Assessment of June 2015 Greece Ministry of Finance Debt Restructuring Proposal

In Sum: Given the urgency of the situation, the following is a rapid response preliminary assessment of the June 2015 Greece Ministry of Finance debt restructuring proposal titled "Ending the Greek Crisis". In sum, the conclusion is that the Greece proposal would under international accounting standards and on a pro forma basis: (i) More than triple 2015 cash interest payments by 6.5 billion euros to 10.7% of revenue up from 2.8%. (ii) Increase 2014 YE net debt by 28% to 41% of GDP. (iii) Increase expenses and decrease net worth resulting from recognizing the loss associated with the restructuring by 22 billion euros, which is 27% of revenue.

Immediate Goal: As described in the Greece proposal, an immediate goal is for Greece to "return to the money markets well before the end of 2015", to "propel Greece back to the money markets within months", and to seek a "speeding up even further Greece's return to the money markets". Accordingly, the analysis focused on 2015 and subsequent analysis will follow-up on near-term and long-term years.

The Rationale: The rationale stated in the Greece proposal for increasing cash interest payments to 10.7% of revenue is that "it keeps Greece under the pressure of honouring a significant primary surplus, as the debt service remains high."

Stabilizing Greece's Debt: In Appendix 1 – Requirements for Stabilizing Greece's Debt, the Greece proposal states that maintaining the [primary surplus] at "1% to 1.5% until the effective primary surplus reaches 2.5%, and maintaining this level constant forever after, is clearly sufficient to restore Greece's solvency over the long run."

Preliminary Analysis: The preliminary analysis under international accounting standards and on a pro forma basis (as if the transactions included in the analysis occurred on the first day of the year) includes those transactions described in Policy #1 – SMP Buy-Back, Policy #3 – Re-profiling GLF-EFSF Loan Facilities, and Policy #5 – Banking Asset Management Vehicle. Policy #2 – IMF Partial Buy-back was not included in the pro forma as it contains factual and conceptual errors, such as that the ECB does not own the entire debt specified and the to-be-returned funds specified are for rebates of amounts to be paid in the future and predicated on reform compliance. Policy #4 – Special EIB Program for Greece was not included as additional information is necessary; however, based on the limited current details, this policy could increase net debt and decrease net worth. For a summary review, see Table One for data on cash interest payments and Table Two for data on net debt under international accounting standards (IPSAS/IFRS); see Table Three for terms summary.

Reduction in Debt: In Appendix 3 – Effect of the Greek Authorities' Proposal (policies 1, 2, and 3) on Greek Sovereign Debt Sustainability (DSA), the approximate 110 billion euro reduction in debt as shown in the Greece proposal from 178% of GDP (318 billion euros in debt) to 116% of GDP (208 billion euros in debt) in 2014/2015 appears to be the result of the following: (1) Nine billion euro SMP rebate from the ECB used to repay IMF loans. This policy is contrary to the fact that SMP profits account for only approximately 2 billion euros of the nine billion euros, with the remainder attributable to either future interest payments or profits due from member states, not from the ECB. (2) 53 billion euro write-off of GLF debt following the restructuring of this debt into a perpetual 2%-2.5% loan based on the belief that Eurostat will allow perpetual debt to be accounted for at zero (an inaccurate belief). This policy is contrary to a page two comment stating that GLF restructuring will have "no cost to creditors" and a page four comment stating "without imposing significant losses on the creditor member-states". (3) 48 billion euro write-off of EFSF debt following the restructuring of this debt into a 50-year zero percent loan based on the belief that "they would lose little" as the loan is essentially worthless "in NPV terms" using "market value" methodology. This policy is contrary to a page two comment that EFSF restructuring will have "no cost to creditors" and page five comments stating "would give them time to provision for the EFSF losses" and "lengthen the maturity as it reduces their

losses!" Of note, the Greece proposal states that it is "without haircuts" on its page one and repeats how these policies are at "no cost to creditors". The Greece proposal does not appear to conform to either international accounting standards or government finance statistics methodologies. The appendix data fails to calculate net debt, which requires subtracting the 68.5 billion euros in financial assets at YE 2014 and does not account for any projected future annual changes in financial assets based on a credible asset management plan. Furthermore, it does not appear that projected years included any impact from accretion of debt to maturity value where appropriate.

Accounting: The logic stated to motivate creditors is unmistakably descriptive of what is commonly known as accounting fraud where the economic reality of events is hidden with form over substance financials. "The merit of making explicit the concessionality of the debt is to allow for a wider range of options." "Ideally, the creditors should simply cancel, in a phased fashion, the part that carries no coupon. In real economic terms, they would lose little, only the market value of the non-interest bearing bonds…" "Here the creditors will be willing to lengthen the maturity as it reduces their losses!"

Noticeable Omissions: Strikingly absent from the Greece proposal is any discussion of solutions or benefits from using finance, accounting, or turnaround management tactics to address the challenging issues of pensions, job growth, primary balance, EU/EIB annual fund in-flows, or creditor/debtor incentive covenants. There is no plan to increase the value of Greece's 68.5 billion euros in financial assets and recover the almost 30 billion euros in market losses on these financial assets since the start of 2014. The Greece proposal ignores total interest expense (which includes non-cash interest), which would increase by almost 50%. IPSAS financial statements are such an obvious solution that its omission is both striking and telling. There are no solution insights offered from understanding the financial statements of the IMF, the EC, the EFSF/ESM, or any of the member states. Nor, is there any discussion of the financial statement consequences of prior decisions such as the GGB buy-back or important changes in projected fund flows from the initial memorandum. There is an absence of 30 day and 100 day milestones. There is no discussion of public awareness programs on the government financial statements, especially changes in net debt and net worth.

Assessment of June 2015 Greece Ministry of Finance Debt Restructuring Proposal

Table One and Table Two - Summary Review

(Euros, Billions)

Table One: Greece Cash Interest Payments

SN		Prior	Pro Forma	Change
1.	**Policy #1: SMP Buy-Back**	-€ 2.5	€ 0.4	€ 2.9
2.	**Policy #2: IMF Partial Buy-Back**	NA	NA	NA
3.	**Policy #3: Re-Profiling GLF-EFSF Loan Facilities**	€ 0.9	€ 4.3	€ 3.4
4.	**Policy #4: Special EIB Program for Greece**	NA	TBD	TBD
5.	**Policy #5: Banking Asset Management Vehicle**	NA	€ 0.2	€ 0.2
6.	**EU Subtotal**	-€ 1.6	€ 4.9	€ 6.5
7.	**All Other Debt**	€ 3.9	€ 3.9	€ 0.0
8.	**Total Cash Interest Payments**	€ 2.3	€ 8.8	€ 6.5
9.	**% of Revenue (€82.0B)**	2.8%	10.7%	8.0%
10.	**% of GDP (€179.1B)**	1.3%	4.9%	3.6%

Table Two: Greece Net Debt under International Accounting Standards (IPSAS/IFRS)

SN		Prior	Pro Forma	Change
1.	**Policy #1: SMP Buy-Back**	€ 7.0	€ 12.5	€ 5.5
2.	**Policy #2: IMF Partial Buy-Back**	NA	NA	NA
3.	**Policy #3: Re-Profiling GLF-EFSF Loan Facilities**	€ 44.9	€ 52.6	€ 7.7
4.	**Policy #4: Special EIB Program for Greece**	NA	TBD	TBD
5.	**Policy #5: Banking Asset Management Vehicle**	NA	€ 2.7	€ 2.7
6.	**EU Subtotal**	€ 51.9	€ 67.8	€ 15.9
7.	**All Other Debt**	€ 73.3	€ 73.3	€ 0.0
8.	**Total Debt**	€ 125.2	€ 141.1	€ 15.9
9.	**Total Debt as % of GDP (€179.1B)**	70%	79%	13%
10.	**Financial Assets**	€ 68.5	€ 68.5	€ 0.0
11.	**Net Debt**	€ 56.7	€ 72.6	€ 15.9
12.	**Net Debt as % of GDP (€179.1B)**	32%	41%	28%

Assessment of June 2015 Greece Ministry of Finance Debt Restructuring Proposal

Table Three - Terms Summary

SN	Policy #1	Policy #2	Policy #3	Policy #4	Policy #5
1 Title	"SMP Buy-Back"	"IMF Partial Buy-Back"	"Re-Profiling the GLF-EFSF Loan Facilities"	"Special EIB Program for Greece"	"Banking Asset Management Vehicle"
2 Description	Proposes new ESM loan to pay off outstanding SMP (ECB) bond holdings.	Proposes using projected SMP profit rebates to pay down IMF loans. Remaining IMF debt refinanced through market and new IMF disbursements.	Proposes changing the interest rates to fixed and extending maturities on GLF and EFSF loans. For GLF, GDP-linked growth/indexing discussed as an alternative. No change proposed for €34.6 billion in EFSF Co-Financing loans.	Proposes loan program "fully funded by a special issue of EIB bonds (waiving the requirement of national co-funding), with the ECB providing secondary market coverage for the latter (in the context of its QE program)"	Proposes to "Set up a vehicle to manage efficiently the banking sector's voluminous non-performing loans."
3 Amount	€27 billion	€9 billion	GLF: €52.9 billion EFSF: €96.3 billion	NA	€11 billion ("HFSF's remaining funds")
4 Rate	"low interest rate"; "Greece reduces significantly its effective interest rate"	NA	GLF: 2%-2.5% (or, growth linked) from current ~60 bps (3M Euribor + 50bps). EFSF: 5% and 0% (50/50) from current 10-year no cash with ~1.6% (EFSF Cost of Funding) accrued.	NA	NA
5 Maturity	"long-dated"	NA	GLF: perpetual (or 100 yr) EFSF: No change mentioned on 5%; 50 years on 0%	NA	NA
6 Cost of Policy Claim	Claims no cost as equal amount is paid and issued.	Claims "No cost".	Claims "No cost". But then states "would lighten the load of this GLF debt upon Greece without imposing significant losses on the creditor member-states." Re EFSF, states "creditors will be willing to lengthen the maturity as it reduces their losses!"	Claims "No cost".	Claims "It will depend" on NPL assets swapped.
7 Notes	The €27 billion outstanding consists of both SMP (ECB) as well as ANFA bonds (which are held by individual central banks). Cash interest rate is effectively zero due to agreement to return interest paid, or negative when including return of profits on principal payments (ie, swapping for a new ESM loan will potentially increase the interest rate.)	Proposes Greece receive lump sum rebate payment of €9 billion, but does not note this amount: (1) includes both SMP and ANFA projected payments and (2) consists of both interest and principal profit returns. Of the approximate €9.3 billion potential SMP/ANFA rebates, only approximately €3 billion is profit, while the balance is interest. Of the €3 billion in potential profit rebates, approximately €2 billion is ECB (SMP).	GLF: proposes to vastly extend maturities with potential minimal principle payments. EFSF: states proposal would make "explicit the concessionality of the debt" by extending maturities and "reduce significantly (up to 50%) the face value" of the debt, suggesting "creditors should simply cancel" the part that carries no coupon.	"to be administered by the EIB and the EIF in cooperation with a new public DevBank, in collaboration with EFSI, the Hellenic Investment Fund, the EBRD, KfW and other European investment vehicles, and in conjunction with new privatisations (e.g. ports, railways)". Based on the limited details, this policy could increase debt and expense.	The government incurring a large or almost complete loss on the loans acquired is a probability of high consideration and risk.