

HELLENIC REPUBLIC (GREECE)

Rating Analysis - 5/9/12

Debt: EUR329.5B, Cash: EUR16.6B

EJR Sen Rating(Curr/Prj) D/ D

EJR CP Rating: D

EJR's 1 yr. Default Probability: 100.0%

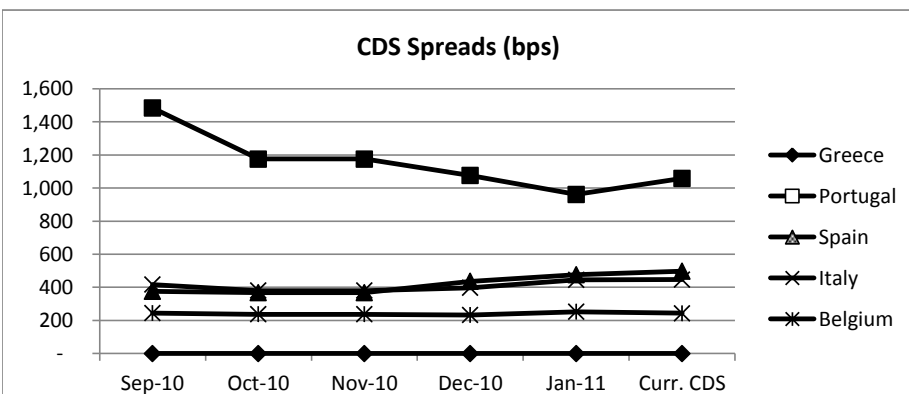
Pushback - the Greek voters failed to elect a working government with a possible result being a rejection of some austerity measures and the possible non-payment on Greek debt over the next two months. Over the past three reported fiscal years (i.e., from 2008 to 2010), GDP declined from EUR233 billion to EUR226 billion. The recently-reported quarters are of little comfort since the GDP is declining and the jobless rate now exceeds 20%.

We expect that Greece will be forced to restructure its debt within the next 2 to 18 months; it cannot sustain additional budget cuts, a collapsing economy, restricted capital access, and 15+% interest rates. Greece's adjusted debt is near EUR220B, GDP is EUR230B, and the federal budget deficit is EUR3.8B before interest expense and near EUR13B after interest expense. The primary issue is whether Greece will be able to support ANY debt as a result of the political turmoil. Meanwhile, Greek debt, currently near the highest in the EU over 130%. In 2010 Austria withheld funds due Greece after claiming the country has failed to meet its spoken commitments for the EU bailout package. We expect similar brinkmanship over the next couple of quarters. We are affirming but other raters are likely to move off their default ratings. Note, Greece's financials are skewed by the debt forgiveness. An EU exit will probably enhance Greece's bargaining position.

INDICATIVE CREDIT RATIOS	Annual Ratios					
	2008	2009	2010	P2011	P2012	P2013
Debt/ GDP (%)	113.0	129.4	145.0	99.6	102.6	105.5
Govt. Sur/Def to GDP (%)	-15.6	-10.3	-9.1	-14.1	-11.8	-14.1
Adjusted Debt/GDP (%)	113.0	129.4	145.0	99.6	102.6	105.5
Interest Expense/ Taxes (%)	24.7	26.0	29.3	37.1	25.1	26.3
GDP Growth (%)	-2.1	-7.4	-5.5	-3.0	-3.0	-2.7
Foreign Reserves/Debt (%)	0.0	0.0	0.0	0.0	0.0	0.0
Implied Sen. Rating	D	CC	CC	CC	CC	CC+

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	Govt. Surp.	Adjusted	Interest	GDP	Ratio-
		as a % GDP	Def to GDP (%)	Debt/ GDP	Expense/ Taxes %	Growth (%)	Implied Rating*
Federal Republic Of Germany	AAA	82.3	-1.0	82.3	11.2	2.0	BB+
Kingdom Of Belgium	AA	99.6	-5.2	99.6	11.9	1.2	B+
Kingdom Of Spain	BBB+	0.1	-8.5	0.1	9.5	0.3	A-
Republic Of Italy	BBB+	119.0	-3.9	119.0	15.4	-0.4	B
Portugal Republic	BB	104.2	-4.2	104.2	13.0	-2.8	B+



Country (EJR Rtg*)	Current CDS	Targeted CDS
Greece (D)		7,000
Portugal (CCC+)	1,058	1,500
Spain (BB)	498	800
Italy (BB)	446	800
Belgium (BBB-)	244	400

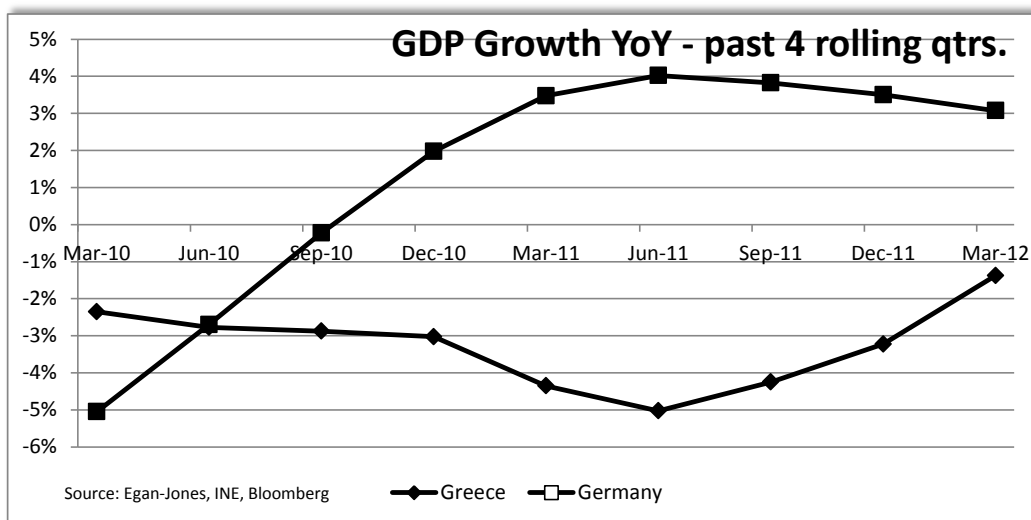
* Projected Rating

* EJR's targeted CDS based on rating

Economic Growth

Greece has not reported growth over any of the past 10 quarters, and with the current chaos, we expect growth will remain depressed. As seen below, growth has been significantly below Germany. Note, we do not trust the most recent gains in Greece's GDP results - we expect GDP to decline in 2013.

As can be seen from the below chart, Greece's rolling four quarter GDP growth has been less than stellar over the past year; Greece has shrunk while Germany has recorded growth near 4%. A large portion of Greece's economy was geared to the tourist and vacation trade and related construction. We do not see the vacation industry or other Greek industries improving over the next couple of years until the fiscal problems are addressed.



Fiscal Policy

The Greece's deficit to GDP of 9.% is not comforting and we expect it to exceed 10% of GDP in 2013. Over the last couple of full fiscal years (that is 2008 and 2010), total sovereign revenues declined 5.3% while total expenses declined 1.7%; the country had to spend to support citizens as a result of the 2008 slowdown. As can be seen from the chart to the right, no country has a worse deficit than Greece. As Greece implements austerity measures and provides further support for its banks, credit quality will remain pressed.

	Deficit Current to GDP	Debt-to-GDP	5 Yr. CDS Spreads
Greece	-9.1	142%	0
Germany	-1.0	82%	86
Belgium	-5.2	94%	252
Spain	-8.5	0%	476
Italy	-3.9	116%	445
Portugal	-4.2	92%	961

Source: Bloomberg using year end data excluding CDS data

Unemployment

Greece has suffered from high unemployment for several decades. As can be seen from the chart, the unemployment has risen dramatically and is near the top of its peers. The high unemployment rate is driving the relatively high and increasing social benefit payments. The austerity measures in Greece and throughout the EU make it difficult to substantially reduce unemployment over the next couple of years.

	Unemployment (%)	
	2010	2011
Greece	14.2	20.7
Germany	7.4	6.8
Belgium	7.6	7.1
Spain	20.3	22.9
Italy	8.2	8.8
Portugal	11.1	14.0

Source: Intl. Finance Statistics

Banking Sector

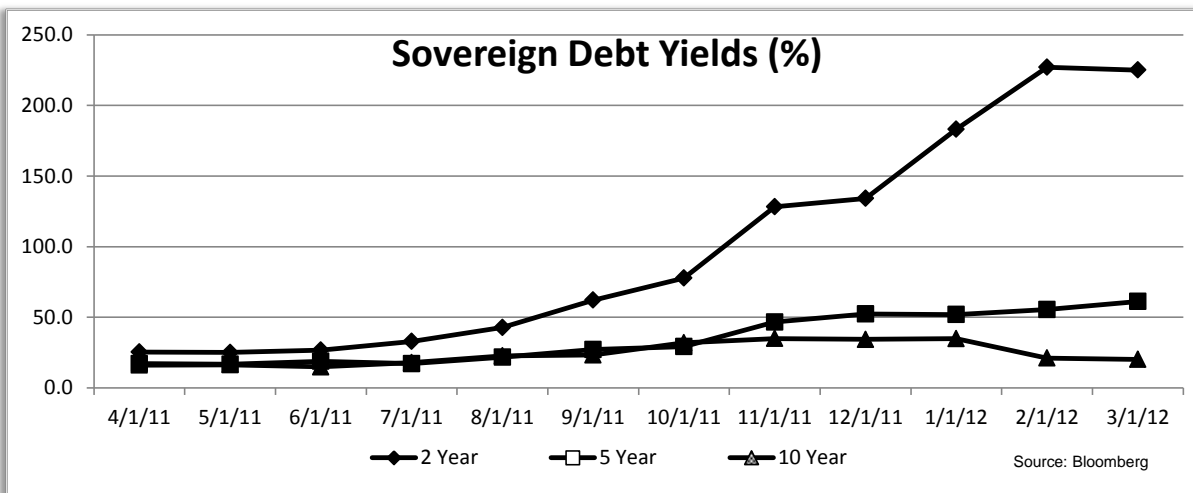
History has shown that country and bank obligations are linked during times of economic distress.

Greece has significantly more exposure to its banking sector because the banks' aggregate size measured in assets. The top five banks have assets equal to 145% of GDP compared to 125% for Germany. We expect that Greece will be forced to provide addl. financial support to its banks over the next couple of quarters because of declines in home values, austerity measures and increased unemployment.

Bank Total Assets (millions of dollar's)	
	Assets
NATL BANK GREECE	106,870
EFG EUROBANK ERG	76,822
ALPHA BANK A.E.	59,148
PIRAEUS BANK	49,352
BANK OF CYPRUS	37,475
Total	329,667
Greece's GDP	227,318

Funding Costs

Despite the restructuring of Greek debt and the LTRO, Greece has seen elevated funding costs (bonds maturing in 2041 have a yield near 17.6%). As can be seen in the below graph, yields have been elevated. The Greek government is seeking support from the IMF, ECB, and EFSF. We expect an additional restructuring and ultimately meager recoveries.



Ease of Doing Business

A major factor for growing the economy is 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 100 (1 is best) is below average.

The World Bank's Doing Business Survey*			
	2012	2011	Change in
	Rank	Rank	Rank
Overall Country Rank:	100	101	1
Scores:			
Starting a Business	135	149	14
Construction Permits	41	42	1
Getting Electricity	77	78	1
Registering Property	150	151	1
Getting Credit	78	75	-3
Protecting Investors	155	153	-2
Paying Taxes	83	80	-3
Trading Across Borders	84	86	2
Enforcing Contracts	90	91	1
Resolving Insolvency	57	50	-7

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

Economic Freedom

As can be seen below, Greece is above average in its overall rank of 55 for Economic Freedom with 100 being best.

Heritage Foundation 2012 Index of Economic Freedom				
World Rank 55*				
	Rank**	2011 Rank	Change in Rank	World Avg.
Business Freedom	76.3	76.2	0.1	64.3
Trade Freedom	82.1	82.6	-0.5	74.8
Fiscal Freedom	65.3	65.9	-0.6	76.3
Government Spending	16.2	34.3	-18.1	63.9
Monetary Freedom	72.6	80.6	-8.0	73.4
Investment Freedom	60.0	60.0	0.0	50.2
Financial Freedom	60.0	60.0	0.0	48.5
Property Rights	50.0	50.0	0.0	43.5
Freedom from Corruption	35.0	38.0	-3.0	40.5
Labor Freedom	36.6	55.2	-18.6	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

Assumptions for Projections

	Peer	Issuer	Base Case	
	Median	Average	Yr 1&2	Yr 3,4,5
Income Statement				
Taxes Growth%	4.9	(1.6)	(1.6)	0.5
Social Contributions Growth %	0.6	1.0	1.0	1.0
Grant Revenue Growth %	0.0	(100.0)	0.5	0.5
Other Revenue Growth %	2.3	(178.5)	(1.4)	(1.4)
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	3.7	1.9	(3)	(2.7)
Compensation of Employees Growth%	0.5	(11.1)	1.0	1.0
Use of Goods & Services Growth%	1.8	(18.2)	1.0	1.0
Social Benefits Growth%	2.4	(3.6)	2.0	2.0
Subsidies Growth%	2.6	4.9		
Other Expenses Growth%	(29.4)	(29.4)	1.0	1.0
Interest Expense	0.0	4.0	5	
Balance Sheet				
Currency and Deposits (asset) Growth%	13.7	40.1	1.0	1.0
Securities other than Shares LT (asset) Growth%	8.3	0.0		
Loans (asset) Growth%	41.4	(3.9)	1.0	1.0
Shares and Other Equity (asset) Growth%	2.1	(5.6)	2.0	2.0
Insurance Technical Reserves (asset) Growth%	0.0	11.9	1.0	1.0
Financial Derivatives (asset) Growth%	0.0	0.0		
Other Accounts Receivable LT Growth%	0.8	0.7	(1.6)	(1.6)
Monetary Gold and SDR's Growth %	0.0	0.0	1.0	1.0
Other Accounts Payable Growth%	3.3	0.7	0.7	0.7
Currency & Deposits (liability) Growth%	0.0	40.1	(1.6)	(1.6)
Securities Other than Shares (liability) Growth%	5.3	0.0		
Loans (liability) Growth%	18.4	(3.9)	0.5	0.5
Insurance Technical Reserves (liability) Growth%	0.0	11.9	2.0	2.0
Financial Derivatives (liability) Growth%	0.0	0.0		
Addl debt. (1st Year) million EUR	0.0	0.0	(110,000)	

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Base Case**ANNUAL REVENUE AND EXPENSE STATEMENT (MILLIONSEUR)**

	Dec-08	Dec-09	Dec-10	PDec-11	PDec-12	PDec-13
Taxes	48,298	45,821	45,108	44,386	43,676	43,894
Social Contributions	30,750	29,458	29,751	30,047	30,346	30,648
Grant Revenue	28,761	31,762	0	0	0	0
Other Revenue	-13,045	-18,971	14,891	14,677	14,465	14,257
Other Operating Income	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenue	94,764	88,070	89,750	89,110	88,487	88,799
Compensation of Employees	27,921	30,969	27,536	27,811	28,089	28,370
Use of Goods & Services	14,898	17,051	13,950	14,090	14,230	14,373
Social Benefits	45,755	48,970	47,220	48,164	49,128	50,110
Subsidies	70	123	129	129	129	129
Other Expenses	8,385	8,094	5,718	8,175	5,775	8,257
Grant Expense	28,761	31,762	0	0	0	0
Depreciation	<u>4,587</u>	<u>4,998</u>	<u>5,392</u>	<u>5,392</u>	<u>5,392</u>	<u>5,392</u>
Total Expenses excluding interest	101,546	110,082	99,816	103,761	102,744	106,631
Operating Surplus/Shortfall	-6,782	-22,012	-10,066	-14,651	-14,257	-17,832
Interest Expense	<u>11,937</u>	<u>11,915</u>	<u>13,205</u>	<u>16,477</u>	<u>10,977</u>	<u>11,526</u>
Net Operating Balance	-18,719	-33,927	-23,271	-31,128	-25,234	-29,358

Base Case**ANNUAL BALANCE SHEETS (MILLIONSEUR)**

	Dec-08	Dec-09	Dec-10	PDec-11	PDec-12	PDec-13
ASSETS						
Currency and Deposits (asset)	13,204	11,841	16,592	(93,242)	(94,175)	(95,116)
Securities other than Shares LT (asset)	702	741	741	741	741	741
Loans (asset)	1,591	1,262	1,213	1,225	1,237	1,250
Shares and Other Equity (asset)	29,256	39,757	37,533	38,284	39,049	39,830
Insurance Technical Reserves (asset)	38	42	47	47	48	48
Other Accounts Receivable LT	19,581	19,461	19,602	19,288	18,980	18,676
Monetary Gold and SDR's						
Additional Assets	(64,372)	(73,104)	(75,728)			
Total Financial Assets	0	0	0	(33,656)	(34,119)	(34,571)
LIABILITIES						
Other Accounts Payable	19,581	19,461	19,602	19,744	19,887	20,031
Currency & Deposits (liability)	13,204	11,841	16,592	367,461	392,089	420,851
Securities Other than Shares (liability)	702	741	741	741	741	741
Loans (liability)	1,591	1,262	1,213	(108,787)	(108,787)	(108,787)
Insurance Technical Reserves (liability)	<u>38</u>	<u>42</u>	<u>47</u>	<u>48</u>	<u>49</u>	<u>50</u>
Financial Derivatives (liability)						
Other Liabilities	<u>241,055</u>	<u>276,884</u>	<u>243,539</u>	<u>(75,729)</u>	<u>(75,729)</u>	<u>(75,729)</u>
Liabilities	<u>276,171</u>	<u>310,231</u>	<u>281,734</u>	<u>203,478</u>	<u>228,249</u>	<u>257,155</u>
Net Financial Worth	<u>(211,799)</u>	<u>(237,127)</u>	<u>(206,006)</u>	<u>(237,134)</u>	<u>(262,368)</u>	<u>(291,726)</u>
Total Liabilities & Equity	<u>64,372</u>	<u>73,104</u>	<u>75,728</u>	<u>(33,656)</u>	<u>(34,119)</u>	<u>(34,571)</u>

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. Note, debt levels for many sovereign issuers have increased over the past decade and has accelerated recently, effecting the implied ratings.

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