HELLENIC REPUBLIC (GREECE)

Rating Analysis - 6/13/11
Debt: EUR328.6B, Cash: EUR16.6B

EJR Sen Rating(Curr/Prj) D/ N/A
EJR CP Rating: D
EJR's 1 yr. Default Probability: 100.0%

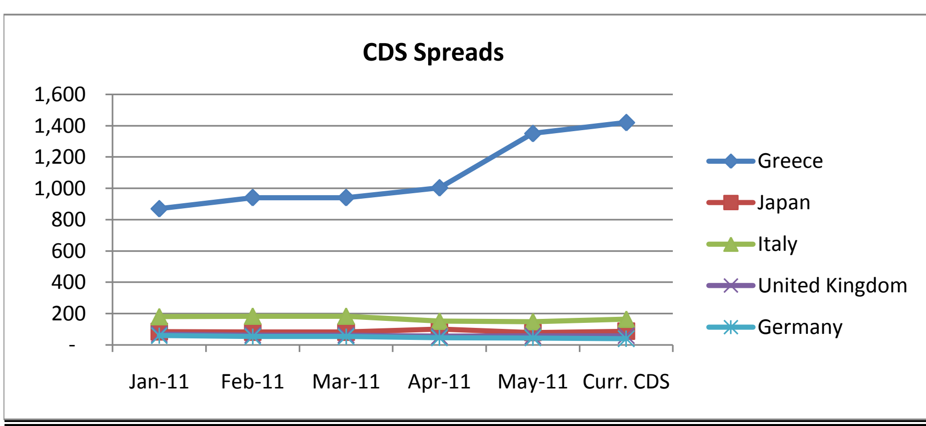
End of the line - although Greece is likely to receive additional funds, those funds might be senior to existing debt and both creditors and Greece's patience is waning. The rise in interest rates is likely to place an unbearable burden on the issuer and the austerity measures will further pressure GDP. The Hellenic Statistical Authority cited an accelerated contraction in domestic demand and a fall in consumer expenditures with the decline.

We expect that Greece will be forced to restructure its debt within the next 2 to 18 months; it cannot sustain significant additional budget cuts, the tepid economy, restricted capital raising, and 20+% interest rates. Greece's stated debt is EUR329B, GDP is EUR230B, and the federal budget deficit is EUR3.8B before interest expense and EUR16.4B after interest expense. 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 160% of GDP in 2011. Austria withheld funds due to Greece after claiming the country has failed to meet its spoken commitments for the EU bailout package.

	Annual Ratios					
INDICATIVE CREDIT RATIOS	Jun-09	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14
Debt/ GDP (%)	122.3	142.9	152.6	163.1	173.1	183.6
Govt. Sur/Def to GDP (%)	-15.4	-10.5	-6.0	-5.6	-5.5	-5.5
Adjusted Debt/GDP (%)	125.9	146.7	156.7	167.4	177.6	188.5
Interest Expense/ Taxes (%)	26.9	27.2	30.1	33.2	34.7	36.3
GDP Growth (%)	-2.1	-7.4	-6.4	-6.4	-5.8	-5.8
Foreign Reserves/Debt (%)	0.0	0.0	0.0	0.0	0.0	0.0
Implied Sen. Rating	D	CC	CC	CC	CC	C

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	100.8	-11.4	123.0	10.3	-4.9	B
Federal Republic Of Germany	AAA	89.6	-3.3	97.4		3.8	BB+
Government Of Canada	AAA	18.5	-5.5	18.5	14.3	0.3	A-
Japan	AA-	267.0	-8.7	273.7	14.6	-1.5	CC+
Republic Of Italy	A+	125.1	-4.6	132.4	15.4	1.5	B



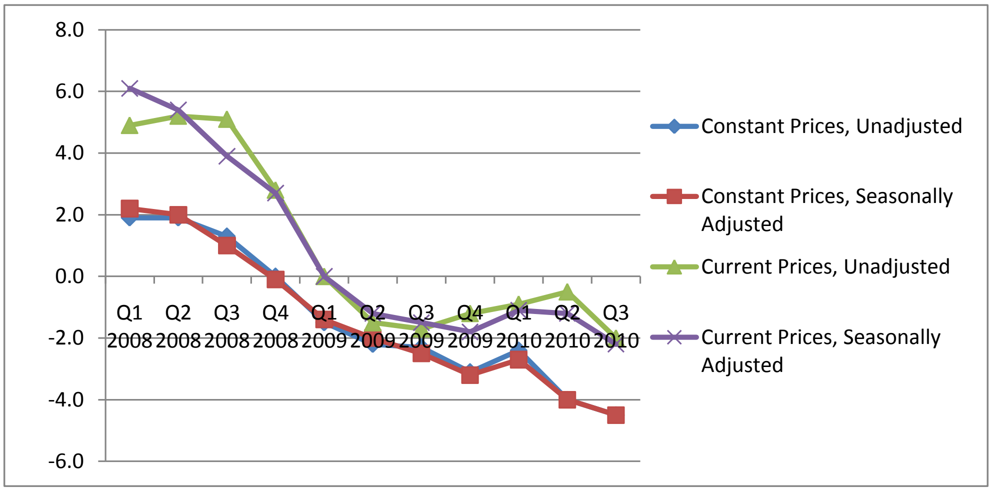
Country (EJR Rtg*)	Current CDS	Targeted CDS
Greece(D)	1,420	1,350
Japan(BB+)	87	333
Italy(BB+)	164	333
United Kingdom(AA)	58	30
Germany(AA)	39	30

* Projected Rating

Economic Growth & Bailout Plans

In 2010, GDP fell by a greater than expected 7.4% 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 jobless rate increased from 8% in 2008 to 10 in 2009 to 14% as of 2010. Joblessness will continue at high rates.

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 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.

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

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

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 Median	Issuer Average	Base Case Yr 1&2	Base Case Yr 3,4,5
Income Statement				
Taxes Growth%	0.0	1.2	**(5.0)**	**0.5**
Social Contributions Growth %	0.5	0.7	**0.7**	**0.7**
Grant Revenue Growth %	0.0	(100.0)	**0.5**	**0.5**
Other Revenue Growth %	0.0	(172.1)	**(12.0)**	**(12.0)**
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	0.9	2.7	**(6)**	**(5.8)**
Compensation of Employees Growth%	2.3	(11.0)	**5.0**	**5.0**
Use of Goods & Services Growth%	1.0	(22.6)	**5.0**	**5.0**
Social Benefits Growth%	2.1	(3.0)	**(1.0)**	**(1.0)**
Subsidies Growth%	0.0	22.4		
Other Expenses Growth%	0.0	0.0		
Special Items (millions EUR)	0.0	0.0		
Balance Sheet				
Currency and Deposits Growth%	0.0	40.1	**(5.0)**	**(5.0)**
Securities other than Shares LT Growth%	8.4	0.0		
Loans Growth%	6.3	(3.9)	**(3.9)**	**(3.9)**
Shares and Other Equity Growth%	0.0	(5.6)	**2.0**	**2.0**
Insurance Technical Reserves Growth%	1.5	11.9	**10.0**	**10.0**
Financial Derivatives Growth%	(56.3)	0.0		
Other Accounts Receivable LT Growth%	0.5	4.1	**(5.0)**	**(5.0)**
Monetary Gold and SDR's Growth %	0.0	0.0	**5.0**	**5.0**
Other Accounts Payable Growth%	4.0	NMF		
Currency & Deposits Growth%	0.0	40.1	**(5.0)**	**(5.0)**
Securities Other than Shares Growth%	8.4	0.0		
Growth%	0.0	0.0		
Loans Growth%	6.3	(3.9)	**0.5**	**0.5**
Insurance Technical Reserves Growth%	1.5	11.9	**1.0**	**1.0**
Financial Derivatives Growth%	(50.0)	0.0		
Addl debt. (1st Year) million EUR	0.0	0.0		

Base Case

ANNUAL REVENUE AND EXPENSE STATEMENT (MILLIONS EUR)

	Jun-08	Jun-09	Jun-10	PJun-11	PJun-12	PJun-13
Taxes	48,105	45,745	46,275	43,961	41,763	41,972
Social Contributions	30,749	29,458	29,663	29,869	30,077	30,287
Grant Revenue	28,761	31,762	0	0	0	0
Other Revenue	-13,156	-19,398	13,995	12,316	10,838	9,537
Other Operating Income	0	0	0	0	0	0
Total Revenue	94,459	87,567	89,933	86,146	82,678	81,796
Compensation of Employees	27,668	30,559	27,183	28,542	29,969	31,468
Use of Goods & Services	15,283	17,228	13,333	14,000	14,700	15,435
Social Benefits	45,765	48,844	47,400	46,926	46,457	45,992
Subsidies	43	76	93	93	93	93
Other Expenses	0	0	0	0	0	0
Grant Expense	28,761	31,762	0	0	0	0
Depreciation	4,960	5,342	5,733	5,733	5,733	5,733
Total Expenses	122,480	133,811	93,742	95,294	96,952	98,721
Operating Surplus/Shortfall	-28,021	-46,244	-3,809	-9,148	-14,273	-16,925
Interest Expense	11,750	12,328	12,594	13,224	13,885	14,579
Net Operating Balance	-39,771	-58,572	-16,403	-22,371	-28,158	-31,504

ANNUAL BALANCE SHEETS (MILLIONS EUR)

ASSETS	Jun-08	Jun-09	Jun-10	PJun-11	PJun-12	PJun-13
Currency and Deposits	13,204	11,841	16,592	15,762	14,974	14,226
Securities other than Shares LT	702	741	741	741	741	741
Loans	1,591	1,262	1,213	1,166	1,121	1,077
Shares and Other Equity	29,256	39,757	37,531	38,282	39,047	39,828
Insurance Technical Reserves	38	42	47	52	57	63
Financial Derivatives						
Other Accounts Receivable LT	19,640	19,265	20,061	19,058	18,105	17,200
Monetary Gold and SDR's						
Additional Assets	0	0	0	0	0	0
Total Financial Assets	64,431	72,908	76,185	75,061	74,045	73,134

LIABILITIES						
Other Accounts Payable	19,640	19,265	20,061	20,061	20,061	20,061
Currency & Deposits	13,204	11,841	16,592	280,315	307,458	338,051
Securities Other than Shares	702	741	741	741	741	741
Loans	1,591	1,262	1,213	1,213	1,213	1,213
Insurance Technical Reserves	38	42	47	47	48	48
Financial Derivatives						
Other Liabilities	239,843	276,018	243,273	796	796	796
Liabilities	275,018	309,169	281,927	303,174	330,317	360,910
Net Financial Worth	(210,587)	(236,261)	(205,742)	(228,113)	(256,272)	(287,775)
Total Liabilities & Equity	64,431	72,908	76,185	75,061	74,045	73,134

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