REPUBLIC OF IRELAND

Rating Analysis - 1/7/11
Debt: EUR104.6B, Cash: EUR28.4B

EJR Sen Rating(Curr/Prj) BB/ N/A
EJR CP Rating: A3
EJR's 1 yr. Default Probability: 3.0%

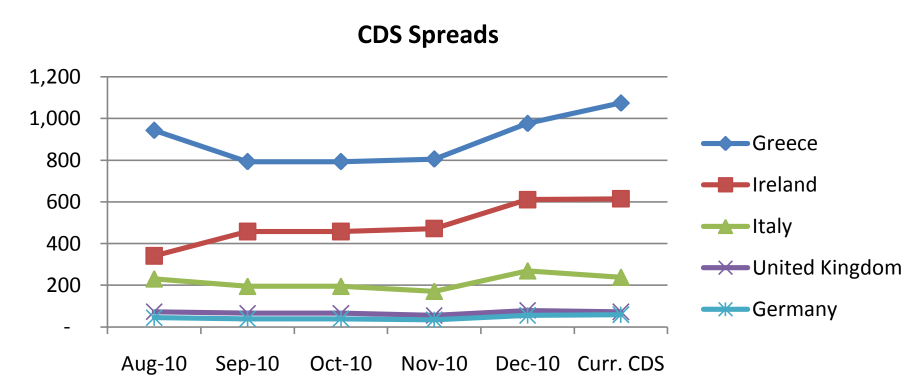
The first €5B ($6.65B) of Ireland's €85B bailout were issued by the European Commission on Wednesday, January 5, 2011, under the framework of the €60B EFSM. The 5-year bonds were three times oversubscribed and yielded 2.59%. (The bond credit was supported EFSM.) The resulting interest rate of the loan to Ireland will be 5.51% and the funds will be disbursed to Ireland on January 12, 2011. Overall, the mechanism plans to raise a total of €17.6B for Ireland this year and up to €4.9B in 2011. The EFSF, which plans to launch its debut issue later this month, plans to raise €16.5B for Ireland in 2010 and up to €10B in 2011. In further current events, the Swiss National Bank (SNB) no longer accepts bonds issued by some Irish banks as collateral in its money market operations, excluding securities issued by Allied Irish Banks, Anglo Irish Bank and Bank of Ireland from the list of assets acceptable as collateral for repo operations. The ECB will continue to accept Irish bonds.

Irish CDS spreads have increased in recent weeks. Yields on Irish bonds have remained nearly unchanged despite recent EFSM auction and SNB decision.

	Annual Ratios					
INDICATIVE CREDIT RATIOS	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Debt/ GDP (%)	38.7	59.4	82.0	113.5	154.7	211.2
Govt. Sur/Def to GDP (%)	-7.3	-14.4	-11.1	-10.8	-10.7	-10.7
Adjusted Debt/GDP (%)	51.9	74.9	99.6	133.5	177.4	237.0
Interest Expense/ Taxes %	5.7	9.7	9.3	11.8	14.7	18.0
GDP Growth (%)	-5.8	-0.5	-12.0	-12.0	-12.0	-12.0
Foreign Reserves/Debt (%)	0.5	0.3	0.3	0.2	0.2	0.1
Implied Sen. Rating	BBB-	BB	B+	B	CCC+	CCC-

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	40.0	50.0	60.0	80.0	120.0	150.0
Govt. Sur/Def to GDP (%)	5.0	3.0	0.5	-2.0	-5.0	-9.0
Adjusted Debt/GDP (%)	45.0	55.0	65.0	85.0	125.0	155.0
Interest Expense/ Taxes %	7.0	9.0	12.0	15.0	22.0	26.0
GDP Growth (%)	5.0	4.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	25.0	20.0	15.0	12.0	9.0	7.0

PEER RATIOS	S&P Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
United Kingdom	AAA	76.4	-11.4	95.6	6.9	-4.9	B+
Federal Republic Of Germany	AAA	68.2	-3.0	74.7	10.7	3.9	BB+
Kingdom Of Spain	AA	49.5	-11.1	55.0	9.6	0.2	BBB-
Italian Republic	A+	107.7	-5.3	113.9	15.9	1.1	B+
Hellenic Republic (Greece)	BB+	116.6	-15.4	119.9	25.8	-4.6	CCC+



Country (EJR Rtg*)	Current CDS	Targeted CDS
Greece(B+)	1,074	600
Ireland(BB+)	615	333
Italy(BBB+)	238	158
United Kingdom(AA)	72	30
Germany(AA)	58	30

* Projected Rating

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 followed by a decrease of 1.2% in the second quarter. In the most recent quarter, GDP grew by a seasonally adjusted 0.5%. GNP also increased during the quarter, marking the first time since Q4 2007 that GDP and GNP both recorded seasonally adjusted quarterly increases. Ireland also recorded a current account surplus in the amount of €255M during the third quarter after having recorded deficits of €1,142M and €653M in the first and second quarters of 2010, respectively. Merchandise exports were up €3.2B YoY while service exports were up €2.1B YoY.

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, its budget deficit remains one of the highest in the EU. The deficit decreased slightly in 2010 to €18.7B compared with €24.6B at the end of 2009. Total tax revenues for 2010 were 31.75B, 2.3% above the government's 2010 target yet down 4% for the year.

GDP AND GNP Q3 2010
Seasonally Adjusted; Constant Prices

	Amount (€M)	**Quarterly % Change**
GDP	41,378	0.5
GNP	33,749	1.1

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 decreased 0.1% in the month compared to no change in November 2009. The most notable changes included Clothing and Footwear (-5.5%), Alcoholic Beverages and Tobacco (-3.3%), and Education (-3.0%). Prices on average were up 0.6% YoY (CPI).

Consumer Prices

	CPI (% Change)		HICP (% Change)	
	Monthly	**Annual**	**Monthly**	**Annual**
July 2010	-	-0.1	-0.1	-1.2
Aug. 2010	+0.7	+0.2	+0.2	-1.2
Sep. 2010	-0.1	+0.5	-0.2	-1.0
Oct. 2010	-	+0.7	+0.1	-0.8
Nov. 2010	-0.1	+0.6	-0.2	-0.8

Source: Ireland Central Statistics Office

High Unemployment

The standardised unemployment rate in November was 13.5%, down from 13.6% in October. This compares to 13.2% in the second quarter of 2010. The rate remains one of the highest in the EU. Finance Minister Brian Lenihan expects levels to peak within the next few months before declining in 2011. 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 reached record highs in late 2010. 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) contributed to the increases. In December 2010, yields remained relatively unaffected by the Swiss National Bank's decision to no longer accept the Irish bonds as collateral for the banks repo operations. The European Central Bank continues to accept Irish bonds as collateral.

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 183; 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).

World: Based on a scale of 1-183 with 1 being the highest ranking; Regional: **Europe region includes 43 countries total.

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% (seasonally adjusted) in July over June while imports fell by 0.9%. As a result, Ireland's trade surplus increased 29% to €4,202.5m. In August 2010, Ireland's trade surplus totaled just over €27.8 billion year-to-date. The country's trade surplus in the first eight months of 2009 totaled €26 billion. Ireland currently relies heavily on exports for meeting economic growth targets.

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

On November 21, 2010, Ireland accepted a bailout from the EU/IMF with contributions from the UK and Sweden. Negotiations of terms are underway and are expected to be finalized by the end of the month. The bailout is expected to total €80-90bn euros. 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. Moreover, the government is coming under increased pressure from fellow EU member states, particularly France and Germany, to raise its corporate tax rate. At 12.5%, the rate is well below the EU average and among the lowest in the EU. Many European nations view the low rate as an unfair advantage for Ireland and argue that a rate increase would not hinder economic growt

The World Bank Group - Doing Business 2010 Survey: Ireland			
Ease of…*	**Jul-05 Rank**	**Jul-05 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%	(4.8)	(18.5)	**(4.8)**	**(2.0)**
Social Contributions Growth %	(1.8)	(8.8)	**0.5**	**0.5**
Grant Revenue Growth %	0.0	0.0		
Other Revenue Growth %	0.1	5.0	**5.0**	**5.0**
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	(6.4)	(13.7)	**(12)**	**(12.0)**
Compensation of Employees Growth%	5.2	(3.1)	**(2.0)**	**(2.0)**
Use of Goods & Services Growth%	5.4	(6.4)	**(4.0)**	**(4.0)**
Social Benefits Growth%	8.7	7.0	**7.0**	**7.0**
Subsidies Growth%	2.3	(9.4)		
Other Expenses Growth%	23.2	23.2	**23.2**	**20.9**
Special Items (millions EUR)	0.0	0.0		
Balance Sheet				
Currency and Deposits Growth%	0.4	1.3	**(4.8)**	**(4.8)**
Securities other than Shares LT Growth%	7.8	89.0	**(4.8)**	**(4.8)**
Loans Growth%	2.4	9.2	**9.2**	**9.2**
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	48.7	**(4.8)**	**(4.8)**
Other Accounts Receivable LT Growth%	8.0	(1.8)	**(4.8)**	**(4.8)**
Monetary Gold and SDR's Growth %	0.0	0.0	**5.0**	**5.0**
Other Accounts Payable Growth%	9.2	NMF		
Currency & Deposits Growth%	4.5	16.5	**(4.8)**	**(4.8)**
Securities Other than Shares Growth%	16.3	33.8	**23.7**	**21.3**
Growth%	0.0	0.0		
Loans Growth%	0.8	4.8	**4.8**	**4.8**
Insurance Technical Reserves Growth%	0.0	0.0		
Financial Derivatives Growth%	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	49,488	43,421	35,381	33,682	32,065	31,424
Social Contributions	12,266	12,600	11,492	11,549	11,607	11,665
Grant Revenue	0	0	0	0	0	0
Other Revenue	7,833	7,846	8,238	8,650	9,083	9,537
Other Operating Income	0	0	0	0	0	0
Total Revenue	69,587	63,868	55,111	53,882	52,755	52,626
Compensation of Employees	19,008	20,341	19,713	19,318	18,932	18,553
Use of Goods & Services	9,604	9,970	9,333	8,959	8,601	8,257
Social Benefits	22,934	25,912	27,735	29,686	31,775	34,011
Subsidies	870	939	851	851	851	851
Other Expenses	6,395	7,667	9,447	7,090	9,447	11,420
Grant Expense	0	0	0	0	0	0
Depreciation	2,102	2,475	2,526	2,526	2,526	2,526
Total Expenses	60,913	67,304	69,604	68,431	72,132	75,619
Operating Surplus/Shortfall	8,674	-3,436	-14,493	-14,549	-19,377	-22,993
Interest Expense	1,985	2,482	3,442	3,128	3,798	4,626
Net Operating Balance	6,690	-5,918	-17,935	-17,677	-23,175	-27,619

ANNUAL BALANCE SHEETS (MILLIONS EUR)

ASSETS	Dec-07	Dec-08	Dec-09	PDec-10	PDec-11	PDec-12
Currency and Deposits	9,927	28,004	28,380	27,658	29,516	31,256
Securities other than Shares LT	4,608	4,597	8,689	8,272	7,875	7,497
Loans	3,919	4,214	4,603	5,028	5,492	5,999
Shares and Other Equity	27,213	22,078	20,792	21,208	21,632	22,065
Insurance Technical Reserves				0	0	0
Financial Derivatives	419	271	403	384	365	348
Other Accounts Receivable LT	8,579	8,498	8,343	7,943	7,561	7,198
Monetary Gold and SDR's						
Additional Assets	0	0	0	0	0	0
Total Financial Assets	54,665	67,662	71,210	70,492	72,442	74,363
LIABILITIES						
Other Accounts Payable	5,515	6,071	5,796	5,796	5,796	5,796
Currency & Deposits	7,676	8,845	10,308	5,154	2,577	1,289
Securities Other than Shares	38,543	70,793	94,714	117,117	144,818	175,647
Loans	2,093	2,869	3,008	3,008	3,008	3,008
Insurance Technical Reserves						
Financial Derivatives						
Other Liabilities	115	144	15	(275)	(275)	(275)
Liabilities	53,942	88,722	113,841	130,800	155,924	185,464
Net Financial Worth	723	(21,060)	(42,631)	(60,308)	(83,483)	(111,102)
Total Liabilities & Equity	54,665	67,662	71,210	70,492	72,442	74,363

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