

Eurozone Debt Crisis Update

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Greek Salvation Debt Restructuring & 2nd Bailout Deals

Two “positive” announcements from Brussels... The news headlines flashing out of the Eurozone yesterday were the announcement of a deal between private creditors and Greece on the latter’s sovereign debt restructuring, and the approval for Greece’s second bailout package worth EUR130b.

Deal on Greek debt restructuring... The talks between Greece and its private bondholders to restructure Greece’s sovereign debt – which has been going on (and off) since late-Nov 2011 and was targeted to be concluded last month – finally reached a key and critical milestone (*refer to details in tables below*).

Distribution of Greek Sovereign Debt By Holder (as at Jan 2012)

| | EURb | % Share |
|--|------------|------------|
| Greek Banks | 50 | 16 |
| Other European Banks | 40 | 13 |
| Greek Social Security Funds | 30 | 10 |
| European Insurance Companies (incl. Greek) | 15 | 5 |
| European Fund Managers, Pension Funds & SWFs | 70 | 22 |
| ECB & Central Banks | 55 | 18 |
| EU & IMF | 53 | 17 |
| TOTAL | 313 | 100 |

*Note: Shaded lines refer to Greek bondholders & creditors involved in talks with Greece
 Source: FT*

Highlights of Greek Sovereign Debt Restructuring Deal (21 Feb 2012)

| | EURb | % Share |
|--|------------|------------|
| Amount of Existing Debts To Be Restructured | 200 | 100 |
| Haircut | 107 | 53.5 |
| Swap With New 11-30 Year Bonds | 63 | 31.5 |
| Swap With Short-Dated Securities Issued by EFSF | 30 | 15 |

| Coupon on New Debts | % p.a. | vs. Current Market Yields (% p.a.) |
|--|--------|------------------------------------|
| First 3 Years (Feb 2012 - Feb 2015) | 2.0 | 3-Year 110.6 |
| Next 5 Years (Feb 2015 - Feb 2020) | 3.0 | 5-Year 53.2 |
| Following 20 Years (Feb 2020 - Feb 2042) | 4.3 | 10-Year 33.8 |
| Weighted Average Over the 30 Years | 3.65 | 30-Year 21.6 |

Deal Sweeteners

- 1) EFSF Short-Dated Securities is guaranteed via EUR30b EFSF loan to Greece
- 2) GDP-Linked Securities in the future with higher yields if GDP growth exceed current anticipated levels, subject to cap on amount payable.
- 3) Governed by English Law & the Principle of Equal Treatment of Private Creditors

Immediate Impact on Greece Debt

- 1) Reduce debt stock by EUR107b (equivalent to 50% of 2011 GDP)
- 2) Reduce the amount of maturing debts to be refinanced in 2012-2020 by EUR150b

Source: Bloomberg

...and a nod for Greece's second bailout. It was also announced that the new EUR130b bailout package for Greece (the second, after the first EUR109b granted back in May 2010) got the green light EU Finance Ministers' meeting. The agreement was reached after Greece promised EUR325m additional spending cuts. Key points of the second bailout package include:

- Official lenders agreed to increase their shares of the latest bailout package to get Greek debt levels to 120.5% of GDP by 2020, and cut the interest rates on the bailout loans to Greece by 0.5 percentage points over the next five years and 1.5 percentage points thereafter.
- European Central Bank (ECB) to distribute profits on its EUR40b holdings of Greek debt holdings to member states in exchange for participating in the funding of the bailout package at discount rate.
- National central banks will channel profits from their EUR12b holdings of Greek debt into the latest bailout programme.
- Donor countries to exert more control over how Greece utilize the bailout money e.g. a special account will be set up that gives priority to keep Greece solvent before releasing money for the country's budget; a European Commission task force will be in Greece to improve and monitor the workings of the Greek bureaucracy.

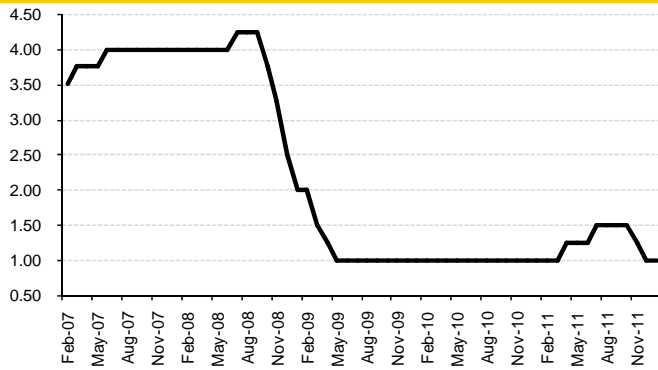
Don't pop the champagne just yet. The Greek debt restructuring deal was hammered out between Greece and the Steering Committee of Greek Creditors, headed by Co-Chairmen Mr. Charles Dallara, MD of the Institute of International Finance, and Mr. Jean Lemierre, Senior Advisor to BNP Paribas' Chairman i.e. representing bankers (who account for the bulk of the Greek debt holders). The deal in principle, together with full documentation to be provided by the Government of Greece, still needs to be reviewed by the full Committee representing all the private bondholders and creditors. We also understand that the final agreement is expected latest by 9 Mar 2012, ahead of the EUR14.5b Greek debt that is due on 20 Mar 2012. Critically, it needs the "yes" from at least 90% of the private creditors to go through. Otherwise, Greece may need to use force to secure the debt relief or default and raise the odds of exiting Eurozone, resulting in potential legal ramifications and triggering fresh rounds of financial market instability.

On the EUR130b bailout, there are still additional details to be fleshed out, for example the exact shares of EU and IMF contributions, and the prospect of boosting the European Monetary System (EMS) fund size to EUR750b from a planned limit of EUR500b when it comes on board together with the EFSF in July 2012. These may be out by 1-2 Mar 2012.

“No rest for the wicked”... No doubt the above-mentioned developments represent major progress towards further stabilising the region’s economies and financial markets and resolving the prolonged crisis. These follow the European Central Bank’s policy actions since late 2011 that included cuts in the benchmark interest rate and banks’ reserve ratios, purchases of sovereign bonds in the secondary markets, and “backdoor QE” via the massive long-term refinancing operations (LTRO), which had the effect of stabilising financial conditions, narrowing key spreads, and avoiding a severe liquidity/funding crunch. However, there are still several major items in our Eurozone’s “Watch List” to keep in view, namely:

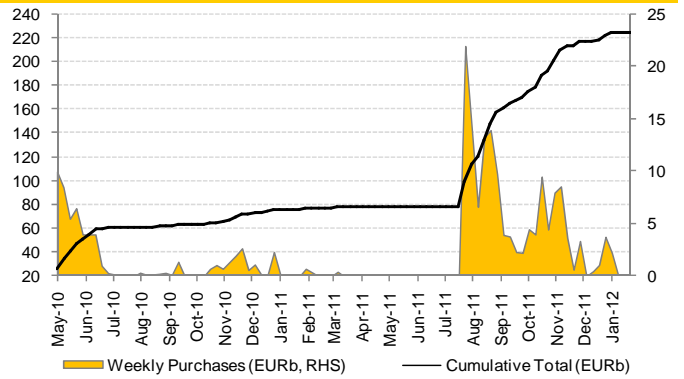
- New “fiscal compact” to address and enhance fiscal discipline and governance which were lacking and contributed to the crisis. EU/Eurozone members must ratify the proposal to make “fiscal rule” constitutionally and legally binding, targeted by end-Mar 2012.
- Bank recapitalisation exercise. The European Banking Authority (EBA) calculated that a total of EUR114.7b is needed to meet the 9% Core Tier-1 capital ratio by June 2012. The affected banks had submitted their capital-raising plans by the deadline of 20 Jan 2012, which will be subjected to “challenges” by the EBA. Among the banks with big shortfalls are Spain’s Banco Santander (EUR15.3b) and BBVA (EUR6.3b), Italy’s UniCredit (EUR8b) and Germany’s Commerzbank (EUR5.3b). There are already questions as to whether the amount is enough or realistic, as the EBA stress tests reflect only losses due to holdings of Greek debt and exclude the impact of Eurozone’s recession on broader asset quality. Another concern is the knock-on effect on real economy from the recapitalisation e.g. de-leveraging, tighter credit standards.
- The progress of Greece especially – and other high-profile countries in Eurozone debt crisis such as Italy, Spain and Portugal – in delivering and executing the fiscal consolidation (i.e. budget cuts, revenue increases, austerity measures), asset sales and structural reforms. A supposedly “strictly confidential” debt sustainability report on Greece issued last week revealed that Greece is “off track” on its programme (e.g. Greek banks’ recapitalisation, originally projected to cost EUR30b, will now cost EUR50bn; Greek privatisation plan, originally to raise EUR50b, will now be delayed by five years and bring in only EUR30bn by 2020). Greece may end up needing a third bailout package as the report stated that the downsides of the second EUR130b bailout package include severe economic recession (which will be in its fifth year in 2012, but projected to stop shrinking in 2013 and grow by 2.3% in 2014 under “baseline scenario” that guided the second bailout package) due to the crimping austerity measures that could cause debt levels to rise rather than fall, while the EUR200b debt restructuring could delay – if not prevent altogether – Greece from returning to the financial markets by scaring off future private investors.

ECB: Benchmark Interest Rate (% p.a.)



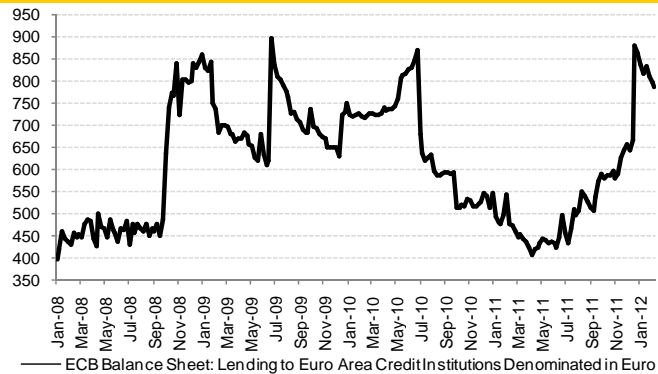
Source: Bloomberg, ECB

ECB: Purchases of Euro Sovereign Bonds (EURb)



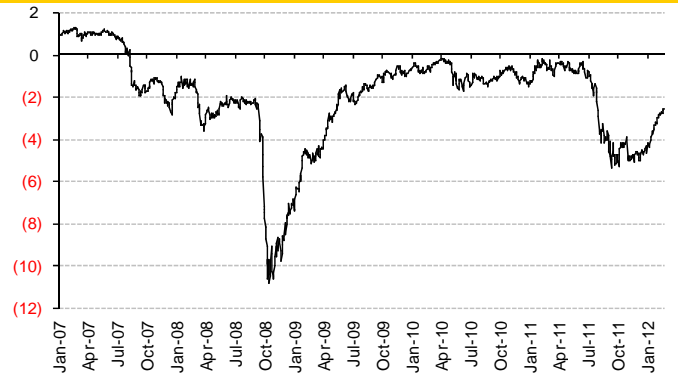
Source: Bloomberg, ECB

ECB: Long-Term Refinancing Operations (EURb)



Sources: Bloomberg, ECB

EU: Financial Conditions Index



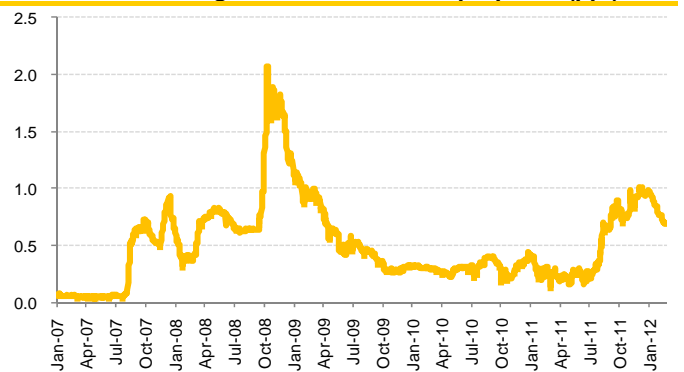
Source: Bloomberg

European Banks' CDS Spread



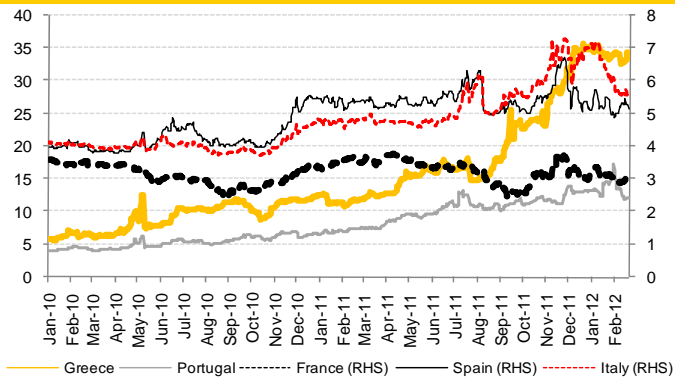
Sources: Bloomberg, CEIC

EURIBOR – Overnight Interest Rate Swap Spread (ppt)



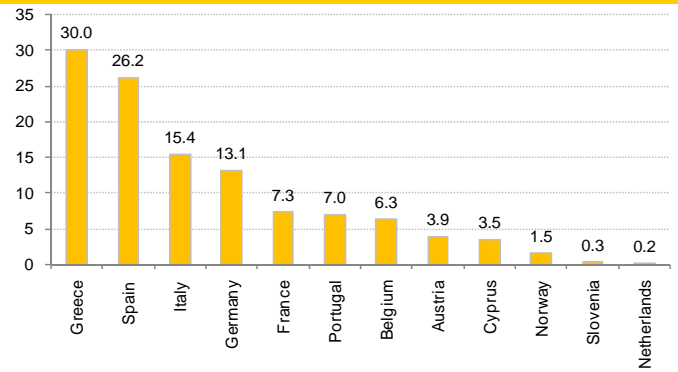
Sources: Bloomberg, CEIC

Eurozone: Selected 10-Year Government Bond Yields (% p.a.)



Sources: Bloomberg, ECB

Eurozone: Shortfalls in Banks' Capital By Country (EURb)



Source: EBA

APPENDIX 1

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| | |
|-------------|--|
| BUY | Total return is expected to be above 15% in the next 12 months |
| HOLD | Total return is expected to be between -15% to 15% in the next 12 months |
| SELL | Total return is expected to be below -15% in the next 12 months |

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Some common terms abbreviated in this report (where they appear):

| | | |
|--|--------------------------|---|
| Adex = Advertising Expenditure | FCF = Free Cashflow | PE = Price Earnings |
| BV = Book Value | FV = Fair Value | PEG = PE Ratio To Growth |
| CAGR = Compounded Annual Growth Rate | FY = Financial Year | PER = PE Ratio |
| Capex = Capital Expenditure | FYE = Financial Year End | QoQ = Quarter-On-Quarter |
| CY = Calendar Year | MoM = Month-On-Month | ROA = Return On Asset |
| DCF = Discounted Cashflow | NAV = Net Asset Value | ROE = Return On Equity |
| DPS = Dividend Per Share | NTA = Net Tangible Asset | ROSF = Return On Shareholders' Funds |
| EBIT = Earnings Before Interest And Tax | P = Price | WACC = Weighted Average Cost Of Capital |
| EBITDA = EBIT, Depreciation And Amortisation | P.A. = Per Annum | YoY = Year-On-Year |
| EPS = Earnings Per Share | PAT = Profit After Tax | YTD = Year-To-Date |
| EV = Enterprise Value | PBT = Profit Before Tax | |

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