HELLENIC REPUBLIC (GREECE)

Rating Analysis - 4/4/11
Debt: EUR298.0B, Cash: EUR12.5B

EJR Sen Rating(Curr/Prj) B/ CCC
EJR CP Rating: C
EJR's 1 yr. Default Probability: 15.0%

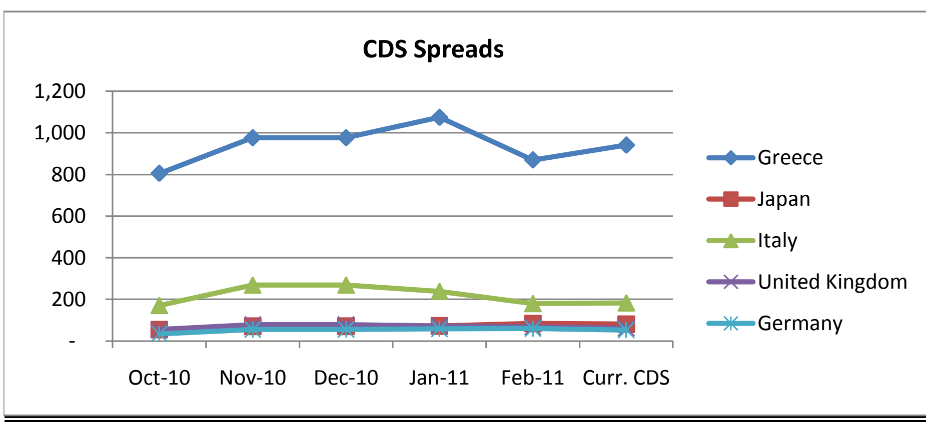
The rise in interest rates is likely to place and unbearable burden on the issuer and will further pressure GDP. The Hellenic Statistical Authority cited an accelerated contraction in domestic demand and a fall in consumer expenditures with the decline. The country's trade deficit has improved, helping to only partially offset the remaining factors of GDP. Growth is expected to continue to slow in coming quarters.

Unsustainable - we expect that Greece will be forced to restructure its debt within the next 6 to 24 months; it cannot sustain significant additional budget cuts, the tepid economy restrict capital raising, and rising interest rates increasee the burden. After reaching 15.4% of GDP in 2009, Greece deficit is now near 9.5% of GDP. Still, the country has failed to meet its initial deficit target of 8.1% of GDP for 2010 as agreed to under the joint IMF-EU bailout terms in May 2010. Meanwhile, Greek debt (currently the highest in the EU at 127%) is projected to reach 144% of GDP in 2010. Austria has has withheld €190 million in bailout funds due to Greece in December after claiming the country has failed to meet its spoken commitments for the EU bailout package. Specifically, Austria cites low tax revenues and the higher than expected 2010 budget deficit.

	Annual Ratios					
INDICATIVE CREDIT RATIOS	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Debt/ GDP (%)	106.2	128.6	152.0	159.0	165.5	172.2
Govt. Sur/Def to GDP (%)	-9.4	-15.4	-12.0	-11.7	-11.6	-11.6
Adjusted Debt/GDP (%)	109.7	132.3	155.7	162.9	169.5	176.3
Interest Expense/ Taxes (%)	22.8	25.8	28.4	31.3	32.7	34.2
GDP Growth (%)	-0.7	-6.6	-3.0	-3.0	-2.5	-2.5
Foreign Reserves/Debt (%)	0.0	0.0	0.0	0.0	0.0	0.0
Implied Sen. Rating	B	B-	B+	B-	B-	B-

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	79.5	-11.4	100.0	7.0	-4.9	B+
Federal Republic Of Germany	AAA	75.3	-3.0	83.3	10.7		BB
Government Of Canada	AAA	34.2	-4.9	34.2	14.3	3.2	A-
Japan	AA-	255.3	-7.1	260.8	14.6	-1.5	CC
Italian Republic	A+	118.8	-5.3	125.2	15.9	1.5	BB-



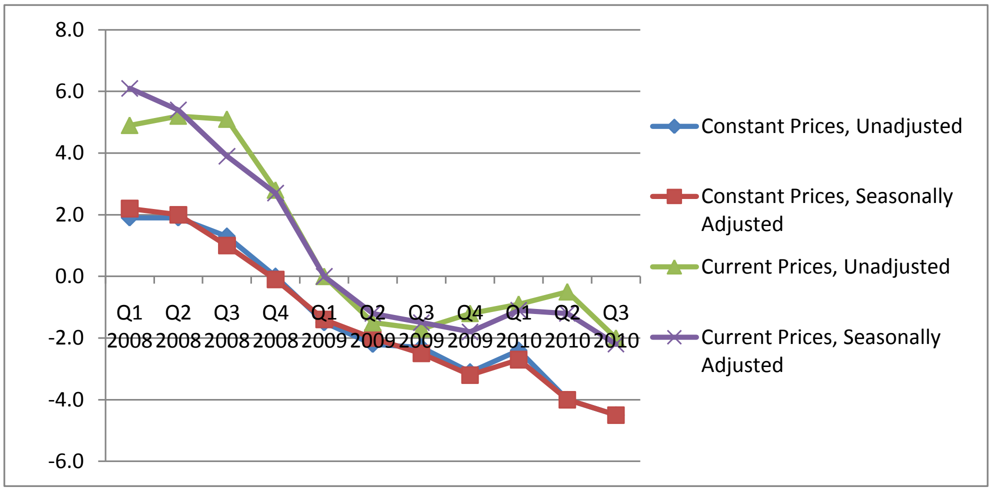
Country (EJR Rtg*)	Current CDS	Targeted CDS
Greece(B+)	941	600
Japan(BB+)	81	333
Italy(BBB+)	183	158
United Kingdom(AA)	62	30
Germany(AA)	53	30

* Projected Rating

Economic Growth & Bailout Plans

In Q3 2010, GDP fell by a greater than expected 4.5% YoY (1.1% QoQ). Previous forecasts averaged a 4.2% decline. The Hellenic Statistical Authority credited an accelerated contraction in domestic demand and a fall in consumer expenditures with the decline. Meanwhile, the country's trade deficit continues to improve, helping to only partially offset the remaining factors of GDP. Growth is expected to continue to slow in coming quarters.

Year-on-Year GDP Growth (Millions €)



Despite widespread anti-austerity protests, Euro-area ministers and the IMF agreed on May 2, 2010 to a €110bn joint aid package for Greece. The EU transferred its first installment of emergency loans in the amount of €14.5bn on Tuesday, May 18th, one day before €8.5bn of bonds came due. In exchange for the rescue funds, Greece has pledged to implement austerity measures of almost 14% of GDP. However, the austerity program carries significant risk, both socially and economically. Furthermore, in the spring of 2010, the Greek government established the Program of Stability and Growth intending to bring the public deficit down to 2.8% of GDP and public debt to 117.4% of GDP in 2012. To date, Greece's budget deficit has fallen to 9.4% of GDP (projected 2010) while national debt has risen to 127%.

Unemployment

The number of unemployed persons in Q2 2010 amounted to 594,032 persons, versus 4,426,992 employed persons. The rate of unemployment rose 0.1% QoQ (2.9% YoY) to 11.8% during the quarter. The IMF forecasts rates to reach 14.8% by 2012.

Q2 2010 Breakdown of Unemployment:
By Sex and Age Groups

Age Group	Males	Females	Total
Total	**9.4**	**15.3**	**11.8**
15-29	18.9	27.5	22.8
30-44	8.1	14.7	10.9
45-64	6.5	9.0	7.5
65+	1.2	1.2	1.2

Source: Hellenic Statistical Authority

The unemployment rate for females (15.3%) remains considerably higher than the un-employment rate for males (9.4%). Furthermore, the highest unemployment rate recorded is among young persons aged 15-29 years (22.8%).

Inflation: Consumer Price Index

Inflation in Greece has been on the rise since the country's financial crisis in the spring of 2010. The Consumer Price Index (CPI) increased by 5.2% YoY in October 2010. In October 2009, the annual rate of change in the Index was 1.2%. On a monthly basis, the CPI increased 0.2% over September 2010. The overall average annual rate of change in the Index throughout the 12-month period from November 2009 to October 2010 compared to the 12-month period from November 2008 to October 2009 was 4.3%. In the year prior to the global financial crisis (November 2008 to October 2009), the average annual rate of change was 1.2%.

Assumptions for Projections

	Peer	Issuer	Base Case	
Income Statement	**Median**	**Average**	**Yr 1&2**	**Yr 3,4,5**
Taxes Growth%	(4.8)	(4.6)	**(4.8)**	**0.5**
Social Contributions Growth %	(0.4)	(5.4)	**0.5**	**0.5**
Grant Revenue Growth %	0.0	0.0		
Other Revenue Growth %	0.1	(15.5)	**(2.0)**	**(1.0)**
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	(3.9)	(6.4)	**(3)**	**(2.5)**
Compensation of Employees Growth%	3.5	7.2	**2.0**	**2.0**
Use of Goods & Services Growth%	5.4	13.0	**3.0**	**3.0**
Social Benefits Growth%	5.5	8.7	**3.5**	**3.5**
Subsidies Growth%	4.4	2.3		
Other Expenses Growth%	(11.2)	(11.2)	**1.0**	**1.0**
Special Items (millions EUR)	0.0	0.0		
Balance Sheet				
Currency and Deposits Growth%	0.4	(3.3)	**1.0**	**1.0**
Securities other than Shares LT Growth%	7.8	9.9	**2.0**	**2.0**
Loans Growth%	1.7	(2.9)	**1.3**	**1.3**
Shares and Other Equity Growth%	18.8	35.5	**3.0**	**3.0**
Insurance Technical Reserves Growth%	0.0	10.5	**2.5**	**2.5**
Financial Derivatives Growth%	0.0	0.0		
Other Accounts Receivable LT Growth%	4.4	8.0	**(1.0)**	**(1.0)**
Monetary Gold and SDR's Growth %	0.0	0.0	**1.0**	**1.0**
Other Accounts Payable Growth%	6.4	NMF		
Currency & Deposits Growth%	2.1	105.1	**(1.0)**	**(1.0)**
Securities Other than Shares Growth%	8.8	16.3	**2.0**	**2.0**
Growth%	0.0	0.0		
Loans Growth%	1.7	(6.3)	**0.5**	**0.5**
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	46,638	48,069	45,851	43,650	41,555	41,763
Social Contributions	30,388	32,053	30,328	30,479	30,632	30,785
Grant Revenue	0	0	0	0	0	0
Other Revenue	12,788	13,445	11,367	11,140	10,917	10,808
Other Operating Income	0	0	0	0	0	0
Total Revenue	89,814	93,566	87,546	85,269	83,103	83,355
Compensation of Employees	25,373	27,475	29,458	30,048	30,649	31,261
Use of Goods & Services	12,855	12,874	14,548	14,984	15,434	15,897
Social Benefits	39,795	44,900	48,815	50,524	52,292	54,122
Subsidies	286	299	306	306	306	306
Other Expenses	6,732	8,550	7,593	8,636	7,669	8,722
Grant Expense	0	0	0	0	0	0
Depreciation	4,113	4,342	4,716	4,716	4,716	4,716
Total Expenses	89,154	98,440	105,436	109,213	111,065	115,024
Operating Surplus/Shortfall	660	-4,874	-17,891	-23,944	-27,962	-31,669
Interest Expense	10,064	10,963	11,810	12,401	13,021	13,672
Net Operating Balance	-9,404	-15,837	-29,701	-36,344	-40,982	-45,341

ANNUAL BALANCE SHEETS (MILLIONS EUR)

ASSETS	Dec-07	Dec-08	Dec-09	PDec-10	PDec-11	PDec-12
Currency and Deposits	9,577	12,876	12,457	12,582	12,707	12,834
Securities other than Shares LT	460	1,678	1,844	1,881	1,918	1,957
Loans	1,134	1,382	1,342	1,359	1,377	1,395
Shares and Other Equity	41,995	29,137	39,494	40,679	41,899	43,156
Insurance Technical Reserves	39	38	42	43	44	45
Financial Derivatives						
Other Accounts Receivable LT	19,395	19,165	20,693	20,486	20,281	20,078
Monetary Gold and SDR's						
Additional Assets	0	0	0	0	0	0
Total Financial Assets	72,600	64,276	75,872	77,030	78,228	79,466
LIABILITIES						
Other Accounts Payable	6,120	7,807	8,062	8,062	8,062	8,062
Currency & Deposits	713	743	1,524	1,524	1,524	1,524
Securities Other than Shares	198,466	212,692	247,255	252,200	257,244	262,389
Loans	22,176	20,770	19,453	58,017	95,153	136,588
Insurance Technical Reserves						
Financial Derivatives						
Other Liabilities	8,604	8,136	6,262	255	255	255
Liabilities	236,079	250,148	282,556	320,058	362,238	408,817
Net Financial Worth	(163,479)	(185,872)	(206,684)	(243,028)	(284,010)	(329,351)
Total Liabilities & Equity	72,600	64,276	75,872	77,030	78,228	79,466

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