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16 January 2009    Strictly private and confidential

 Project Horizon

 ROTHSCHILD

# I. Executive summary

## 1.1 Key considerations by group

### Listed banks

Banks that wish to participate in the scheme and that are listed, will need to provide a rate of return, calculated by the government by reference to factors including their credit, capital and risk profile and the fact that conversion in to shares provides an enhanced exit route. The return will comprise a coupon, reduced by 2% as a reward for the provision of a convertible instrument.

Listed banks will be given a choice between providing either (a) a capped convertible instrument and (b) an uncapped convertible instrument.

The default case is that a capped convertible will be used, with potential upside capped at a share price 50% above its strike price. This is because an uncapped convertible may be unacceptable to existing shareholders (because of the perceived high level of dilution) and so may not be taken up by the banks. So if a bank's shares have a market price of DKK 100 and a strike price of DKK 110 for the convertible, (i.e. a conversion premium of 10% above current share price) then the conversion price would be capped at DKK (110 + 55) = 165

In calculating what constitutes a 2% return, our calculations will take into account criteria including the tenor of the instrument, its perceived volatility and the strike price used. We anticipate that the strike price (aka conversion price) will be the key item we negotiate with banks to reach a 2% return, and that the strike price would typically be in the range of 5% to 12.5% above the reference share price. These broad parameters have been agreed with the banks yesterday evening.

If listed banks do not want to provide a capped convertible they can negotiate an uncapped convertible with the government. We anticipate they may wish to do this if they expect existing shareholders to take up the instrument. However, calculating what constitutes the 2% coupon reduction will be more difficult than in the capped example and will require more negotiation with Government as volatility assumptions (which are uncertain) will play a greater role in valuation and may be difficult to agree.

# I. Executive summary

## 1.1 Key considerations by group (cont'd)

### Unlisted banks with listed parents

These banks will need to provide a rate of return which is again calculated by the government with reference to factors including their credit, capital and risk profile and any liquidity they are able to offer to the Government by way of any convertible instrument at parent company level. If no such liquidity is offered, and only a coupon is provided, we would anticipate the Government negotiate a premium [of between 10bp and 50bp] above the all-in return rate had there been a liquid convertible element. This premium would compensate the Government for the reduced exit options that result from the lack of convertibility. It will also take into account the fact EU State Aid Guidelines allow for coupon levels that implicitly include a degree of subsidy relative to public market coupon levels, but no such subsidy is allowed for the equity element of instrument

### Unlisted banks

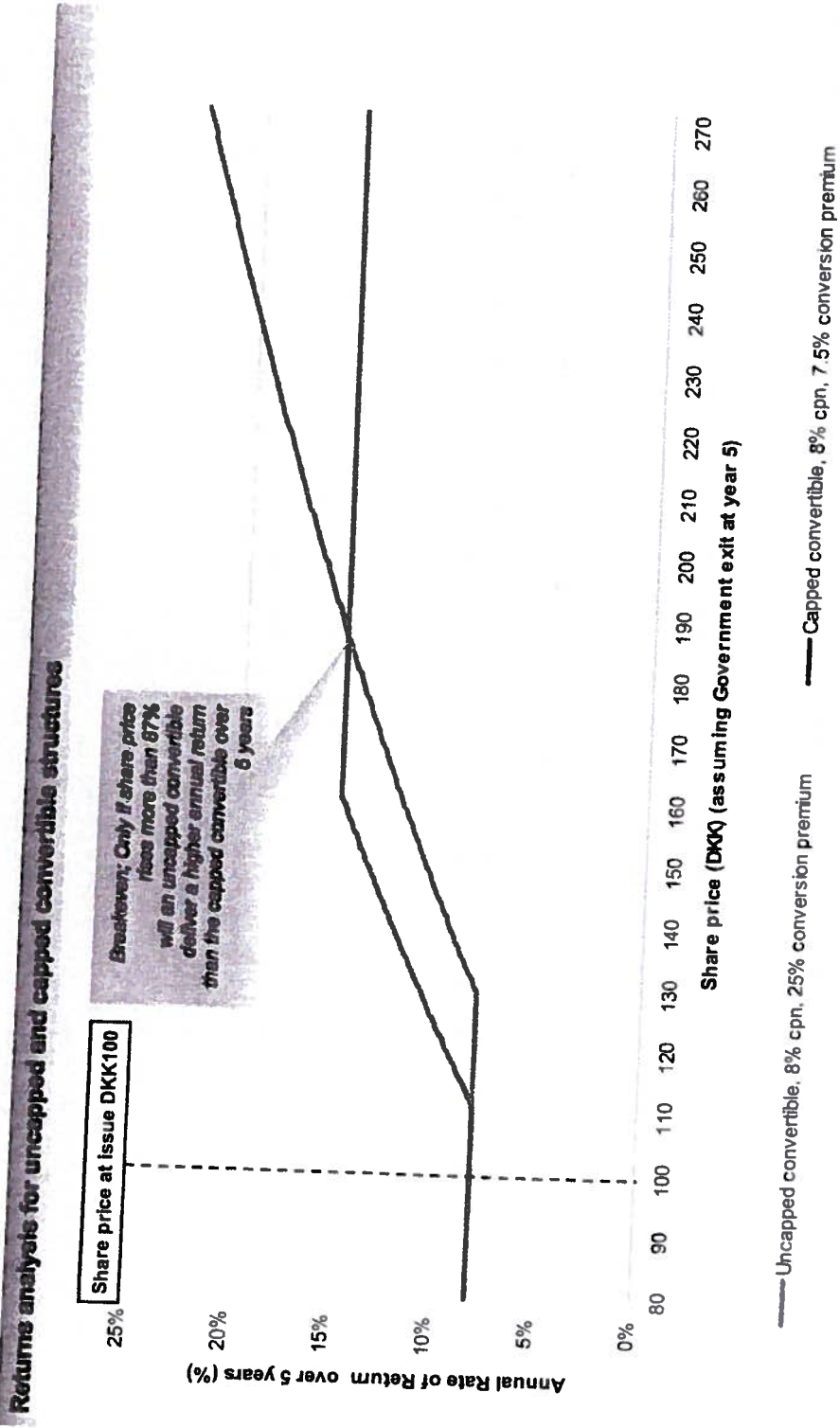
The rate of return is calculated by the Government by reference to those unlisted bank' credit, capital and risk profile and the fact that they are not able to provide any liquidity to the Government by way of a convertible instrument.

### Return target

In relation to calculating the target average rate of return for the government instrument, it is envisaged that the starting point, to be then adjusted by the factors noted above, will be [approximately] 10%

# 2. Return analysis

## 2.1 Comparison of returns for capped and uncapped convertible structures



## ■ Examples of step-ups in bank recapitalisations



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# Overview

## *The use of step-ups in precedent bank recapitalisations by Governments*

Step-ups have primarily been used in two contexts in recent bank recapitalisations:

### **Uplifts in the coupon on the issued instrument over time**

- Example: dividend-linked coupon uplift to representing a multiple (e.g. 125%) of any ordinary dividend paid
  - Incentivises an exit in a share price upside scenario where the issuer is able to pay substantial dividends to shareholders
  - Should be compliant with EU, issuer, Government and regulator objectives
  - Was first used in the Dutch and Belgian cases (ING, SNS Reaal, KBC)

### **Uplifts in the redemption price at which the company can buy back the instrument**

- The issuer's call feature has a graduating annual step-up in price
  - Example: uplift from 101% to 111% of nominal value after 6 years in the BNP/French State case, where the starting annual coupon was 7.75%)
  - Without upside, limited step-up does not provide any real incentive over the longer term to redeem nor significant upside yield for market return
  - It also appears to contradict the EU's broader regulatory position
  - Positive for shareholders if yield is low

**Both mechanisms are exit incentives: they are designed to encourage the redemption of Government money and its replacement with private capital**

# I. Examples of step-ups in coupons

## 1.1 US Capital Purchase Plan

Securities that can be purchased	Terms	Implied capitalisation	Dividend policy and corporate governance	Other observations
<ul style="list-style-type: none"> <li>Senior preferred with stapled warrants</li> </ul>	<ul style="list-style-type: none"> <li>\$250bn available to invest in senior preference shares paying a cumulative dividend of 5% for the first five years, and 9% thereafter. The shares are callable at par after three years</li> <li>Treasury will receive warrants to purchase common stock with an aggregate market price of 15% of the preferred investment. The strike price on the warrants is a trailing 20-day average at issuance. These would be effective for 10 years</li> <li>Subscriptions to date:               <ul style="list-style-type: none"> <li>Bank of America \$15bn</li> <li>BoNY Mellon \$3bn</li> <li>Citigroup \$25bn<sup>1</sup></li> <li>Goldman Sachs \$10bn</li> <li>JP Morgan \$25bn</li> <li>Merrill Lynch \$10bn</li> <li>Morgan Stanley \$10bn</li> <li>State Street Corp \$2bn</li> <li>Wells Fargo \$25bn</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Minimum subscription: 1% of RWAs</li> <li>Maximum subscription: the lesser of \$25bn or 3% of RWAs</li> </ul>	<ul style="list-style-type: none"> <li>These standards generally apply to the CEO, CFO plus the next three most highly compensated executive officers:               <ul style="list-style-type: none"> <li>Banks to ensure that incentive compensation for executives does not encourage "unnecessary and excessive risks"</li> <li>Required clawback of any bonus or incentive compensation paid to a senior executive based on statements later proven to be materially inaccurate</li> <li>Limits on golden parachute payments to senior executives</li> <li>Agreement not to deduct for tax purposes executive compensation in excess of \$500,000 for each senior executive</li> <li>Institutions can, however, continue to pay dividends but cannot increase them without Treasury approval for the first three years (or until the Treasury no longer holds any of the securities)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The preference shares issued to the Government may be redeemed within three years, as long as this is at least partially financed with the proceeds from a "qualifying" equity offering of any Tier 1 perpetual preferred or common stock, hence encouraging the replacement of public capital with private</li> <li>The Treasury Department is currently developing an additional programme to potentially provide direct assistance to certain failing firms on terms negotiated on a case-by-case basis</li> </ul>

**Note**

<sup>1</sup> Assistance to Citigroup further extended in Nov 08 to include (a) an additional \$7bn of preferred stock; (b) a Government guarantee on a portfolio of \$306bn (primarily assets backed by commercial and residential real estate); (c) approximately \$2.7bn of warrants issued by Citigroup to the Treasury and FDIC; (d) an agreement for Citi not to pay a dividend of more than \$0.01 per ordinary share for three years

# I. Examples of step-ups in coupons

## 1.2 Dutch Government investments into ING and SNS Reaal

Securities issued	Terms	Implied capitalisation	Dividend policy and corporate governance	Other observations
<ul style="list-style-type: none"> <li>Core Tier 1 securities</li> </ul>	<ul style="list-style-type: none"> <li>€10bn ING; €750m SNS</li> <li>Newly issued non-voting deeply subordinated Core Tier 1 securities ranking pari passu with ordinary shares</li> <li>Convertible into ordinary shares at the issuer's option after three years, at which point the Dutch State can also elect to receive cash at par</li> <li>Pay the higher of a fixed coupon of 8.5% or up to 1.25x the dividend on ordinary ING / SNS Reaal shares, payable <b>only</b> to the extent that dividends are paid on ordinary shares</li> <li>This mechanism works because the nominal value of the securities issued to the Government was referenced to the banks' respective share prices</li> </ul>	<ul style="list-style-type: none"> <li>ING Bank's Core Tier 1 ratio following the transaction: 8%</li> <li>SNS Reaal's Banking Tier 1 ratio: 10%</li> <li>SNS Reaal's Insurance solvency 200%</li> </ul>	<ul style="list-style-type: none"> <li>While the securities acquired by the State do not carry voting rights, the State has been granted certain corporate governance rights over ING and SNS Reaal, including the right to appoint two directors to the supervisory boards and the audit, corporate governance, nomination and remuneration committees of both institutions</li> <li>The State's representatives will thereby have the ability to veto major decisions</li> <li>ING's and SNS Reaal's Executive Directors have relinquished their 2008 bonuses, and "golden parachute" arrangements have been substantially curtailed</li> <li>Both institutions have decided to pass over the final dividend for 2008</li> <li>However, this was a business decision rather than a restrictive measure taken by the Government as part of the injections</li> </ul>	<ul style="list-style-type: none"> <li>Some or all of the securities can be repurchased by the issuer for a 50% premium to the issue price at any time</li> <li>The securities are only transferable with the permission of the issuer and the Dutch Central Bank</li> <li>SNS Reaal has the <u>additional</u> right to repurchase €250m of the €750m of securities issued within one year of the issue date for the issue price plus the higher of accrued interest of 8.5% over the relevant period or the coupon according to the coupon formula (see "Terms") – a repurchase fee of up to €32.5m would be payable</li> <li>SNS Reaal simultaneously raised an extra €500m from its Foundation on similar terms – however, these securities are not convertible</li> </ul>



# 1. Examples of step-ups in coupons

## 1.3 Belgian Government investment into KBC

Securities issued	Terms	Implied capitalisation	Dividend policy and corporate governance	Other observations
<ul style="list-style-type: none"> <li>Core Tier 1 securities</li> </ul>	<ul style="list-style-type: none"> <li>€3.5bn newly issued non-dilutive Core Tier 1 securities</li> <li>Issued at 3-day average closing price (€29.50)</li> <li>Non transferable and non voting</li> <li>Pay the higher of up to 125% of the ordinary dividend and 8.5% of the issue price, but only to the extent that an ordinary dividend is paid</li> <li>Rank pari passu with existing ordinary shares</li> </ul>	<ul style="list-style-type: none"> <li>Banking:               <ul style="list-style-type: none"> <li>Tier 1: 10.7%</li> <li>Core Tier 1: 8.2%</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>KBC had already decided to forego all bonuses – either in cash, options or shares – relating to performance in 2008</li> <li>The Government has the right to nominate two members for KBC Group's Board of Directors</li> <li>A representative of the State will sit on the Audit Committee, the Remuneration and the Nomination Committee with approval rights for a limited number of decisions, including               <ul style="list-style-type: none"> <li>Those relating to share issuance or share buybacks</li> <li>Acquisitions whose value equal more than one quarter of KBC's share capital and reserves</li> <li>The remuneration policy for the members of the Executive Committee</li> </ul> </li> <li>KBC will not pay a dividend in 2008 (business decision)</li> </ul>	<ul style="list-style-type: none"> <li>The securities can be repurchased by KBC for 150% of the issue price at any time (cash settlement)</li> <li>The Government was originally able to require that the buyback be settled by a 1-to-1 conversion of the securities into ordinary shares – this condition was later removed</li> <li>Furthermore, KBC is entitled to exchange some or all of the securities into ordinary shares (also 1-for-1) from four years after issuance onwards. If KBC chooses to do so, the Government can opt to redeem the securities in cash at 115% of the issue price (originally set at 100%), with a 5% step up every subsequent year up to a maximum of 150%</li> </ul>

# 1. Examples of step-ups in coupons

## 1.4 German Government investment into Commerzbank

Securities issued	Terms	Implied capitalization	Dividend policy and corporate governance	Other observations
<p><b>Phase 1</b> <b>(19 Dec 2008)</b></p> <ul style="list-style-type: none"> <li>■ Tier 1 securities (Dec 08)</li> </ul>	<ul style="list-style-type: none"> <li>■ €8.2bn newly issued non-dilutive Tier 1 securities (in two €4.1bn tranches)</li> <li>■ Non transferable, non listed and non voting</li> <li>■ Priced at 9% with 0.01% step-up for each €4.4m cash dividend paid</li> </ul>	<ul style="list-style-type: none"> <li>■ Tier 1: 11.2%</li> </ul>	<ul style="list-style-type: none"> <li>■ No dividends to be paid in 2009 and 2010</li> <li>■ Bonuses for 2008 and 2009 will not be granted</li> <li>■ Management Board member's salary and CEO compensation capped at €500,000 for 2008/9</li> <li>■ No changes to current corporate governance structure</li> </ul>	<ul style="list-style-type: none"> <li>■ Stabilisation fund will also guarantee additional debt securities to be issued by Dec 2009 up to €15m (charging 50bps, or 95bps if maturity over 12 months)</li> <li>■ Committed to repaying the silent participation mid-term if sound capitalisation</li> <li>■ Commerzbank agreed to an additional €2.5bn in loans available to Germany's Mittelstand (SMEs)</li> </ul>
<p><b>Phase 2</b> <b>(9 Jan 2009)</b></p> <ul style="list-style-type: none"> <li>■ Ordinary shares</li> <li>■ Cash in return for assets</li> </ul>	<ul style="list-style-type: none"> <li>■ Additional €8.2bn "silent participation" as per terms above in Jan 09</li> <li>■ However, included €1.7bn common equity as upside participation</li> <li>■ Allianz (selling Dresdner to Commerzbank at the same time) bought €1.45bn of CDOs from Dresdner for €1.1bn cash</li> <li>■ Allianz also took €750m silent participation</li> </ul>			<ul style="list-style-type: none"> <li>■ The Federal Government holds a stake of 25% plus one share in the new Commerzbank (if one were to include the silent participations, which do not imply voting rights, the Government would hold more than half of the entity)</li> <li>■ Allianz will hold 14% in the new Commerzbank + Dresdner</li> </ul>

# 2. Examples of step-ups in the redemption price

## 2.1 French bank assistance package

Securities that can be purchased	Terms	Implied capitalisation	Dividend policy and corporate governance	Other observations
<ul style="list-style-type: none"> <li>Subordinated debt</li> <li>Preference shares</li> </ul>	<ul style="list-style-type: none"> <li>€40bn made available to directly invest in French banks</li> <li>€10.5bn already deployed by way of subordinated loans in Oct 2008 to boost the capital of the six largest banks</li> <li>The banks receiving aid:               <ul style="list-style-type: none"> <li>Crédit Agricole: €3.0bn</li> <li>BNP Paribas: €2.55bn</li> <li>Société Générale: €1.7bn</li> <li>Credit Mutuel: €1.2bn</li> <li>Caisse d'Epargne: €1.1bn</li> <li>Banque Populaire: €0.95bn</li> </ul> </li> <li>Fixed rate of return for the first five years, calculated as French Gov't risk free rate + 300bps + 20 month trailing average of the banks' 5 year senior CDS</li> </ul>	<ul style="list-style-type: none"> <li>The six banks receiving loans will improve their Tier 1 Ratios by an average of 50bps</li> <li>The subordinated debt will have no impact on Core Tier 1 capital</li> </ul>	<ul style="list-style-type: none"> <li>Although the Government will not be obtaining any Board representation, Banks benefiting from the scheme will have to respect pay curbs for top managers, with restrictions on severance payments and stock-options</li> <li>All French banks have agreed to abide by a code of practice setting out these curbs</li> <li>There will <b>not</b> be an impact on dividend policy</li> </ul>	<ul style="list-style-type: none"> <li>It is understood that banks wishing to access the facility would have to promise to increase their stock of credit at an annual rate of 3-4% to qualify</li> <li>The same will apply to banks receiving support under the Government's €320bn loan guarantee fund</li> <li>The Bank of France, which also acts as the country's banking regulator, is expected to raise from 25% to 35% the proportion of Tier 1 capital that can be a hybrid of equity and debt instruments</li> <li>The banks have a five year call option on the debt; however, to encourage this, the redemption price rises every year by:               <ul style="list-style-type: none"> <li>1% of the nominal value between the 1<sup>st</sup> and 2<sup>nd</sup> years since issue</li> <li>3% between the 2<sup>nd</sup> and 3<sup>rd</sup> years</li> <li>5% between the 3<sup>rd</sup> and 4<sup>th</sup> years</li> <li>7% between the 4<sup>th</sup> and 5<sup>th</sup> years</li> <li>9% between the 5<sup>th</sup> and 6<sup>th</sup> years</li> <li>11% after the 6<sup>th</sup> anniversary</li> </ul> </li> <li>An earlier reimbursement is allowed in agreement with the Government if the securities are replaced by hybrids of equivalent subordination and value</li> </ul>

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## Hanne Lanther (DEP)

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**Fra:** Kristian Vie Madsen (FT) [KVM@FTNET.DK]  
**Sendt:** 16. januar 2009 20:51  
**Til:** Ulrik Nødgaard (DEP)  
**Cc:** Lotte Aakjær Jensen (DEP)  
**Emne:** SV: Perpetual Capital Securities (Draft Term Sheet 160109).pdf

Kære Ulrik

2 ting:

- 1) jeg savner noget cash-settlement. Skulle udsteder ikke betale pari i kontanter, hvis han kaldte? Uden denne facilitet genopstår bestemmende indflydelse/overtagelsestilbudsproblemet. Staten kan blive kaldt, og hvis staten vælger at konvertere kan den få den over 33 procent af aktierne. Eller må der gøres noget andet!!
- 2) Den stigende call-price for udsteder. Er det klogt. Det hjælper måske på kort sigt, men gør det dyrere på lang sigt at kalde - og underminerer dermed også "125 pct. af udbytte"-effekten .

Mvh Kristian

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**Fra:** Ulrik Nødgaard (DEP) [mailto:UN@oem.dk]  
**Sendt:** fr 16-01-2009 20:13  
**Til:** Lotte Aakjær Jensen (DEP); Kristian Vie Madsen (FT); Kenneth Lundgaard Christensen (DEP); Ole Jørgensen (DEP); Jesper Fredborg Huric Larsen (DEP); Tove B. Pedersen Foxman (DEP)  
**Emne:** Perpetual Capital Securities (Draft Term Sheet 160109).pdf

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**Fra:** Nicklin, Peter [mailto:Peter.Nicklin@Rothschild.co.uk]  
**Sendt:** 16. januar 2009 20:10  
**Til:** Ulrik Nødgaard (DEP); Peter Brixen  
**Cc:** Lon IB Project Horizon  
**Emne:** Perpetual Capital Securities (Draft Term Sheet 160109).pdf

Dear Ulrik, Peter,

Please see attached a revised draft term sheet for a straight Perpetual Hybrid instrument

Best regards

Peter

<<Perpetual Capital Securities (Draft Term Sheet 160109).pdf>>

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# Illustrative coupon analysis: Worked example

## 1.1 Basic illustration

- Following the 3rd anniversary the Coupon Payment will become the higher of a Fixed Coupon of [10]% and a Variable Dividend coupon
- The Variable Dividend coupon is calculated as the total dividend paid to all shareholders during the relevant financial year (i.e. in DKKm), multiplied by 125%, then multiplied by the Issue Size of the Perpetual divided by the Market Capitalisation of the Issuer at the time of the capital injection (i.e. to reflect the value owed to the Government on a proportional basis which is fixed at the time of Issue)

### Assumptions

Issue size of Perpetual: DKK 7,500m  
Issuer Market Capitalisation (at announcement date of the capital injection) DKK 10,000m  
Fixed ratio of Issue Size vs. Market Capitalisation: 75%  
Fixed Coupon: 10%  
Total dividend declared/paid to all ordinary shareholders in respect of:  
Year 4: DKK 500m  
Year 5: DKK 900m

### Year 4 Coupon Payment example:

- Fixed coupon = DKK 750m
- Variable Dividend Coupon =  $\text{DKK}500\text{m} * 125\% * 75\% = \text{DKK}468\text{m}$
- In this case the Coupon Payment in respect of Year 4 would be DKK750m

### Year 5 Coupon Payment example:

- Fixed coupon = DKK 750m
- Variable Dividend Coupon =  $\text{DKK}900\text{m} * 125\% * 75\% = \text{DKK}844\text{m}$
- In this case the Coupon Payment for in respect of year 5 would be: DKK844m

## Variable Dividend coupon encourages an exit and protects Government return

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# I. Project Horizon: Instrument analysis

## 1.1 Annual returns analysis

Enhanced return for Government once dividend yield (as a % of Market Capitalisation at issue) rises above 8% (10% Fixed Coupon/125%) ...  
 ... however 14% return (and 10 year call date) unlikely to be achieved as issuer has incentive to call the instrument earlier rather than pay large ordinary dividend

The Call Price will not be lower than 110% plus accrued interest if the instrument has failed to pay any coupons

**Impact on annual return of Variable Dividend coupon at different ordinary dividend payments and Call Dates**

Annual Return (%) <sup>1</sup>	Called at end of year:			
	5*	6**	7***	10***
Dividend Yield (as a % of Market Capitalisation at issue) starting after 3rd anniversary and rising in 1% increments per annum thereafter	No dividends paid to call date	10.3%	10.9%	11.3%
	3%	10.3%	10.9%	11.3%
	5%	10.3%	10.9%	11.3%
	8%	10.5%	11.4%	12.1%
	10%	11.3%	12.5%	13.3%

Note 1: Assumes all coupons paid through the life of the instrument until called and Fixed Coupon rate of 10% per annum paid semi-annually

**Impact on annual return of missed coupon payments at different Call Dates**

Annual Return (%) <sup>2</sup>	Called at end of year:			
	5*	6**	7***	10***
All coupons paid	10.3%	10.9%	11.3%	10.9%
First year of coupons not paid	10.3%	9.4%	9.4%	9.4%
First 3 years of coupons not paid	10.3%	6.1%	6.4%	7.1%

Note 2: Assumes no ordinary dividends paid up to call date and Fixed Coupon rate of 10% per annum paid semi-annually

\* Call price 100% plus accrued interest if all coupons paid, otherwise Call price must deliver an annual return as if all coupons had been paid  
 \*\* Call Price 105% plus accrued interest if all coupons paid, otherwise Call Price will be 110% plus accrued interest  
 \*\*\* Call Price 110% plus accrued interest

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# 1. Project Horizon instrument analysis

## 1.2 Basic illustration of how the Variable Dividend coupon works

- Following the 3rd anniversary the Coupon Payment will become the higher of a Fixed Coupon of [10]% and a Variable Dividend coupon
- The Variable Dividend coupon is calculated as the total dividend paid to all shareholders during the relevant financial year (i.e. in DKKm), multiplied by 125%, then multiplied by the Issue Size of the Perpetual divided by the Market Capitalisation of the Issuer at the time of the capital injection (i.e. to reflect the value owed to the Government on a proportional basis which is fixed at the time of issue)

### Assumptions

Issue size of Perpetual: DKK 5,000m  
Issuer Market Capitalisation (at announcement date of the capital injection) DKK 10,000m  
Fixed ratio of Issue Size vs. Market Capitalisation: 50%  
Fixed Coupon: 10%  
Total dividend declared/paid to all ordinary shareholders in respect of:  
Year 4: DKK 500m  
Year 5: DKK 900m

### Year 4 Coupon Payment example:

- Fixed coupon = DKK 500m
- Variable Dividend Coupon =  $\text{DKK}500\text{m} * 125\% * 50\% = \text{DKK}312.5\text{m}$
- In this case the Coupon Payment in respect of Year 4 would be DKK500m

### Year 5 Coupon Payment example:

- Fixed coupon = DKK 500m
- Variable Dividend Coupon =  $\text{DKK}900\text{m} * 125\% * 50\% = \text{DKK}562.5\text{m}$
- In this case the Coupon Payment for in respect of year 5 would be: DKK562.5m

## Variable Dividend coupon encourages an exit and protects Government return



# 1. Project Horizon: Instrument analysis

## 1.1 Annual returns analysis

Enhanced return for Government once dividend yield (as a % of Market Capitalisation at issue) rises above 8% (10% Fixed Coupon/125%) ...  
 ... however 14% return (and 10 year call date) unlikely to be achieved as Issuer has incentive to call the instrument earlier rather than pay large ordinary dividend

**Impact on annual return of Variable Dividend coupon at different ordinary dividend payments and Call Dates**

Annual Return (%) <sup>1</sup>	Called at end of year:			
	5*	6**	7***	10****
Dividend Yield (as a % of Market Capitalisation at Issue) starting after 3rd anniversary and rising in 1% increments per annum thereafter	No dividends paid to call date	10.3%	10.9%	11.3%
	3%	10.3%	10.9%	11.3%
	5%	10.3%	10.9%	11.3%
	8%	10.5%	11.4%	12.1%
	10%	11.3%	12.5%	13.3%

Note 1: Assumes all coupons paid through the life of the instrument until called and Fixed Coupon rate of 10% per annum paid semi-annually

**Impact on annual return of missed coupon payments at different Call Dates**

Annual Return (%) <sup>2</sup>	Called at end of year:			
	5*	6**	7***	10****
All coupons paid	10.3%	10.9%	11.3%	10.9%
First year of coupons not paid	10.3%	9.4%	9.4%	9.4%
First 3 years of coupons not paid	10.3%	6.1%	6.4%	7.1%

Note 2: Assumes no ordinary dividends paid up to call date and Fixed Coupon rate of 10% per annum paid semi-annually

The Call Price will not be lower than 110% plus accrued interest if the instrument has failed to pay any coupons

\* Call price 100% plus accrued interest if all coupons paid, otherwise Call price must deliver an annual return as if all coupons had been paid  
 \*\* Call Price 105% plus accrued interest if all coupons paid, otherwise Call Price will be 110% plus accrued interest  
 \*\*\* Call Price 110% plus accrued interest

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# 1. Project Horizon instrument analysis

## 1.2 Basic illustration of how the Variable Dividend coupon works

- Following the 3rd anniversary the Coupon Payment will become the higher of a Fixed Coupon of [10]% and a Variable Dividend coupon
- The Variable Dividend coupon is calculated as the total dividend paid to all shareholders during the relevant financial year (i.e. in DKKm), multiplied by 125%, then multiplied by the Issue Size of the Perpetual divided by the Market Capitalisation of the Issuer at the time of the capital injection (i.e. to reflect the value owed to the Government on a proportional basis which is fixed at the time of issue)

### Assumptions

Issue size of Perpetual: DKK 5,000m  
Issuer Market Capitalisation (at announcement date of the capital injection) DKK 10,000m  
Fixed ratio of Issue Size vs. Market Capitalisation: 50%  
Fixed Coupon: 10%  
Total dividend declared/paid to all ordinary shareholders in respect of:  
Year 4: DKK 500m  
Year 5: DKK 900m

### Year 4 Coupon Payment example:

- Fixed coupon = DKK 500m
- Variable Dividend Coupon =  $\text{DKK}500\text{m} * 125\% * 50\% = \text{DKK}312.5\text{m}$
- In this case the Coupon Payment in respect of Year 4 would be DKK500m

### Year 5 Coupon Payment example:

- Fixed coupon = DKK 500m
- Variable Dividend Coupon =  $\text{DKK}900\text{m} * 125\% * 50\% = \text{DKK}562.5\text{m}$
- In this case the Coupon Payment for in respect of year 5 would be: DKK562.5m

## Variable Dividend coupon encourages an exit and protects Government return