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Table 1: List of new Greek bonds

Maturity	ISIN	Notional in bn (*)
24-Feb-23	GR0128010676	3
24-Feb-24	GR0128011682	3
24-Feb-25	GR0128012698	3
24-Feb-26	GR0128013704	3
24-Feb-27	GR0128014710	3
24-Feb-28	GR0133006198	3.2
24-Feb-29	GR0133007204	3.2
24-Feb-30	GR0133008210	3.2
24-Feb-31	GR0133009226	3.2
24-Feb-32	GR0133010232	3.2
24-Feb-33	GR0138005716	3.2
24-Feb-34	GR0138006722	3.2
24-Feb-35	GR0138007738	3.2
24-Feb-36	GR0138008744	3.2
24-Feb-37	GR0138009759	3.2
24-Feb-38	GR0138010765	3.2
24-Feb-39	GR0138011771	3.2
24-Feb-40	GR0138012787	3.2
24-Feb-41	GR0138013793	3.2
24-Feb-42	GR0138014809	3.2

Source: BofA Merrill Lynch Global Research. *Notional calculated assuming
€200bn of old bonds are exchanged in PSI

The Week Ahead
Twenty New Greek bonds to start trading

If the PSI goes as expected, Monday should see the settlement of the exchange of Greek domestic law bonds. This would come with the delivery to the participant bondholders, of the following package:

■ Two EFSF PSI payment notes, with maturity of 1y and 2y, issued at par.

■ A 6M EFSF Accrued interest note.

■ 20 New Greek Bonds (or bundle), with almost equal notionals (Table 1), each of them maturing in a year between 2023 and 2042, and all with escalating coupons (from 2% to 4.3%).

■ A GDP-linked security, with notional equal to the total amount of New Greek bonds issued, and which would only pay coupons (no redemption payment).

In our view, the one-million dollar question, particularly for CDS investors, is where the New Greek bonds will trade. We present below several pricing examples, and highlight some key legal terms that could impact the relative value of the new bonds versus the current international law ones.

Pricing the bundle, based on old domestic bond prices

The 20 New Greek Bonds, or bundle, may trade together as a strip. An indicative market valuation for that strip may be derived by stating that the old domestic law bonds were already priced on the basis of the exchange taking place. **_As an illustration_**, assuming the current 30y Greek bond (Sep40 GGB) was accounting for 100% probability of the exchange going through, and trading at a clean price of, say **x**%, the bundle price calculation will be as follows:

■ The Sep40 GGB price would be reflecting a price of **x**%-15% (with the 15% corresponding to the value of EFSF PSI notes) for the bundle and the GDP warrant obtained in the exchange of 100% notional of old bonds.

■ Given that the perceived value of the GDP warrant should not exceed 0.6% (a value derived assuming 1% coupon on each year starting from 2022), the set of Greek bonds obtained (with outstanding notional 31.5%) would implicitly be valued at: **y**%= **x**%-15%-0.6%.

■ The implied price for a 1 euro notional of the bundle (referred to below as **P_b**) would therefore be of **P_b** = **y**/31.5*100.

### Pricing the new bonds individually, based on survival curve

The pricing of each new bond individually will depend on the shape of the Greek default probability curve (or inversely the survival curve). It is not certain which type of curve the market will be envisaging post PSI, but we consider several scenarios below (all assuming a zero recovery in case of additional default).

Scenario 1: A flat curve, implying a logarithmic cumulative default probability, trending to 100% (Chart 2). In theory, the flat yield to use is the one solving for the bundle price (ie notional weighted sum of the 20 bonds) equal to the **P_b** found as per above. **_As an illustration,_** a 19% flat curve gives a bundle price of 18.6%, with the New Bond prices ranging from 27cts per euro for the Feb23 bond, to 16cts per euro for the Feb42 (Chart 3).

Such a curve may not however be a correct representation of the Greek risk post PSI, given that a default in two years' time may be more likely than one in the months following the exchange.
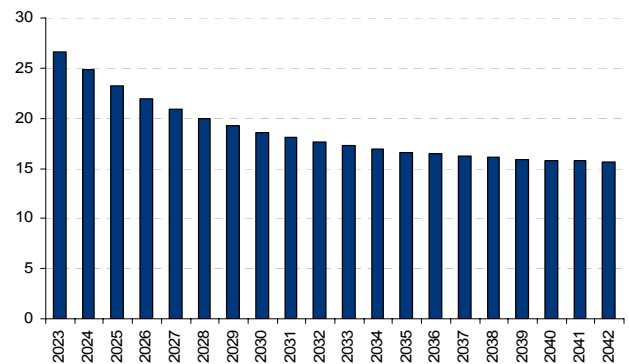
Chart 2: Default probabilities based on 19% flat yield curve
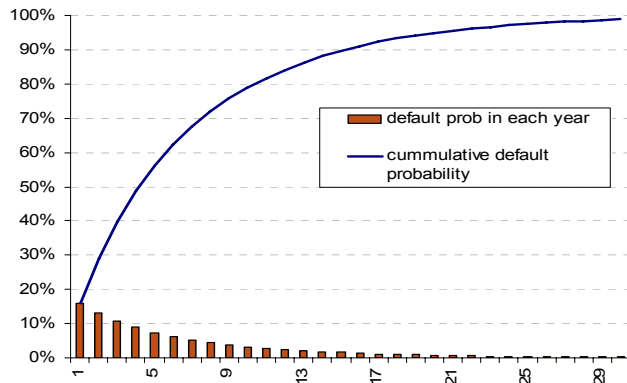
Source: BofA Merrill Lynch Global Research

**Chart 3: Implied new bond prices, based on illustrative 19% flat curve**

Source: BofA Merrill Lynch Global Research

Scenario 2: A constant 1y default probability would give an almost similar result, if not for the steepness of the risk free curve. Again, one could find the default probability that solves for a bundle price equal to **P_b**. ___As an illustration,___ a 1y default probability constant at 14.3% would give a bundle price of 18.6cts, and bond prices ranging from 27cts/euro to 16cts/euro.

Scenario 3: A survival curve of the same shape as the Portuguese one, ie with a higher default probability in the second year than in the first one, and a faster decline in yearly default probabilities after year 3 (Chart 4). Note that this would correspond to a slightly humped yield curve. One could shift the Portuguese default probability curve (ie stating that the default probability of Greece in year y = **z%** + default probability of Portugal on that year also based on 0% recovery), to find a bundle price equal to **P_b**. For instance, ___as an illustration___, by adding 1.2ppt to the default probability of Portugal, we find a bundle price of 18.7cts per euro, and get New Bond prices ranging from 27cts for the shortest to 15cts for the Feb42 (Chart 5).

Note that if we were to price the New Greek Bonds using the current Portuguese discount factors, the bundle would be trading at 38cts/euro, with Bond prices ranging from 40cts/euro for Feb23 to 36cts/euro for Feb42.

Chart 4: Default probabilities based on 19% flat yield curve
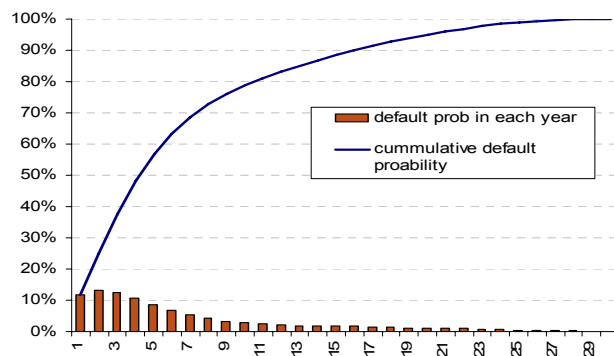
Source: BofA Merrill Lynch Global Research

Chart 5: New bond prices, based on shifted Portuguese default curve

Source: BofA Merrill Lynch Global Research

Major legal differences with old international Greek bonds

The New Greek Bonds will be issued under UK law. However there are a few differences in their legal terms compared to the current international Greece bonds, with could impact their relative pricing. We would highlight three of these:

1. The New Bonds will benefit from **interest and redemptions payments being linked to those made by Greece to the EFSF**, in the context of the PSI LM Facility Agreement (ie the €30bn loan made by the EFSF to Greece to finance the sweeteners in the PSI deal). On an interest payment date, if Greece does not disburse sufficient money to the common paying agent, to pay in full the amounts due on that date under the New Bonds and the EFSF PSI LM Facility, then the EFSF and the holders of the New Bonds will suffer a payment shortfall in the same proportion.

2. The **events of default** of the new bonds will include failure to repay the principal of any Relevant Indebtedness, ie any borrowed money in the form of bonds or similar tradable debt instruments issued or guaranteed by Greece _on or after_ the PSI exchange. We think this has two implications: I) default of payment in the old international bonds shouldn't result in acceleration of the New Bonds, and II) the acceleration clause relative to any new borrowed money could be broader than that considered in several old international Greece bonds (some of these link the default event only to failure on their own payments, others to failure on any External Indebtedness only, etc)

3. A feature that may be less attractive in the New Bonds relative to the old International Greece bonds is the fact that **Collective Action Clauses** for modifications of Non-Reserved Matters and most Reserved Matters will be based on the agreement by a certain percentage of _all_ New Bonds, ie they will be treated in aggregation, as opposed to bond-by-bond for International Greece bonds.

    Therefore old International Greece bonds where blocking stakes have been built may trade higher than some of the New Bonds, if the market discounts another restructuring. That said, if Greece faces further debt issues post PSI, we believe that for the International bonds it would more likely mean a default of payment rather than a friendly restructuring, in particular given the absence of related cross-acceleration in the New Bonds.

Pricing could be key for recovery at potential CDS auction

The pricing of the new bonds is particularly relevant for holders of CDS protection holders, in case of a CDS trigger event on activation of Collective Action Clauses. Because they could be delivered by Greece as early as Monday, the new bonds are likely to be trading on the day of the CDS auction (as this one is expected to take place a couple of weeks following the CDS trigger event), and therefore could be deliverable into the CDS auction. At the same time, old international law bonds will be remaining, and the relative pricing of the new bonds compared to these old ones would determine which will be cheapest to deliver into the CDS.