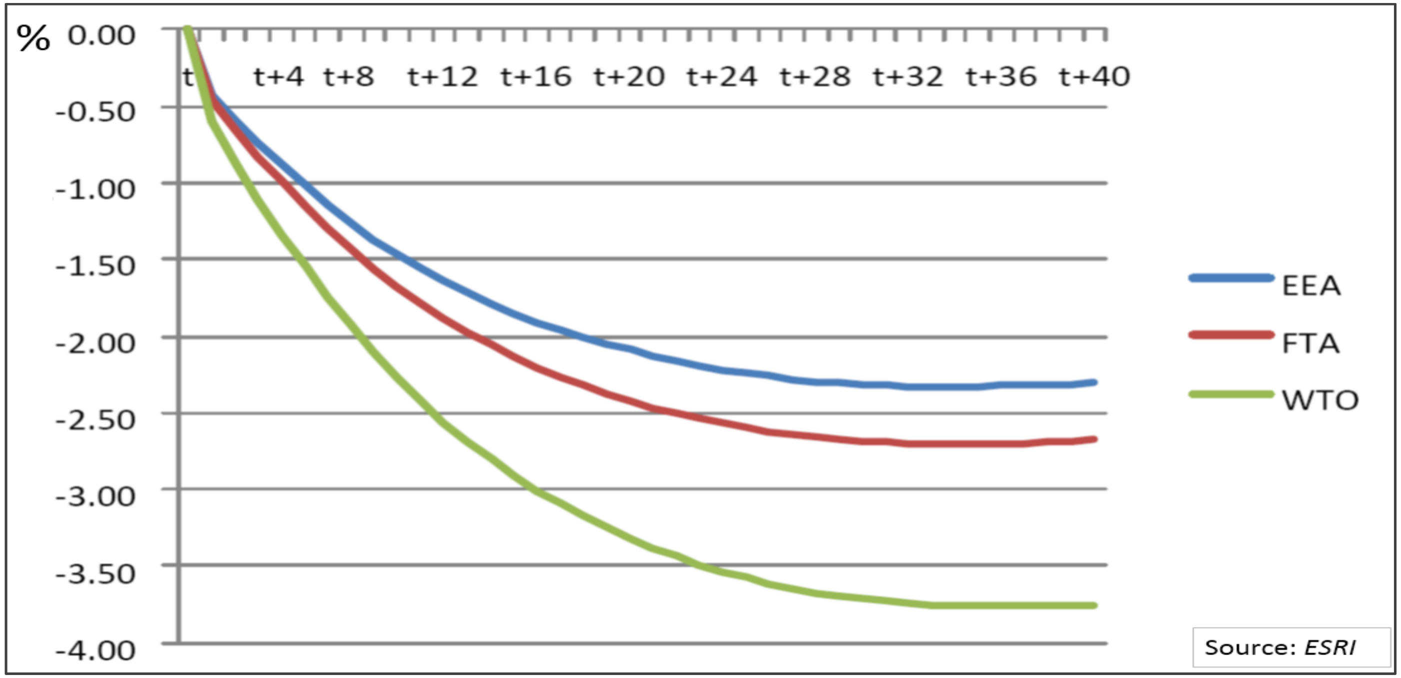
- Sterling has fallen sharply on Brexit concerns, which hits **exports to UK**
- Also impacts Irish firms **competing with UK exports** to Ireland and third country markets
- Many Irish exporters are small firms with no Treasury function so don't hedge currency exposure
- **Cross border trade** picks up as shoppers head North following sterling's big fall
- **Sterling weakness** also has a significant impact on cross-border businesses like hotels, restaurants

- **Higher trading costs** from more administration, differing trade rules and regulations, compliance costs, possible customs duties and tariffs when UK leaves EU
- Brexit could impact considerable **cross-country investment** between UK and Ireland.
- **Border** with Northern Ireland will become an external EU land border, with possible Customs checks etc
- Ireland will **lose key ally** within EU when UK leaves as share similar views on taxation, regulation, state involvement in economy etc.

Ireland will be impacted by a hard Brexit

- Unclear what trade arrangements will be put in place between EU and UK post Brexit
- UK to leave Single Market and possibly Customs Union – does not want common external tariffs
- Ireland and UK want to preserve common travel area but need will EU agreement on this
- Indications from EU are that talks on new trade deal can only begin after UK leaves
- UK wants exit deal to contain transition arrangements on trade to avoid economic disruption
- Hard Brexit - leaving the Customs Union and Single Market – makes this difficult to achieve
- UK says “no deal better than bad deal” on Brexit so could lose free access to EU markets
- Thus, UK may have to fall back on WTO rules post Brexit, which require a common set of tariff rates to be applied to all countries where no free trade deals exits
- This would be bad news for Irish/UK trade as could see imposition of tariffs, customs duties
- Likely to have impact on the border with Northern Ireland – Customs checks?
- Main upside is that Brexit would make Ireland more attractive for FDI vis-à-vis the UK
- Somewhat lower Irish growth likely in 2017-18 in run-up to Brexit
- Hard Brexit in 2019 will depress Irish growth even further if no transition deal on trade

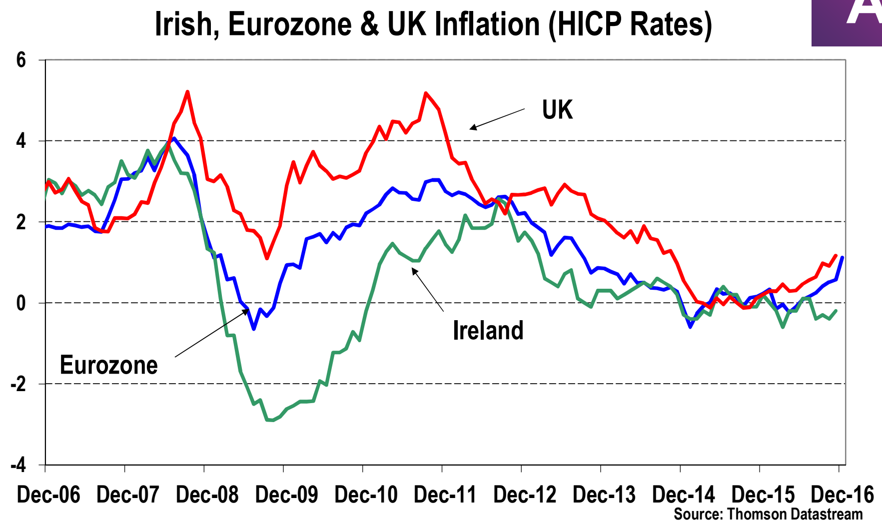
Brexit expected to lower growth of Irish economy

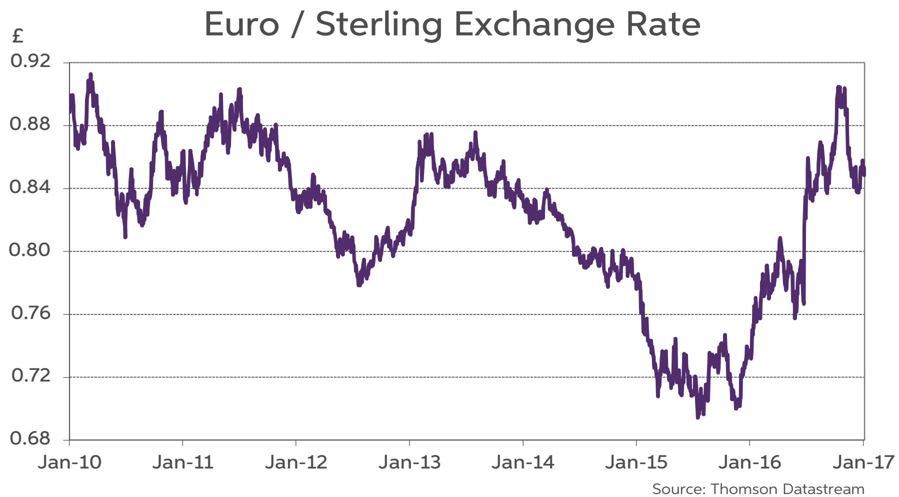


- ESRI-D/Finance estimate Irish output would be reduced by over 2% on a soft Brexit
- Sharp fall-off in trade with UK likely on a hard Brexit
- Output almost 4.0 % lower over time if there is hard Brexit and a fall back on WTO rules
- Employment 2% lower and unemployment nearly 2% higher

Solid Irish growth still likely ahead of Brexit

- Rebound by Irish economy should continue
- Construction picking up from still low output levels
- Budgetary policy turns mildly expansionary
- Activity supported by low interest rate environment
- FDI strong despite concerns on corporate tax
- Irish inflation remains very low, below that of the Eurozone and UK
- OECD and IMF forecasting that global growth will improve in 2017 and 2018
- However, Brexit is a major challenge for economy
- Sharp fall in sterling impacting exports to UK, tourism from UK, firms competing with UK imports
- Irish economy slowed somewhat in 2016 on weaker global activity, sterling's fall and Brexit uncertainty
- Irish GDP growth forecast to slow further to 3.0-3.5% in 2017-18 as Brexit continues to impact on activity





AIB Irish Economic Forecasts

% change in real terms unless stated	**2013**	**2014**	**2015**	**2016 (f)**	**2017 (f)**	**2018 (f)**
GDP	**1.1**	**8.5**	**26.3**	**4.5**	**3.5**	**3.0**
GNP	4.7	9.2	18.7	8.0	3.5	3.0
Personal Consumption	-0.8	1.7	4.5	3.2	3.0	2.5
Government Spending	0.1	5.4	1.1	4.5	1.5	1.5
Fixed Investment	-5.4	18.2	32.7	6.0	6.0	5.5
Core Fixed Investment*	22.6	14.4	18.3	-1.0	6.0	5.5
Core Domestic Spending*	**2.3**	**4.2**	**6.6**	**3.0**	**3.7**	**3.3**
Exports	3.1	14.4	34.4	2.5	4.0	4.0
Imports	1.1	15.3	21.7	2.5	4.0	4.0
HICP Inflation (%)	0.5	0.3	0.0	-0.2	0.5	0.8
Unemployment Rate (%)	13.1	11.3	9.5	8.1	7.2	6.7
Budget Balance (% GDP)	-5.5	-3.7	-1.8	-0.9	-0.5	-0.3
Gross General Gov Debt (% GDP)	119.5	105.2	78.7	76	73	70

*Excludes investment in aircraft and intangibles

Source: CSO, AIB ERU Forecasts

Risks to the Irish economic recovery

- 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
- Recovery in the global economy still quite fragile, with on-going risks and headwinds, including weakness of emerging economies. Ireland vulnerable to any shocks that impacts its exports
- Possibility of reduced FDI from US if a new Trump administration slashes corporate taxes
- Questions around corporation tax regime (eg Apple ruling) could impact FDI but seems unlikely
- Supply constraints in the construction sector, especially new house building, which is recovering at a very slow pace and remains at depressed levels
- Competitiveness issues - high house prices, high rents, high personal taxes
- Continuing credit contraction – fewer banks, tighter credit conditions, on-going deleveraging