MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Ireland to Baa1 from Baa3; outlook stable

Global Credit Research - 16 May 2014

New York, May 16, 2014 -- Moody's Investors Service has today upgraded Ireland's rating by two notches to Baa1 from Baa3. At Baa1, the outlook is stable. Concurrently, the short-term rating has been upgraded to P-2 from P-3.

The key drivers of the upgrade of Ireland's rating are the following:

1. A step change in future debt levels. Moody's expects that the recent pick-up in Ireland's growth momentum will speed up ongoing fiscal consolidation and put the government's debt metrics on a steeper downward path than previously anticipated, leading to a significantly improved outlook for Ireland's medium-term public debt trajectory.

2. Very sharp reduction in off-balance sheet exposures. The recovery in the Irish property market has resulted in a considerable recent reduction in government contingent liabilities, due both to the accelerated asset sales of Ireland's National Asset Management Agency (NAMA) and to the disposal of the Irish Bank Resolution Corporation (IBRC) portfolio.

3. Improved credit position relative to peers. Compared to other Baa-rated euro area sovereigns, including Italy (Baa2 stable) and Spain (Baa2 positive), Ireland's credit profile is recovering more quickly from the euro area debt crisis as a result of its economy's dynamism and growth prospects. This assessment informs the two-notch upgrade, repositioning the rating at the top of Ireland's scorecard-implied rating range.

However, Ireland's credit profile and rating remain constrained by the country's high public debt level, still-sizeable fiscal deficits and significant banking sector risks, including a high stock of non-performing loans. These negative rating factors are partly offset by Ireland's considerable institutional and economic strengths as well as the government's significant cash balance, which insulates it from liquidity pressures in the short to medium-term.

In a related rating action, the ratings on the debt of NAMA, which is fully and unconditionally guaranteed by the Irish government, have been upgraded to Baa1/P-2 with stable outlook, the same ratings and outlook as the government.

In addition, Ireland's foreign and local-currency country ceilings for long-term debt and deposits have been raised to Aa3 from A2. The country ceilings for short-term foreign-currency debt and deposits are affirmed at P-1. These ceilings reflect a range of un-diversifiable risks to which issuers in any jurisdiction are exposed, including economic, legal and political risks. Ireland's ceilings also incorporate the currently very low risk of euro area exit and redenomination, consistent with Moody's treatment of other sovereigns in a currency union. These ceilings act as a cap on ratings that can be assigned to the foreign and local-currency obligations of entities domiciled in the country.

RATING RATIONALE

RATIONALE FOR THE UPGRADE TO Baa1

The first driver behind the upgrade of Ireland's debt ratings relates to the significantly improved outlook for Ireland's medium-term debt trajectory, given the pick-up in growth momentum in the last few months. Moody's expects Ireland's economy to grow considerably faster than the euro area average over the near to medium term. Both coincident and leading indicators from January through April 2014 show that economic activity is gathering pace and that the one-off factors that held back export growth in 2012-13 are waning. Moreover, domestic demand is now accelerating, led by a broad-based recovery in gross fixed investment but also by a revival in private consumption spending despite households' high debt overhang. Consumer confidence is gradually being restored thanks to robust employment trends and the stabilization of the housing market.

Faster growth will support ongoing fiscal consolidation and put the debt on a firm downward trajectory, which was one of Moody's forward-looking criteria for further upgrades after the rating was upgraded to Baa3 in January 2014. The budget deficit shrank by 30% compared to a year earlier in the first four months of 2014, as government revenues increased beyond budget forecasts and the drop in unemployment (by 14% last year alone) helped to

lower government outlays on social benefits. These early results put the government finances on track to realize the planned deficit of less than 5% of GDP this year. In 2015, the government expects it will need 1.2% of GDP in additional fiscal tightening to achieve its goal of a deficit under 3% of GDP, which once achieved would allow Ireland to move out of the EU's Excessive Deficit Procedure for the first time since 2008.

The second driver for the upgrade of Ireland's rating is the significant recent reduction in government contingent liabilities as a consequence of the recovery in the Irish property market. It is now highly likely that all of the marked-down assets taken over by NAMA from the commercial banks in 2010-11 will be able to be sold without ever coming onto the government's balance sheet. This year NAMA has accelerated the sale of its assets, which are predominantly located in prime urban areas, and is using the proceeds to pay down another EUR7.5 billion in debt. This will bring the debt that NAMA has paid off since inception to EUR15 billion by year-end 2014, or half the debt NAMA had originally issued to purchase the devalued bank assets. At this pace, NAMA officials predict they will have sold off nearly all of its assets by the end of 2016 and thus be able to close its doors two years before the 2020 target date.

Also notable is the fact that the approximately EUR13 billion portfolio of mainly property assets created from the February 2013 liquidation of the IBRC (formed by the merger of the nationalised Anglo Irish Bank and the Irish Nationwide Building Society) was sold without having to be transferred to NAMA's balance sheet, as had been expected only a few months ago. The ability to sell the entire portfolio (i.e., without recourse to either NAMA or the government) with a profit is another positive development that has become clear since the upgrade of Ireland to Baa3 in January.

The third driver for today's two-notch upgrade is that Ireland's credit profile is recovering more quickly from the euro area debt crisis as a result of its economy's dynamism and growth prospects compared to other Baa-rated euro area sovereigns, including Italy (Baa2 stable) and Spain (Baa2 positive). When combined with our expectation that Ireland will meet or exceed its future fiscal targets, as it has in recent years, its growth trajectory should translate into a more significant debt-to-GDP decline than its peers. Hence, Moody's has repositioned Ireland's rating at the top of its scorecard-implied rating range of Baa1 to Baa3.

RATIONALE FOR STABLE OUTLOOK

The stable outlook on Ireland's Baa1 rating reflects evenly balanced upside and downside risks.

WHAT COULD CHANGE THE RATING -- UP/DOWN

Upward pressure would develop on Ireland's government rating if (1) the government continues to comply with its fiscal consolidation targets, leading to significant improvement of government debt affordability as measured by government interest payments over revenues; and (2) the three major domestic banks regain profitability and reduce their combined non-performing loan ratio, further lowering the government's contingent liabilities from the banking system.

Ireland's government rating could be downgraded or a negative outlook assigned if (1) the country's fiscal consolidation process falters and the deficit fails to drop below the 3% of GDP mark in 2015; or (2) the finances do not achieve a structural balance (in accordance with Ireland's Medium Term Objective agreed with the European Commission) by roughly 2017-18, particularly if the debt ratios were to climb again above 120% and show no signs of leveling off. Additional drivers of downward credit pressure would be an increased risk of contagion to stress elsewhere in the euro area, or in the unlikely case that contingent liabilities from NAMA and/or the banking system in excess of roughly EUR10 billion are transferred to the government's balance sheet.

GDP per capita (PPP basis, US$): 39,547 (2013 Actual) (also known as Per Capita Income)

Real GDP growth (% change): -0.3% (2013 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 0.4% (2013 Actual)

Gen. Gov. Financial Balance/GDP: -7% (2013 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: 6.6% (2013 Actual) (also known as External Balance)

External debt/GDP: [not available]

Level of economic development: Moderate level of economic resilience &Default history: No default events (on bonds or loans) have been recorded since 1983.

On 14 May 2014, a rating committee was called to discuss the rating of the Ireland, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have materially increased. The issuer's fiscal or financial strength, including its debt profile, has materially increased. An analysis of this issuer, relative to its peers, indicates that a repositioning of its rating would be appropriate. Other views raised included: The issuer's institutional strength/framework, have materially increased.

The principal methodology used in this rating was Sovereign Bond Ratings published in September 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this rating action, if applicable.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Kristin S Lindow
Senior Vice President
Sovereign Risk Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Bart Oosterveld
MD - Sovereign Risk
Sovereign Risk Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Moody's
INVESTORS SERVICE

© 2014 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATION") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained

herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody’s Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY’S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody’s Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you

represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.