

HIGHLY CONFIDENTIAL

IPSAS/IFRS NET DEBT TEACHING MATERIALS

Revaluation of Greece Financial Liabilities and Implications to the Net Debt Amount of Greece Compared to its Peers as of December 31, 2013

[Working Draft v.14.3]

Three Key Conclusions

- #1. Under international accounting standards (IPSAS/IFRS), at year-end 2013 Greece **Net Debt was 18%** of GDP and only one-third of other EU program countries.
- #2. Debt measured based on Maastricht Treaty (face value) is a **political decision** in direct conflict with the debt valuation principles of both international accounting standards (IPSAS/IFRS) and international statistics reporting systems.
- #3. IPSAS/IFRS measurement of debt improves **decision-making**, increases **transparency**, strengthens **accountability**, and facilitates global **comparability**.

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1. Greece IPSAS/IFRS Net Debt as a Percent of GDP is One-Quarter (1/4) of Peers

(€, billions; 2013 data except as noted.)

	Greece	Peer Average	Post-Programme Countries			
			Ireland	Spain	Portugal	Italy
1. Maastricht Debt/GDP	175%	120%	124%	94%	129%	133%
2. GDP	€ 182		€ 164	€ 1,023	€ 166	€ 1,560
3. Maastricht Debt (EDP)	€ 319		€ 203	€ 961	€ 214	€ 2,069

IPSAS/IFRS:

4. Gross Debt	€ 124		€ 189	€ 940	€ 185	€ 2,069
5. Financial Assets	€ 91		€ 65	€ 292	€ 69	€ 317
6. Net Debt	€ 33		€ 125	€ 647	€ 116	€ 1,752
7. Net Debt/GDP	18%	80%	76%	63%	70%	112%

8. IAS Impacted Debt	€ 275		€ 62	€ 41	€ 72	€ 0
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GREECE IPSAS/IFRS NET DEBT HAS BEEN INDEPENDENTLY VERIFIED ON 15 AUGUST 2014.

Note: Financial Assets data from Eurostat, Financial Balance Sheets 2013 data (accessed on 31 May 2014), except Ireland, Italy, and Spain (2012); Greece data also noted in the IMF, 5th Review for Greece, June 2014, page 51.

2. Greece Cash Interest Expense as a Percent of Revenue is One-Third (1/3) of Peers. (€, billions; as of 31 December 2013)

		Greece	Average	Ireland	Italy	Spain	Portugal
1.	Revenue	€ 80		€ 60	€ 762	€ 390	€ 76
2.	Interest Expense	€ 7.3		€ 7.7	€ 78.2	€ 34.2	€ 8.5
3.	Interest Expense % of Revenue	9.2%	10.8%	12.8%	10.3%	8.8%	11.2%
4.	EFSF Non-Cash Interest	€ 1.6					
5.	ANFA/SMP Rebates	€ 2.7					
6.	Cash Interest Payments	€ 3.0		€ 7.7	€ 78.2	€ 34.2	€ 8.5
7.	Cash Interest Payments % of Revenue	3.8%	10.8%	12.8%	10.3%	8.8%	11.2%
8.	Cash Interest Expense % of Debt	0.9%	3.7%	3.6%	3.8%	3.5%	3.9%

Potential Better Financial Asset Management

10.	€11 Billion Cash Buffer at 500bps above T-bills	€ 0.6
11.	€20 Billion in Bank Investments Earn 8%	€ 1.5
12.	Other Interest Income on Fin. Assets	TBD
13.	Interest Income Subtotal	€ 2.1
14.	Cash Net Interest Payments	€ 0.9
15.	Cash Net Interest Payment % of Revenue	1.1%

3. IPSAS 29 / IAS 39 (IFRS): Highlights

No material differences between the standards on the below.

Objective: IPSAS improves decision-making, increases transparency, strengthens accountability, and facilitates global comparability.

1. Initial Recognition

- **Fair value** of debt is market value (confirming arm's length) at date of event.
- **Market price/YTM** or most comparable market price/YTM.
- **If necessary**, PV with maximum use of observable/prevaling market YTM.

2. Substantial Modification (Restructured Debt)

- If PV of cash flows is at least 10% different from PV of original financial liability.
- All financial liabilities utilize the **same market based principles**.

3. Concessionary Loans and Grants

- **Fair value** measurement.
- Recognized existence of **non-exchange transaction** as a subsidy.

4. Subsequent Measurement: At amortized cost using **EIR method** accretion.

4. IPSAS/IFRS Hierarchy of Valuation

-- At date of event --

1st: Market price/YTM

2nd: Market price/YTM of most comparable

3rd: Market YTM of most comparable to determine a present value (PV)

Market prices/YTMs for Greece and other program countries based on Bloomberg market data.

5. Importance of Using Market Rate/YTM at Event Date

- Protect against corruption resulting from wealth transfers
- Avoid attempts at creating fiscal illusion
- Facilitate global comparability
- Allow for auditable verification process

6. Audit Best Practices

Objective: IPSAS/IFRS measurement of debt improves decision-making, increases transparency, strengthens accountability, and facilitates global comparability.

- All database access (eg. Bloomberg, Reuters, S&P IQ)
- Financial instrument valuation professionals
- Chinese wall between financial valuation and line audit professionals
- Required by code of ethics for professional accountants and auditors

7. Criteria and Process for Adjusting Market Prices or YTMs

Criteria to be met prior to beginning adjustment process:

1. Prices or YTMs change attributable to non-issuer events
2. No credible scenario to justify current prices or YTMs
3. Less than two or three market makers
4. Essentially no volume traded over past 30 days
5. 10% or more change in prices or YTMs in past 30 days

Process for adjusting market prices or YTMs if criteria have been satisfied:

1. Field research to confirm non-existence of credible worst case scenario
2. Attempt to isolate current market prices or YTMs outside of any published worst case scenario
3. Track market prices or YTMs over past 60 to 90 days, within quarter
4. Flexibility to use either bid or ask if spread is abnormally wide
5. Minimize adjustments to market prices and YTMs
6. Provide independently verifiable documentation to support adjustments

Note: Illustrative example.

8. Debt Revaluation Unacceptable Practices

- Don't use market prices/YTMs
- Don't use most comparable prices/YTMs
- Use date(s) other than date of event
- PV not used as last alternative
- Use single rates rather than date and instrument specific
- Insufficient independently sourced market data
- Process violates independent audit verification

Caution: Do not allow the use of the so-called discount rate as it creates inevitable exposure to nefarious consequences, especially on concessional loans.

9. Ask the Right Net Debt Integrity Question

Did the Net Debt number earn the following Expert's Opinion statement by a Big Four accounting/auditing firm whose independence is beyond question?

“Nothing has come to our attention that causes us to believe that the calculations of Greece financial liabilities as reported to us as of December 31, 2013 have not been, in all material respects conducted reasonably in accordance with IAS 39 and IFRS 13, which are deemed an appropriate approximation of IPSAS 29, applicable for Greece.”

10. IFRS vs. IPSAS Relevant Standards Comparison (1 of 12)

Initial Recognition

IFRS - IAS 39 Financial Instruments

IAS 39.43

When a financial asset or financial liability is recognized initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

IPSAS 29 Financial Instruments

IPSAS 29.45

When a financial asset or financial liability is recognized initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Comment

IAS 39.45 vs. IPSAS 29.45

No difference.

10. IFRS vs. IPSAS Relevant Standards Comparison (2 of 12)

Initial Recognition (Con't)

IFRS - IAS 39 Financial Instruments

IAS 39.64

The fair value of a financial instrument on initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also IFRS 13 and paragraph AG76). However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument. For example, the fair value of a long-term loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset.

IPSAS 29 Financial Instruments

IPSAS29.AG82

The fair value of a financial instrument on initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received, see also paragraph AG108). However, if part of the consideration given or received is for something other than the financial instrument, the fair value of the financial instrument is estimated, using a valuation technique (see paragraphs AG106– AG112). For example, the fair value of a long-term loan or receivable that carries no interest can be estimated as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of revenue unless it qualifies for recognition as some other type of asset.

Comment

IAS 39.AG 64 vs. IPSAS29.AG 82

No difference.

10. IFRS vs. IPSAS Relevant Standards Comparison (3 of 12)

Initial Recognition (Con't)

IFRS - IAS 39 Financial Instruments

IAS 39.AG65

If an entity originates a loan that bears an off-market interest rate (eg 5 per cent when the market rate for similar loans is 8 per cent), and receives an upfront fee as compensation, the entity recognizes the loan at its fair value, ie net of the fee it receives. The entity accretes the discount to profit or loss using the effective interest rate method

IPSAS 29 Financial Instruments

IPSAS29.AG83

If an entity originates a loan that bears an off-market interest rate (e.g., 5 percent when the market rate for similar loans is 8 percent), and receives an up-front fee as compensation, the entity recognizes the loan at its fair value, i.e., net of the fee it receives. The entity accretes the discount to surplus or deficit using the effective interest rate method.

Comment

IAS 39.AG 65 vs. IPSAS29.AG 83

No difference.

10. IFRS vs. IPSAS Relevant Standards Comparison (4 of 12)

Government Grants and Concessionary Loans

IPSAS 29 Financial Instruments

IPSAS29.AG84

Concessionary loans are granted to or received by an entity at below market terms. Examples of concessionary loans granted by entities include loans to developing countries, small farms, student loans granted to qualifying students for university or college education and housing loans granted to low income families. Entities may receive concessionary loans, for example, from development agencies and other government entities.

IPSAS29.AG88

An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a grant, a contribution from owners or a combination thereof, by applying the principles in IPSAS 28 and paragraphs 42–58 of IPSAS 23. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in AG101–AG115. Where an entity cannot determine fair value by reference to an active market, it uses a valuation technique. Fair value using a valuation technique could be determined by discounting all future cash receipts using a market related rate of interest for a similar loan (see AG82).

IPSAS29.AG89

Any difference between the fair value of the loan and the transaction price (the loan proceeds) is treated as follows: (a) Where the loan is received by an entity, the difference is accounted for in accordance with IPSAS 23. (b) Where the loan is granted by an entity, the difference is treated as an expense in surplus or deficit at initial recognition, except where the loan is a transaction with owners, in their capacity as owners. Where the loan is a transaction with owners in their capacity as owners, for example, where a controlling entity provides a concessionary loan to a controlled entity, the difference may represent a capital contribution, i.e., an investment in an entity, rather than an expense.

10. IFRS vs. IPSAS Relevant Standards Comparison (5 of 12)

Government Grants and Concessionary Loans (Con't)

IPSAS 23 Revenue from Non-Exchange Transactions

IPSAS23.105B

Where an entity determines that the difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is non exchange revenue, an entity recognizes the difference as revenue, except if a present obligation exists, e.g., where specific conditions imposed on the transferred assets by the recipient result in a present obligation. Where a present obligation exists, it is recognized as a liability. As the entity satisfies the present obligation, the liability is reduced and an equal amount of revenue is recognized.

IPSAS 23.50

A present obligation arising from a non-exchange transaction that meets the definition of a liability shall be recognized as a liability when, and only when: (a) It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and (b) A reliable estimate can be made of the amount of the obligation.

Comment

IPSAS 29 and 23 introduce the term 'concessionary loans' which refer to loans that have been granted or received at below market interest rate and contain additional application guidance. Although IAS 39 does not make reference to the term 'concessionary loans', it does also acknowledge the fact that there can be a difference between the fair value of a financial liability and its transaction price. After having analysed the different accounting standards, we have come to the conclusion that no accounting difference between IPSAS and IAS result from concessionary loans for which no present liabilities exist.

10. IFRS vs. IPSAS Relevant Standards Comparison (6 of 12)

Subsequent measurement

IFRS - IAS 39 Financial Instruments

IAS 39.47

After initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method, except for: (a) Financial liabilities at fair value through profit or loss. (b) Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. (c) Financial guarantee contracts as defined in paragraph 9. (d) Commitments to provide a loan at a below-market interest rate. Financial liabilities that are designated as hedged items are subject to the hedge accounting requirements in paragraphs 89– 102.

10. IFRS vs. IPSAS Relevant Standards Comparison (7 of 12)

Subsequent measurement (Con't)

IPSAS 29 Financial Instruments

IPSAS 29.49

After initial recognition, an entity shall measure all financial liabilities at amortized cost using the effective interest method, except for: (a) Financial liabilities at fair value through surplus or deficit. Such liabilities, including derivatives that are liabilities, shall be measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, which shall be measured at cost. (b) Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. Paragraphs 31 and 33 apply to the measurement of such financial liabilities. (c) Financial guarantee contracts as defined in paragraph 10. After initial recognition, an issuer of such a contract shall (unless paragraph 49(a) or (b) applies) measure it at the higher of: (i) The amount determined in accordance with IPSAS 19; and (ii) The amount initially recognized (see paragraph 45) less, when appropriate, cumulative amortization recognized in accordance with IPSAS 9. (d) Commitments to provide a loan at a below-market interest rate. After initial recognition, an issuer of such a commitment shall (unless paragraph 49(a) applies) measure it at the higher of: (i) The amount determined in accordance with IPSAS 19; and (ii) The amount initially recognized (see paragraph 45) less, when appropriate, cumulative amortization recognized in accordance with IPSAS 9. Financial liabilities that are designated as hedged items are subject to the hedge accounting requirements in paragraphs 99–113.

Comment

IAS 39.47 vs. IPSAS 29.49

No difference in respect to financial liabilities measured at amortised costs.

10. IFRS vs. IPSAS Relevant Standards Comparison (8 of 12)

Subsequent measurement (Con't)

IFRS - IAS 39 Financial Instruments

IAS 39.AG6

When applying the effective interest method, an entity generally amortises any fees, points paid or received, transaction costs and other premiums or discounts included in the calculation of the effective interest rate over the expected life of the instrument. However, a shorter period is used if this is the period to which the fees, points paid or received, transaction costs, premiums or discounts relate. This will be the case when the variable to which the fees, points paid or received, transaction costs, premiums or discounts relate is repriced to market rates before the expected maturity of the instrument. In such a case, the appropriate amortisation period is the period to the next such repricing date. For example, if a premium or discount on a floating rate instrument reflects interest that has accrued on the instrument since interest was last paid, or changes in market rates since the floating interest rate was reset to market rates, it will be amortised to the next date when the floating interest is reset to market rates. This is because the premium or discount relates to the period to the next interest reset date because, at that date, the variable to which the premium or discount relates (ie interest rates) is reset to market rates. If, however, the premium or discount results from a change in the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates, it is amortised over the expected life of the instrument.

10. IFRS vs. IPSAS Relevant Standards Comparison (9 of 12)

Subsequent measurement (Con't)

IPSAS 29 Financial Instruments

IPSAS 29.AG18

When applying the effective interest method, an entity generally amortizes any fees, points paid or received, transaction costs and other premiums or discounts included in the calculation of the effective interest rate over the expected life of the instrument. However, a shorter period is used if this is the period to which the fees, points paid or received, transaction costs, premiums or discounts relate. This will be the case when the variable to which the fees, points paid or received, transaction costs, premiums or discounts relate is re-priced to market rates before the expected maturity of the instrument. In such a case, the appropriate amortization period is the period to the next such repricing date. For example, if a premium or discount on a floating rate instrument reflects interest that has accrued on the instrument since interest was last paid, or changes in market rates since the floating interest rate was reset to market rates, it will be amortized to the next date when the floating interest is reset to market rates. This is because the premium or discount relates to the period to the next interest reset date because, at that date, the variable to which the premium or discount relates (i.e., interest rates) is reset to market rates. If, however, the premium or discount results from a change in the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates, it is amortized over the expected life of the instrument.

Comment

IAS 39.AG6 vs. IPSAS29.AG18

No difference.

10. IFRS vs. IPSAS Relevant Standards Comparison (10 of 12)

(Substantial) Modification

IFRS - IAS 39 Financial Instruments

IAS 39.40

An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

IPSAS 29 Financial Instruments

IPSAS 29.42

An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

10. IFRS vs. IPSAS Relevant Standards Comparison (11 of 12)

(Substantial) Modification (Con't)

IFRS - IAS 39 Financial Instruments

IAS 39.41

The difference between the carrying amount of a financial liability (or part of financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

IPSAS 29 Financial Instruments

IPSAS 29.43

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in surplus or deficit. Where an obligation is waived by the lender or assumed by a third party as part of a nonexchange transaction, an entity applies IPSAS 23.

Comment

No difference, except for one addition to IPSAS 29.43: Where an obligation is waived by the lender or assumed by a third party as part of a non-exchange transaction, an entity applies IPSAS 23.

10. IFRS vs. IPSAS Relevant Standards Comparison (12 of 12)

(Substantial) Modification (Con't)

IFRS - IAS 39 Financial Instruments

IAS 39.AG62

For the purpose of paragraph 40, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

IPSAS 29 Financial Instruments

IPSAS 29.AG79

For the purpose of paragraph 42, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Comment

IAS 39.AG62 vs. IPSAS 29.AG79

No difference.

11. Components of Debt

Modified Securities:

1. Post-private sector involvement new GGBs
2. ECB and European NCB (SMP/ANFA) bonds

Modified/Concessionary Loans:

1. Greek Loan Facility
2. European Financial Stability Fund loans
3. IMF loans

Non-Revalued Debt: includes T-bills, non-concessionary loans, holdout GGBs, and other.

Note: Official sector Greece debt has the magnified impact of both initial concessionality and subsequent modification.

12. Overview of Debt (1 of 2)

(EUR, Billions)

	<u>Maastricht</u>	<u>IPSAS/IFRS</u>
Modified Securities	63	20
Modified/Concessionary Loans	€212	€60
Non-Revalued Debt	44	44
Gross Debt	€319	€124
Financial Assets	NA	91
Net Debt	NA	€33
Percent of GDP	175%	18%

Source: EC AMECO Online and Eurostat databases. Net Debt calculated as Maastricht debt, adjusted according to IPSAS/IFRS which were required for concessionality and rescheduling, less all financial assets which excludes receivables.

12. Overview of Debt (2 of 2)

1. 86% of Greece debt requires **IPSAS/IFRS revaluation**, much with **gift** like terms.
2. €63 billion in **modified securities**.
 - €26 billion of government bonds from PSI.
 - €37 billion of government bonds have interest and/or principal rebates.
3. €212 billion of debt has **modified/concessionary loan** terms.
 - Below market interest rates, extended maturities, and grace periods.
 - €134 billion of Greece debt pays zero cash interest for ten years.
4. €35 billion of official sector borrowings invested in **cash or publicly traded equities**.

Note: Data estimated as of December 31, 2013.

13. Post-Private Sector Involvement New GGBs

Type: Rescheduled Securities

Total (Face Value): €26B

Tranches: 20 Securities

Interest Rate(s): 2%-4.3% Step-up

- 2013-2015: 2%
- 2016-2020: 3%
- 2021: 3.65%
- 2022-2042: 4.3%

Maturities: 2023-2042

Initial Recognition Date: 12 Mar 2012

Initial Recognition Average Market Price: €25.13 (per €100 face value)

Concessionary Terms/Modifications:

- Concessionary interest rates
- Maturities: 10-30 years
- 31.5% of outstanding nominal of the original bonds

Accretion: CAGR that accretes fair value to par by maturity

Benchmarks: GGB 2/24/2023, GGB 2/24/2024, GGB 2/24/2025, GGB 2/24/2026, GGB 2/24/2027, GGB 2/24/2028, GGB 2/24/2029, GGB 2/24/2030, GGB 2/24/2031, GGB 2/24/2032, GGB 2/24/2033, GGB 2/24/2034, GGB 2/24/2035, GGB 2/24/2036, GGB 2/24/2037, GGB 2/24/2038, GGB 2/24/2039, GGB 2/24/2040, GGB 2/24/2041, GGB 2/24/2042

14. ECB and European NCB (SMP/ANFA) Bonds

Type: Rescheduled Securities

Total (Face Value): €37B

Tranches: 43 Securities

Interest Rates: 0.5%-6.5%

Maturities: 2014-2037

Initial Recognition Dates: 15 Feb 2012, 21 Feb 2012

Initial Recognition Average Market Price: €22.08 (per €100 face value)

Concessionary Terms/Modifications:

- Exempt from PSI
- Concessionary interest rates
- Rebate of interest and profits:

	<u>Nominal Interest Rate</u>	<u>Cash Interest Rate</u>
ECB and NCBs - SMP GGBs	5.2%	-2.8%
NCBs - ANFA GGBs	4.8%	-4.3%

Accretion: CAGR that accretes fair value to par by maturity

Benchmarks: GGB 8/20/2014, GGB 8/20/2015, GGB 7/20/2016, GGB 7/20/2017, GGB 7/20/2018, GGB 10/22/2019, GGB 6/19/2020, GGB 10/22/2022, GGB 3/20/2026, GGB 9/20/2037

15. Greek Loan Facility

Type: Concessionary Loans

Total (Face Value): €53B

Tranches: 6 Disbursements

Interest Rate: 3-month EURIBOR plus 50 bps (0.8%-3.8%; based on Bloomberg S45 Euro Swaps Curve)

Final Maturities: 2040-2041

Initial Recognition Dates: 18 May 2010, 13 Sep 2011, 19 Jan 2011, 16 Mar 2011, 15 Jul 2011, 14 Dec 2011

Substantial Modification Dates: 14 Jun 2011, 27 Feb 2012, 19 Dec 2012

Substantial Modification Average Market YTM: 11.2%

Concessionary Terms/Modifications (Most Recent):

- Full repayment of principal amount to be made within 30 years from the disbursement date (extension of 15 years); originally 5 years.
- Grace period of 10 years; originally 3 years.
- Principal payments in 80 equal quarterly payments final maturity.
- Interest rate reduced to 3-mo EURIBOR plus 50 bps (reduction of 100 bps); originally 3-mo EURIBOR plus 300-400 bps.

Accretion: CAGR that accretes fair value to par by maturity

Benchmarks: GGB 2/24/2030, GGB 2/24/2031, GGB 2/24/2032

16. EFSF Loans

Type: Concessionary Loans

Total (Face Value): €134B

Tranches: 25 Disbursements

Interest Rate: EFSF Cost of Funding (~1.8%)

Final Maturities: 2032-2052

Initial Recognition Dates: 12 Mar 2012, 19 Mar 2012, 10 Apr 2012, 19 Apr 2012, 25 Apr 2012, 10 May 2012, 28 Jun 2012, 17 Dec 2012, 19 Dec 2012, 31 Jan 2013, 28 Feb 2013, 3 May 2013, 17 May 2013, 31 May 2013, 25 June 2013, 31 July 2013, 18 Dec 2013

Substantial Modification Date: 27 Nov 2012

Substantial Modification Average Market YTM: 11.7%

Concessionary Terms/Modifications:

- Interest rate based on the EFSF Cost of Funding and margin set at zero (reduction of 200 bps); originally EFSF CoF plus 200-300 bps.
- Maturity extension by up to 15 years to maximum 45 years.
- Interest payments deferred by 10 years (except PSI-related facilities).

Accretion: CAGR that accretes fair value to par by maturity

Benchmarks: GGB 2/24/2032, GGB 2/24/2033, GGB 2/24/2040, GGB 2/24/2041, GGB 2/24/2042

17. IMF Loans

Type: Concessionary Loans

Total (Face Value): €26B

Tranches: 10 Disbursements

Interest Rate: IMF SDR rate plus 200-300 bps (~3.64%)

Final Maturities: 2015-2023

Initial Recognition Dates: 12 May 2010, 14 Sep 2010, 21 Dec 2010, 16 Mar 2011, 13 Jul 2011, 7 Dec 2011, 15 Mar 2012, 18 Jan 2013, 4 Jun 2013, 31 Jul 2013

Initial Recognition Average Market YTM (Maturities >5 years): 11.8%

Initial Recognition Average Market Price (Maturities ≤5 years): €55.86 (per €100 face value)

Concessionary Terms/Modifications:

- Concessionary interest rates
- Maturities: 5-10 years

Accretion: CAGR that accretes fair value to par by maturity

Benchmarks: GGB 8/20/2014, GGB 8/20/2015, GGB 7/20/2016, GGB 2/24/2023

18. Non-Revalued Debt

- Includes T-bills, non-concessionary loans, holdout GGBs, and other.
- Valued at face.
- Total (Face Value): €44B

19. Greece & Peers: Financial Assets (1 of 2)

(As reported by Eurostat & IMF; Euros, Billions)

EUROSTAT ^(a):

Country	Currency & Deposits	Security Other Than Shares	Financial Derivatives	Loans	Shares & Other Equity	Insurance Reserves	FINANCIAL ASSETS
GREECE	€ 21.6	€ 12.2	€ 0.0	€ 0.8	€ 55.9	€ 0.0	€ 90.7
IRELAND	€ 24.3	€ 9.1	€ 0.6	€ 6.7	€ 23.9	€ 0.0	€ 64.6
ITALY	€ 75.2	€ 26.5	€ 0.0	€ 88.5	€ 125.3	€ 1.4	€ 316.9
SPAIN	€ 84.7	€ 4.9	€ 0.0	€ 58.6	€ 143.9	€ 0.0	€ 292.2
PORTUGAL	€ 20.8	€ 7.9	€ 0.0	€ 5.7	€ 34.6	€ 0.0	€ 69.0

IMF Fifth Review; Sources cited - Ministry of Finance and IMF staff projection ^(b):

Country	Currency & Deposits	Security Other Than Shares	Financial Derivatives	Loans	Shares & Other Equity	Insurance Reserves	FINANCIAL ASSETS
GREECE	€ 21.6	€ 12.2	€ 0.0	€ 0.8	€ 55.9	€ 0.0	€ 90.7

Notes:

(a) Source: Eurostat, Financial Balance Sheets [nasa_f_bs], 2012 data, except Greece and Portugal (2013), as of 31 May 2014.

(b) Source: IMF, 5th Review for Greece, June 2014, page 51.

19. Greece & Peers: Financial Assets (2 of 2)

EC's Eurostat Financial Asset Basic Principles

Valuation -

“With the exception of some variables concerning population and labour, the ESA 2010 system shows all flows and stocks in monetary terms. Flows and stocks shall be measured according to their exchange value, i.e. the value at which flows and stocks are in fact, or could be, exchanged for cash. Market prices are, thus, the ESA’s reference for valuation.” 1.94.

“If there is no market price to refer to, and costs are not available, then flows and stocks may be valued at the discounted present value of expected future returns.” 1.95.

IMF's Financial Asset Basic Principles

Valuation -

“Stock positions should be valued as market value, that is, as if they were acquired in market transactions on the balance sheet reporting date (reference date).” 3.113.

“Valuation according to market-value equivalent is needed for valuing assets and liabilities that are not traded in markets or are traded only infrequently. For these assets and liabilities, it will be necessary to estimate values that, in effect, approximate market prices see paragraph 3.125. “ 3.114

“Fair value is a market-equivalent value defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.” 3.115.

20. Progression of Maastricht Gross Debt to IPSAS Net Debt

(Euros, Billions)

SN	Type of Debt/Asset	Maastricht	IPSAS Adjustments (Includes Accretion)				IPSAS	SN	
		Debt (Face Value) 31 Dec 2013	OSI #1: Loans May 2010	OSI #1: Loan Modification June 2011	OSI #2/PSI #1 Extensive Restructuring Feb/Mar 2012	OSI #3/PSI #2 Modification/Buyback December 2012	Total Adjustments		Net Debt (Fair Value) 31 Dec 2013
1.	Modified Securities	€ 63	€ 0	€ 0	€ 36	€ 6	€ 42	€ 20	1.
2.	Modified/Concessionary Loans	€ 212	€ 11	€ 6	€ 85	€ 51	€ 153	€ 60	2.
3.	Non-Revalued Debt	€ 44	€ 0	€ 0	€ 0	€ 0	€ 0	€ 44	3.
4.	Adjustments		€ 11	€ 6	€ 121	€ 57	€ 195		4.
5.	Total Gross Debt	€ 319	€ 308	€ 302	€ 181	€ 124		€ 124	5.
6.	GDP	€ 182						€ 182	6.
7.	Debt/GDP	175%						68%	7.
8.	Financial Assets Funded w/ Loans							€ 34	8.
9.	Other Financial Assets							€ 57	9.
10.	Total Financial Assets							€ 91	10.
11.	Net Debt							€ 33	11.
12.	Net Debt/GDP							18%	12.
Concessionary Terms and Modifications: Highlights									
			EU Loans: 3M Euribor plus 300-400 bps. Maturities: 5 yrs. Grace period: 1.5 yrs.	EU Loans cut to 3M Euribor plus 200-300 bps. Maturities up to 10 yrs. Grace period up to 4.5 yrs.	EU Loans cut to 3M Euribor plus 150bps. Maturities up to 15 yrs. Grace period up to 10 yrs.	EU Loans cut to 3M Euribor plus 50bps. Maturities extended to 30 yrs.			
					EFSF Loans: Cost-of-funding plus 200-300bps. Maturities: 30 yrs.	EFSF Loans cut to cost-of-funding. Interest deferred for 10 yrs. Maturities extended to maximum 45 yrs.			
					ANFA bonds issued on extant terms with interest and partial principal rebate.				
					SMP bonds issued on extant terms.	SMP interest and partial principal rebate.			
					GGBs start at 2% coupon with maturities up to 30 yrs.				
Most Comparable Debt Instrument									
			~400 bps below market YTM.	Market prices/YTMs reflect GGB high yield status.	Market prices/YTMs reflect GGB high yield status.	Market prices/YTMs reflect GGB high yield status.			
Maastricht Debt - Cumulative Face Value Adjusted			€ 71	€ 71	€ 275	€ 275			

Appendices for

**Revaluation of Greece Financial
Liabilities and Implications to the
Net Debt Amount of Greece
Compared to its Peers as of
December 31, 2013**

Appendix 1: IPSAS 29 Fair Value Guidance

- **Valuation Technique:** IPSAS 29.AG112: “In applying discounted cash flow analysis, an entity uses one or more discount rates equal to the prevailing rates of return for financial instruments having substantially the same terms and characteristics, including the credit quality of the instrument, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal and the currency in which payments are to be made.” (see also IAS 39.AG79)
- **Initial Recognition:** IPSAS 29.AG82: “fair value of a long-term loan or receivable that carries no interest can be estimated as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating.” (see also IAS 39.AG64)

Appendix 2: Insightful IPSAS 29: Concessionary Loan Excerpts

Some respondents to Exposure Draft 38 disagreed with the proposed treatment of concessionary loans because they do not believe that fair value is an appropriate measurement basis, while others disagreed with the proposed treatment of the off-market portion of concessionary loans as an expense. BC12

As a means of overcoming these practical differences, respondents suggested that, as an alternative to fair value, nominal cost of the lender's borrowing rate should be used as a measurement basis. BC13

The IPSASB takes the view that the use of fair value enables the most faithfully representative determination of the concession elements of a concessionary loan. Also, because the loans granted at no or low interest are not unique to the public sector, the IPSASB was not persuaded that there is a public sector specific reason to depart from the fair value principles in IAS 39. BC14.

The IPSASB was of the view that initial recognition of this subsidy as an expense on recognition of the transaction provides the most useful information for accountability purposes. BC15.

Appendix 3: Insightful IPSAS 29: No Active Market Excerpts

The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. AG107

Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-specific inputs. AG107

A valuation technique would be expected to arrive at a realistic estimate of the fair value if (a) it reasonably reflects how the market could be expected to price the instrument and (b) the inputs to the valuation technique reasonably represents market expectations and measures of the risk-return factors inherent in the financial instrument. AG107

Therefore, a valuation technique (a) incorporates all factors that market participants would consider in setting a price and (b) is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from an observable current market transaction in the same instrument (i.e., without modification or repacking) or based on any available market data. AG108

Appendix 4: Ireland EFSM Loans (1 of 3)

Type: Concessionary Loans

Total (Face Value): €23B

Tranches: 9 Disbursements

Interest Rates: Cost of Funding (~2.0%)

Final Maturities: 2016-2042

Initial Recognition Dates: 12 Jan 2011, 24 Mar 2011, 31 May 2011, 29 Sep 2011, 6 Oct 2011, 16 Jan 2012, 5 Mar 2012, 3 Jul 2012, 30 Oct. 2012

Substantial Modification Dates: 14 Sep 2011, 21 Jun 2013

Substantial Modification Market YTM: 4.0%

Concessionary Terms/Modifications:

- Concessionary interest rates
- Maturities: Extension of maturity by up to seven years.

Accretion: CAGR that accretes fair value to par by maturity

Benchmarks: Irish 4/18/2016, Irish 10/18/2018, Irish 10/18/2020, Irish 7/20/2027, Irish 3/20/2032, Irish 5/20/2042

Appendix 4: Ireland EFSF Loans (2 of 3)

Type: Concessionary Loans

Total (Face Value): €18B

Tranches: 12 Disbursements

Interest Rates: Cost of Funding (~2.0%)

Final Maturities: 2029-2042

Initial Recognition Dates: 1 Feb 2011, 10 Oct 2011, 15 Dec 2011, 12 Jan 2012, 19 Jan 2012, 3 Apr 2012, 2 May 2012, 18 Jun 2013, 27 Sep 2013, 4 Dec 2013

Substantial Modification Dates: 14 Sep 2011, 21 Jun 2013

Substantial Modification Market YTM: 4.8%

Concessionary Terms/Modifications:

- Concessionary interest rates
- Maturities: Extension of maturity by up to seven years.

Accretion: CAGR that accretes fair value to par by maturity

Benchmarks: Irish 7/20/2027, Irish 3/20/2032, Irish 5/20/2042

Appendix 4: Ireland IMF Loans (3 of 3)

Type: Concessionary Loans

Total (Face Value): €23B

Tranches: 12 Disbursements

Interest Rate: IMF SDR rate plus 200-300 bps (~3.64%)

Final Maturities: 2015-2023

Initial Recognition Dates: 18 Jan 2011, 18 May 2011, 7 Sep 2011, 16 Dec 2011, 29 Feb 2012, 15 Jun 2012, 28 Sep 2012, 20 Dec 2012, 27 Mar 2013, 27 Jun 2013, 27 Sep 2013, 18 Dec 2013

Initial Recognition Market YTM: 6.0%

Concessionary Terms:

- Concessionary interest rates
- Maturities: 5-10 years

Accretion: CAGR that accretes fair value to par by maturity

Benchmarks: Irish 10/18/2018, Irish 6/18/2019, Irish 10/18/2019, Irish 4/18/2020, Irish 10/18/2020

Appendix 5: Spain ESM Loans

Type: Concessionary Loans

Total (Face Value): €41B

Tranches: 2 Disbursements

Interest Rates: Cost of Funding (~2.0%)

Final Maturities: 2025

Initial Recognition Dates: 11 Dec 2012, 2 May 2013

Initial Recognition Market YTM: 5.7%

Concessionary Terms:

- Concessionary interest rates

Accretion: CAGR that accretes fair value to par by maturity

Benchmarks: SPGB 7/30/2025

Appendix 6: Portugal EFSM Loans (1 of 3)

Type: Concessionary Loans

Total (Face Value): €22B

Tranches: 9 Disbursements

Interest Rates: Cost of Funds (~2.0%)

Final Maturities: 2016-2042

Initial Recognition Dates: 31 May 2011, 1 Jun 2011, 21 Sep 2011, 29 Sep 2011, 6 Oct 2011, 16 Jan 2012, 24 Apr 2012, 4 May 2012, 30 Oct 2012

Substantial Modification Dates: 14 Sep 2011, 21 Jun 2013

Substantial Modification Market YTM: 6.2%

Concessionary Terms/Modifications:

- Concessionary interest rates
- Maturities: Extension of maturity by up to seven years.

Accretion: CAGR that accretes fair value to par by maturity

Benchmarks: PGB 10/15/2016, PGB 6/15/2018, PGB 4/15/2021, PGB 10/25/2023, PGB 2/15/2024, PGB 4/15/2037

Appendix 6: Portugal EFSF Loans (2 of 3)

Type: Concessionary Loans

Total (Face Value): €25B

Tranches: 14 Disbursements

Interest Rates: Cost of Funding (~2.0%)

Final Maturities: 2029-2042

Initial Recognition Dates: 22 Jun 2011, 29 Jun 2011, 20 Dec 2011, 12 Jan 2012, 19 Jan 2012, 30 May 2012, 17 Jul 2012, 3 Dec 2012, 7 Feb 2013, 27 Jun 2013, 22 Nov 2013

Substantial Modification Dates: 14 Sep 2011, 21 Jun 2013

Substantial Modification Market YTM: 6.6%

Concessionary Terms/Modifications:

- Concessionary interest rates
- Maturities: Extension of maturity by up to seven years.

Accretion: CAGR that accretes fair value to par by maturity

Benchmarks: PGB 10/25/2023, PGB 2/15/2024, PGB 4/15/2037

Appendix 6: Portugal IMF Loans (3 of 3)

Type: Concessionary Loans

Total (Face Value): €25B

Tranches: 9 Disbursements

Interest Rate: IMF SDR rate plus 200-300 bps (~2%)

Final Maturities: 2015-2023

Initial Recognition Dates: 24 May 2011, 14 Sep 2011, 21 Dec 2011, 12 Apr 2012, 6 Aug 2012, 14 Nov 2012, 18 Jan 2013, 14 Jun 2013, 14 Nov 2013

Initial Recognition Market YTM: 9.8%

Concessionary Terms:

- Concessionary interest rates
- Maturities: 5-10 years

Accretion: CAGR that accretes fair value to par by maturity

Benchmarks: PGB 6/15/2018, PGB 6/14/2019, PGB 6/15/2020, PGB 4/15/2021

Appendix 7: Financial Statement Footnote Disclosure

- Summary of relevant IPSAS/IFRS standards
- Debt valuation process summary
- Independence of process and audit compliance summary
- Market price/YTM and most comparable market price/YTM summary
- Annual accretion percentage summary
- Reconciliation of fair value to face value.

Appendix 8: Three Streams of Debt Cash Flow: IPSAS/IFRS vs. Maastricht Comparison

(Euros, Billions)

Time value of money is considered “the first law of finance” and the “rock upon which much of finance rests”.

	IPSAS/IFRS		Maastricht	
40-year Bullet Debt	7% “At-Market” Coupon	1% Coupon with Market at 7%	7% “At-Market” Coupon	1% Coupon with Market at 7%
Interest	€187	€27	NA	NA
Interest-on-Interest	€746	€106	NA	NA
Principal (Face)	€67	€67	€1,000	€1,000
Initial Recognition Value	€1,000	€200	€1,000	€1,000
Valuation	Present value of discounted future cash flows		Face value	

Appendix 10: Accounting for Concessionary/Rescheduled Liabilities

Concessionary and rescheduled liabilities result in a day one wealth transfer impacting the country's net worth.

7% Market Rate Liability

Loan	€ 100
Interest Rate	7%

Day One Post-Loan Financial Performance (Flows)

Creditor		Debtor	
Gain	€ 0	Gain	€ 0
Exp.	€ 0	Exp.	€ 0
Surplus/ (Deficit)	€ 0	Surplus/ (Deficit)	€ 0

40-Year 1% Coupon Concessionary/Rescheduled Liability

Loan	€ 100
Interest Rate	1%

Day One Post-Loan Financial Performance (Flows)

Creditor		Debtor	
Gain	€ 0	Gain	€ 80
Exp.	(€ 80)	Exp.	€ 0
Surplus/ (Deficit)	(€ 80)	Surplus/ (Deficit)	€ 80

Pre-Loan Financial Position (Stocks)

Creditor		Debtor	
Assets	Liab./NW	Assets	Liab./NW
€ 100	Liab. € 0	€ 0	Liab. € 0
	NW € 100		NW € 0
€ 100	€ 100	€ 0	€ 0

Day One Post-Loan Financial Position (Stocks)

Creditor		Debtor	
Assets	Liab./NW	Assets	Liab./NW
€ 100	Liab. € 0	€ 100	Liab. € 100
	NW € 100		NW € 0
€ 100	€ 100	€ 100	€ 100

Pre-Loan Financial Position (Stocks)

Creditor		Debtor	
Assets	Liab./NW	Assets	Liab./NW
€ 100	Liab. € 0	€ 0	Liab. € 0
	NW € 100		NW € 0
€ 100	€ 100	€ 0	€ 0

Day One Post-Loan Financial Position (Stocks)

Creditor		Debtor	
Assets	Liab./NW	Assets	Liab./NW
€ 20	Liab. € 0	€ 100	Liab. € 20
	NW € 20		NW € 80
€ 20	€ 20	€ 100	€ 100

Key:

Liab.: Liability
NW: Net Worth