

HELLENIC REPUBLIC (GREECE)

Rating Analysis - 6/28/15

*EJR Sen Rating(Curr/Prij) D/ D

*EJR CP Rating: D

EJR's 3 yr. Default Probability: 99.0%

In a bad way - the closing of banks and Greece's government vow to row back reforms, halt privatizations and to ignore calls for more reforms leave little room for compromise. This along with a cumulative reduction of GDP since 2008 of just under 20% and expected to reach 25% by 2014, and a total debt to GDP ratio of 175% - puts intense pressure on the EU to relax the terms on the country's EUR 130B bailout package.

We expect that Greece will be forced to restructure its debt soon; it cannot sustain additional budget cuts, a collapsing economy, restricted capital access, and 12%+ interest rates. The new Greek FM has suggested a GDP linked bonds to replace some of its debt. If the GDP doesn't grow, it doesn't pay, suggesting that the new anti-austerity govt is on a collision course with the Country's international creditors. For any bailout to be possible, Greece will have to have a primary surplus (with government income exceeding spending) of 4.5% of GDP and keep it there forever, but this is currently almost impossible. Access to Russian aid is a wild card here, but unlikely. Note, Greece's financials are skewed by the debt forgiveness. Although there is brinkmanship on both sides the closure of the banks ups the ante.

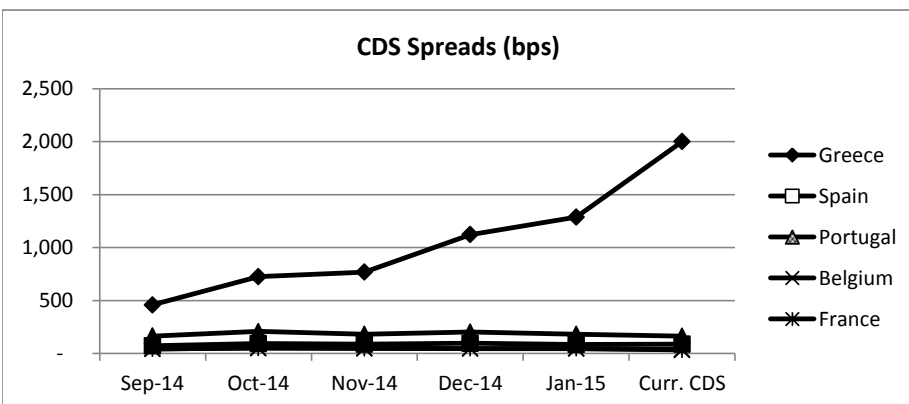
| | Annual Ratios | | Annual Ratios (source for past results: IMF) | | | |
|-----------------------------|---------------|-------|--|--------|--------|--------|
| | 2011 | 2012 | 2013 | PDec14 | PNov15 | PNov16 |
| Debt/ GDP (%) | 170.7 | 157.6 | 145.2 | 159.3 | 178.1 | 201.5 |
| Govt. Sur/Def to GDP (%) | -10.1 | -8.6 | -12.2 | -21.0 | -25.3 | -30.4 |
| Adjusted Debt/GDP (%) | 170.7 | 163.0 | 149.9 | 164.5 | 183.1 | 206.5 |
| Interest Expense/ Taxes (%) | 32.0 | 21.2 | 16.8 | 17.9 | 21.5 | 24.4 |
| GDP Growth (%) | -4.7 | -2.8 | 1.7 | 2.3 | 2.3 | 2.5 |
| Foreign Reserves/Debt (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Implied Sen. Rating | C- | C | CC | C | C | 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

| | Other NRSRO Sen. | Debt as a % of GDP | Govt. Surp. Def to GDP (%) | Adjusted Debt/ GDP | Interest Expense/ Taxes % | GDP Growth (%) | Ratio-Implied Rating* |
|-----------------------------|------------------|--------------------|----------------------------|--------------------|---------------------------|----------------|-----------------------|
| Federal Republic Of Germany | AAA | 83.4 | 0.1 | 90.8 | 11.1 | 1.4 | BB |
| French Republic | AA | 97.7 | -4.1 | 118.5 | 9.7 | 0.2 | B |
| Kingdom Of Belgium | AA | 111.7 | -2.9 | 111.7 | 11.8 | 2.0 | BB |
| Kingdom Of Spain | BBB | 90.0 | -5.8 | 96.3 | 12.3 | 2.0 | BB+ |
| Portugal Republic | BB | 127.0 | -4.9 | 130.1 | 13.0 | 0.7 | BB- |



| Country (EJR Rtg*) | Current CDS |
|--------------------|-------------|
| Greece (D) | 2,002 |
| Spain (C) | 88 |
| Portugal (CCC+) | 163 |
| Belgium (BBB-) | 40 |
| France (BBB) | 34 |

* Projected Rating

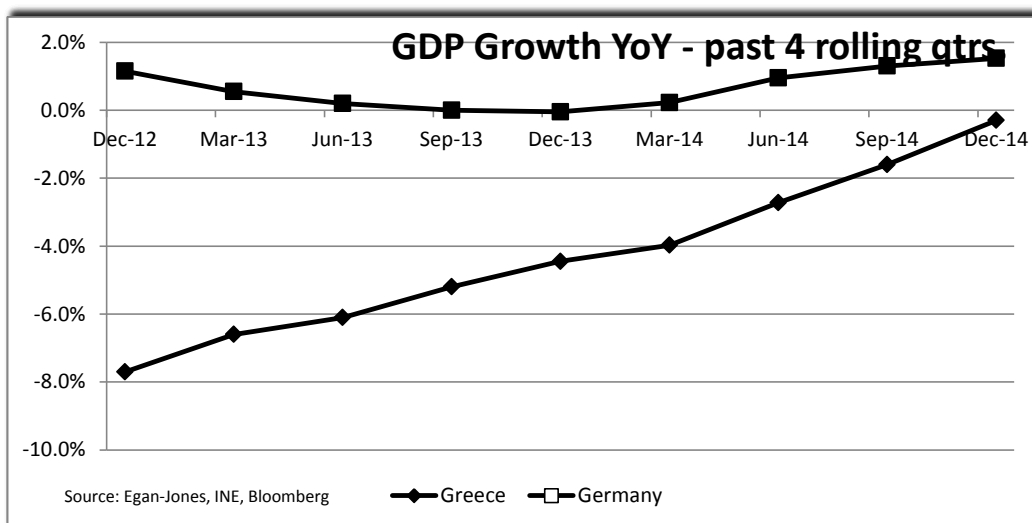
* EJR's targeted CDS based on rating

* Note, non-NRSRO rating. Copyright Egan-Jones Ratings Co.; no secondary distribution.

Economic Growth

Greece has improved from 5 years ago, but has not reported growth over any of the past 10 quarters, and with the current pressure, 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 remain negative until the debt is reduced.

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 12.2% is not comforting and we expect it to exceed 10% of GDP for the foreseeable future. Over the last couple of full fiscal years, total sovereign revenues declined 7.5% while total expenses declined only 1.7%; the country had to spend to support citizens as a result of the weakness. 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-to-GDP (%) | Debt-to-GDP (%) | 5 Yr. CDS Spreads |
|----------|--------------------|-----------------|-------------------|
| Greece | 12.2 | 145.2 | - |
| Germany | (0.1) | 83.4 | 18 |
| France | 4.1 | 97.7 | 47 |
| Belgium | 2.9 | 111.7 | 47 |
| Spain | 2.8 | 90.0 | 87 |
| Portugal | 4.9 | 127.0 | 183 |

Sources: Bloomberg and IFS

Unemployment

Greece has suffered from high unemployment for several decades. As can be seen from the chart, the unemployment is at 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 (%) | |
|----------|------------------|------|
| | 2013 | 2014 |
| Greece | 27.5 | 25.5 |
| Germany | 6.9 | 6.6 |
| France | 10.1 | 10.4 |
| Belgium | 8.4 | 8.4 |
| Spain | 12.4 | 12.8 |
| Portugal | 15.3 | 13.5 |

Source: Intl. Finance Statistics

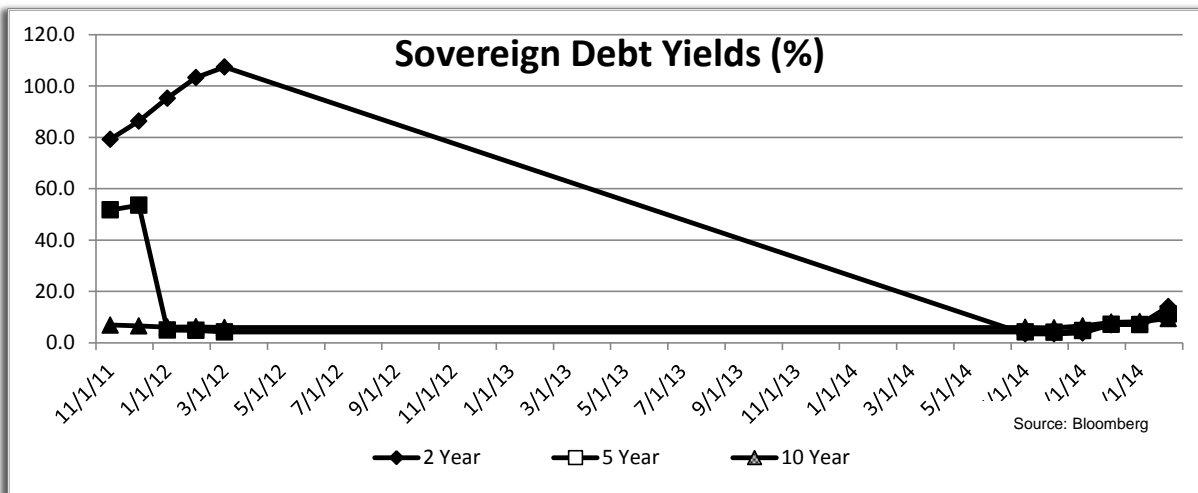
Banking Sector

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 182% of GDP compared to 125% for Germany. We expect that Greece will be forced to provide addl. financial support to its banks especially with the loss of confidence.

| Bank Assets (billions of local currency) | | |
|--|--------|---------------|
| | Assets | Cap/ Assets % |
| NATL BANK GREECE | 115 | 9.1 |
| EUROBANK ERGASIA | 76 | 8.3 |
| ALPHA BANK A.E. | 73 | 10.6 |
| PIRAEUS BANK | 89 | 8.2 |
| BANK OF CYPRUS | 27 | 13.0 |
| Total | 380 | |
| EJR's est. of cap shortfall at 10% of assets less market cap | | 10 |
| Greece's GDP | | 220 |

Funding Costs

The data below is skewed by the restructuring a few years ago. Despite the restructuring of Greek debt and the LTRO, Greece has seen elevated funding costs (10 year bonds have yields exceeding 10%). As can be seen in the below graph, yields have been elevated. The Greek government is negotiating with the IMF, ECB, and EFSF. We expect an additional restructuring and ultimately meager recoveries.



Ease of Doing Business

Major factors for growing the economy are 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 61 (1 is best, 183 worst) is mediocre.

| The World Bank's Doing Business Survey* | | | |
|--|-----------|-----------|-----------|
| | 2012 | 2011 | Change in |
| | Rank | Rank | Rank |
| Overall Country Rank: | 61 | 65 | 4 |
| Scores: | | | |
| Starting a Business | 52 | 57 | 5 |
| Construction Permits | 88 | 90 | 2 |
| Getting Electricity | 80 | 73 | -7 |
| Registering Property | 116 | 170 | 54 |
| Getting Credit | 71 | 67 | -4 |
| Protecting Investors | 62 | 61 | -1 |
| Paying Taxes | 59 | 41 | -18 |
| Trading Across Borders | 48 | 50 | 2 |
| Enforcing Contracts | 155 | 155 | 0 |
| Resolving Insolvency | 52 | 51 | -1 |

* 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 55.4 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

| Income Statement | Peer | Issuer | Base Case | |
|--|--------|---------|---------------|---------------|
| | Median | Average | Yr 1&2 | Yr 3,4,5 |
| Taxes Growth% | 4.9 | (6.1) | (6.1) | 0.5 |
| Social Contributions Growth % | 3.7 | (7.9) | 0.5 | 0.5 |
| Grant Revenue Growth % | 0.0 | NMF | | |
| Other Revenue Growth % | 9.9 | NMF | | |
| Other Operating Income Growth% | 0.0 | 0.0 | | |
| Total Revenue Growth% | 5.9 | (2.3) | (5.1) | (4.6) |
| Compensation of Employees Growth% | 1.6 | (9.4) | (9.4) | (9.4) |
| Use of Goods & Services Growth% | 2.8 | (14.2) | (14.2) | (14.2) |
| Social Benefits Growth% | 2.4 | (12.8) | (12.8) | (12.8) |
| Subsidies Growth% | (6.1) | 5.5 | | |
| Other Expenses Growth% | 129.7 | 129.7 | 40.0 | 36.0 |
| Interest Expense | 0.0 | 2.3 | 2.3 | |
| GDP Growth% | | | 2.3 | 2.5 |
| Currency and Deposits (asset) Growth% | 6.0 | 0.0 | | |
| Securities other than Shares LT (asset) Growth% | (2.2) | (4.4) | 7.3 | 7.3 |
| Loans (asset) Growth% | 30.1 | (33.6) | (6.1) | (6.1) |
| Shares and Other Equity (asset) Growth% | 6.3 | (20.2) | 2.0 | 2.0 |
| Insurance Technical Reserves (asset) Growth% | 0.0 | (2.0) | 2.0 | 2.0 |
| Financial Derivatives (asset) Growth% | 0.0 | 0.0 | | |
| Other Accounts Receivable LT Growth% | 7.3 | (2.8) | (2.8) | (2.8) |
| Monetary Gold and SDR's Growth % | 0.0 | 0.0 | 5.0 | 5.0 |
| Other Assets Growth% | 0.0 | 0.0 | | |
| Other Accounts Payable Growth% | 0.0 | | | |
| Currency & Deposits (liability) Growth% | 6.0 | 5.8 | 5.8 | 5.8 |
| Securities Other than Shares (liability) Growth% | 8.5 | (17.5) | (12.2) | (12.2) |
| Loans (liability) Growth% | 11.1 | 12.7 | 12.7 | 12.7 |
| Insurance Technical Reserves (liability) Growth% | 0.0 | 0.0 | | |
| Financial Derivatives (liability) Growth% | 0.0 | 10.2 | 10.2 | 10.2 |
| Additional ST debt (1st year)(millions EUR) | 0.0 | 0.0 | | |

Base Case

ANNUAL REVENUE AND EXPENSE STATEMENT (MILLIONS EUR)

| | Dec-11 | Dec-12 | Dec-13 | PDec14 | PNov15 | PNov16 |
|-----------------------------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Taxes | 47,146 | 45,974 | 43,153 | 40,521 | 38,049 | 38,239 |
| Social Contributions | 27,272 | 26,418 | 24,331 | 24,453 | 24,575 | 24,698 |
| Grant Revenue | | | | 0 | 0 | 0 |
| Other Revenue | 16,184 | 15,395 | | 0 | 0 | 0 |
| Other Operating Income | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Revenue | 90,602 | 87,787 | 85,783 | 64,973 | 62,624 | 62,937 |
| Compensation of Employees | 25,842 | 24,031 | 21,770 | 19,722 | 17,866 | 16,185 |
| Use of Goods & Services | 9,997 | 9,612 | 8,247 | 7,076 | 6,071 | 5,209 |
| Social Benefits | 47,248 | 44,029 | 38,381 | 33,458 | 29,166 | 25,424 |
| Subsidies | 1,044 | 559 | 590 | 590 | 590 | 590 |
| Other Expenses | 7,282 | 11,652 | 26,768 | 37,475 | 52,465 | 71,353 |
| Grant Expense | | | | 0 | 0 | 0 |
| Depreciation | <u>6,826</u> | <u>6,805</u> | <u>6,603</u> | <u>6,603</u> | <u>6,603</u> | <u>6,603</u> |
| Total Expenses excluding interest | 98,239 | 96,688 | 102,359 | 104,923 | 112,761 | 125,364 |
| Operating Surplus/Shortfall | -7,637 | -8,901 | -16,576 | -39,950 | -50,137 | -62,427 |
| Interest Expense | <u>15,066</u> | <u>9,742</u> | <u>7,271</u> | <u>7,271</u> | <u>8,165</u> | <u>9,333</u> |
| Net Operating Balance | -22,703 | -18,643 | -23,847 | -47,221 | -58,302 | -71,760 |

Sources: Historical - IMF, Projections - EJR

Base Case

ANNUAL BALANCE SHEETS (MILLIONS EUR)

| | Dec-11 | Dec-12 | Dec-13 | PDec14 | PNov15 | PNov16 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| ASSETS | | | | | | |
| Currency and Deposits (asset) | | | | | | |
| Securities other than Shares LT (asset) | 693 | 12,732 | 12,177 | 13,068 | 14,025 | 15,052 |
| Loans (asset) | 6,238 | 1,243 | 825 | 775 | 727 | 683 |
| Shares and Other Equity (asset) | 34,270 | 65,497 | 52,249 | 53,294 | 54,360 | 55,447 |
| Insurance Technical Reserves (asset) | 48 | 49 | 48 | 49 | 50 | 51 |
| Other Accounts Receivable LT | 21,089 | 20,753 | 20,174 | 19,611 | 19,064 | 18,532 |
| Monetary Gold and SDR's | | | | | | |
| Additional Assets | 14,795 | 20,780 | 21,911 | (67,186) | | |
| Total Financial Assets | 77,133 | 121,054 | 107,384 | 41,522 | 42,951 | 44,490 |
| LIABILITIES | | | | | | |
| Other Accounts Payable | | | | | | |
| Currency & Deposits (liability) | 820 | 774 | 819 | 819 | 819 | 819 |
| Securities Other than Shares (liability) | 104,311 | 79,257 | 65,392 | 57,384 | 50,357 | 44,191 |
| Loans (liability) | 103,893 | 217,111 | 244,669 | 291,890 | 350,192 | 421,952 |
| Insurance Technical Reserves (liability) | | | | | | |
| Financial Derivatives (liability) | <u>2,134</u> | <u>3,536</u> | <u>3,897</u> | <u>4,295</u> | <u>4,733</u> | <u>5,217</u> |
| Other Liabilities | <u>19,888</u> | <u>21,818</u> | <u>15,971</u> | <u>(42,281)</u> | <u>(42,281)</u> | <u>(42,281)</u> |
| Liabilities | <u>231,046</u> | <u>322,496</u> | <u>330,748</u> | <u>312,107</u> | <u>371,838</u> | <u>445,137</u> |
| Net Financial Worth | <u>(153,913)</u> | <u>(201,442)</u> | <u>(223,364)</u> | <u>(270,585)</u> | <u>(328,887)</u> | <u>(400,647)</u> |
| Total Liabilities & Equity | <u>77,133</u> | <u>121,054</u> | <u>107,384</u> | <u>41,522</u> | <u>42,951</u> | <u>44,490</u> |

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.