Hellenic Federation of Enterprises (SEV)

Alternative financing methods for Companies

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HSBC
Global Banking and Markets

Executive summary: The current market backdrop

- Changing bank regulation is a key factor influencing funding and liquidity for Corporates in Europe.
- Corporates are responding to actual and planned regulation and the anticipated consequences for the availability and pricing of bank capital.
- Greek Corporates have responded to this with successfully executed opportunistic issuance in 2013 which has been very well received by international investors.
- Bank recapitalisation has seen a more normalised yield environment across asset classes and we expect to see Greek banks issuing 2yr area senior paper in 2014.
- The corporate bond markets are keen to see further issuance from Greek corporates and this is being reflected in pricing and longer tenors available.
- In 2014 we expect significant further corporate issuance and potential pricing compression but also some competition with supply from domestic banks.
- The Euro bond market is currently competitive globally and this opportunity is one Greek corporates should be strongly considering.

Regulatory concerns & implications for Corporate Treasurers

The "top 8" regulatory concerns facing Corporates in Europe

1

- Counterparty Risk:
- Still Too Big to Fail?

2

- European Market Infrastructure Regulation
- (EMIR)

3

- Basel III
- Impact on Funding

4

- Ring-Fencing UK Retail Banking

5

- Money Market Reforms

6

- Financial Transaction Tax (FTT)

7

- UK Exit from European Union
- (Brexit)

8

- Depositor Preference

Basel 3: impact on funding

How much will Basel 3 affect the cost and availability of funding?

- All elements of the Basel 3 package have implications for funding from banks
- Capital Requirements may drive up the cost of funding but the outcome is unclear
- Higher equity requirements should increase the cost of borrowing since equity is the most expensive form of bank funding

but	Will greater financial stability reduce required equity returns?
and	Will greater equity tranches reduce the cost of bank debt?
given	Limited supplies of equity for banks, higher bail-in risk and imperfect M-M model

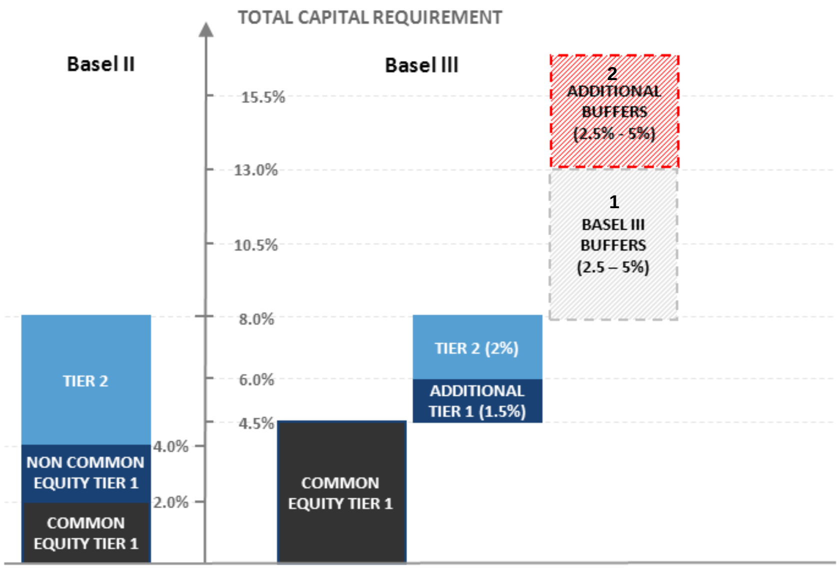
- Facilities will also be affected by the leverage ratio, given assumptions on drawing
- Liquidity requirements create pools of inactive low yielding assets, depressing returns
- Central bank interventions can reduce bank reserves or replace them with facilities
- Broader eligible assets can improve yields and reduce pricing pressures
- Net Stable Funding Ratio is still being discussed but longer term funding costs money
- Direct access to the markets may become more attractive

Evolution of regulatory capital requirements.

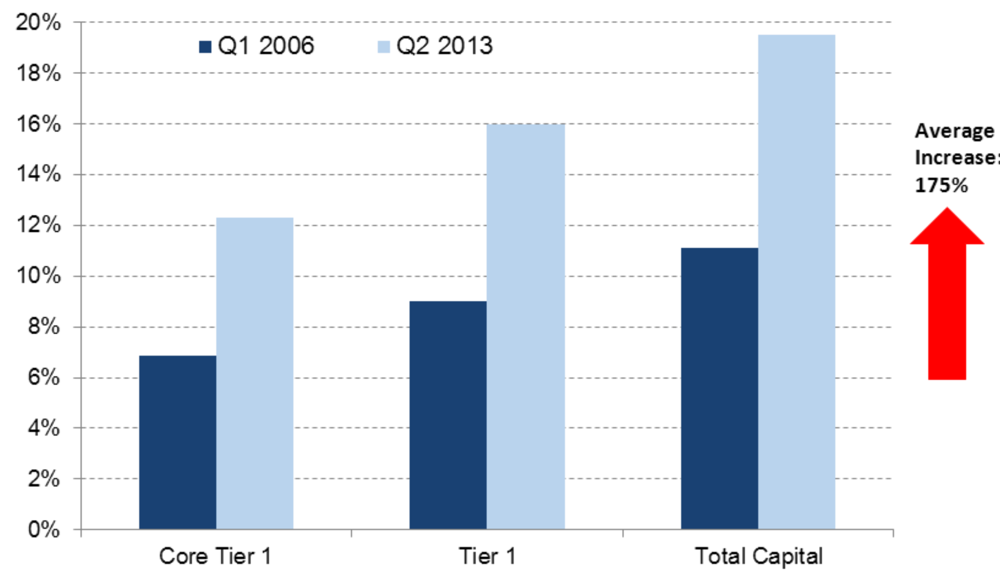
Overview

- Under Basel III, the higher requirements in both quantity and quality of capital are expected to place significant constraint on banks' activities
- Banks globally have seen significant increase in capital ratios in the last 5 to 6 years
- We expect this trend to continue as the banks seek additional capital buffers to meet the higher capital requirement and support growth in a more challenging operating environment

Basel II vs Basel III Minimum Capital Requirements



European Bank Capital Ratios pre and post crisis (Average of Top 70 banks)



Source: Bloomberg, 24 Sep 13

Evolution of funding cost: banks vs. corporates

Overview

- Pre-crisis, banks generally achieve a tighter funding levels than corporates. However, the cost of funding for banks has increased dramatically post crisis
- The introduction of Liquidity Coverage Ratio and Net Stable Funding Ratio has placed additional constrains on banks’ funding structures
- In today’s market, well rated corporate issuers can achieve tighter senior funding levels vs. equivalent rated bank issuers

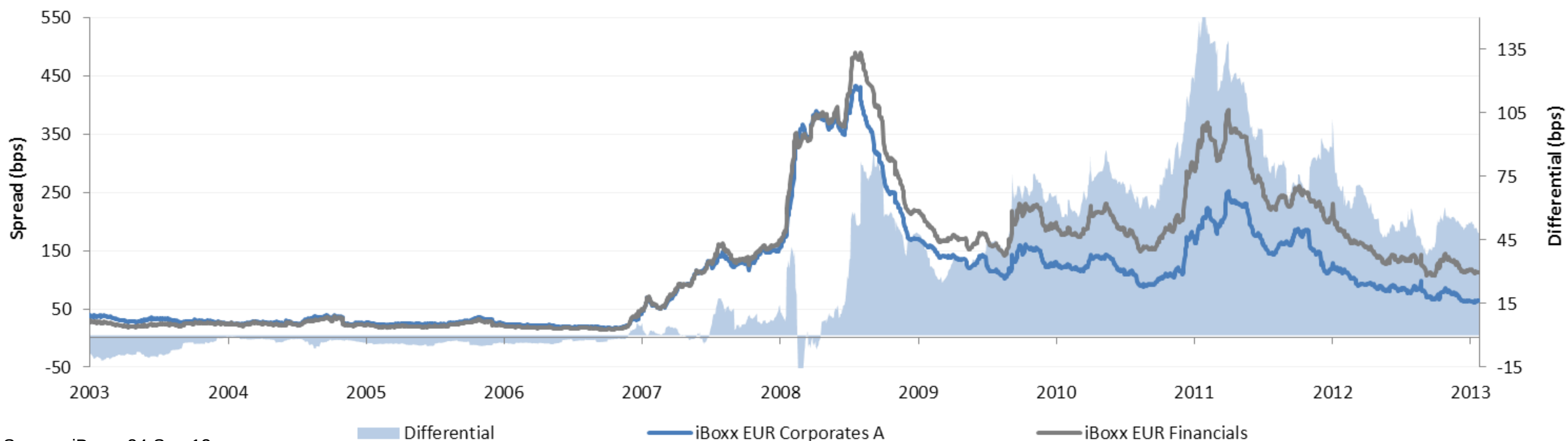
% of RWA	Basel II	Basel III
CET1	4.50%	12.00%
AT1	2.50%	1.50%
T2	2.50%	4.00%

Cost of Capital	Pre 2008	2013
CET1	13%	10%
AT1	L + 150bps	L + 500bps
T2	L + 50bps	L + 200bps

Increase in Cost
105%
100%
540%

Net Increase
204%

Cost of Funding (Financial Institutions vs. Corporates)



Source: iBoxx, 24 Sep 13

Differential on secondary axis as %

Leverage ratio
May demand more capital than the capital ratios

Leverage Ratio : Capital sufficiency for all actual and potential financing – a “back stop”

Leverage Ratio (minimum 3%) = $\dfrac{\text{Tier 1 Capital}}{\text{On and Off-Balance Sheet Assets?}}$ =

Capital:
Tier 1 Capital (i.e. Core + Additional Tier 1 Capital) after deductions

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Assets:
- On-balance sheet items based on accounting value
- Collateral, guarantees do not reduce exposure
- Derivatives: netted accounting measure of exposure plus add-on

Off-Balance Sheet Items:
- Includes 100% of all Commitments, Guarantees, LCs

- No-risk based “back-up” measure based upon gross exposures
- Countercyclical
- Disclosure from 1st January 2015

Liquidity

Some incentive for holding very highly rated corporate debt

Liquidity Coverage Ratio (LCR) : Sufficient stock of high quality liquid assets to survive a 30-day acute liquidity crisis

$$\textbf{LCR (Minimum 100\%)} = \frac{\text{Eligible Assets}^{*}}{\text{30 day stressed net cash outflows}} = \frac{\text{Eligible Assets}^{*}}{\text{Stressed Outflows of:}}$$

Stressed Outflows of:
- **5%** Stable Retail Deposits
- **10%** Other Deposits
- **75%** corporate deposits due in 30 days
- **100%** 30-day net wholesale redemptions

* **Eligible Assets are unencumbered high-quality liquid assets:**

– **Level 1** can be included without limit:

Cash; Central Bank Reserves; Securities of Central Banks, Governments or International Organisations with 0% risk-weight under the Basel II Standardised Approach;

– **Level 2** can only comprise up to 40% of the stock after haircuts have been applied - a minimum haircut of 15% is applied to the current market value of each Level 2 asset:

Securities of Central Banks, Governments or International Organisations with 20% risk-weight under the Basel II Standardised Approach; **Corporate Bonds and Covered Bonds with a minimum rating of AA-**

Funding
Corporate debt holdings overshadowed by term funding expense

Net Stable Funding Ratio (NSFR) : Incentives to access more stable sources of funding on an ongoing basis

$$\textbf{NSFR} \text{ (Minimum 100\%)} = \frac{\text{Available Stable Funding}}{\text{Assets Requiring Stable Funding}} = \frac{\text{Capital, Term Debt, Deposits (haircuts), Long term liabilities}}{\text{Assets Tenor and Fundability Weighted}}$$

Available Stable Funding and Weights

- Capital and Preferred Shares - 100%
- Liabilities with a maturity longer than one year - 100%
- Customer deposits with a maturity longer than one year and such deposits which are expected to remain available despite a shorter maturity - 80/90%
- Deposits from institutional clients with a maturity longer than one year and such deposits which are expected to remain available despite a shorter maturity - 50%

Assets Requiring Stable Funding and Associated Weights

- Cash and non-pledged securities with a remaining maturity below one year - 0%
- Securities of central banks, governments or international organisations with 0% risk-weight under the Basel II Standardised Approach - 5%
- Securities of central banks, governments or international organisations with 20% risk-weight under the Basel II Standardised Approach; **corporate bonds and covered bonds with a minimum rating of AA- - 20%**
- Gold, equity and **corporate bonds and covered bonds with a minimum rating of A+ to A- - 50%**
- Mortgages and other loans to institutional clients - 65%
- **Loans to private persons or SMEs - 85%**

Bank-eye view of the world

Selected changes

- **Capital**: more common equity being required
- **Liquidity** : preference for eligible assets
- **Funding** : closer matching of liability tenor to assets
- **Leverage**: may trump capital, calculation unclear
- **Structural changes** : ring fencing

Consequences

→ Increased costs so increased prices

→ Only top grade corporate bonds fit

→ Increases cost to hold debt, higher prices

→ Requires more tier 1 capital or deleveraging, high risk/high return easy to liquidate assets implied

→ Further cost increases, corporate choice may be reduced

What next…. ?

Known for 2014

- EU asset quality review (“AQR”) / Comprehensive Assessment
- Single Supervisory Mechanism
- CRD4 phase-in

Impact on banks

- Asset sales / deleverage?
- M&A / bank consolidation?
- Bail-in pushes up cost of funding?

Impact on European leveraged market

- Non-bank lenders > bank lenders?
- Banks “originate to distribute” only
- US-style bond to loan ratio in Europe?

Diversification away from bank funding is an on going theme…

- Shift by European corporates away from dependence on bank finance is nothing new

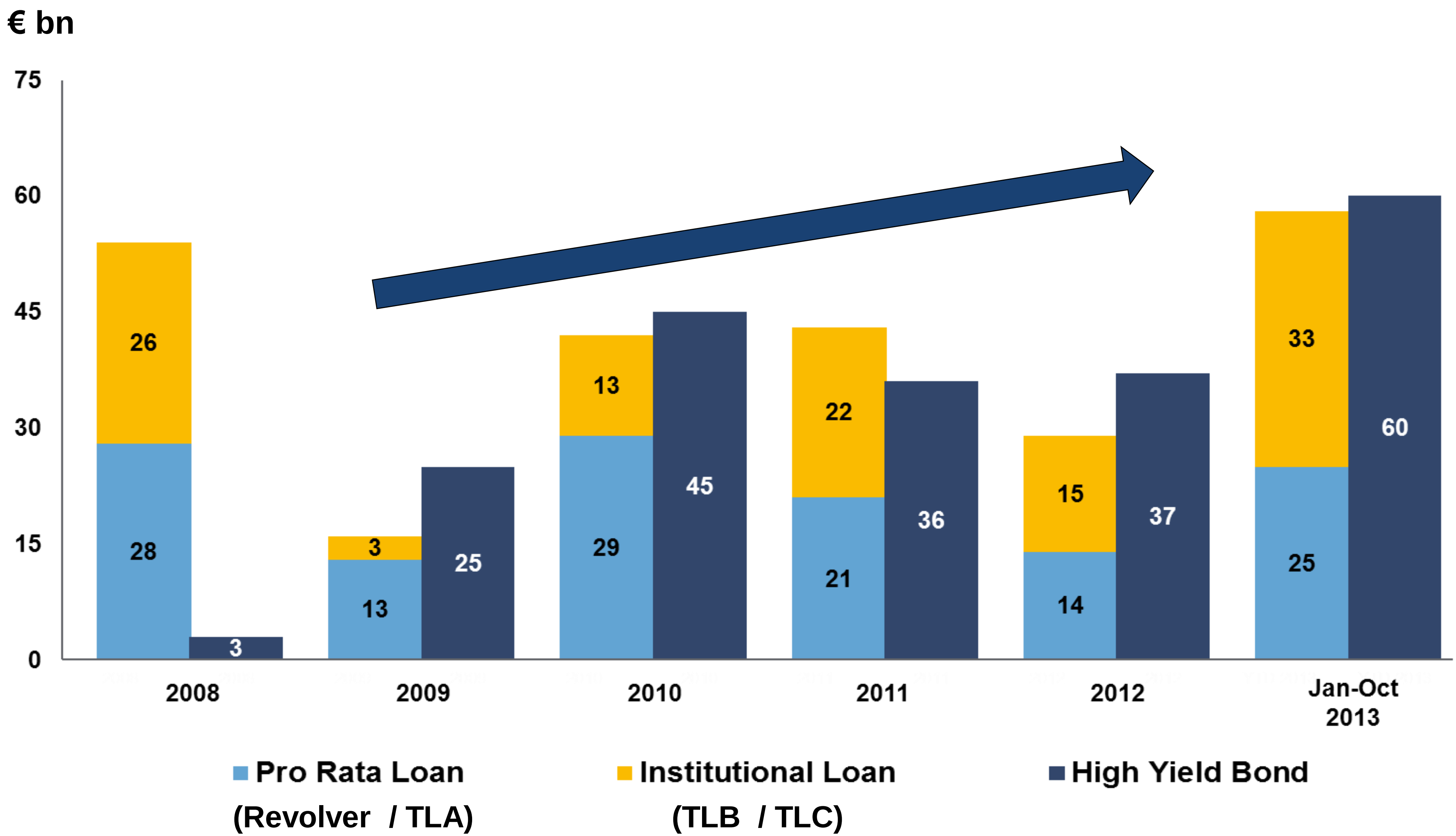
- Some progress has been made towards the "US model" but a long journey remains ahead (S&P figures show that in Q2 2013 US corporates were 75% bond market funded/25% bank market funded as opposed to 28.5% bond market funded in the UK and 23.7% bond market funded in France)

- There is evidence of an acceleration of the pace of this shift in "peripheral" Europe in the past 12 months

- The European High Yield bond market has been a notable beneficiary of this trend

Sub-investment grade loan vs. HY bond market volumes

European historical volumes in EUR



Source: LCD news

Greek corporates have accessed the market consistently in 2013

Overview

- The debt capital markets have reacted well in advance of the rating agencies in assessing the credit worthiness of Greek corporates
- As a result Greek Corporates consistently demonstrated access to the Euro market during 2013
- Despite high yield ratings many corporates have accessed the market with no or very limited covenant packages and at 4-7 year tenors

Bond	Rating	Issue Date	Reoffer Yield	Current Yield
Titan Cement EUR200m 8.75% due 2017	NR/BB	17th Dec 2012	8.75%	4.70%
OTE EUR700m 7.875% due 2018	B2 / BB-	29th Jan 2013	8.14%	4.01%
Hellenic Petroleum EUR500m 8% due 2017	Unrated	29th April 2013	8.00%	5.90%
Frigo Glass EUR250m 8.25% due 2018	B1 / BB-	13th May 2013	8.25%	6.69%
S&B Minerals EUR275m 9.25% due 2020	B3 / B+	30th July 2013	9.25%	7.44%
Intralot EUR325m 9.75% due 2018nc2016	B1/B+	15th August 2013	10.00%	7.15%

- HSBC was very much at the forefront of the development of this market

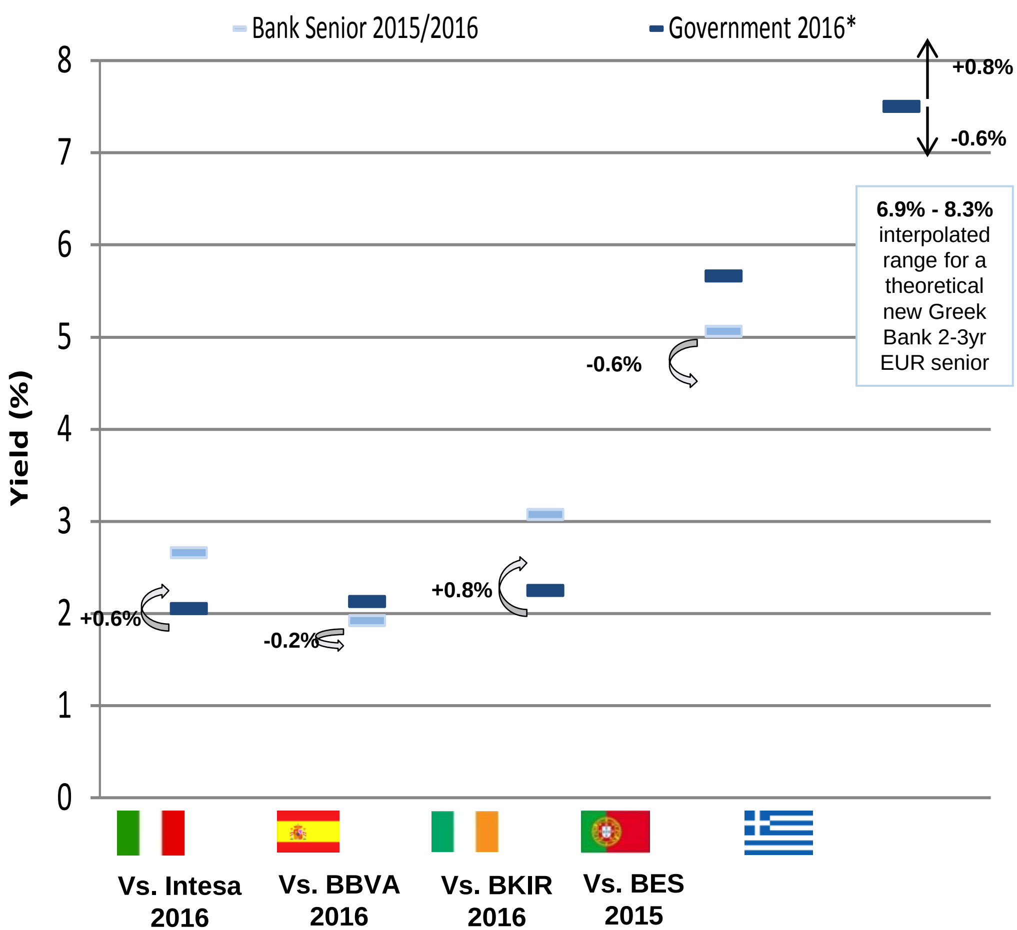
HSBC-led transactions in 2013

January 2013	April 2013	May 2013	July 2013	August 2013
OTE	HELLENIC PETROLEUM	FRIGOGLASS	S&B	intralot
EUR700m 5yr 7.875% due February 2018	EUR500m 4yr 8.000% due May 2017	EUR250m 5yr 8.250% due May 2018	EUR275m 7yr 9.250% due Aug 2020	EUR325m 5NC3 9.750% due Aug 2018
Joint Bookrunner	Joint Bookrunner	Joint Bookrunner	Joint Bookrunner	Joint Bookrunner

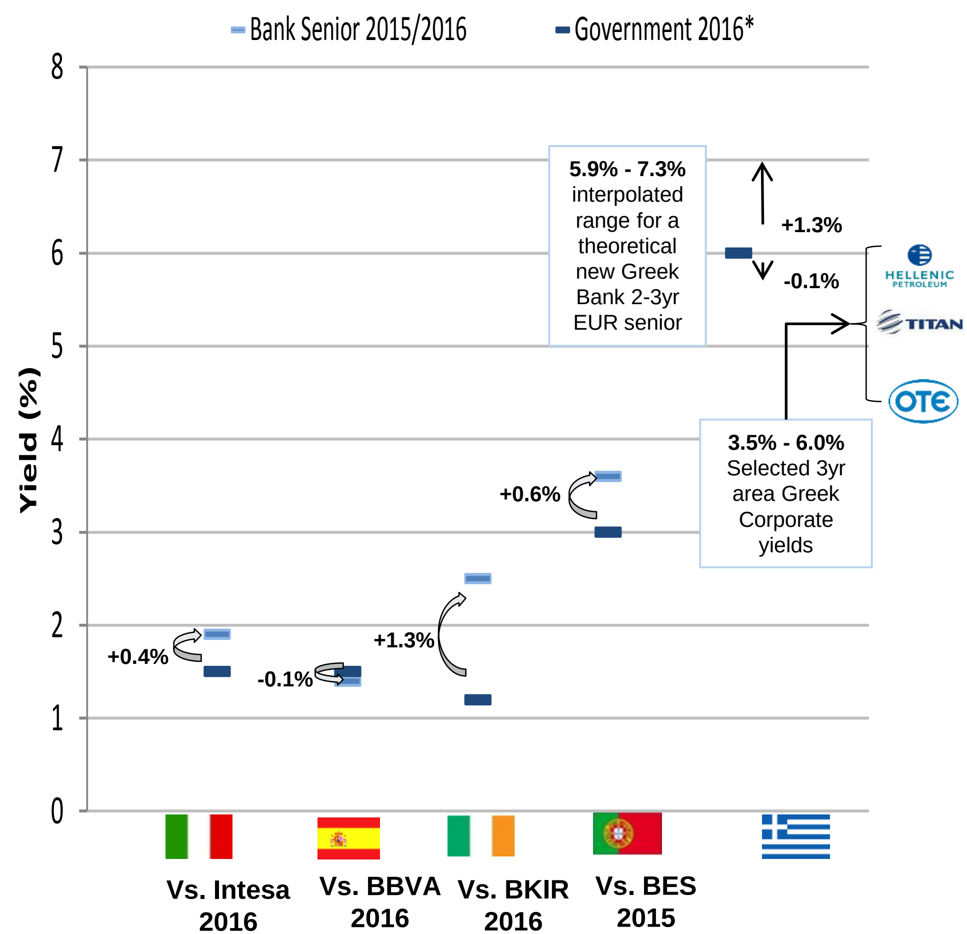
Source: HSBC Credit Trading – 7th January 2014

Peripheral sovereign and bank yields are normalising and Greek bank pricing is trending into the corporate yield ranges at 2-3yrs

Pricing Rationale Comparison using Government Bonds – October 2013



Pricing Rationale Comparison using Government Bonds – January 2014



* For Greece and Ireland the Government 3yr bond is interpolated from longer dated benchmarks

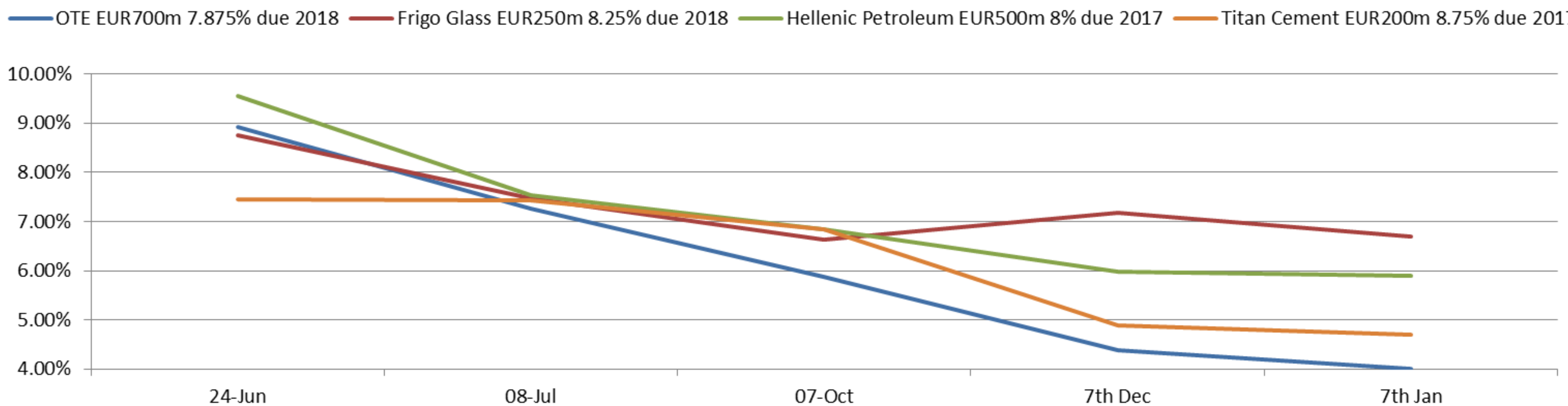
The progression of Greek corporate yields in H2 2013

Overview

- Investors have been well rewarded for their confidence in Greek corporates
- The secondary performance in the last 6 months has been a tightening of as much as 326bps and the best performing secondaries are over 650bps tighter than the wide points in 2013
- At the start of 2014, investors are showing keen interest in buying further peripheral corporate debt and we expect yields to compress further and investors to be willing to extend to longer tenors out to 10yrs

Evolution of Greek Corporate Yields

Bond	24-Jun	08-Jul	07-Oct	7th Dec	7th Jan	1 Month Change	3 Month Change	6 Month Change
OTE EUR700m 7.875% due 2018	8.93%	7.27%	5.87%	4.38%	4.01%	- 37 bps	- 186 bps	- 326 bps
Frigo Glass EUR250m 8.25% due 2018	8.75%	7.48%	6.64%	7.17%	6.69%	- 48 bps	5 bps	- 79 bps
Hellenic Petroleum EUR500m 8% due 2017	9.55%	7.53%	6.85%	5.99%	5.90%	- 9 bps	- 95 bps	- 163 bps
Intralot EUR325m 9.75% due 2018nc2016	**-**	**-**	**8.21%**	**7.43%**	7.15%	- 28 bps	- 106 bps	-
S&B Minerals EUR275m 9.25% due 2020	-	-	7.87%	7.62%	7.44%	- 18 bps	- 43 bps	-
Titan Cement EUR200m 8.75% due 2017	7.45%	7.44%	6.84%	4.89%	4.70%	- 19 bps	- 214 bps	- 274 bps

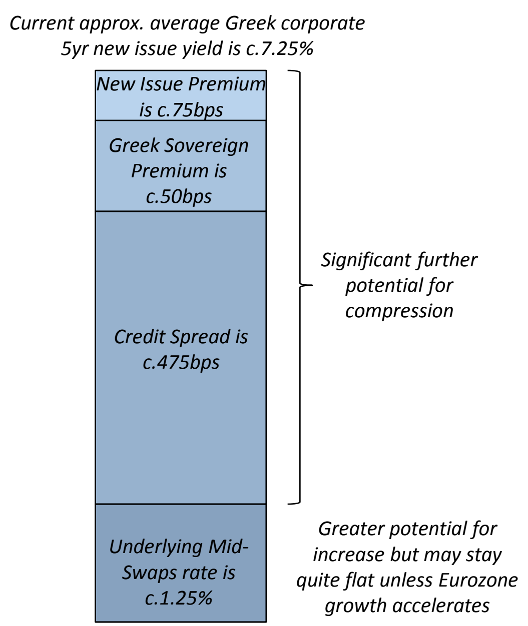


Source: HSBC Credit Trading – 7th January 2014

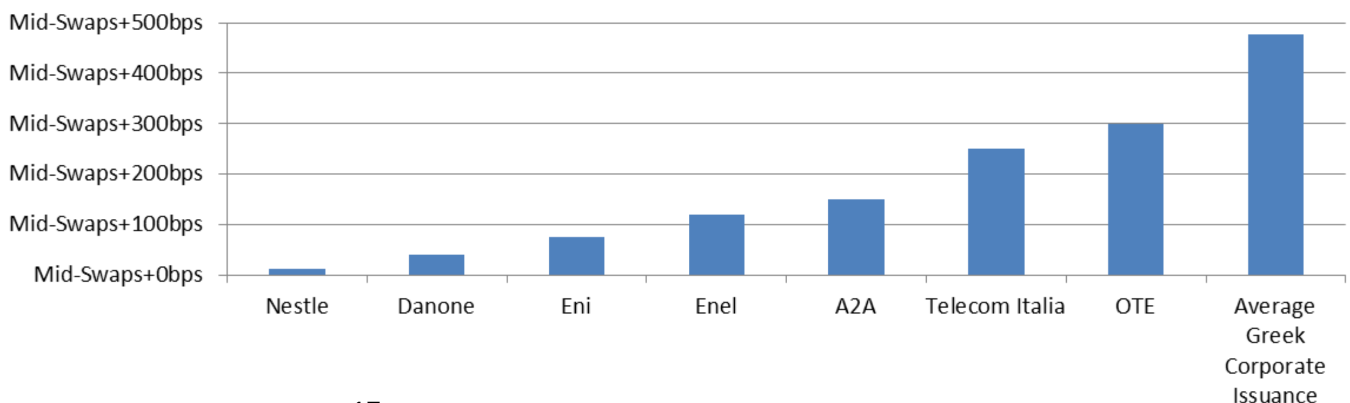
What is the potential for further compression in 2014?

- There is potentially significant further yield compression for Greek corporates in 2014 as mainstream investment grade spreads have become so tight
- The start of 2014 has seen unrated and peripheral hybrid issuance and investors are telling us that they want more higher beta product
- Euro Mid Swaps remain very low so the significant proportion of yields remains credit spread and relative to both investment grade issuers and non-peripheral issuers this has farther to fall

Evolution of Greek Corporate Yields



Issuer	Sector	Rating	Secondary 5yr Euro Yield	Secondary 5yr Euro Credit Spread
Nestle	Non-Peripheral Consumer	Aa2/AA	1.34%	Mid-Swaps+12bps
Danone	Non-Peripheral Consumer	A3/A-	1.62%	Mid-Swaps+40bps
Eni	Peripheral Oil & Gas	A3/A	1.97%	Mid-Swaps+75bps
Enel	Peripheral Utility	Baa2/BBB	2.42%	Mid-Swaps+120bps
A2A	Peripheral Utility	Baa3/BBB-	2.72%	Mid-Swaps+150bps
Telecom Italia	Peripheral Telecom	Ba1/BB+	3.72%	Mid-Swaps+250bps
OTE	Peripheral Telecom	B2/BB-	4.22%	Mid-Swaps+300bps
Average Greek Corporate Issuance		B+	6.00%	Mid-Swaps+478bps



Source: HSBC Credit Trading – 7th January 2014

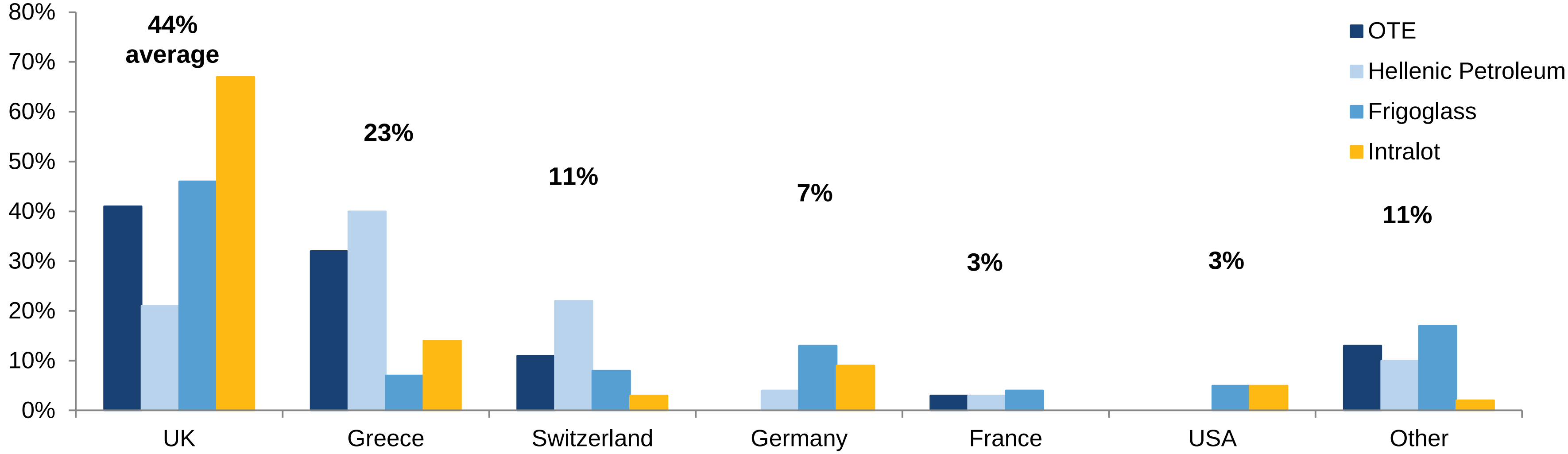
Trends amongst groups of issuers

Terms and strategies must be tailored relative to geographies and scale

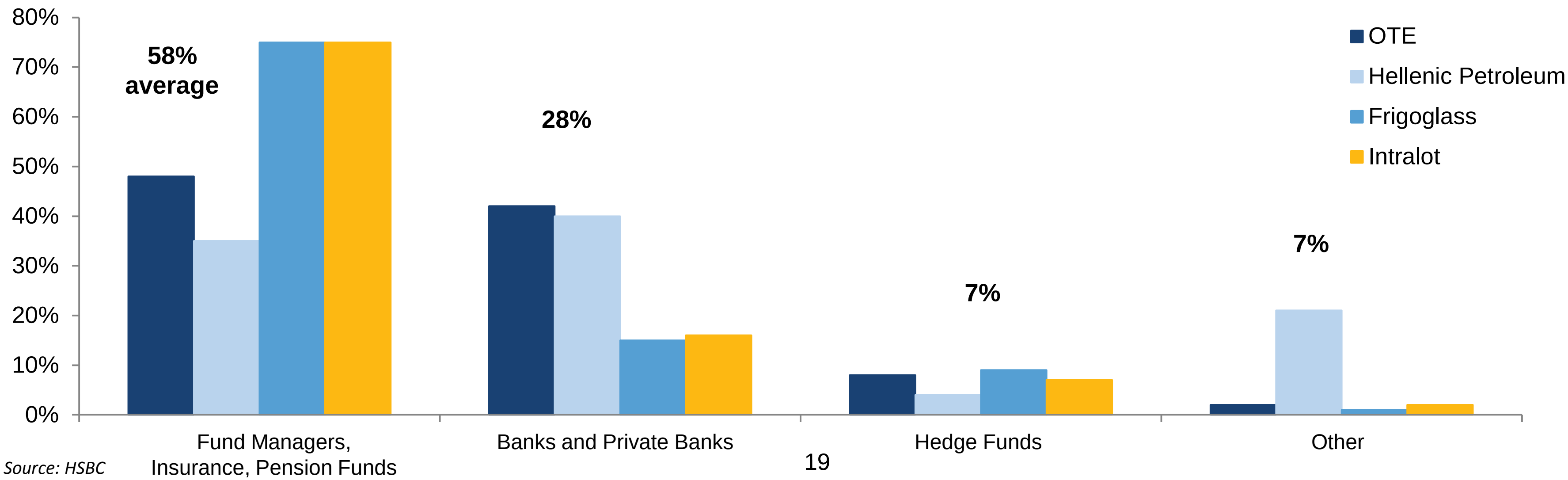
	Domestic & Large-Cap	International Mid-Cap
Companies	OTE, Hellenic Petroleum, Titan	Intralot, Frigoglass, S&B, Fage
Characteristics	• Large scale • Well known	• Internationally focussed businesses • Typically mid-scale
Key Terms	• Reg S (from EMTN Programme or standalone documentation) • Unrated possible • Maintenance covenants	• 144a • Rating • Quarterly reporting • Full incurrence package
Marketing Strategy	• Pre-deal investor meetings to build momentum • Leverage off name recognition and scale with new investors • Greek investor base used to build momentum for the broader book	• Traditional high yield and emerging markets investor base drive structure and price • Pre-deal investor meetings around Europe early in the process • Follow on interest from Greek investor base and private banks
Result	Order book multiple times covered, transactions often upsized	

Who are the big buyers of Greek corporate issuance?

By geography

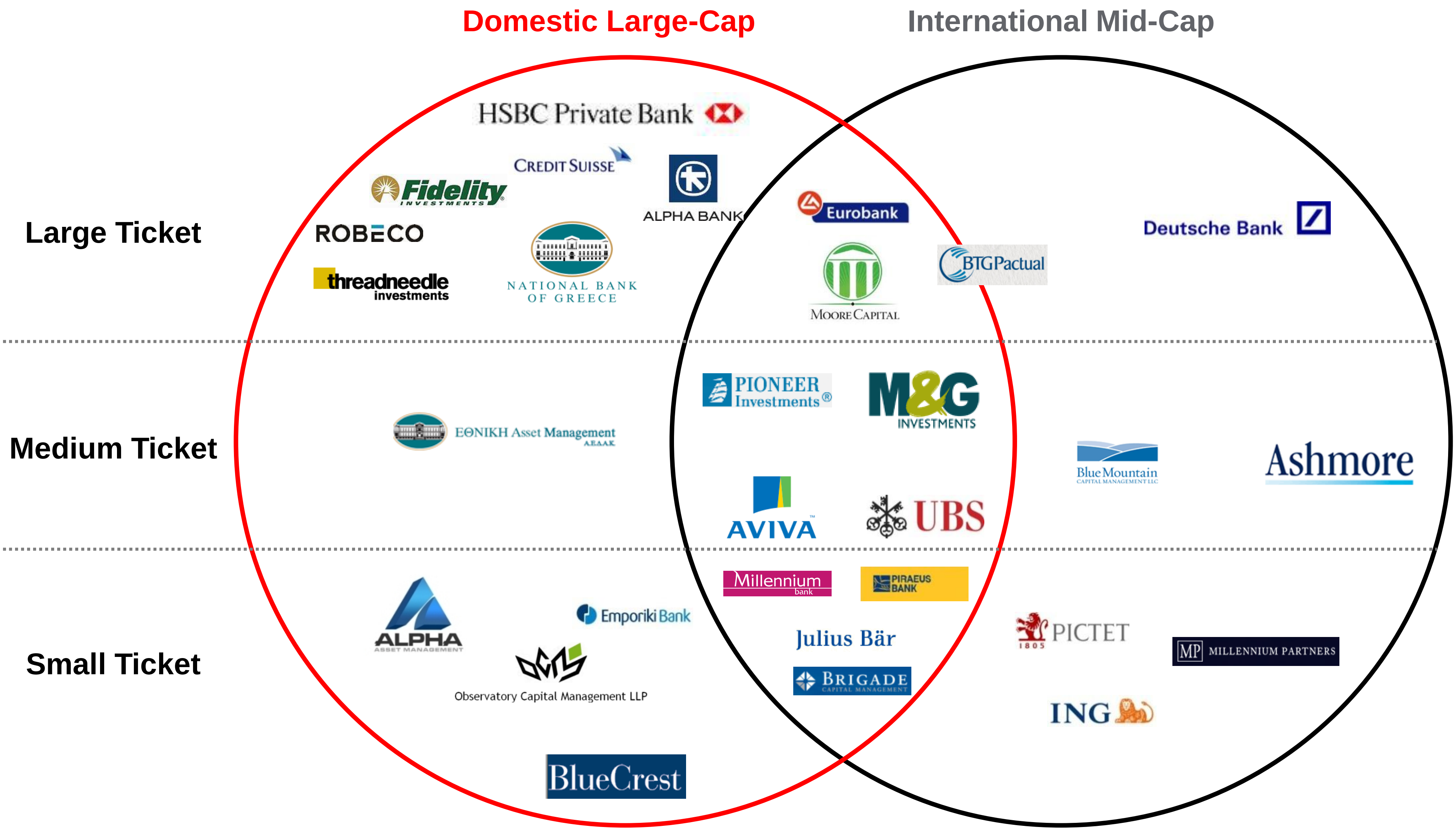


By investor type



Source: HSBC

Investor demand



Will other markets open up to Greek corporates?

- The Euro-based markets will continue to provide the most reliable demand for Greek corporate credit
- The Schuldschein private placement market could represent the best opportunity for Greek corporates to diversify funding away from traditional Euro bond investors

Market	Demand for Greek Corporates
US Dollar Public	May open up for Greek corporates for 144a traditional HY covenanted basis
US Private Placements	Capacity will remain low while Greek corporates are sub-investment grade (NAIC3) due to capital requirements for investors
Euro Private Placements	Investors would prefer to participate in liquid benchmarks for choice however some potential for private placement issuance
Schuldschein (German loan format private placement)	Potential demand here. No investor concern about liquidity and no cannibalisation to Euro public issuance
Project Bonds	Market beginning to return to other peripheral jurisdictions.

In conclusion

- Regulation is only part of the unfolding story here
- Corporates are responding to actual and planned regulation and the anticipated consequences for the availability and pricing of bank capital
- The corporate bond markets are keen to see further issuance from Greek corporates and this is being reflected in pricing and tenors available
- In 2014 we expect significant further issuance but also potential pricing compression and some competition for investor demand
- The Euro bond market is currently competitive globally and this opportunity is one Greek corporates should be strongly considering

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