Thursday, July 21, 2011

IIF Financing Offer

The members of the IIF and other major financial institutions welcome the decision by the EU to improve the terms of its financial assistance to Greece, including lower interest rates, extended maturities and a more flexible and a broader scope of operations for the EFSF. Consequently, as part of a comprehensive plan, including strong support by the IMF and the redoubling of adjustment efforts by Greece, we are prepared to participate in a voluntary program of debt exchange and a buyback plan developed by the Greek government. In summary, the program involves an exchange of existing Greek government bonds into a combination of four instruments together with the Greek Debt Buyback Facility.

Four Instruments: (Refer to the Term Sheet for details)

1) A Par Bond Exchange into a 30 year instrument
2) A Par Bond offer involving rolling-over maturing Greek government bonds into 30 year instruments
3) A Discount Bond Exchange into a 30 year instrument
4) A Discount Bond Exchange via an insurance mechanism into a 15 year instrument

The principal of all of these instruments will be fully collateralized via 30 year AAA-rated zero-coupon bonds, or in the case of Instrument 2, a 40% tranche-based insurance coverage of the principal. All of the debt servicing risk on these new instruments, however, remains full Greek risk.

It is assumed that investors will select among the four instruments in equal proportions of 25% of total participation.

All instruments will be priced to produce a 21% Net Present Value (NPV) loss based on an assumed discount rate of 9%. The terms outlined in the Term Sheet are broadly comparable to those of the official sector. The interest rates are structured to maximize the benefits to Greece in the early years of the program as Greece regains access to global capital markets. For example, the coupon on the Par Bond will be 4% during the first five years, 4.5% during the next five years, and 5% for years 2011-2030. Based on a target participation rate of 90%, the private sector investors through this program will contribute €54 billion from mid-2011 through mid-2014 and a total of €135 billion to the financing of Greece from mid-2011 to end-2020. In addition to this assured financing, this program will also improve significantly the maturity profile of Greece’s debt, increasing the average maturity from an average of 6 years to 11 years.

The size of the Buyback Facility will be determined after further discussions involving the official sector. It is expected to be of sufficient scale that when combined with the €13.5 billion debt reduction through the discount bond exchange, there will be a meaningful reduction in the stock of Greece’s debt relative to GDP. This will be reinforced by Greece's new privatization program and prospects for higher growth which should emerge as the program takes hold.

We consider this offer to be unique given the exceptional circumstances of Greece. Not withstanding the progress made by Greece during the last one and a half years, the scale of Greece's economic imbalances and the inefficiencies that have been embedded in its economic structures require a special approach that can enhance debt sustainability and restore confidence in the future of the Greek economy.

The offer is already supported by the financial institutions listed in Annex 2, and we expect support to build as the offer and the comprehensive program surrounding it is more widely disseminated.

Our offer is conditioned on the comprehensive economic reform program of Greece, the strong support of the EU, which has just been reinforced, and additional support by the IMF.

Annex 1 - Term Sheet

Instruments and Technical Aspects

1. A **Par Bond Exchange** into a new 30 year instrument with the principal collateralized by 30 year zero-coupon AAA rated bonds. The zero coupon bonds are purchased using EFSF funds. Greece pays the funding costs to the EFSF. The principal is repaid to the investor using the proceeds of the maturity of the zero-coupon bonds.

   The coupon paid to the investor has the following structure:

Period	Coupon
Years 1 – 5	4%
Years 6 – 10	4.5%
Years 11 – 30	5%

   This is equivalent to a 4.5% fixed coupon rate.

   Assumed *participation rate*: 25% of total exchange.

2. A **Par Bond offered at par value** as a Committed Financing Facility to roll into new 30 year par bond at the time the current claim matures. The principal is collateralized using the same mechanism as for instrument 1.

   The coupon paid to the investor has the following structure:

Period	Coupon
Years 1 – 5	4%
Years 6 – 10	4.5%
Years 11 – 30	5%

   This is equivalent to a flat 4.5% fixed coupon rate.

   Assumed *participation rate*: 25% of total exchange.

3. A **Discount Bond Exchange** offered at 80% of par into a new **30 year** instrument. The principal is collateralized using the same mechanism as for instrument 1.

   The coupon paid to the investor has the following structure:

Period	Coupon
Years 1 – 5	6%
Years 6 – 10	6.5%
Years 11 – 30	6.8%

   This is equivalent to a flat 6.42% fixed coupon rate.

   Assumed *participation rate:* 25% of total exchange

4. A **Discount Bond Exchange** offered at 80% of par value with partial constant insurance for 15 years covering 80% of losses up to a maximum amount of the insurance claim of 40% of the new notional. The collateral is provided by funds held in escrow. These funds are borrowed by Greece from the EFSF. The EFSF funding costs are covered by the interest earned on the funds in the escrow account so there is no funding cost to Greece of this collateral. The funds in escrow are returned to the EFSF on maturity, if not used, and the principal on the bond is repaid by Greece.

   The coupon paid to the Investor is 5.9%.

   Assumed *participation rate*: 25% of total exchange.

The rates **presented here are** indicative only based on today's market conditions. Final pricing will be based on a fixed margin over the relevant Euro mid-swap rate at the time of execution.

All instruments will be priced to be economically equivalent at 21% NPV discount calculated at a discount rate of 9%.

Coupons quoted are fixed, annual rates.

Annex 2 – Financial Institutions in Support

Name	Country
Allianz	Germany
BNP Paribas	France
Munich Re	Germany
Swiss Re	Switzerland
Zurich Financial	Switzerland
AXA	France
Generali	Italy
Dexia	Belgium
Deutsche Bank	Germany
HSBC	United Kingdom
Société Générale	France
ING	Netherlands
Commerzbank	Germany
Standard Chartered	United Kingdom
Intesa SanPaolo	Italy
SEB	Sweden
Alpha Bank	Greece
National Bank of Greece	Greece
Bank of Cyprus	Cyprus
Hellenic Bank	Greece
AK Bank	Turkey
Scotiabank	Canada
Credit Suisse	Switzerland
National Bank of Kuwait	Kuwait
KB Financial Group	Korea