IRELAND

Rating Analysis - 10/18/10
Debt: EUR104.7B, Cash: EUR28M

EJR Sen Rating(Curr/Prj) BBB-/ BB+
EJR CP Rating: A2
EJR's 1 yr. Default Probability: 2.7%

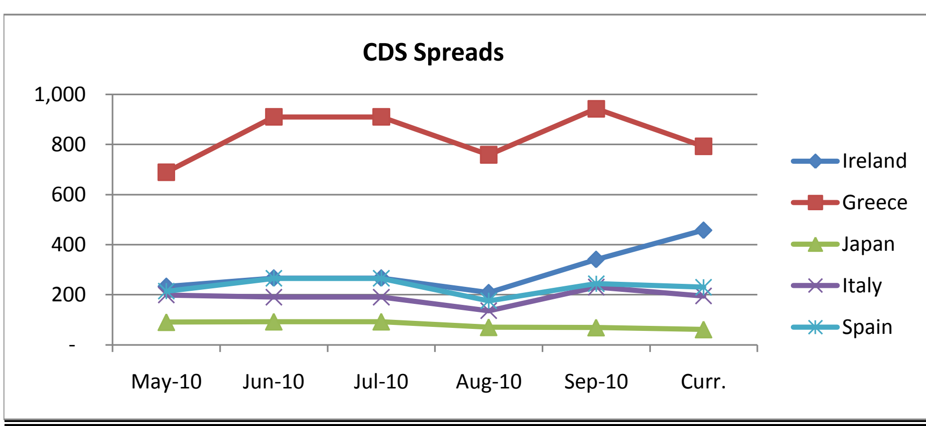
Ireland's GDP decreased 1.2% seasonally adjusted in Q2 over Q1 2010 (1.8% YoY) while GNP decreased 0.3% seasonally adjusted in Q2 over Q1 2010 (4.1% YoY). In Q1 there was an increase of 2.2% in GDP and a decrease of 1.2% in GNP (seasonally adjusted) over Q4 2009. Net exports were €884 million higher in Q2 2010 over Q2 2009. Meanwhile, consumer spending was down 1.7% YoY and capital investment declined 19.9% YoY. The volume of retail sales was up 1.3% YoY (1.1% over the month prior) in August 2010. Notable month-on-month volume increases were recorded in Motors (+5.5%), Department Stores (+4.6%) and Pharmaceuticals Medical & Cosmetics (+3.2%). Consumer prices decreased 0.1% over the month prior in September (+0.5% YoY) following decreases in transport & airfares, miscellaneous goods & services, and clothing & services. Unemployment fell by 0.1% to 13.7% (SA) in the month of September from August of 2010. This compares with 13.2% in Q2. The cost of supporting the country's banking sector is currently estimated to be upwards of €50 billion. The mounting costs continue to threaten economic stability.

Investor concerns pertaining to emergency financing needs have caused CDS spreads to meet record highs. Spreads are currently higher than all other EU nations with the exception of Greece.

	Annual Ratios					
INDICATIVE CREDIT RATIOS	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Debt/ GDP (%)	41.6	64.3	70.7	77.8	85.7	94.3
Govt. Sur/Def to GDP (%)	-7.3	-14.3	-15.0	-15.1	-15.1	-15.1
Adjusted Debt/GDP (%)	55.1	80.2	87.3	95.1	103.7	113.0
Interest/ Taxes %	5.7	9.0	12.0	13.3	14.0	14.7
GDP Growth (%)	3.7	6.5	-9.3	-5.8	1.0	1.0
Foreign Reserves/Debt (%)	0.5	0.4	0.4	0.3	0.3	0.3
Implied Sen. Rating	BBB+	BBB-	BBB-	BB	BB+	BB+

INDICATIVE CREDIT RATIOS	B	BB	BBB	A	AA	AAA
Debt/ GDP (%)	120.0	80.0	60.0	50.0	40.0	30.0
Govt. Sur/Def to GDP (%)	-5.0	-2.0	0.5	3.0	5.0	9.0
Adjusted Debt/GDP (%)	125.0	85.0	65.0	55.0	45.0	35.0
Interest/ Taxes %	22.0	15.0	12.0	9.0	7.0	5.0
GDP Growth (%)	-1.0	1.0	2.0	4.0	5.0	6.0
Foreign Reserves/Debt (%)	9.0	12.0	15.0	20.0	25.0	30.0

PEER RATIOS	S&P Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Greece	BB+	115.6	-13.6	118.7	25.8	1.0	BB-
Japan	AA	249.9	-2.7	256.0	14.6	-2.5	BB-
Italy	A+	116.2	-5.3	121.7	15.9	-4.1	B
Spain	AA	53.5	-11.2	57.0	9.6	-2.8	BBB+
Germany	AAA	73.4	-3.3	80.3	10.7	-3.0	BBB-



Country (EJR Rtg)	Current CDS	Targeted CDS
Ireland (BB)	458	350
Greece (BB)	793	350
Japan (BB+)	62	300
Italy (A)	195	75
Spain (A+)	230	60

Sluggish Economic Recovery

For fifteen years, the highly industrialized Celtic Tiger economy consistently outperformed the rest of the eurozone. However, growth began to decline in 2007, and by 2008 Ireland became the first eurozone country to enter into recession. After eight consecutive quarters of economic contraction, the country officially emerged from recession in the first quarter of 2010.

Ireland's Central Statistics Office reported an increase in GDP of 2.2% (seasonally adjusted) during the first quarter of 2010 and a decrease in GNP of 1.2%. By Q2 2010, estimates showed a seasonally adjusted decrease of 1.2% in GDP and a slightly lesser decrease of 0.3% in GNP. Net exports were €884 million higher during the quarter compared with the year prior. Overall, the decrease in GDP growth during the most recent quarter was due in large part to consumer spending and capital investment. While consumer spending was down 1.7% in the quarter over the year prior, capital investment declined by 19.9%.

Along with Greece, Ireland is one of the fiscally weakest countries in the euro-zone. Its debt-to-GDP ratio is currently 77.4%. Meanwhile, Ireland's deficit-to-GDP ratio is currently the highest in the EU at 14.30%. The deficit is expected to rise considerably in the months ahead as the government prepares to spend as much as €50 billion to repair the country's troubled banking sector.

GDP AND GNP Q2 2010
Seasonally Adjusted; Constant Prices

	Amount (€M)	Quarterly % Change
GDP	41,130	-1.2
GNP	33,335	-0.3

Source: Ireland Central Statistics Office

Low Inflation

Inflation has remained relatively low in Ireland. After having averaged 3.0% between 2006 and 2008, the economy entered into a deflationary cycle in 2009. The IMF has warned that the country could see continued deflation into 2011, predicting that prices will decline 1.8% this year and a further 0.5% thereafter. The likelihood of deflation is due to a number of factors including slowed economic growth, equity prices, housing prices, the real exchange rate, credit growth, and monetary aggregates.

In the most recent month, consumer prices increased 0.7% over the month prior and 0.2% YoY. The main factors which contributed to the monthly change included Clothing & Footwear (+3.7%), Housing, Water, Electricity, Gas & Other Fuels (+3.5%), and Transport (+0.5%).

Consumer Prices

	CPI (% Change)		HICP (% Change)	
	Monthly	**Annual**	**Monthly**	**Annual**
April 2010	+2.0	-2.1	-	-2.5
May 2010	+6.0	-1.1	+0.3	-1.9
June 2010	-0.1	-0.9	-0.1	-2.0
July 2010	-	-0.1	-0.1	-1.2
Aug. 2010	+0.7	+0.2	+0.2	-1.2

Source: Ireland Central Statistics Office

High Unemployment

Unemployment levels returned to 13.7% in September after having risen 0.1% (to 13.8%) in August. This rate compares to the average 13.2% unemployment seen in Q2 2010. The rate is currently one of the highest in the EU. Finance Minister Brian Lenihan expects levels to peak within the next few months before declining thereafter. Although the rates are not yet as high as the country's 18% levels seen during the late 1980's, unemployment is more than three times greater than the roughly 4.5% rate seen right before the economic crisis began. Rising levels have been credited in large part to government cutbacks.

Banking Troubles

Ireland currently faces massive budget deficits after having bailed out its troubled banks. To date, the government has injected roughly €22 billion in capital into the banks, as reported by the IMF. In early 2009, the country nationalized the Anglo Irish bank. Furthermore, both Bank of Ireland and Allied Irish Bank (the country's two largest banks) have received capital injections. Ireland currently holds a 25% stake in Bank of Ireland. Costs of continued bailout funds could soon exceed 30% of GDP. The continually rising costs have exceeded estimates and continue to raise investor concern.

Irish Government Bonds

The yield premium to hold Irish government bonds over the benchmark German bunds has reached record highs in recent weeks. Downgrades from other agencies, as well as speculation and fear pertaining to the mounting costs of rescuing the country's banking sector (namely the nationalized Allied Irish Bank) have contributed to the increases. Investors are likely to continue demanding higher premiums to hold Irish debt in the months ahead.

Meanwhile, the costs of insuring Irish government debt against default have also risen to record highs. The spread on 5 year Irish CDS's reached levels of 490 bps in late September. All this comes as investors remains uncertain of Ireland's fiscal stability.

Economic Freedom & Business Environment

Ireland currently constitutes the freest economy in Europe and the fifth freest in the world as measured by the Heritage Foundation's '2010 Index of Economic Freedom'. The country's score decreased by 0.9 point from the year prior. While the recent economic crisis has severely damaged the country's banking sector and destabilized the country's fiscal budget, Ireland's institutions have remained strong. Low levels of corruption, efficient business regulations and competitive tax rates have all helped to keep Ireland's overall levels of economic freedom internationally competitive.

Heritage Foundation 2010 Index of Economic Freedom - Ireland*

World Rank: 5 of 179; Regional Rank: 1 of 43**

	2010 Rank	2009 Rank	Change in Rank	World Average
Business Freedom	**92.8**	93.0	-0.2	64.2
Trade Freedom	**87.5**	85.8	1.7	74.2
Fiscal Freedom	**71.1**	69.2	1.9	75.4
Government Spending	**61.8**	64.9	-3.1	65.0
Monetary Freedom	**79.0**	84.3	-5.3	70.6
Investment Freedom	**95.0**	90.0	5.0	49.0
Financial Freedom	**80.0**	90.0	-10.0	48.5
Property Rights	**90.0**	90.0	0.0	43.8
Freedom from Corruption	**77.0**	75.0	2.0	40.5
Labor Freedom	**79.0**	79.7	-0.7	62.1

*The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).

**Based on a scale of 1-179 with 1 being the highest ranking.

Source: The Heritage Foundation & Wall Street Journal

Attracting Foreign Direct Investment

Ireland has long welcomed foreign direct investment, as indicated by its near perfect and growing Heritage Foundation 'Investment Freedom' score of 95 out of 100 (see previous page). The country's young age demographics have helped to attract large inflows of FDI. Ireland has the youngest population in Europe with 33.9% under the age of 25 years. Furthermore, the country offers a very business friendly environment. As indicated via the latest World Bank 'Doing Business' survey, Ireland allows for relative ease in all aspects of owning and operating a business in the country. Domestic and foreign firms are incorporated and receive equal treatment, and there is no approval process for foreign investment or capital inflows unless the company is applying for incentives (2010 Index of Economic Freedom).

Lastly, businesses are attracted to Ireland's relatively low corporate tax rates. The country's growth during its 'Celtic Tiger' years has been credited in large part to this factor. The top corporate tax rate is 12.5%. The average corporate tax rate in the EU is 23%. Overall, tax revenue as a percentage of GDP in Ireland was 32.5% in 2009.

Trade

Exports increased by 8% (SA) in July over June while imports fell by 0.9%. As a result, Ireland's trade surplus increased 29% to €4,202.5m.

Trade Summary - Growth Rate YoY (%)

	Exports			Imports		
	Total	Goods	Services	Total	Goods	Services
January - March 2008	1.1	0.9	1.3	0.5	-10.1	11.7
April - June 2008	0.6	1.1	0.1	-0.8	-8.1	5.7
July - September 2008	-0.6	2.2	-3.5	-3.0	-9.1	2.1
October - November 2008	-4.2	-4.8	-3.4	-8.0	-24.8	7.0
January - March 2009	-4.9	-2.7	-7.6	-10.8	-20.9	-2.2
April - June 2009	-3.7	-3.9	-3.4	-7.8	-18.6	0.5
July - September 2009	-4.2	-5.6	-2.6	-12.0	-21.0	-5.3
October - November 2009	-3.7	-8.7	1.9	-8.4	-12.2	-5.9
January - March 2010	6.2	3.5	9.5	-0.5	-6.7	3.7
April - June 2010	7.5	4.9	10.7	6.2	3.2	8.0

Source: Ireland Central Statistics Office

Austerity Measures

Irish officials are working to implement an effective deficit-reduction strategy as the country's deficit is currently among the highest in the 27 member EU block. The government plans to reduce its deficit below 3% of GDP by 2014. We believe this is an ambitious goal. To date, the government has cut public sector wages by 10-15% and has pledged to refrain from further cuts until 2014. Still, the government has forecast the need to cut spending by a minimum of €3 billion (US$4.13 billion) in its upcoming 2011 budget. Further cuts in pensions and welfare are currently under consideration as a means of reduction.

The World Bank Group - Doing Business 2010 Survey: Ireland

Ease of…*	2010 Rank	2009 Rank	Change in Rank
Doing Business	**7**	**7**	**0**
Starting a Business	9	7	**-2**
Dealing with Construction Permits	30	30	**0**
Employing Workers	27	28	**+1**
Registering Property	79	84	**+5**
Getting Credit	15	12	**-3**
Protecting Investors	5	5	**0**
Paying Taxes	6	6	**0**
Trading Across Borders	21	20	**-1**
Enforcing Contracts	37	38	**+1**
Closing a Business	6	6	**0**

* Measures 183 countries, based on a scale of 1 to 183 with 1 being the highest ranking.

Source: DoingBusiness - The World Bank Group

2010 Corporation Tax Rates

Rates for Selected Countries

Ireland	12.5%
United Kingdom	28%
Belgium	33.99%
France	33.33%
Netherlands	25.5%
Spain	30%
Germany	30.2%
China	25%
Czech Republic	19%
Singapore	17%
Luxembourg	28.59%
Portugal	26.5%
Sweden	26.3%
USA	39.1%
Japan	40.87%

Source: IDA Ireland

Assumptions for Projections

	Peer	Issuer	Base Case	
Income Statement	**Median**	**Average**	**Yr 1&2**	**Yr 3,4,5**
Taxes Growth%	(4.6)	(18.4)	**(4.6)**	**0.5**
Social Contributions Growth %	(0.4)	(0.7)	**0.5**	**0.5**
Grant Revenue Growth %	0.0	0.0		
Other Revenue Growth %	0.1	4.0	**4.0**	**4.0**
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	(2.4)	(12.1)	**(4)**	**(4.0)**
Compensation of Employees Growth%	4.5	(2.4)	**(2.4)**	**(2.4)**
Use of Goods & Services Growth%	7.5	(6.6)	**(6.6)**	**(6.6)**
Social Benefits Growth%	8.7	10.5	**5.0**	**5.0**
Subsidies Growth%	2.3	(9.4)		
Other Expenses Growth%	23.5	23.5	**4.0**	**4.0**
Special Items (millions EUR)	0.0	0.0		
Balance Sheet				
Currency and Deposits Growth%	17.5	0.2	**(4.6)**	**(4.6)**
Securities other than Shares LT Growth%	9.9	89.5	**(4.6)**	**(4.6)**
Loans Growth%	2.4	9.8	**6.0**	**6.0**
Shares and Other Equity Growth%	14.8	(5.8)	**2.0**	**2.0**
Insurance Technical Reserves Growth%	2.8	0.0		
Financial Derivatives Growth%	0.0	45.5	**(4.6)**	**(4.6)**
Other Accounts Receivable LT Growth%	10.1	(7.3)	**3.0**	**3.0**
Monetary Gold and SDR's Growth %	0.0	0.0	**5.0**	**5.0**
Other Accounts Payable Growth%	9.2	NMF		
Currency & Deposits Growth%	1.4	16.5	**(4.6)**	**(4.6)**
Securities Other than Shares Growth%	16.3	35.4	**4.0**	**4.0**
Growth%	0.0	0.0		
Loans Growth%	1.7	5.7	**5.7**	**5.7**
Insurance Technical Reserves Growth(%)	0.0	0.0		
Financial Derivatives Growth%	0.0	0.0		
		0.0		
Addl debt. (1st Year) million EUR	0.0	0.0		

Base Case

ANNUAL REVENUE AND EXPENSE STATEMENT (MILLIONS EUR)

	Dec-07	Dec-08	Dec-09	PDec-10	PDec-11	PDec-12
Taxes	49,610	43,299	35,349	33,722	32,171	32,332
Social Contributions	12,266	12,600	12,512	12,574	12,637	12,700
Grant Revenue	0	0	0	0	0	0
Other Revenue	7,876	7,877	8,190	8,517	8,858	9,212
Other Operating Income	0	0	0	0	0	0
Total Revenue	69,753	63,777	56,050	53,808	51,655	49,589
Compensation of Employees	19,008	20,309	19,817	19,337	18,868	18,411
Use of Goods & Services	9,594	9,967	9,312	8,700	8,129	7,595
Social Benefits	22,959	25,961	28,679	30,113	31,619	33,200
Subsidies	870	939	851	851	851	851
Other Expenses	6,431	7,708	9,522	1,239	1,299	1,362
Grant Expense	0	0	0	0	0	0
Depreciation	1,779	1,947	2,139	2,139	2,139	2,139
Total Expenses	60,641	66,831	70,320	62,378	62,904	63,557
Operating Surplus/Shortfall	9,112	-3,055	-14,270	-8,571	-11,249	-13,968
Interest Expense	1,985	2,482	3,191	4,046	4,275	4,517
Net Operating Balance	7,127	-5,537	-17,461	-12,616	-15,523	-18,485

ANNUAL BALANCE SHEETS (MILLIONS EUR)

ASSETS	Dec-07	Dec-08	Dec-09	PDec-10	PDec-11	PDec-12
Currency and Deposits	10,028	28,043	28,111	26,818	25,584	24,407
Securities other than Shares LT	4,579	4,574	8,670	8,271	7,891	7,528
Loans	3,919	4,164	4,574	4,848	5,139	5,448
Shares and Other Equity	27,213	22,078	20,792	21,208	21,632	22,065
Insurance Technical Reserves				0	0	0
Financial Derivatives	458	332	483	461	440	419
Other Accounts Receivable LT	8,596	8,525	7,901	8,138	8,382	8,634
Monetary Gold and SDR's						
Additional Assets	0	0	0	0	0	0
Total Financial Assets	54,793	67,716	70,531	69,744	69,068	68,500
LIABILITIES						
Other Accounts Payable	5,358	6,389	5,508	5,508	5,508	5,508
Currency & Deposits	7,675	8,844	10,303	19,233	30,134	43,946
Securities Other than Shares	38,574	70,084	94,879	98,674	102,621	106,726
Loans	2,120	2,915	3,080	3,080	3,080	3,080
Insurance Technical Reserves						
Financial Derivatives						
Other Liabilities	115	144	15	(881)	(881)	(881)
Liabilities	53,842	88,376	113,785	125,614	140,462	158,379
Net Financial Worth	951	(20,660)	(43,254)	(55,870)	(71,394)	(89,878)
Total Liabilities & Equity	54,793	67,716	70,531	69,744	69,068	68,500

Sovereign Rating Methodology

Egan-Jones takes the perspective of the investor as its primary point of view when developing the ratings it issues for sovereigns. Therefore, in the case of sovereign ratings, we attempt to take a more holistic view of credit quality to include not only analytic comparisons of various sovereign issuers but also the impact on our quantitative and qualitative analyses by current global, sovereign, governmental and market events, including the effects of government investments in speculative, volatile or other high risk investment products. For example, many sovereign issuers have taken on significant exposures of major financial institutions over the past several years. Hence, we calculate the under-funding of financial institutions and include this amount in the total indebtedness of sovereigns. (We use a base assumption that no country can afford to allow its major banks to fail and therefore we believe that there will almost always be an intervention by either a host or allied nation should financial institutions or markets require support at some measurable level.)

Generally we devise modeling calculators and do an analysis that examines the debt load of a country with respect to its GDP and other economic indicators. The analysis is then adjusted to reflect the outlook on a myriad of factors that reflect the firm's overall view of the sovereign debt and the quality of the country's ability to meet and thrive under such load. Some of the qualitative factors that impact our ultimate assessment of credit quality such as the flexibility, stability and overall strength of the economy, ease of tax collection, acceptance of contract law, ease of doing business, and prospects for future growth and health. The non quant issues are generally subjective and a moving target, so each rating of a sovereign may differ because of the non-quantitative nuances being addressed.

Nota Bene

History has proven that defaults on domestic public debt do occur. In fact, seventy out of three hundred twenty defaults since 1800 have been on domestic public debt (1). Egan-Jones does not view a country's ability to print its own currency as a guarantee against default. Additionally, Egan-Jones generally views cases of excessive currency devaluation as a de facto default.

1. "This Time Is Different: Eight Centuries of Financial Folly", Reinhart & Rogoff, p.111, 126