

HELLENIC REPUBLIC (GREECE)

Rating Analysis - 2/18/15

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

*EJR CP Rating: D

EJR's 3 yr. Default Probability: 99.0%

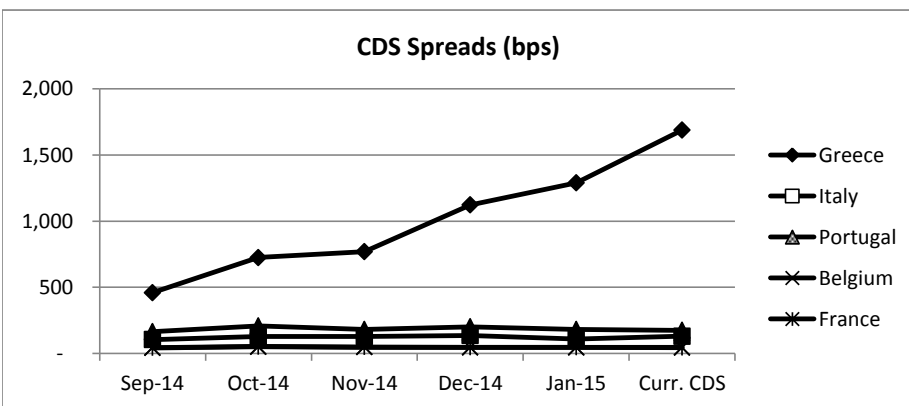
Waiting for a Band-Aid - Greece's new government has vowed to row back reforms, halt privatizations and to ignore calls for an extension to its second bail-out program, which expires at the end of February. This along with a cumulative reduction of GDP since 2008 of just under 20% and expected to reach 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 within the next couple of years; it cannot sustain additional budget cuts, a collapsing economy, restricted capital access, and 10%+ 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, but this is currently almost impossible. Access to Russian aid is a wild card here. Note, Greece's financials are skewed by the debt forgiveness. Watch for brinkmanship on both sides but an eventual settlement perhaps with a writedown.

CREDIT POSITION	Annual Ratios		Annual Ratios (source for past results: IMF)			
	2011	2012	2013	PDec-14	PDec-15	PDec-16
Debt/ GDP (%)	170.7	157.6	150.0	166.1	187.8	215.4
Govt. Sur/Def to GDP (%)	-10.1	-8.6	-12.2	-23.1	-28.7	-34.8
Adjusted Debt/GDP (%)	170.7	162.7	154.7	171.1	192.8	220.2
Interest Expense/ Taxes (%)	32.0	21.2	16.8	17.9	21.6	24.9
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	91.0	11.1	1.4	BB
French Republic	AA	97.7	-4.1	118.6	9.7	0.2	B
Kingdom Of Belgium	AA	111.7	-2.9	111.7	11.8	2.0	BB
Republic Of Italy	BBB-	131.1	-2.8	137.7	16.8	-0.3	B
Portugal Republic	BB	127.0	-4.9	130.3	13.0	0.7	BB-



Country (EJR Rtg*)	Current CDS
Greece (D)	1,688
Italy (C)	132
Portugal (CCC+)	176
Belgium (BBB-)	48
France (BBB)	45

* Projected Rating

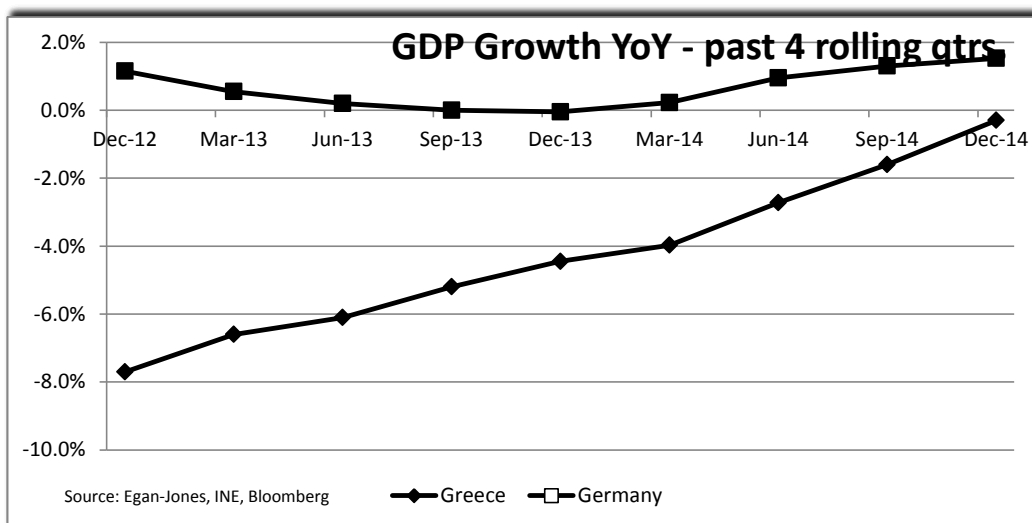
* EJR's targeted CDS based on rating

* 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	150.2	-
Germany	(0.1)	83.4	18
France	4.1	97.7	47
Belgium	2.9	111.7	47
Spain	6.8	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	25.7	23.7
Portugal	15.3	13.5

Source: Intl. Finance Statistics

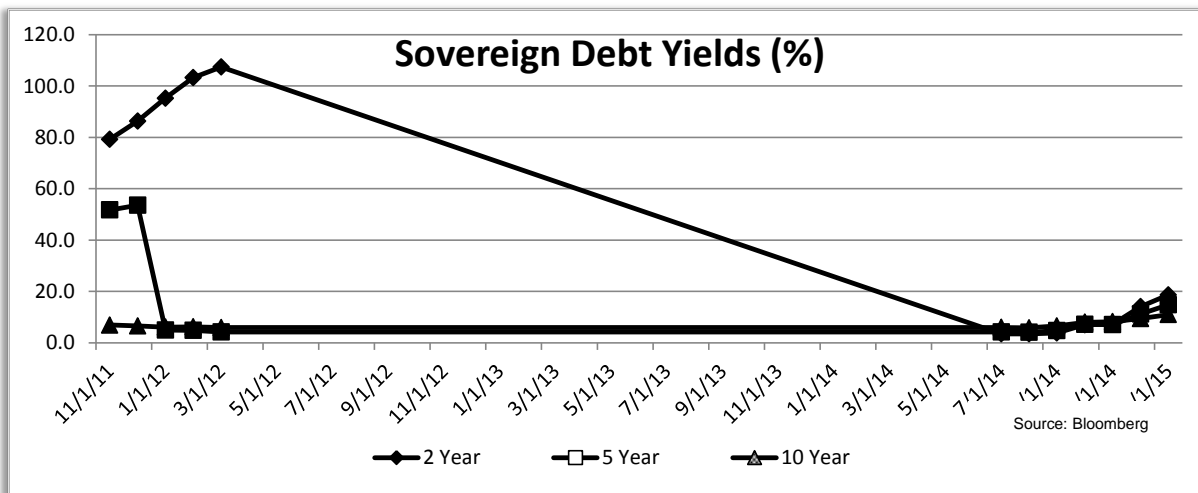
Banking Sector

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	Equity/Assets %
NATL BANK GREECE	111	7.1
EUROBANK ERGASIA	78	5.8
ALPHA BANK A.E.	74	11.3
PIRAEUS BANK	92	9.3
BANK OF CYPRUS	30	9.0
Total	385	
EJR's est. of cap shortfall at 10% of assets less market cap		10
Greece's GDP		212

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 Rank	2011 Rank	Change in 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)	(3.0)	(2.7)
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)	(5.0)	(5.0)
Subsidies Growth%	(5.5)	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%	(1.5)	(4.4)	1.0	1.0
Loans (asset) Growth%	19.1	(33.6)	(6.1)	(6.1)
Shares and Other Equity (asset) Growth%	(0.8)	(20.2)	2.0	2.0
Insurance Technical Reserves (asset) Growth%	2.2	(2.0)	2.0	2.0
Financial Derivatives (asset) Growth%	0.0	0.0		
Other Accounts Receivable LT Growth%	6.6	(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%	5.7	(17.5)	(12.2)	(12.2)
Loans (liability) Growth%	3.9	12.7	12.7	12.7
Insurance Technical Reserves (liability) Growth%	0.0	0.0		
Financial Derivatives (liability) Growth%	16.5	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	PDec-14	PDec-15	PDec-16
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	36,462	34,639	32,907
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	107,928	118,234	132,847
Operating Surplus/Shortfall	-7,637	-8,901	-16,576	-42,954	-55,611	-69,910
Interest Expense	<u>15,066</u>	<u>9,742</u>	<u>7,271</u>	<u>7,271</u>	<u>8,233</u>	<u>9,528</u>
Net Operating Balance	-22,703	-18,643	-23,847	-50,225	-63,844	-79,438

Sources: Historical - IMF, Projections - EJR

Base Case

ANNUAL BALANCE SHEETS (MILLIONS EUR)

	Dec-11	Dec-12	Dec-13	PDec-14	PDec-15	PDec-16
ASSETS						
Currency and Deposits (asset)						
Securities other than Shares LT (asset)	693	12,732	12,177	12,299	12,422	12,546
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	(66,416)		
Total Financial Assets	77,133	121,054	107,384	41,522	42,118	42,754
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	294,894	358,738	438,176
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>315,112</u>	<u>379,551</u>	<u>459,624</u>
Net Financial Worth	<u>(153,913)</u>	<u>(201,442)</u>	<u>(223,364)</u>	<u>(273,589)</u>	<u>(337,433)</u>	<u>(416,871)</u>
Total Liabilities & Equity	<u>77,133</u>	<u>121,054</u>	<u>107,384</u>	<u>41,522</u>	<u>42,118</u>	<u>42,754</u>

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

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.