

JULY 2011 DEFAULT CASE STUDY

Moody's Analytics Quantitative Research Group

Authors

Irina Korablev
+1.415.874.6278
irina.korablev@moodys.com

Yu (Lucy) Jiang
+1.415.874.6267
yu.jiang@moodys.com

Editor

Christopher Crossen

Contact Us

Americas
+1-212-553-5160
clientservices@moodys.com

Europe
+44.20.7772.5454
clientservices.emea@moodys.com

Asia (Excluding Japan)
+85 2 2916 1121
clientservices.asia@moodys.com

Japan
+81 3 5408 4100
clientservices.japan@moodys.com

Public Firm Default Report: Irish Life & Permanent PLC (IPM)

Default Event

On July 20, 2011, the Irish Government committed to inject approximately €2.7 billion into **Irish Life and Permanent PLC** by July 31, 2011; the remaining €1.1 billion will be raised by the end of October 2011 via the buyback of subordinated debt at a substantial discount to the nominal value and the sale of the bank's life assurance business, Irish Life.

Company Profile

Irish Life & Permanent hopes the green, green grass of home will be a fertile spot for growth. The company has pulled in its expansionist horns in favor of an "Ireland first" strategy, all but confining sales of insurance, investment management, mortgage loans, and other personal financial products and services to its home country, where it has about a million customers. The company's retail division (Irish Life) provides life insurance, other insurance, and investment products to individuals through its own sales force, independent agents, and the branches of the company's banking subsidiary, Permanent PLC. Via its bank, Irish Life & Permanent is one of Ireland's leading mortgage lenders.

EDF Credit Measure and EDF Drivers

EDF value as of July 20, 2011: 28.40%

Traditional ratings, such as those used by major rating agencies, are currently more commonplace than default probabilities. Therefore, to help facilitate users' understanding, we translate the EDF credit measure into an equivalent Credit Category. IPM's Credit Category (not an agency rating) at default was Ca.

Figure 1. One-year Irish Life & Permanent PLC's EDF Values.

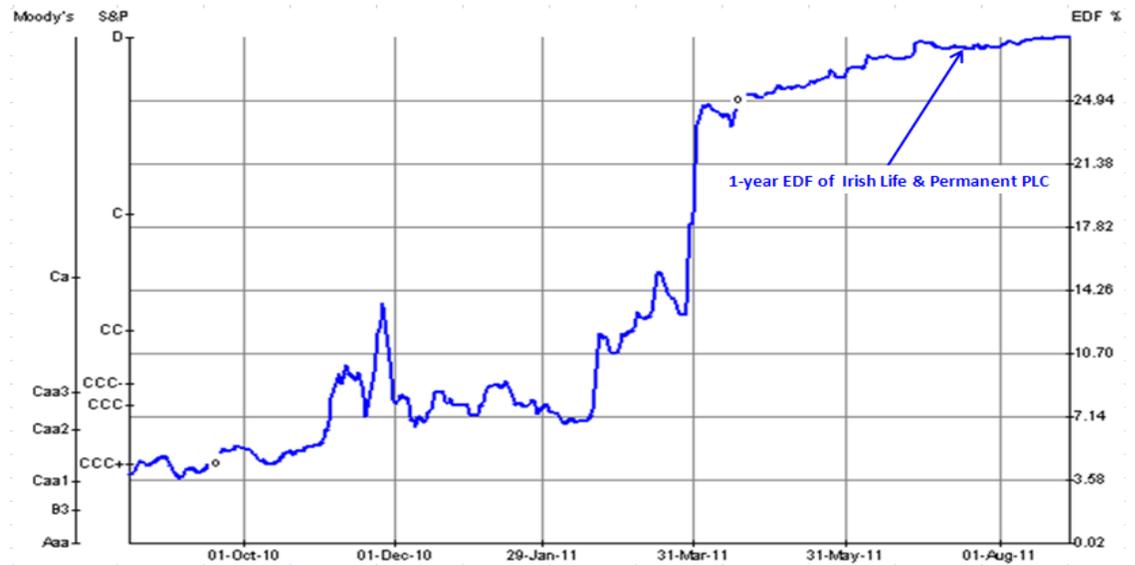


Figure 1 shows that Irish Life & Permanent PLC's EDF credit measure had been increasing since January 2011 and reached 28.40% as of the default date.

Figure 2. Drivers of Irish Life & Permanent PLC's EDF Values

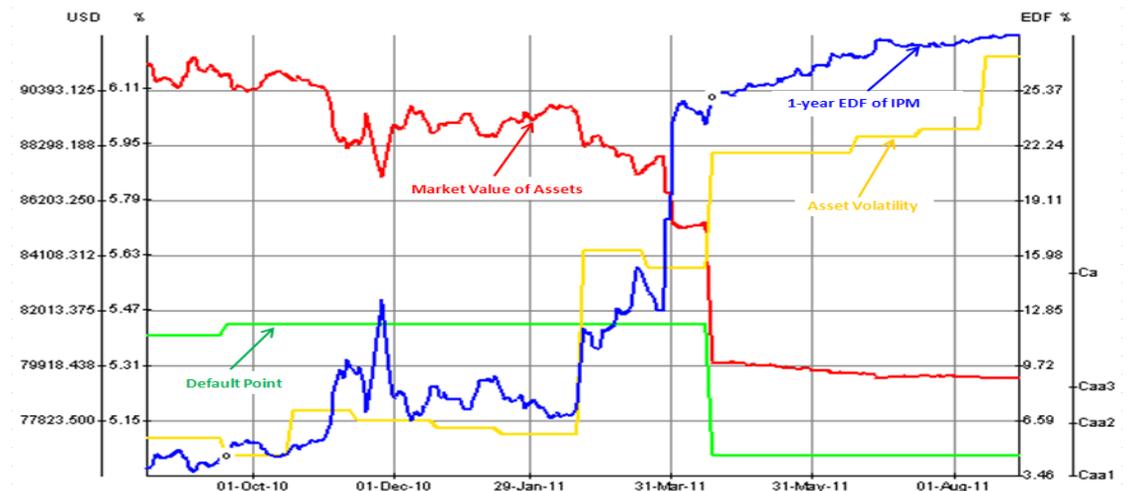


Figure 2 shows the time series of EDF values and EDF drivers, which includes market value of assets, asset volatility, default point, and market leverage. **Table 1** summarizes the EDF driver definitions.

In September 2010, the company's market value of assets was \$91 billion. In light of Europe's continued weakened economy and Greece's disorderly debt restructuring, the company's market value of assets slumped to \$79 billion in June 2011, close to the default point, \$77 billion. The company's asset volatility rose to 6% in June 2011 from 5% in September 2010. High financial risk, combined with poor asset quality, led the company to default.

Table 1. Drivers for EDF Values

EDF DRIVERS	DEFINITION
Market Value of Assets	The market's view of the enterprise value of the firm as determined by the firm's equity value, equity volatility, and liability structure
Default Point	The liabilities that matter in case of default. If the market value of assets falls below this value, it is assumed that the firm will be unable to sell assets or raise additional capital to pay its debt. A firm's default point is a value close to its short-term liabilities plus half of its long-term liabilities
Market Leverage	Ratio indicating how much of the market value of assets is financed by debt. It is calculated as the default point/market value of assets
Asset Volatility	Standard deviation of the annual change in the market value of the assets

The two main EDF value drivers are asset volatility and market leverage. **Figure 3** depicts a meter showing the level of risk for each of the two measures. The levels are relative values, computed on the Western Europe Large Financials Group.

Figure 3. Western Europe Large Financials Group



Asset Volatility. EDF credit measures for Western Europe Large Financials Group issuers such as Irish Life & Permanent PLC reflect an average of asset volatility levels during the past five years. As of the default date, Irish Life & Permanent PLC's asset volatility was 5.99%, within the 25th-50th percentile relative to the entire Western Europe Large Financials Group.

Market Leverage. Irish Life & Permanent PLC's market leverage is 96.16%, which falls within the 99th percentile of the entire Western Europe Large Financials Group.

Relative Analysis

The relative analysis feature allows users to chart EDF, fundamental data, and bond values for a selected company or group relative to other companies and/or groups. Users may manually select their own list of peer companies or groups for comparison or view a Moody's Analytics' predefined peer list, based on an automated algorithm. To determine peers for each company, Moody's Analytics finds all of the companies that share the company's Bloomberg Subgroup. Users can also customize and save their own peer company and peer group choices for future use.

Figure 4. One-year Irish Life & Permanent PLC vs. Western Europe Life Insurance Group

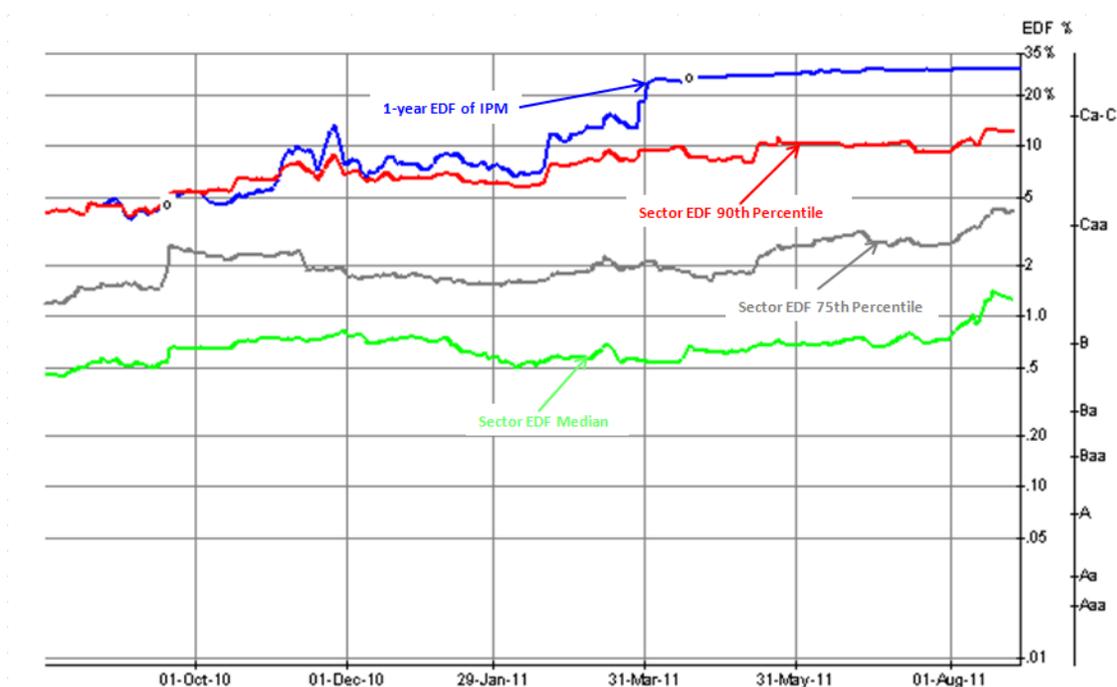


Figure 4 shows Irish Life & Permanent PLC's EDF value surpassed the 90th percentiles of the Western Europe Life Insurance Group beginning in September 2010. The company defaulted in July 2011.

Conclusion

Irish Life & Permanent PLC's EDF credit measure indicated high default risk before default occurred. Firm EDF values remained above the 90th percentile relative to the peer group of Western Europe Life Insurance Group beginning in September 2010. High financial risk, combined with continued poor asset quality, led the company to default.

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