

Subject: 5 Month Maturity, Greek Sovereign Paper, 2.5x Leverage (provided by us) Yields 10% [C]
Classification: Confidential

Summary

As some of you may know we are in touch with a large block of illiquid 5month Greek paper. Levered 2.5x it yields 10% which may be of interest to those clients presently comfortable with Greek risk.

The seller, a Greek bank who currently finances them with the ECB, is shrinking its balance sheet, we presume ahead of the upcoming AQR and stress tests.

To diversified and well capitalized clients we can lend, with recourse, against this bond assuming 40% haircut (60% LTV / 2.5x leverage) at Euribor + 270bp. In addition there is a 15bp arrangement fee on the loan amount (dirty price x 60%).

We have been advised by the seller's agent (but are still in the process of verifying):

"The bond is issued under local law - same as T-bills, and together with the August2014 floater is the only GGB bond (large size issues in any case), excluded from the PSI. These bonds were issued in 2009 by Greece as payment for the preference shares that the State got from all greek banks (in lieu of cash, which at the time was scarce). They are held primarily by Greek banks with 10-20% held by foreign institutions including ECB. The bonds have no collective action clause (CAC) and symmetric no cross-default with other Greek securities."

Salient points

The bond is a floater (vs 6m Euribor). Its last fix took place on 19th Nov 2013 so both remaining cashflows due May2014, the final coupon and principal, are known
Yield of 10% assuming 2.5x leverage for 5 months. Unlevered the bond yields 5.6%.

There is at least EUR100mm available

These bonds are believed to be without CAC and with no-symmetric cross-default (note: still to be verified)

This bond is illiquid. Some dealers make 2-3point wide prices in EUR1-2mm only. DB doesn't quote it.

The higher yield reflects among other things a risk of restructuring. This risk is present in all Greek bonds. Personally I believe these shorter bonds have a lower probability of restructuring than the longer (9y+) ones... the seller's agent advises these bonds are 80-90% owned by Greek banks, the balance being owned by international real money + ECB. While Greece could conceivably restructure short dated GGB's held by Greek banks, restructuring a relatively small quantity of internationally held bonds would be highly counterproductive to Greece realizing its ambition of quickly returning to capital markets.

In July 2013 the IMF estimated Greece had a 2014 financing deficit of EUR4bn. Various subsequent unofficial estimates have put this number around EUR2bn. Greek Government estimates have been closer to EUR0.5bn

Juan Landazabal (trading), Mitch Matharu (financing) and myself are available for questions

thanks
Nav

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<http://www.imf.org/external/pubs/ft/scr/2013/cr13241.pdf>