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GREECE MACRO MONITOR

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Focus notes: Greece

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Focus - New bailout programme for Greece

Conditionality, implications for sovereign solvency and valuation of the Greek PSI deal

The present document bundles together the three installments of a recently released Eurobank EFG Research study on the new €130bn bailout package for Greece that was officially endorsed at the February 21st Eurogroup. The first installment, titled "Eurogroup endorses 2nd bailout package for Greece'', provides a detailed overview on the main parameters and conditionality of the new rescue program as well as an updated timeline of the key dates and events in the crucial weeks ahead. The second one, titled "The mathematics of the new bailout", offers a quantitative analysis on the benefits of the new package for the country's sovereign solvency outlook as well as the evolution of the government's borrowing needs and sources of funding until 2020. Lastly, the third installment of our present study, titled "Valaution of the Greek PSI deal", takes a close look at the terms of the debt exchange offer and provides a valuation of its components under various "exit yield" assumptions.

Part I - Eurogroup endorses 2nd bailout package for Greece: Key parameters and conditionality

(*Platon Monokrousos,Ph.D., Assistant General Manager, Head of Financial Markets Research; Paraskevi Petropoulou, G10 Markets Analyst)*

On February 21, 2012, euro area finance ministers officially endorsed a second bailout package for Greece worth €130bn. The deal aims to bring the county's public debt-to-GDP ratio to 120.5% by 2020, close to the 120% target envisioned in the October 26-27 Summit. The formal endorsement of the new bailout package by the Eurogroup offers the green light for the implementation of a market-based restructuring of Greek public debt and, if everything goes as planned, the release of the next EU-IMF loan tranche before March 20 when a 3-year bond redeems for €14.435bn.

The decision came after Greece met a number of key pre-conditions set by its official lenders including: (i) parliamentary approval of an omnibus bill containing all fiscal measures and structural reforms comprising the conditionality of the new rescue package; (ii) written commitments from the leaders of the two political parties supporting Lukas Papademos's government as regards the rigorous implementation of the agreed austerity and structural reform programme after the next national election (to be reportedly held on April 29, 2012); and (iii) the specification of extra consolidation measures worth of €325mn as part of a €3.3bn auxiliary package to help attain the 2012 fiscal target.

In what follows we summarize the main parameters of new rescue package:

PSI terms

— 53.5% reduction in the nominal face value of eligible Greek sovereign bonds held by private investors, with an aim to provide an up-front debt relief of ca €110bn (Eurobank EFG estimate assuming full participation). Note that this is slightly higher than the 50% face-value reduction envisioned in the October 26-27th EU Summit Statement. The overall notional amount of Greek sovereign bonds eligible for exchange is estimated at ca €206bn.

— The coupon rate on the new bonds will vary with maturity: 2% for the period between February 2012 to February 2015; 3% in 2016-2020, 3.65% for 2021 and 4.3% thereafter.

— New bonds to be issued by the Hellenic Republic will have a face amount equal to 31.5% of the face amount of old bonds tendered for exchange. In addition, an investor gets 15% of the face amount of debt exchanged in the form of 24-month EFSF bills.

— Each participation holders will also receive detachable GDP-linked securities issued by the Hellenic Republic with a notional amount equal to the face amount of the new bonds offered to him.

— New bonds will be governed by English law.

Official sector involvement (OSI)

— The ECB will pass on any profits from the Greek bonds it bought over the past two years under its Securities Markets Programme to national euro area central banks- in line with its statutory profit distribution rules. (These profits may then be allocated by Member States "to further improve the sustainability of Greece's public debt"). Presumably, this will involve swapping existing central bank GGB holdings with new bonds issued by the Greek state, carrying the exact financial and legal provisions as the old ones, except for new serial numbers (ISINs) in order to avoid taking forced losses in case that CACs are activated.

— Governments of euro area Member States where central banks currently hold Greek government bonds have committed to pass on to Greece any related future profit accruing to their portfolios until 2020. These flows are expected to help reduce the Greek debt-to-GDP ratio by 1.8ppts by 2020 and are also estimated to lower the financing needs over the programme period by approximately €1.8bn.

— Eurozone member states will lower by 150 basis points the interest rate on bilateral loans already provided to Greece under the first bailout package. This is estimated to cut the debt-to-GDP ratio by 2.8% and lower financing needs by around €1.4bn over the programme period (2012-2015).

Conditionality of new EU-IMF rescue package for Greece

The new rescue package for Greece is comprised of several layers of conditionality including, among others:

Detailed timeline of a set of "prior actions" that needs to be completed before disbursement of first loan tranche under the 2nd bailout package

These "prior actions" were explicitly spelled out in the new Memorandum of Understanding (MoU) endorsed by the Greek parliament on February 13, 2012. Among others, they include: **(i)** additional fiscal measures worth ca €3.2bn (~ 1.5%-of-GDP) to compensate for slippages in the execution of the 2011 budget; **(ii)** measures to enhance wage flexibility with a view to further reduce labor costs and boost competitiveness; **(iii)** actions aiming to downsize the public sector and improve government efficiency; **(iv)** further steps to fully liberalize a range of closed professions; and **(iiv)** the recapitalization of the domestic banking system after the Greek debt swap (PSI). A more detailed list of the so-called "prior actions" is provided on *Table A* at the end of this document. To fully incorporate the package of aforementioned measures into national legislation, the government needs to ensure parliamentary endorsement of all relevant implementation laws as well as the issuance of ministerial decrees, legislative amendments and enactment of new legislation by the end of this month.

The government's battle against time started soon after the completion of the February 21 Eurogroup with the submission to Parliament of a new bill including two implementation laws. The first one –already voted on February 28- encompasses a set of "prior actions" relating to labor market reform, liberalization of closed professions and a supplementary budget for 2012. The latter involves additional structural spending cuts worth €325mn (see Table A). In total, additional austerity measures worth €3.3bn will be applied in 2012. This new package is over and above the measures already incorporated in the 2012 budget. As such, the overall fiscal effort to be applied this year will amount to over €18bn, according to our estimates. The second implementation law- already voted on February 29- , involves a set of "prior actions" relating to public spending on pharmaceuticals and the health system as well the unification of auxiliary funds.

Establishment of special segregated account to prioritize debt payments

This account will reportedly collect bailout funding under the new rescue package instead of paying it all directly to the Greek government. More specifically, the amount deposited in this account should be high enough to cover, at any moment, Greece's debt service for the coming quarter. Reportedly, every time the balance of the account goes below the pre-specified limit, all *new* bailout funding and, possibly, part of Greek government revenues would have to be earmarked to replenish the account. Until the account is replenished, all other payments by the Greek government (*e.g.* budgetary expenditure including wage and pensions payments) would have to be delayed. To sum up, the establishment of the segregated account will guarantee that bondholders will be paid on time, thus minimizing the risk of an outright debt default at times when the government's cash reserves are nearing depletion. The idea of prioritizing debt payments was reportedly proposed by the French President and the German Chancellor following talks they held in mid-February. Reportedly, the idea for the establishment of the segregated account has also received significant backing from the European Commission on the basis that it would give official lenders strong control over Greece's use of bailout funds without (de-facto) stripping the country from its budgetary sovereignty. As per the February 21 Eurogroup statement, Greece vowed to introduce in its legal framework over the next two moths a provision ensuring that priority is granted to debt servicing payments. This provision will be enshrined in the Greek constitution at the earliest possible time.

Tighter surveillance of the fiscal austerity program and the implementation of structural reforms

Amid increased skepticism over Greece's ability to deliver on promised reforms and fiscal austerity measures, EU officials called for tighter surveillance of the country's economic policies to ensure reforms agreed under the new rescue program are implemented. According to the Eurogroup statement, increased oversight will take place through a significant strengthening of the European Commission's *Task Force for Greece*, through an "enhanced and permanent" presence on the ground. Reportedly, a monthly review of Greece's progress has to be issued which will be critical on whether official lenders will proceed with the release of the subsequent installments of the loans. During a cabinet meeting on Saturday, February 18, Greek Prime Minister Lukas Papademos stressed out that there is no such issue as having a commissioner installed in each ministry as there are other monitoring mechanisms in place for official lenders to ensure the implementation of the agreed measures.

Strict implementation of agreed privatization plan

The Eurogroup statement called the Greek government to "carry out fully the privatization plans". As per the new MoU voted in Parliament on February 13, "the government anticipates €50bn in proceeds over the lifetime of the asset sale program, including at least €19bn through 2015". Assets offered for sale in the first half of 2012 include DEPA (Public Gas Corporation),DESFA (the Hellenic Gas Transmission System Operator), HELPE (Hellenic Petroleum), OPAP, EYDAP (The Athens Water Supply and Sewerage Company), EYATH (Thessaloniki Water Supply & Sewerage) and IBC (International Business Center). In the second half of the year, tenders for the ports, airports and Egnatia Odos motorway will proceed. According to the agreement, the privatization program will monitor progress towards objectives via quarterly indicative targets.

Table A. Set of "prior actions" included in the new Memorandum of Understanding

i) **Additional structural spending cuts worth €325mn, as part of a recently-agreed €3.3bn package of new austerity measures to be applied this year.** After lengthy talks, the proposal finally agreed with the troika late last week provides for: a) a €100mn reduction in the operating expenses of the National Defense Ministry; b) 10%-20% reductions in special wage regimes to come into effect on July 1st, as opposed to September 1, 2012 planned initially (measures estimated to yield €100mn in savings); c) any pension amounts exceeding €1,300 per month will be lowered by 10%-12%, saving the state about €45mn (exceptionally, pensions provided by the Navy Pension Fund, NAT, will be lowered by 7%); d) abolishment of special allowances for families with four or more children and an annual income of more than €45k (ca €42mn in expected savings); e) the total bill for supplementary pensions will be cut by another €30mn (supplementary pensions between €200 and €250 per month will be cut by 15%, between €251 and €300 by 15% and pensions above €300/month by 20%; and f) operating expenses of public utilities (DEKO) will be slashed by an extra €8mn.

ii) **Additional cuts in supplementary and main pensions** (i.e., on top of those noted above), with the aim of saving at least €300mn.

iii) **Reduction of the Public Investment Program** by €400mn.

iv) **Reductions** in central government **operational expenditure and election-related spending** by at least €270mn.

v) Cuts in budget **grants provided to several public entities** and frontloading cuts in subsides to residents in remote areas by €190mn.

vi) Dismissal of a number of **deputy mayors** and associated staff, saving at least €300mn.

vii) Reduction in **military expenses** by €300mn.

viii) Reduction in overtime pay for **NHS doctors,** with the aim of saving at least €50mn.

ix) Reduction in public spending on **pharmaceuticals** by at least €1.076bn.

x) Ministerial decision for the **application of new "*objective criteria*" in taxing the self-employed.**

xi) Ministerial decision for the full **implementation of the new wage grid** (single salary system) **in all state entities**; legislation for the recovery of wages paid in excess of limits set by the new wage grid (November 2011 afterwards).

xii) Completion of **75 full-scope audits** and **225 VAT audits of large taxpayers**. These targets actually constituted prior actions to the 5th Review under the 1st EU-IMF programme.

xiii) Amendment of regulations for **overdue taxes and social contributions** for individuals and corporations.

xiv) Completion of the **pension reform** with the submission of a framework law envisioning an in-depth overhaul of secondary and supplementary pension funds. The reform will aim to: a) merge all existing funds and eliminate their deficits; b) reduce their operational and payroll costs; and d) ensure long-term sustainability of secondary schemes.

xv) With the support of external consultants, **Bank of Greece** will need to undertake a comprehensive assessment of domestic banks' capital needs.

xvi) Completion of study aiming to address **Agriculture Bank of Greece** (ATE). The study will illustrate the legal, operational and financial aspects of the different solutions and lay out associated costs.

xvii) Government to enact legislation to support the strategy for **bank recapitalization.**

xviii) Government will need to enact legislation to strengthen **governance arrangements in financial oversight agencies.**

xix) A 22% weighed average **reduction in the minimum gross wage** at all levels; an additional 10% cut for young people under 25 years of age.

xx) Suspension of **automatic wage increases**, including those based on seniority.

xxi) Elimination of unilateral recourse to **arbitration** (i.e. to the Organisation for Mediation & Arbitration OMED).

xxii) **Elimination of permanent tenure** in all existing legacy contracts and in all companies.

xxiii) **Closure of organizations providing state-subsidized housing (**OEK and OEE).

xxiv) Full implementation of legislation for **liberalizing 17 closed professions** (*e.g.* accountants, tourist guides, private doctors and dentists' practices, shops for optical use and contact lenses).

xxv) Publication of secondary legislation specifying the **cost of issuing new road transport operator licenses.**

xxvi) **legislation on collective labor agreement to be amended**: a) collective agreements regarding wage and non-wage conditions can only be concluded for a maximum duration of 3 years; b) agreements that have been already in place for 24 months or more shall have a residual duration of 1 year; c) collective agreements which have expired will remain in force for a period of maximum 3 months (vs. six months previously), and c) allowances for seniority, child, education and hazardous professions will continue to apply, until replaced by a new collective agreement or amended individual contracts.

Greece: Updated event-risk timeline

The official endorsement of the second bailout package for Greece at the February 21st Eurogroup has given the green light for the launch of a market-based restructuring of Greek public debt (PSI), which aims to facilitate a gradual decline of the debt ratio towards 120.5%-of-GDP by 2020. The PSI scheme constitutes an integral part of the new rescue package and its successful completion is a key precondition for the disbursement of the next EU/IMF loan tranche ahead of the next major bond redemption (€14.5bn) that falls due on March 20, 2012.

In what follows, we present the key steps already taken in the way to a successful Greek debt restructuring (PSI) as well as an updated timetable of the key dates and events investors need to closely monitor in the crucial weeks leading to the timely release of the new EU-IMF loan tranche. The timetable below is based on the most recent information we managed to collect from a number of press reports and other sources.

Measures already implemented

February 23

- **Greek Parliament approved legislation (Law 4050/2012) involving the parameters of the proposed exchange of privately-held debt (PSI) and the retroactive insertion of collective action clauses (CACs) in existing Greek-law bonds**. Part III of this report takes a closer look at the parameters of the debt exchange scheme and provides a quantitative evaluation of the main components of the PSI deal under different "exit yield" assumptions. The two political parties baking Lukas Papademos's government – New democracy and PASOK, cumulatively controlling 193 seats in the 300-seat Parliament voted in favor of the bill (Law 4050/2012). The legislation also gained approval from the Democratic Alliance party which is headed by ex-New Democracy minister Dora Bakoyiannis. The three leftist parties and the right-wing LAOS voted against the bill.

February 24

- **The Greek government launched the public offer for the proposed debt swap** (see also Part III of this document). Please note that GGB portfolios of individual bondholders are included in the universe of bonds eligible to participate in the debt exchange. It is estimated that there are ca 11k individual accounts in Greece that hold Greek government bonds, with around 9.5k of them currently owning GGB portfolios worth up to €100k each (in notional terms)

February 27

- **The German Bundestag –the lower house of Parliament- approved the 2nd rescue plan for Greece with an overwhelming majority**. Out of a total number of 591 MPs who were present in the voting procedure, 496 voted in favor of the bailout package, while 90 voted against. In her address to Bundestag, German Chancellor Angela Markel admitted that there was no "100 percent guarantee" that the rescue plan would succeed, warning though that the risks entailed in not helping Greece were "incalculable". In a slight setback, the German Chancellor failed to secure an absolute majority within her own government coalition, the CDU/CSU bloc. The latter controls 330 MPs in the 622-seat parliament and compromises the Social Democratic Party (SPD) and the Christian Democratic Union (CDU) with its sister party the Christian Social Union (CSU). The plan received 304 votes from the collation camp, seven votes short of 311 votes needed to pass it without relying on support of the opposition parties.

- **Standard & Poor's** lowered its 'CC' long-term and 'C' short-term sovereign credit rating on Hellenic Republic to "SD" (selective default). According to the agency's official statement, "Greece's retroactive insertion of CACs materially changes the original terms of the affected debt and constitutes the launch of what we consider to be a distressed debt restructuring". The statement also read that the Greek sovereign credit rating will remain in 'SD' rating while the PSI offer is open and, upon completion, the S&P "will likely consider the selective default to be cured and raise the sovereign credit rating on Greece to the 'CCC' category".

February 28

- **Responding to the S&P's decision to downgrade Greece's sovereign credit rating to selective default, the European Central Bank suspended the use of Greek government bonds as collateral in its liquidity refinancing operations**. The

ECB said that it will start accepting Greek sovereign bonds again by mid-March, once an agreed collateral enhancement scheme (up to €35bn) for ensuring collateral eligibility of Greek sovereign bonds in its liquidity providing operations comes into effect. The EFSF credit enhancement will remain in place for as long as Greece's sovereign debt rating remains on selective default as a result of the debt swap. The ECB;s move leaves Greek banks reliant on the Bank of Greece for funding through the Emergency Liquidity Assistance (ELA) facility during the interim period. According to the most recent BoG data, Greek banks resorted to ELA facility for the sixth month in row in January 2012 to cover their liquidity needs. Greek banks borrowed ca €3.4bn in January from the ELA facility, bringing the total emergency liquidity provided so far under that scheme to around €56bn. Furthermore, the data showed that ECB lending to domestic banks dropped by 3.8%mom to €73.94bn in January, remaining well below an all-time high of €103.11bn recorded in June 2011.

- **Greek parliament endorsed the implementation law encompassing a set of "prior actions" –part of a number of key pre-conditions set by Greece's official lenders in return for approving the 2nd bailout at the February 21st Eurogroup meeting- relating to a supplementary budget for 2012 and labour market reforms**. They concern, among others, additional cuts in main and auxiliary pensions, elimination of permanent tenure in all existing legacy contracts, legislation amendments on collective labor agreements and the full application of the single salary system for all civil servants. Out of the 283 deputies present, a total of 202 lawmakers voted in favour of the implementation bill, 80 against and one deputy abstained**.**

February 29

- **Greek Parliament endorsed another piece of legislation providing for the unification of auxiliary funds as well as heavy cutbacks in public expenditure on pharmaceuticals.** Out of a total of 288 deputies who participated in the vote, 213 approved the bill, 58 voted against and 17 declared present. The coming two parliamentary sessions will see the issuance of a number of ministerial decrees and circulars aiming to push through delayed reforms, including the opening-up of a number of closed professions as well as additional cut backs in government operating expenditure

More specifically, the aforementioned Ministerial decrees will reportedly include:
-closure of the Workers' Housing Organization (OEK)
- elimination of special allowances for families with four or more children and annual income of more than €45k
-abolition of food coupons for students
-increase in the participation rate of the insured in medical examination and pharmaceutical care
- abolition of compulsory arbitration
-freezing of maturities in labor agreements
-establishment of fees for the issuance of new licenses for trucks after deregulation of road transport sector
-increase in the trade fee tax for all professionals (those who issue services receipts), which is currently €400 in cities with fewer than 200,000 citizens and €500 in major urban cities.
Separately, pending circulars will reportedly allow the full implementation of the deregulation of 20 closed professions, including accounts, doctors, dentists, optical shops e.t.c.

- **Finnish Parliament approved 2nd rescue package for Greece. The** move was widely expected after Greek Finance Minister Evaggelos Venizelos and his Finnish counterpart signed a special collateral agreement a week earlier. On the latter issue, local press reports suggested recently that the four biggest Greek banks –National Bank of Greece, Eurobank, Alpha Bank, Piraeus bank- would provide guarantees up to €88omn to Finland in order to fulfill the latter's demand for some form of collateral in exchange for backing Greece's 2nd bailout package. Reportedly, the banks would put up the necessary collateral so as to eliminate the need of having the Greek state doing so, since the latter could raise questions of preferential treatment of some countries funding the new bailout. As a reminder, Finland's coalition government is led by the (pro-European and right-leaning) National Coalition and the Social Democratic Party. The latter, headed by Finance Minister Jutta Urpilainen, agreed to join the government after last April's general elections under the condition that collateral deals would be a key prerequisite for future bailouts.

- **Dutch Parliament endorsed new rescue plan for Greece**. The minority government secured a parliamentary majority through the backing of the opposition Labor Party. The government had to rely to the opposition party because its key ally in parliament, the populist Freedom party, is staunchly opposed to bailing out euro area member states.

- **Prime Minister Lukas Papademos met in Brussels with European Council President Herman Van Rompuy, European Commission President Jose Manuel Barroso and other high-level EU policy makers** to discuss strategies aiming to jumpstart economic growth in Greece and facilitate a faster absorption of structural EU funds. Proposals discussed included the provision of funds to small businesses, subsidies for the recruitment of unemployed young people, the resumption of five major road construction projects and the speedy absorption of unused structural funds.

March 1

- **ISDA's European Determinations Committee decided unanimously that Greece's recent moves to prepare the launch of a voluntary public debt restructuring, do not constitute a credit event**. According to a Reures report, the issue arose after the committee was asked to consider whether a "credit event" had occurred after the Greek Parliament approved last week the retroactive insertion of CACs in local-law government bonds.

Key dates and events in the crucial days and weeks ahead

March 1-2

- **EU Summit** – EU 27 heads of state and government are to discuss progress on the PSI and assess early signs of implementation of the newly-agreed austerity measures in Greece. A number of EU officials hinted in recent weeks that no advance payments of bailout funds to Greece will be authorized before implementation of the agreed reforms has begun. The unexpected decision of the Irish government early this week to hold a referendum on the *Fiscal Compact* is also expected to be high on the agenda. Ireland's recent history of rejecting EU Treaty changes in referenda is a potential source of concern even though among the four main political parties, only Sinn Fein is likely to campaign against the Fiscal Compact. A separate meeting of Eurozone leaders planned for March 2 lunchtime to discuss whether to allow the ESM and the EFSF run in parallel - so as to increase the combined lending capacity of the two mechanisms -, has been cancelled. Reportedly, the reason behind the cancellation was Germany's reluctance to countenance such a move, especially after G20 countries decided at their most recent meeting to delay until May a decision to increase funding to the IMF. There will instead be a mini-summit of the EU-17leaders during the first day of the EU Summit to reelect Herman van Rompuy as president of the European Council. Reportedly, discussions among EU-17 leaders on a likely increase in the combined EFSF/ESM firepower will not take place before the next scheduled Eurogroup meeting on March 12. It is worth recalling that the EFSF's present *uncommitted* resources are no higher than €250bn (out of the mechanism's total lending capacity of €440bn). As regards the permanent rescue mechanism ESM, its total subscribed capital stands at €700bn (€620bn in callable + €80bn paid-in capital), with its total lending capacity being set at €500bn.

March 8

- Reported deadline for private bondholders to affirm participation in the Greek debt exchange

- Deadline for governments and euro area national parliaments to approve €30bn EFSF loan for running the PSI. The deal has to be ratified by all eurozone member states. In six countries (Germany, Finland, the Netherlands, Estonia, Malta and Slovenia) the ESFS loan requires parliamentary approval. In all others, finance ministers have the authority to approve a deal via some kind of "reporting" to national parliaments. The Slovenian Parliament is expected to hold a vote in early March, while Malta has yet to set a timetable. The Estonian parliament approved the second Greek bailout on Thursday 23 February with 56 votes in favor to 32 against.

March 9

- Eurogroup holds a teleconference. Upon consultation with official lenders, Greece decided whether to activate CACs on Greek-law bonds

March 11-12

- Greek government exchanges local-law bonds.

March 12-13

- Eurogroup assesses bond swap results and decides whether to give final approval to 2nd bailout package.

March 13

- **IMF convenes to decide its contribution to Greek 2nd bailout package.** German Finance Minister Wolfgang Schauble commented recently that the Fund considers contributing €13bn, an amount equivalent to no more than 10 percent of the 2nd bailout package for Greece. This would come on top of some €9.9bn of committed, yet still undisbursed IMF funding under the 1st rescue programme (Greek Loan Facility). As a reminder, the IMF committed €30bn to the first Greek bailout programme, an amount equaled to about 27% of the whole package.

March 20

- **€14.435bn 3-year bond matures.** Speaking before the European Parliament's economic committee earlier this week, Eurogroup President Jean-Claude Juncker said that the first tranche of the new EU-IMF bailout for Greece will be paid out by March 20 at the latest, provided that Greece has implemented all prior-actions agreed with the troika.

March 30-31

- **Informal meeting of EU-27 finance ministers and central bankers**

April 6

- Greek government exchanges old foreign-law bonds

April 29

- Assuming that everything goes according to plan, national elections are likely to be held on April 29, 2012. The publication of results of a public opinion poll conducted by pollster GPO late last week showed an eight-party Parliament with the New Democracy (ND) partly continuing to lead. Specifically, if elections were to be held today, ND would gain 19.4%, about two percentage points lower from a previous GPO poll in December and well short of levels around 40% needed for an outright majority in parliament. The same poll showed that the socialist party PASOK attracted the support of 13.1% of respondents, ranking in the second place. The leftist parties achieved high rates with the Democratic Left, the most moderate of the three leftist parties, gaining 12%, the Communist party (KKE) garnered 9.5% and the coalition of the Radical Left (SYRIZA) reached 8.5%. The right-wing LAOS recorded 5.1%.

Part II - The mathematics of the new bailout

(Platon Monokrousos, Ph.D., Assistant General Manager, Head of Financial Markets Research)

New rescue package – key figures

The new rescue package for Greece that was officially endorsed at the February 21st Eurogroup consists of:

— €100bn of new official (EFSF/IMF) financing for the period 2012-2014; and

— €30bn in the form of 2-year EFSF bills to be offered (in lieu of cash) to private-sector bondholders participating in the debt exchange (PSI).

Notes:

- The exact IMF participation in the new rescue program has not been clarified yet (it will be decided by the Fund's Board in the second week of March 2012).
- Some €34bn of committed financing under the 1st EU-IMF programme (Greek Loan Facility) still remains unutilized.
- The July 21st EU Council decisions apply as to the new (more favorable) terms of 2nd lending program - **i.e.,** average maturity of new EFSF loans to be extended from ca 7.5 years to a minimum of 15 years and up to 25 years with a grace period of 10 years; EFSF funding to remain at cost (Feb 2012 IMF/EC/ECB DSA).
- The interest rate on already disbursed EU bilateral loans will be lower by 150bps (Eurogroup Feb 21st Statement).
- As per the October 26-27th EU Summit Statement, a *temporary* EFSF credit enhancement (up to €35bn) will be provided to ensure collateral eligibility of Greek sovereign bonds in ECB liquidity operations. Presumably, the EFSF credit enhancement

will remain in place for as long as Greece's sovereign debt rating remains on "selective default" as a result of the debt swap. This amount is not included in the €100bn figure (new EFSF/IMF financing) quoted above.

Impact on solvency

The new rescue package is expected to have a significant beneficial effect on the country's solvency outlook. This will be mainly due to:

— An upfront (gross) reduction in the general government debt burden by ca €107bn as a result of the PSI *i.e.,* 53.5% reduction in the nominal face value of *eligible* Greek sovereign bonds held by private investors. The €107bn figure quoted above assumes full (100%) investor participation in the debt exchange, compared to 95% participation assumed in the Feb 2012 IMF/EC/ECB DSA.

— A significant decline in the government's interest rate expenditure as a result of:

a. lower interest rates on new and old EU/EFSF loans;
b. lower coupon payments on the new government bonds post the debt exchange (lower coupon rates applied to discounted principal);
c. extended maturity profile and a 10-year grace period for new and old EU/EFSF loans; and
d. extended maturity profile of new discounted government bonds to be offered to private sector investors participating in the debt exchange. Note that the latter two factors, c) and d), will particularly affect (i.e., compress) interest rate expenditure in the initial 10-year period after the signing of the new rescue program.

<u>Notes & tables</u>

o As per the new baseline scenario laid out in the revised IMF/EC/ECB DSA (Feb 15, 2012), the terminal value of the gross public debt-to-GDP ratio in FY2020 is 129%. This compares with a corresponding figure of 120%-of-GDP envisaged in the Dec 2011 IMF baseline projections (5th Review of Greece's adjustment programme). Following the debt-reducing operations decided at the February 21th Eurogroup, the general government debt-to-GDP ratio is projected to reach 120.5% in 2020 (table A1):

Table A1 – Terminal gross public debt to GDP ratio in 2020 (based on the new IMF/EC/ECB baseline projections & the debt-reducing operations decided at the Feb. 21 Eurogroup)

1. Terminal gross public debt ratio in FY 2020 - New IMF/EC/ECB baseline	**129%-of-GDP**
Debt-reducing operations decided at the Feb 21, 2012 Eurogroup	
Cummulative impact in ppts-of-GDP (period 2012-2020)	
2.1 Lower interest rates on (already disbursed) EU bilateral loans	- 2.8ppt-pf-GDP
2.2 Future income accrued to GGB portfolios of Member State central banks (to be allocated to reduce Greek public debt)	-1.8ppt-of-GDP
2.3 Incremental impact of debt exchange (due to tougher PSI terms)	-3.7ppt-of-GDP
2. Total impact of debt-reducing operations (2.1+2.2+2.3)	**-8.5ppt-pf-GDP**
3. Terminal gross public debt ratio in FY 2020 *inclusive* of debt-reducing operations (1-2)	**120.5%-of-GDP)**

Source: IMF, EC, ECB, Eurobank EFG Research

o It is still *unclear* whether profits on the ECB's Greek bond holdings will be allocated to reduce Greece's debt burden. As per the Feb. 21st Eurogroup statement, the ECB will channel the profits generated by the Greek government bonds it bought over the past two years under its Securities Markets Programme to euro area countries, via the national central banks, in accordance with its statutory profit distribution rules. Then, these profits "may be" allocated by member states to further improving the sustainability of Greece's public debt.

o Table A2 on the next page shows the main underlying assumptions and the evolution of the gross debt to GDP ratio envisaged in the new IMF/EC/ECB baseline scenario (before and after the debt-reducing operations decided at the Feb 21st Eurogroup).

o **Table A2 – Evolution of public debt ratio (before and after the debt-reducing operations decided at the Feb 21st Eurogroup)**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
IMF/EC/ECB baseline scenario (Feb 2012 DSA)										
Real GDP growth (%)	-6.1	-4.3	0.0	2.3	2.9	2.8	2.8	2.6	2.5	2.2
GDP deflator (%)	1.7	-0.7	-0.4	0.0	0.8	1.0	1.3	1.5	1.7	1.8
Nominal GDP growth (%)	-4.5	-5.0	-0.4	2.3	3.7	3.8	4.1	4.1	4.2	4.0
Primary balance (% GDP)	-2.4	-1.0	1.8	4.5	4.5	4.5	4.5	4.3	4.2	4.3
Avrg. nominal interest rate on debt (%)	4.7	2.1	3.8	4.0	4.1	4.2	4.2	4.3	4.3	4.2
Public sector debt (% of GDP)	**164**	**163**	**168**	**166**	**160**	**154**	**147**	**141**	**135**	**129**
IMF/EC/ECB baseline scenario after debt-reducing operations decided at the Feb 21, 2012 Eurogroup										
Real GDP growth (%)	-6.1	-4.3	0.0	2.3	2.9	2.8	2.8	2.6	2.5	2.2
GDP deflator (%)	1.7	-0.7	-0.4	0.0	0.8	1.0	1.3	1.5	1.7	1.8
Nominal GDP growth (%)	-4.5	-5.0	-0.4	2.3	3.7	3.8	4.1	4.1	4.2	4.0
Primary balance (% GDP)	-2.4	-1.0	1.8	4.5	4.5	4.5	4.5	4.3	4.2	4.3
Avrg. nominal interest rate on debt (%)	4.7	2.0	3.7	3.9	4.0	3.9	3.9	4.0	4.0	3.9
Public sector debt (% of GDP)	**163.9**	**159.0**	**163.7**	**161.7**	**155.1**	**148.2**	**140.7**	**134.0**	**127.2**	**120.5**

Source: IMF, EC, ECB, Eurobank EFG Research

o Total interest rate savings – as a result of: a) more favorable terms applied to new and old EU/EFSF loans and b) the PSI operation - will amount to ca €98bn in the period 2012-2020 (Eurobank EFG Research estimate). In percentage points-of-GDP terms, the corresponding saving due to lower interest rate expenditure will be ca 4.7 per annum (table A3).

Table A3 – Total interest rate expenditure before and after the new bailout package (in billions of euros and in ppts-of-GDP)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	In billions of euro								
Before 2nd bailout package *Based on IMF's July 2011 DSA*	18.2	19.7	22.0	23.1	22.4	24.0	26.4	26.4	26.9
After 2nd bailout package *Based on IMF/EC/ECB Feb 2012 DSA & Feb 21st Eurogroup*	7.1	12.1	13.1	13.6	13.1	13.0	13.2	13.1	12.6
	In ppt-of-GDP								
Before 2nd bailout package *Based on IMF's July 2011 DSA(*)*	8.8%	9.6%	10.5%	10.6%	9.9%	10.2%	10.8%	10.3%	10.1%
After 2nd bailout package *Based on IMF/EC/ECB Feb 2012 DSA & Feb 21st Eurogroup*	3.5%	5.9%	6.2%	6.2%	5.8%	5.5%	5.4%	5.1%	4.7%

Source: IMF, ECB, EC, Eurobank EFG Research
(*) Based on new baseline GDP projections (Feb 2012 DSA)

Concluding remarks to this section

— The new bailout package implies significant benefits to Greece's solvency outlook, mainly as a result of: a) an upfront *gross* public debt reduction of ca €107bn due to the PSI (assuming near universal participation); and b) a significant decline in interest rate expenditure i.e., by an estimated 4.7ppt-of-GDP per annum.

— Apparently, the aforementioned results are sensitive to the underlying assumptions regarding nominal GDP growth, fiscal primary balances, privatization revenue and other debt-creating flows. The good news is that the latest (Feb. 2012) baseline DSA seems to incorporate much more plausible and realistic assumptions than both the 5th & 4th program reviews (Dec 2011 and July 2011, respectively).

Impact on sovereign liquidity

The new bailout programme (inclusive of the upcoming debt exchange) aims to broadly cover the government's borrowing requirement for the period 2012-2014. The Feb. 2012 IMF/EC/ECB preliminary DSA report states that *"Official financing needs between 2012 and 2014 would be about €170bn before further actions to reduce debt (or about €136bn additional to what is already in the existing program). For the period 2015-2020 official financing needs could amount to €50 billion (against before actions to reduce debt), although this figure could be a little lower if Greece is able to gain some limited market access in the last years of the decade."*

Notes & tables

- The *€170bn* figure quoted above (official financing need between 2012 and 2014) incorporates €34bn of still-undisbursed fund commitments under the 1st EU-IMF program (Greek Loan Facility).
- The *€136bn* figure - official financing in excess of the 1st EU-IMF program commitments - implies an incremental financing need of €6bn over the program period (2012-2014). However, the latter has been broadly covered by the debt-reducing operations decided at the Feb 21st Eurogrroup (= **€1.4bn** from lower interest rates on already-disbursed EU bilateral loans + **€1.8bn** from future income accrued to GGB portfolios of member state central banks that will be allocated to reduce Greece's public debt + **additional financing** from somewhat more aggressive PSI terms relative to those assumed in the Feb 1012 DSA).
- The €5obn official financing need for the period 2015-2020 quoted in the Feb. 2012 preliminary DSA does not incorporate the debt-reducing operations decided at the Feb 21st Eurogrroup. As such, the new baseline macro scenario actually implies an even lower figure for the corresponding period.
- As a point of reference Table A4 depicts the evolution of Greece's government gross borrowing need and financing source in the period 2012-2014. The table is based on baseline estimates provided at the 5th IMF review (Dec 2011). We will update and publish again this table once we have more info on the projections of new rescue program.

Table A4 – General government gross borrowing need and financing source for the period 2012-2014 (5th IMF Review of Greece's adjustment program, Dec 2011)

	2012-2014
A. Gross borrowing need (€bn) *(deficit financing, amortizations, other)*	**241.8**
B. Gross financing source (€bn) *(privatization receipts, issuance of S-T debt, other)*	**52.6**
Financing gap (A-B)	**189.3**
Sources of funding:	
Remaining funds under 1st EU-IMF package	**34.0**
PSI financing	**61.1**
New official funding under 2nd bailout package	**94.3**
Total financing source	**189.3**
Projected issuance of MLT bonds	**0.0**

Source: IMF, Eurobank EFG Research

Concluding remarks to this section

— The new bailout package offers full coverage of the government's borrowing requirement in the period 2012-2014. That is, provided that the domestic macro economy and relevant fiscal variables evolve as projected in the new DSA baseline scenario.

— The government's financing gap will fall bellow €50bn cumulatively in the period 2015-2020, an amount that could presumably be covered by a combination of domestic sources (e.g. additional privatization revenue) and some extra external financing.

Part III - Valuation of the Greek PSI deal

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On February 24, 2012, Greece formally launched its long-awaited debt restructuring offer to private-sector holders of its sovereign bonds. The proposed exchange, constitutes an integral part of the €130bn bailout package that was officially endorsed at the February 21st Eurogroup. In this report we take a close look at the terms of the debt swap and provide a valuation of the PSI components under various "exit yield" assumptions.

Private sector involvement (PSI) in Greek debt restructuring - Terms of the exchange offer

The universe of privately-held sovereign debt that is eligible to participate in the debt exchange has an aggregate face value of €206bn and consists of *local-* and *foreign-law* bonds *issued* or *guaranteed* by the Hellenic Republic (Table A at the end of this document provides a summary of terms of the Greek exchange offer). The scheme will permit participating private-sector bondholders to exchange their old bonds with a basket of new securities consisting of:

i) new bonds issued by the Hellenic Republic on the PSI settlement date having a face amount equal to 31.5% of the face amount of the exchanged bonds;

ii) EFSF notes with a maturity date of two years or less from the PSI settlement date and face amount equal to 15% of the face amount of the old bonds tendered for exchange; and

iii) detachable GDP-linked securities issued by the Hellenic Republic having a notional amount equal to the face amount to each participating holder's new bonds.

Note that, on the PSI settlement date, the Republic will also deliver short-term EFSF notes to discharge of all unpaid interest accrued up to February 24, 2012 on exchanged bonds. As indicated in a press release issued last Friday by the Greek Ministry of Finance, the formal invitation to private sector for participation in the debt exchange is subject to certain conditions, including:

a) a *financing condition* linking the implementation of the debt exchange with the disbursement of EFSF notes to participating private-sector bondholders upon approval by the European Working Group (EWG); and

b) *a minimum participation condition*, which states that the Hellenic Republic *will not* be required to settle the debt exchange unless bonds representing at least 90% of the aggregate face amount of all eligible bonds are validly tendered for exchange.

The Finance Ministry's press release also states the following:

— The Republic *intends*, subject to all other conditions being met and in consultation with official creditors, *to*: (i) declare effective a number of amendments to the terms of eligible bonds proposed under the collective action procedures introduced by the Greek Bondholder Act (Law 4050/2012) and (ii) complete the exchange of all eligible bonds, provided that these amendments would result to at least 90% of the aggregate face amount of all eligible bonds being exchanged.

— If at least 75% but less than 90% of the aggregate face value of all eligible bonds are tendered for exchange, the Republic, in consultation with official creditors, *may proceed* to exchange the tendered bonds without putting any of the proposed amendments into effect.

— If less than 75% of the aggregate face amount of all eligible bonds are validly tendered for exchange, and the Republic does not receive consents to exchange eligible bonds representing at least 75% of their aggregate face amount, then *no* exchange will take place.

Valuation of the Greek PSI deal

The quantitative assessment of the Greek debt exchange requires certain assumptions regarding the interest rate (exit yield) used to discount the stream of future cash flows received by participating private-sector bondholders. In reality, the shape and level of the post-exchange GGB yield curve will depend on, among others, the following factors:

— market perceptions of the sustainability of the Greek public debt post-restructuring; and
— the actual outcome of the exchange offer and the "voluntary" nature of the PSI transaction.

For *purely demonstrative* purposes, we utilize below four different "exit yield" levels (9%, 12%, 15% and 17%) for discounting the steam of future cash flows on the new Greek-risk bonds offered to investors participating in the exchange. We will loosely associate these theoretical discount rates with four distinct *investor participation scenarios* as follows:

Greek exchange offer – Investor participation scenarios

Scenario I – Best case

Investor participation > 90% ⇨ Exit yield assumption ~ 9%

Scenario I assumes that at least 90% of the aggregate face amount of all eligible bonds is validly tendered for exchange. Under this scenario, the Hellenic Republic proceeds with the exchange of tendered bonds *without* putting into effect any of the amendments proposed under the collective action procedures (CACs). In other words, the exchange is completed without triggering a credit event and the GGB yield curve benefits from a very successful "voluntary" restructuring and improved perceptions of Greece's solvency outlook post the PSI operation. *(A more thorough analysis on the beneficial impact of the 2nd bailout package for Greece's liquidity and solvency position can be found in Eurobank EFG Research, Greece Macro Monitor, Feb 23, 2012). Under Scenario I, we assume an exit yield of 9%.*

Scenario II

Investor participation>75% but <90%; and

retroactive triggering of CACs offering same terms for all private-sector holders of eligible debt ⇨

⇨ Exit yield assumption ~ 12%

Under *Scenario II*, a *credit event* occurs, leading to the triggering of CDS contracts. Note again that this is a theoretical scenario, depicted here for purely demonstrative purposes. In fact, as noted in a Greek Finance Ministry press release dated February 24, 2012, if at least 75% but less than 90% of the aggregate face value of all eligible bonds are tendered for exchange, the Republic, in consultation with official creditors, *may proceed* to exchange the tendered bonds *without putting* any of the proposed amendments into effect.

Scenario III - Worst case

Investor participation < 75%; and

no investor consent (representing at least 75% of their aggregate face amount of eligible bonds) to amend the terms of eligible bonds, as per the *Greek Bondholder Act* ⇨

⇨ Two exit yield assumptions ~15% and 17%.

Under *Scenario III*, the proposed PSI scheme is abandoned and a straight restructuring process occurs with more severe losses for private-sector bond holders.

Scenario IV – Valuation of PSI package using the Portuguese bond yield curve

As an addition to the above scenarios, we price here the new Greek government bonds using as benchmark curve the current yield curve of the Portuguese government bonds. That is because, under the new bailout package, the targeted value for the Greek public debt to GDP ratio in 2020 is 120.5% *i.e..,* not far from Portugal's current and forecasted debt ratios (2012: 111.79%; 2013: 114.93%; 2014: 114.6%).

Tables B1 & B2 below show the valuation the PSI package (excluding the GDP warrant) in present value (PV) terms. Figure C1 provides a graphical representation of the current position of the GGBs curve and the value of the debt exchange package (excluding the GDP-linked component) under various "exit yield" scenarios.

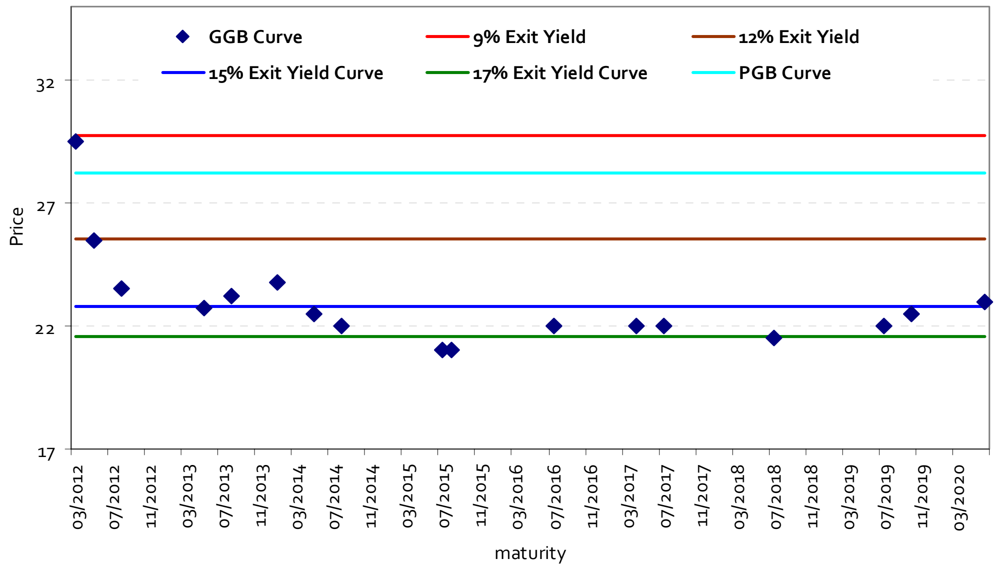
Table B1 – Valuation of the debt exchange package assuming different "exit yields"

Exit Yield (%)	GGB Component	EFSF Component	PV of PSI package (excluding GDP-linked security)	NPV Loss	New Bond Price	Duration
9.00	15.06	15.00	**30.06**	69.94	47.82	12.74
12.00	10.85	15.00	**25.85**	74.15	34.46	11.42
15.00	8.15	15.00	**23.15**	76.85	25.88	10.24
17.00	6.88	15.00	**21.88**	78.12	21.83	9.53
Portugese curve	13.56	15.00	**28.56**	71.44	43.05	14.28

Source: Greek Finance Ministry, Eurobank EFG Global Markets and Research Divisions, Bloomberg

Note: The calculations shown in the table above do not account for the present value of the GDP warrant

Figure C1 – Current position of the GGBs curve Vs. value of the debt exchange package (excluding GDP-linked component) under different "exit yield" assumptions



Source: Greek Finance Ministry, Eurobank EFG Global Markets & Research Divisions, Bloomberg

Table B2 – Indicative payment schedule for the new discount Greek government bonds, assuming an exit yield of 12%

Year	Date	Principal Outstanding	Principal Payment	Coupon Rate	Coupon Payment	Total Payment	DF	PV
1	28/02/2013	31.50	0	2.00	0.63	0.63	0.89286	0.56250
2	28/02/2014	31.50	0	2.00	0.63	0.63	0.79719	0.50223
3	28/02/2015	31.50	0	2.00	0.63	0.63	0.71178	0.44842
4	28/02/2016	31.50	0	3.00	0.95	0.95	0.63552	0.60056
5	28/02/2017	31.50	0	3.00	0.95	0.95	0.56743	0.53622
6	28/02/2018	31.50	0	3.00	0.95	0.95	0.50663	0.47877
7	28/02/2019	31.50	0	3.00	0.95	0.95	0.45235	0.42747
8	28/02/2020	31.50	0	3.00	0.95	0.95	0.40388	0.38167
9	28/02/2021	31.50	0	3.65	1.15	1.15	0.36061	0.41461
10	28/02/2022	31.50	0	4.30	1.35	1.35	0.32197	0.43611
11	28/02/2023	29.93	1.575	4.30	1.35	2.93	0.28748	0.84216
12	28/02/2024	28.35	1.575	4.30	1.29	2.86	0.25668	0.73455
13	28/02/2025	26.78	1.575	4.30	1.22	2.79	0.22917	0.64032
14	28/02/2026	25.20	1.575	4.30	1.15	2.73	0.20462	0.55786
15	28/02/2027	23.63	1.575	4.30	1.08	2.66	0.18270	0.48572
16	28/02/2028	22.05	1.575	4.30	1.02	2.59	0.16312	0.42263
17	28/02/2029	20.48	1.575	4.30	0.95	2.52	0.14564	0.36748
18	28/02/2030	18.90	1.575	4.30	0.88	2.46	0.13004	0.31930
19	28/02/2031	17.33	1.575	4.30	0.81	2.39	0.11611	0.27723
20	28/02/2032	15.75	1.575	4.30	0.74	2.32	0.10367	0.24050
21	28/02/2033	14.18	1.575	4.30	0.68	2.25	0.09256	0.20847
22	28/02/2034	12.60	1.575	4.30	0.61	2.18	0.08264	0.18053
23	28/02/2035	11.03	1.575	4.30	0.54	2.12	0.07379	0.15619
24	28/02/2036	9.45	1.575	4.30	0.47	2.05	0.06588	0.13500
25	28/02/2037	7.88	1.575	4.30	0.41	1.98	0.05882	0.11655
26	28/02/2038	6.30	1.575	4.30	0.34	1.91	0.05252	0.10051
27	28/02/2039	4.73	1.575	4.30	0.27	1.85	0.04689	0.08656
28	28/02/2040	3.15	1.575	4.30	0.20	1.78	0.04187	0.07445
29	28/02/2041	1.58	1.575	4.30	0.14	1.71	0.03738	0.06394
30	28/02/2042	0.00	1.575	4.30	0.07	1.64	0.03338	0.05483

Total value of new GGB	**10.85**

Source: Greek Finance Ministry, Eurobank EFG Global Markets & Research Divisions, Bloomberg

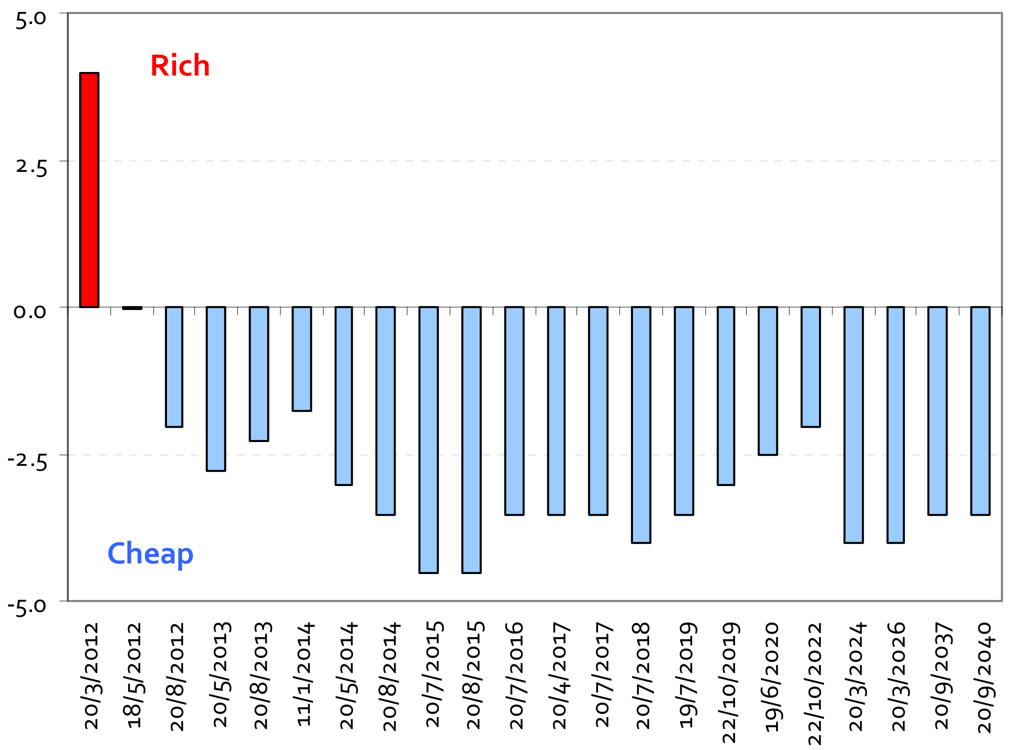
Figure C2 below provides a graphical depiction of the richness/cheapness of the current GGBs yield curve relative to the estimated value of the PSI package (excluding the GDP warrant) assuming a 12% exit yield.

As shown in Figure C2, most existing (old) Greek government bonds are currently trading cheap relative to the debt exchange package, assuming an exit yield no higher than 12%. The present risk premium in old GGB prices mainly reflects lingering uncertainty regarding the implementation of the debt exchange as well illiquidity premia due to the sovereign's current ratings and the general risk appetite towards Greece. This may leave scope for some potential future gains (relative to current market prices and for investors participating in the exchange), provided that the PSI transaction will be completed successfully and

Greece will do what is needed to ensure the timely disbursement of official loans under the 2nd bailout package.

As a final note to this document, a number of recent research pieces on the Greek PSI deal presented a number of approaches to value the GDP-linked security included in the debt exchange offer (see e.g. JPM and Barclays research). These reports provided estimated values for the detachable GDP warrant ranging between 0.5% and 1.2% of the face value of the corresponding security, depending on the exit yield utilized to discount the stream of future cash flows.

Figure C2 - Richness/cheapness of the current GGBs yield curve relative to the estimated value of the PSI package (excluding the GDP warrant) assuming a 12% exit yield



Source: Greek Finance Ministry, Eurobank EFG Global Markets & Research Divisions, Bloomberg

Concluding remarks

In this note we take a close look at the terms of the debt swap and provide a valuation of the PSI components under various "exit yield" assumptions.

Utilizing a number of different discount rate assumption, we derive an array of estimated present values for the debt exchange package (excluding the GDP-linked component) ranging between 28.56 (exit yield assumption ~ 17%) and 30.06 (exit yield assumption ~ 9%). To these values one would also need to add the estimated present value of the GDP-linked security in order to derive the full value of the PSI package.

Most existing (old) Greek government bonds are currently trading cheap relative to the debt exchange package, assuming an exit yield no higher than 12%. The present risk premium in old GGB prices mainly reflects lingering uncertainty regarding the implementation of the debt exchange as well illiquidity premia due to the sovereign's current ratings and the general risk appetite towards Greece.

Table A. Greek Exchange Offer - Summary of Terms

Description	— Market-based restructuring of privately-held Greek sovereign debt
Universe of eligible bonds	— Universe of privately-held debt eligible to participation in the debt echange consists of *local-* and *foreign-law* bonds *issued* or *guaranteed* by the Hellenic Republic; The total notional amount of eligible debt is estimated at €206bn
CACs	— Greek-law bonds eligible to participate in the exchange - *aggregate outstanding amount of ca €177bn, with issue dates prior to Dec. 31, 2011* - will be subject to retroactive collective action clauses (CACs) enacted by the Greek Parliament on Feb 23, 2012 *(Greek Bondholder Act, Law 4050/2012)* — Hellenic Republic to separately solicit consents in favor of equivalent amendments from the holders of its foreign-law government bonds and its foreign-law guaranteed bonds in accordance with the terms of these bonds
Required bondholder majority for activating CACs *(local-law bonds)*	— Voting threshold = two-thirds (by face amount) of a quorum of these bonds — Required quorum = one-half (by face amount) of all bonds subject to collective action procedure — Aggregation clause: Yes
Exchange rate	— **For every 100-points of maturing notional** of old Greek bonds, a participating investor gets 24 securities consisting of: (i) **20 distinct Greek-risk bonds** with an overall notional amount equal to 31.5% of the face amount of the old bond tendered for exchange and maturities running from the 11th anniversary of the issue date (2023) to the 30th anniversary of the issue date (2042); (ii) **a detachable GDP-linked security** having a notional amount equal to the total face amount of the new bonds (i.e., 31.5 points per 100points of maturing notional of old bonds); (iii) **an equally split portfolio of 1- and 2-year EFSF notes** with a total face value equal to 15% of the face value of the old bond; and (iv) a **6-month EFSF bills** for accrued interest.
Coupon rates on new government bonds	— 2% per annum for payment dates up to 2015 (3 coupons) — 3% per annum for payment dates between 2016 and 2020 (5 coupons) — 3.65% per annum for payment dates in 2021 — 4.3% per annum for payment dates in 2022 and thereafter — Interest on new Greek bonds to accrue from February 24, 2012; interest on 1-year and 2-year EFSF notes to accrue from March 12, 2012
Maturity & amortization profile of new government bonds	— 11-year to 30-year maturities — Amortization structure commences on the 11th anniversary of the issue date (2023)
Governing law	— English law for new Greek bonds, GDP-linked securities and EFSF notes
Clearing	— All new Greek bonds to clear through Bank of Greece — EFSF notes to clear through Clearstream, Frankfurt
GDP Securities	— Each participating holder receives detachable GDP-linked securities of the Hellenic Republic with a notional amount equal to the face amount of the new bonds issued to him — GDP-linked Securities will entitle their holders to annual payments beginning in 2015 of an amount up to 1% of their notional amount, provided that: a) Greece's nominal GDP exceeds a pre-defined threshold; and b) the country features positive *real* GDP growth in excess of pre-specified targets
Co-finacing structure	— Holders of the new bonds will rank pari passu with the EFSF €30bn loan provided for the financing of the debt exchange operation — Common paying agent will be making sure that all payments of principal and interest on the new bonds and the EFSF loan fall on the same dates and on a pro rata basis
Negative pledge on new Greek bonds	— Yes
Some advantages to participating investors	— Upfront distribution of AAA-rated securities (1-year and 2-year EFSF notes) — New bonds rank pari passu and payments rank pro rata with €30bn EFSF loan — GDP-linked securities provide upside — English law

Source: Greek Ministry of Finance; Eurobank EFG Research

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