REPUBLIC OF IRELAND

Rating Analysis - 8/3/14

*EJR Sen Rating(Curr/Prj) BB/ N/A
*EJR CP Rating: A3
EJR's 3 yr. Default Probability: 3.0%

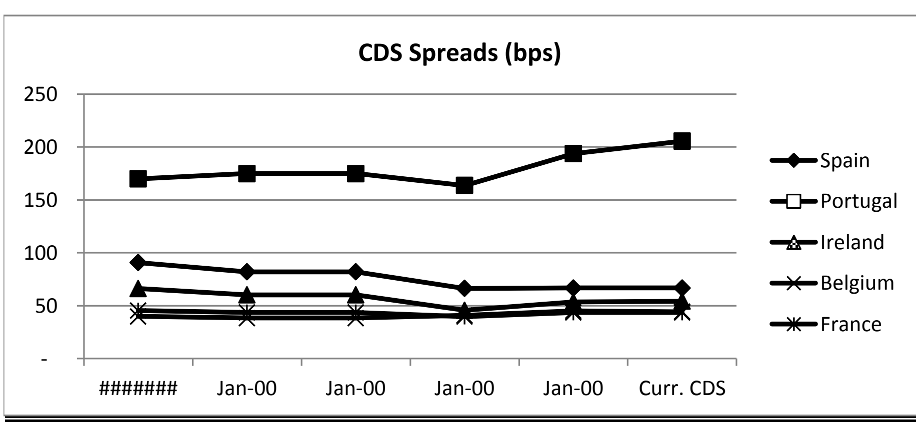
Still weak - while the capital markets have voted Ireland the most improved, from a credit analysis perspective, the country remains hobbled. Over the past five years, debt has risen at an average annual rate of 23% as a result of the massive injections needed for its two major banks. Meanwhile, its GDP rose merely 2.6%. As a result, the country's debt to GDP shot up from 49% to 119%. While recent federal government shortfall has improved pre-interest expense, including interest, the debt to GDP continues to rise. On the federal government side, the operating shortfall improved from EUR41B in 2010 to EUR4.3B in 2014, but including interest expense, the deficit was EUR11.7B last year. Because of the tepid growth in the economy, Debt/GDP continues to rise.

Our view is that Ireland remains stricken by the massive debt taken on to bail out its banks and appears to be prospering because of the massive actions of the ECB. If Portugal runs into difficulty relating to the rescue of BES, Ireland might see a rise in its funding costs and further pressure on its finances. (Watch for an ECB program for debt relief as rates rise.) We are affirming our rating although other raters are likely to take positive actions.

	Annual Ratios	Annual Ratios (source for past results: IMF)				
CREDIT POSITION	2011	2012	2013	P2014	P2015	P2016
Debt/ GDP (%)	88.7	103.2	118.7	127.7	135.6	142.5
Govt. Sur/Def to GDP (%)	-13.1	-8.2	-7.2	-10.2	-9.3	-8.7
Adjusted Debt/GDP (%)	88.7	83.5	98.8	106.3	114.5	121.9
Interest Expense/ Taxes (%)	13.8	15.0	17.9	17.1	17.9	18.5
GDP Growth (%)	4.6	1.1	-1.2	2.3	2.3	2.5
Foreign Reserves/Debt (%)	0.3	0.0	0.0	0.0	0.0	0.0
Implied Sen. Rating	BB-	BB-	B+	B+	B+	B-

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	45.0	55.0	75.0	85.0	95.0	145.0
Govt. Sur/Def to GDP (%)	4.0	1.0	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	40.0	50.0	60.0	80.0	120.0	150.0
Interest Expense/ Taxes (%)	7.0	9.0	12.0	15.0	22.0	26.0
GDP Growth (%)	4.0	3.0	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*
Federal Republic Of Germany	AAA	82.9	0.1	90.3	11.1	1.4	BB+
French Republic	AA	96.5	-4.3	116.6	9.7	0.7	B+
Kingdom Of Belgium	AA	104.7	-2.6	104.7	11.8	2.5	BB-
Kingdom Of Spain	BBB	89.5	-7.1	95.6	12.3	-0.2	B+
Portugal Republic	BB	123.8	-4.9	130.9	13.0	1.5	B+



Country (EJR Rtg*)	Current CDS
Spain (C)	67
Portugal (CCC+)	206
Ireland (BB)	54
Belgium (BBB-)	44
France (BBB)	44

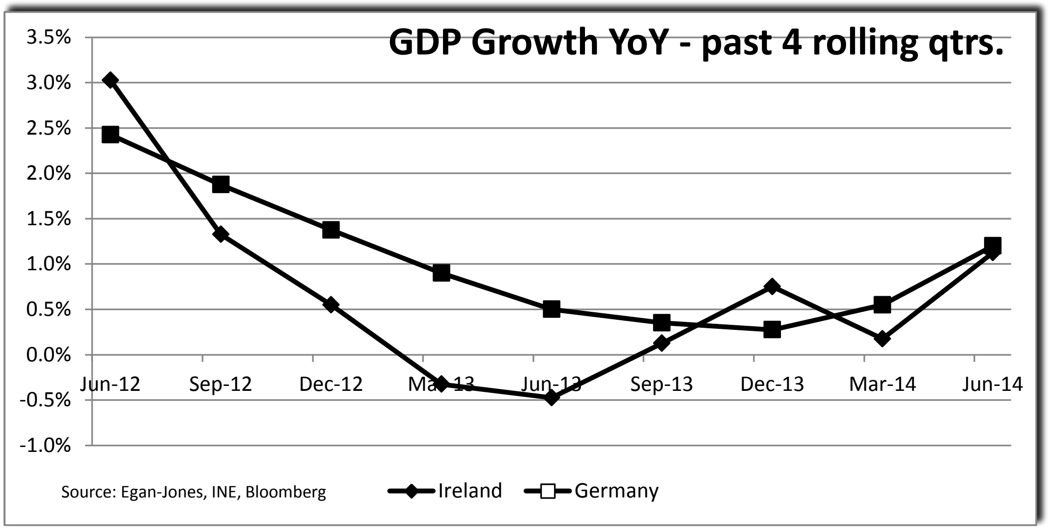
* Projected Rating
* EJR's targeted CDS based on rating

*EJR Sen Rating(Curr/Prj) BB/ N/A
*EJR CP Rating: A3
EJR's 3 yr. Default Probability: 3.0%

Economic Growth

A major driver for sovereign credit quality is the overall growth of the economy, particularly relative to growth in government expenditures. In the case of Ireland, the country has suffered from declines in GDP growth in late 2012, but has shown moderate improvement over the past couple of quarters. As the EU recovers, Ireland's growth should recover although the weakness of the banking sector remains a drag on the economy.

Another factor to consider which might drive growth is the relatively low tax rate of the country, which should benefit from the re-domiciling and tax reversions. The recent slight rise in GDP is encouraging particularly in the face of weak conditions for most other EU countries.



Fiscal Policy

Despite, the recent improvement in GDP, Ireland remains pressed The deficit is a concern in light of the country's debt to GDP in excess of 118%, placing it near Portugal's 123.8%. Pre-banking crisis, Debt to GDP was merely 49%. The variable which has changed in sovereign markets has been the intervention of central banks. The ECB and other quasi-govt units are assumed to provide support. Austerity measures and bank relief have restricted growth. Hopefully there will be gradual improvement over the next couple of years.

	Deficit-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Ireland	7.2	118.7	142
Germany	-	82.9	24
France	4.3	96.5	68
Belgium	2.6	104.7	61
Spain	7.1	89.5	228
Portugal	4.9	123.8	495

Sources: Bloomberg and IFS

Unemployment

Ireland's 2013 unemployment rate of 12.1% is higher than France's but lower than Spain and Portugal as indicated in the chart at right. Unemployment for the most recent quarter is 11.5%, which is not particularly comforting. The malaise of the EU weighs on credit quality of Ireland; as the southern EU countries slide, Ireland will be pressured from a shift in workers and a relocation of production.

Unemployment (%)	2012	2013
Ireland	14.0	12.1
Germany	6.9	6.8
France	10.1	10.1
Belgium	8.1	8.5
Spain	25.8	25.7
Portugal	16.8	15.3

Source: Intl. Finance Statistics

Banking Sector

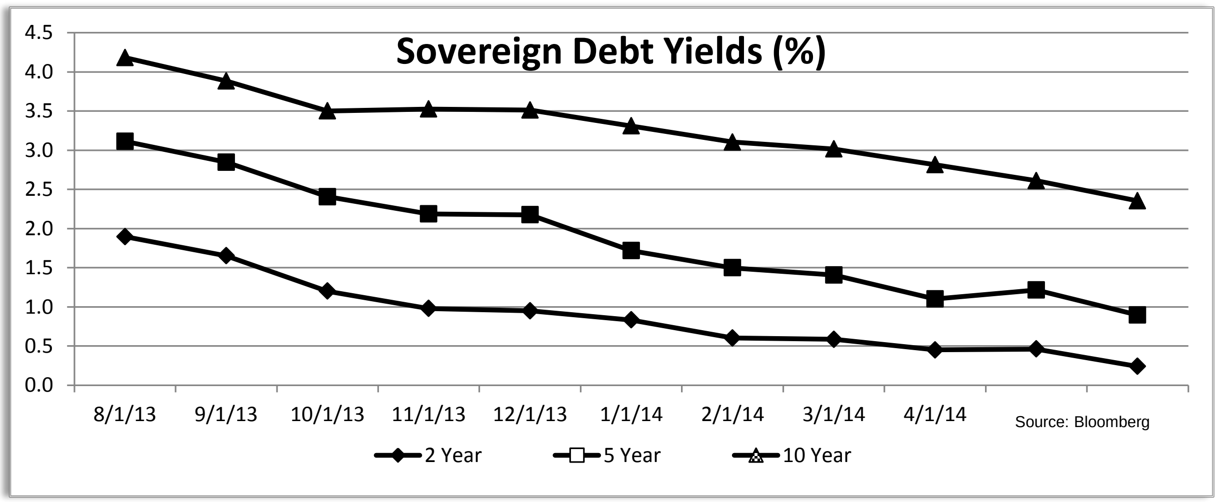
Ireland has significantly exposure to its banking because the banks' large aggregate size measured in assets The top two banks have assets equal to 154% of GDP vs 125% for Germany and 130% for Italy. Ireland has provided financial support to its banks to ameliorate asset quality problems; banks appear to be undercapitalized and equity is diluted by reserve shortfalls. Ireland growth is restricted because of government control of its banks.

Bank Assets (billions of local currency)

	Assets	Cap/ Assets %
ALLIED IRISH BK	118	8.9
BANK IRELAND	132	6.0
	-	
	-	
	-	
Total	250	
EJR's est. of cap shortfall at 10% of assets less market cap		(32)
Ireland's GDP		162

Funding Costs

As a result for the reduced overall funding costs, perhaps resulting from a dearth of growth along with the massive efforts of central banks, Ireland's funding costs have declined over the past year. As can be seen in the below graph, the bond yields have declined since Aug. 2013. Other EU governments have requested that the ECB, EFSF, and IMF purchase the government's debt. Watch ECB actions to suppress EU funding costs.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 33 (1 is best, 183 worst) is strong.

The World Bank's Doing Business Survey*

	2012 Rank	2011 Rank	Change in Rank
Overall Country Rank:	**33**	**31**	**-2**
Scores:			
Starting a Business	44	36	-8
Construction Permits	57	55	-2
Getting Electricity	82	84	2
Registering Property	176	176	0
Getting Credit	70	67	-3
Protecting Investors	19	17	-2
Paying Taxes	75	72	-3
Trading Across Borders	29	30	1
Enforcing Contracts	18	19	1
Resolving Insolvency	7	8	1

* Based on a scale of 1 to 183 with 1 being the highest ranking.

Economic Freedom

As can be seen below, is above average in its overall rank of for Economic Freedom with 100 being best.

World Rank 0*	Rank**	2011 Rank	Change in Rank	World Avg.
Business Freedom	**0.0**	0.0	0.0	64.3
Trade Freedom	**0.0**	0.0	0.0	74.8
Fiscal Freedom	**0.0**	0.0	0.0	76.3
Government Spending	**0.0**	0.0	0.0	63.9
Monetary Freedom	**0.0**	0.0	0.0	73.4
Investment Freedom	**0.0**	0.0	0.0	50.2
Financial Freedom	**0.0**	0.0	0.0	48.5
Property Rights	**0.0**	0.0	0.0	43.5
Freedom from Corruption	**0.0**	0.0	0.0	40.5
Labor Freedom	**0.0**	0.0	0.0	61.5

*Based on a scale of 1-100 with 100 being the highest ranking.

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

Source: The Heritage Foundation & Wall Street Journal

*EJR Sen Rating(Curr/Prj) BB/ N/A
*EJR CP Rating: A3
EJR's 3 yr. Default Probability: 3.0%

Assumptions for Projections

Income Statement	Peer Median	Issuer Average	Base Case Yr 1&2	Base Case Yr 3,4,5
Taxes Growth%	4.9	4.9	**4.9**	**4.9**
Social Contributions Growth %	3.7	5.9	**6.0**	**6.0**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	9.9	NMF		
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	5.9	4.0	**4.0**	**3.6**
Compensation of Employees Growth%	1.6	(1.9)	**(1.9)**	**(1.9)**
Use of Goods & Services Growth%	2.8	(1.9)	**(1.9)**	**(1.9)**
Social Benefits Growth%	2.4	(1.4)	**(1.4)**	**(1.4)**
Subsidies Growth%	(6.1)	(2.9)		
Other Expenses Growth%	34.6	34.6	**34.6**	**31.1**
Interest Expense	0.0	3.8	**3.8**	
GDP Growth%			**2.3**	**2.5**
Currency and Deposits (asset) Growth%	6.0	0.0		
Securities other than Shares LT (asset) Growth%	(2.2)	18.7	**1.0**	**1.0**
Loans (asset) Growth%	30.1	7.6	**1.0**	**1.0**
Shares and Other Equity (asset) Growth%	6.3	21.9	**2.0**	**2.0**
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	0.0	75.7	**1.0**	**1.0**
Other Accounts Receivable LT Growth%	7.3	(1.0)	**(1.0)**	**(1.0)**
Monetary Gold and SDR's Growth %	0.0	0.0	**2.0**	**2.0**
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	0.0			
Currency & Deposits (liability) Growth%	6.0	11.2	**2.0**	**2.0**
Securities Other than Shares (liability) Growth%	8.5	30.3	**2.0**	**2.0**
Loans (liability) Growth%	11.1	(15.4)	**0.5**	**0.5**
Insurance Technical Reserves (liability) Growth%	0.0	(100.0)	**1.0**	**1.0**
Financial Derivatives (liability) Growth%	0.0	(41.0)	**2.0**	**2.0**
Addl debt. (1st Year) million EUR	0.0	0.0		

Base Case
ANNUAL REVENUE AND EXPENSE STATEMENT (MILLIONS EUR)

	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
Taxes	37,624	39,451	41,399	43,427	45,555	47,788
Social Contributions	10,139	9,651	10,216	10,829	11,479	12,168
Grant Revenue	0	0	0	0	0	0
Other Revenue	7,569	7,520	0	0	0	0
Other Operating Income	0	0	0	0	0	0
Total Revenue	55,331	56,623	58,866	54,256	57,034	59,955
Compensation of Employees	19,113	18,784	18,423	18,069	17,722	17,381
Use of Goods & Services	8,762	8,460	8,300	8,143	7,988	7,837
Social Benefits	28,952	28,960	28,559	28,165	27,775	27,391
Subsidies	1,349	1,540	1,495	1,496	1,496	1,496
Other Expenses	9,178	3,048	4,103	5,522	7,432	9,746
Grant Expense	0	0	0	0	0	0
Depreciation	2,623	2,424	2,302	2,302	2,302	2,302
Total Expenses excluding interest	69,977	63,215	63,182	63,695	64,715	66,153
Operating Surplus/Shortfall	-14,646	-6,593	-4,316	-9,439	-7,681	-6,198
Interest Expense	5,191	5,912	7,407	7,407	8,153	8,861
Net Operating Balance	-19,836	-12,505	-11,723	-16,846	-15,833	-15,059

Sources: Historical - IMF, Projections - EJR

Base Case
ANNUAL BALANCE SHEETS (MILLIONS EUR)

ASSETS	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
Currency and Deposits (asset)						
Securities other than Shares LT (asset)	7,334	9,097	10,798	10,906	11,015	11,125
Loans (asset)	5,091	6,623	7,124	7,195	7,267	7,340
Shares and Other Equity (asset)	22,830	24,475	29,845	30,442	31,051	31,672
Insurance Technical Reserves (asset)	1			0	0	0
Other Accounts Receivable LT	8,618	8,190	8,110	8,031	7,952	7,875
Monetary Gold and SDR's						
Additional Assets	18,640	24,755	23,781			
Total Financial Assets	63,218	73,782	80,786	81,494	82,217	82,955
LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)	15,218	17,472	19,424	19,424	19,424	19,424
Securities Other than Shares (liability)	79,675	96,557	125,842	128,359	130,926	133,545
Loans (liability)	66,422	87,347	73,936	90,782	106,616	121,674
Insurance Technical Reserves (liability)		1				
Financial Derivatives (liability)	813	1,572	927	946	964	984
Other Liabilities	5,152	5,681	5,125	3,298	3,298	3,298
Liabilities	167,280	208,630	225,254	242,808	259,365	275,161
Net Financial Worth	(104,062)	(134,848)	(144,468)	(161,314)	(177,148)	(192,206)
Total Liabilities & Equity	63,218	73,782	80,786	81,494	82,217	82,955

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.