26 November 2008 Strictly private and confidential

Responding to the financial crisis
Discussion materials

ROTHSCHILD

Contents

1. Introduction

1. Introduction

1.1 Responding to the crisis

1 **Over the past few years, the Danish banking sector has experienced strong and steady growth**

2 **From an outside-in perspective, large part of the Danish financial system appears sound with large institutions generally having a strong capital position. The system is quite concentrated with** the top 5 banks accounting for c.65% of total assets. However, the Danish banking system can be more severely hit than other countries, because of

- High reliance of the banking sector on wholesale funding (loans-to-deposits ratio for the top 5 is 169%) and on mortgage covered bonds. Increasing spreads, perceived currency risk, as well as a more conservative stance by investors might impact the new issues of mortgage covered bonds
- High level of indebtedness in the sector – loans/GDP ratio in Denmark is 205% vs. Eurozone average of 125%
  - Faster contraction of the economy as a result of credit crunch
  - Potential increase in loan losses (both corporate and household level). Level of bankruptcies have soared over the past two months (up c.43% compared to 2007)
- Tighter monetary policy due to the currency peg to the Euro impacting the real economy (3m EURIBOR 3.9% vs. 3m CIBOR 6.0%), making the domestic corporations less competitive vs. European peers
- High exposure of the system to the real estate market (residential prices down 15% compared to the peak in the end of 2006)
- Some large banks have significant exposures to problematic countries (Baltics, Ireland and Iceland)
- Potential losses arising from equity market volatility can affect banks with large traditional insurance books

3 **The Government has been quick to address the funding issue through the guarantee package. Clearly, international markets are responding to the consequences of the credit crisis in different ways and the Danish government must be astute to avoid competitive disadvantages for its markets and particularly its financial institutions**

Note
1 Top 5 banks' loan to deposit ratio excludes Nykredit Realkredit

1. Introduction

1.2 Responding to the crisis (continued)

4 **Rothschild's conflict-free advisory only model has also allowed us to play a direct role in helping to address the crisis with major involvement in bank recapitalisations and rescues**

- Adviser to the Dutch Government on Aegon, ING and SNS Reaal
- Adviser to a major North European Government
- Adviser to Banque Populaire for its merger with Caisse d'Epargne
- Adviser to the French Government on Dexia
- Adviser to the German Government on IKB
- Advised potential rescuers of Lehman Brothers, Northern Rock and Fortis
- Sale of Lehman Asian business to Nomura

5 **Rothschild could support the Danish authorities in structuring additional interventions in the banking market. In our recent mandates we have inter alia:**

- Provided a macro view of the framework of solution adopted in different jurisdictions across the globe
- Developed specific recapitalisation solutions to deal with country-specific problems
- Provided a valuation of the financial institution receiving support as well as advice on the appropriate level of intervention and capitalisation
- Advised on structuring and valuation of highly complex instruments, tailored to the specific needs of the banking sector, including the negotiation of the term sheet. We have devised and introduced important structural improvements to the instrument, protecting the interests of the state
- Coordination with broader measures taken to underpin the financial sector
- Assisted in agreement of an appropriate corporate governance regime
- Coordinated response among various authorities (e.g. Ministry of Finance and Central Bank)
- Assistance in dialogue / negotiation with EU (State Aid)

1. Introduction

1.3 Rothschild experience in comparable situations

Rothschild assignments with a direct relation with the current crisis

- **Kingdom of Netherlands** — ING, AEGON, SNS REAAL — Adviser to the Dutch Ministry of Finance on the recapitalisations of ING (€10bn), AEGON (€3bn) and SNS Reaal (€750m) — Current
- **The Republic of France** — Advice to Agence des Participations de L'Etat in conjunction with the €6.4bn coordinated liquidity support jointly granted to the Dexia Group — Current
- **German Federal Ministry of Finance** — Opinion on options regarding state-owned KfW's stake in IKB Deutsche Industriebank AG — Current
- **Lehman Brothers** — LEHMAN BROTHERS — Financial advisor to Lehman Brothers on the sale of its Asia Pacific businesses to Nomura — Current
- **Italian Fondazioni** — UniCredit Group — Advice on the €6.5bn recapitalisation of Unicredit — Current
- **Alliance & Leicester** — Alliance Leicester — £1.3bn recommended acquisition of Alliance & Leicester by Banco Santander — 2008
- **UBS** — UBS — Corporate governance review — 2008

European Privatisations M&A 2003 - 06	US$bn	No
1 Rothschild	123.98	30
2 HSBC	108.02	10
3 UBS	105.80	14
4 Lazard	104.56	17
5 Goldman Sachs	96.86	15

- **Central Bank of Libya** — Central Bank Of Libya — €210m disposal of a 19% stake in Wahda Bank to Arab Bank — 2008
- **ABN AMRO Holding NV** — ABN AMRO — €71bn acquisition of ABN AMRO Holding NV by RFS Holdings NV — 2007
- **Government of Colombia – Fogafin** — bancafé — US$927m disposal of Granbanco to Davivienda — 2006
- **BGZ s.a.** — BGŻ S.A. — €373m placement of new shares and disposal of minority shareholders existing shares jointly totalling 50% of BGZ capital — 2004
- **Erste Bank** — ERSTE — €3.8bn acquisition of a 61.9% stake in Banca Comerciala Romana from AVAS — 2006
- **BGAG** — BGAG — Disposal of AHBR to Lone Star — 2006

Global Privatisations M&A 2006	US$bn	No
1 Rothschild	77.22	9
2 Lazard	72.51	4
3 HSBC	72.37	7
4 UBS	71.50	4
5 Goldman Sachs	48.60	6

- **Deutsche Post** — Deutsche Post World Net — €6.6bn IPO / Privatisation — Adviser to Deutsche Post — 2000
- **Central Bank of Brazil** — US$3.6bn privatisation by way of a trade sale of Banespa to Banco Santander Central Hispano — 2000
- **Government of Italy** — US$1.2bn privatisation by way of trade sale (17.4%) of Banco di Napoli to San Paolo IMI — 2000
- **Bank Pekao S.A.** — BANK PEKAO S.A. Grupa PEKAO S.A. — US$1.1bn Sale of 52% stake to Unicredito Italiano / Allianz — 1999
- **Government of France** — CREDIT LYONNAIS — US$3.77bn IPO — 1999
- **Government of France** — CNP — US$755m IPO — Adviser & Joint-Global Co-ordinator — 1998

1.4 Team overview – Rothschild task force

Gov't advisory specialists

Simon Linnett
Executive Vice Chairman

Nigel Higgins
Global Co-head of Investment Banking

Nicola King
Managing Director

Oversight committee

Stefano Marsaglia
Global Head of Financial Institutions Group

James Vaux
Head of Nordic Region

Project leadership

Ben Davey
Managing Director
Co-Head, FIG

Henrik Ljungberg
Director
Nordic FIG

Core execution

Renato di Monta
Assistant Director
FIG

Pablo Ferrandiz Tecedor
Executive
FIG

Olli Mustonen
Executive
Nordic FIG

Equity Advisory specialists

Nigel Himsworth
Head of Nordic ECM

Equity advisory and new issue market
In-depth market knowledge, specialist resources and direct investor contacts

Global Financial Institutions Group support – more than [illegible] bankers worldwide

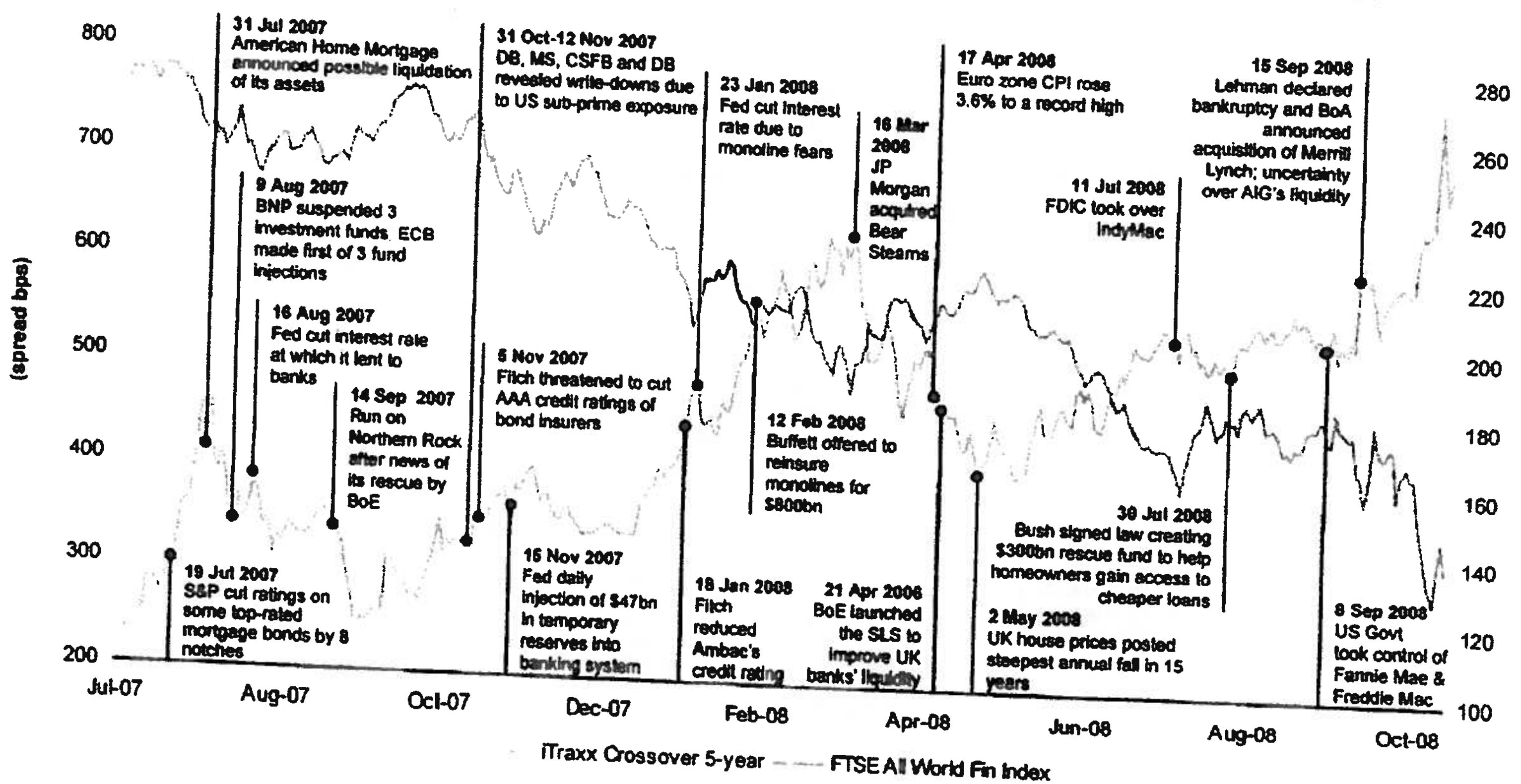
Fully committed project team with significant execution experience and Nordic capability

2. Developments in the global banking sector

2. Developments in the global banking sector

2.1 The evolution of the credit crunch: since July 2007

ITraxx Crossover and FTSE World Financials since July 2007



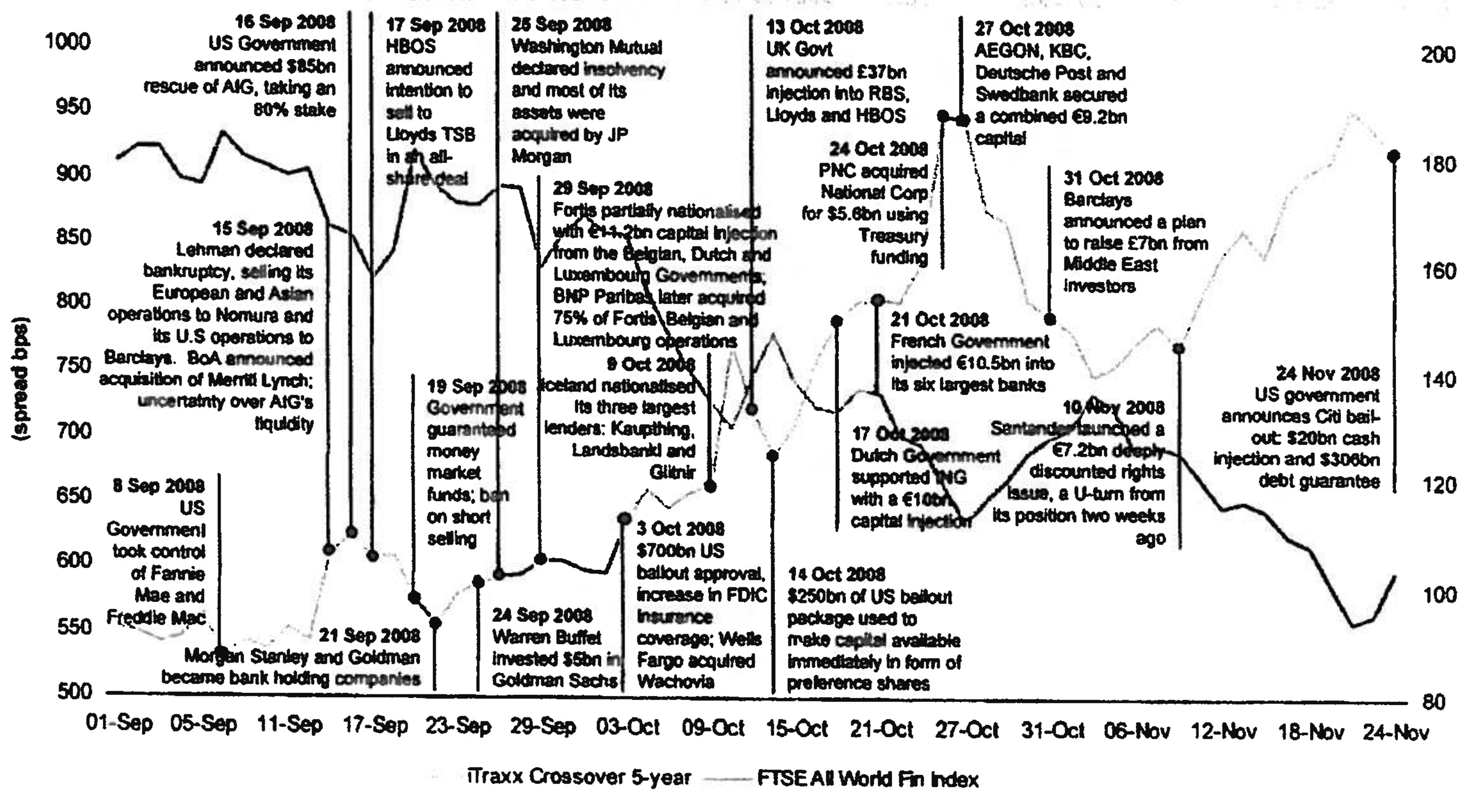
Note The iTraxx European Crossover index is an index of the 125 most liquid CDS of European investment grade credits, subject to certain sector rules

Source Markit, FactSet

2. Developments in the global banking sector

2.2 The evolution of the credit crunch: since 1 September

iTraxx Crossover and FTSE World Financials since 1 September 2008



Source Markit, FactSet

Note

The iTraxx European Crossover index is an index of the 125 most liquid CDS of European investment grade credits, subject to certain sector rules

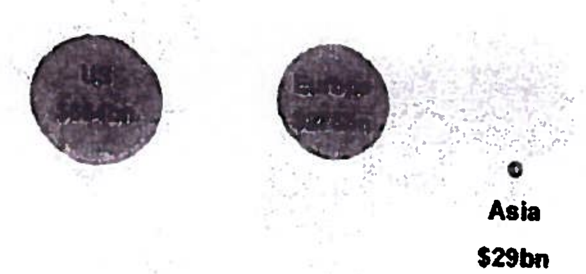
2. Developments in the global banking sector

2.3 *The extent of subprime losses*

*Uncertainty remains on final losses of the subprime crisis: IMF latest estimate reaches **$1,405bn***

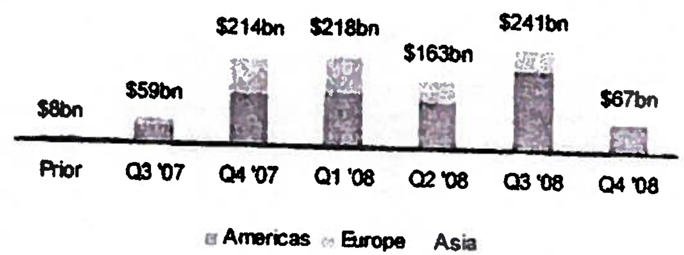
- *US banks' total assets **$40.4 trillion***
- *US banks' total liabilities **$38.8 trillion***
- *US banks' total equity **$1.6 trillion***

Subprime losses by geographic area

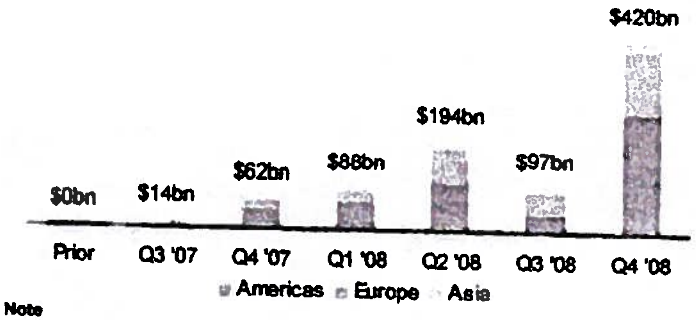


Gap estimated at c.$94bn

Total reported losses



Total reported capital raising [1]



Source Bloomberg 24/11/2008, BIS Quarterly Review

Note
1 Capital raising includes public offerings and asset disposals

Overall, subprime crisis has translated into $969bn losses worldwide that resulted in $875bn capital raised so far

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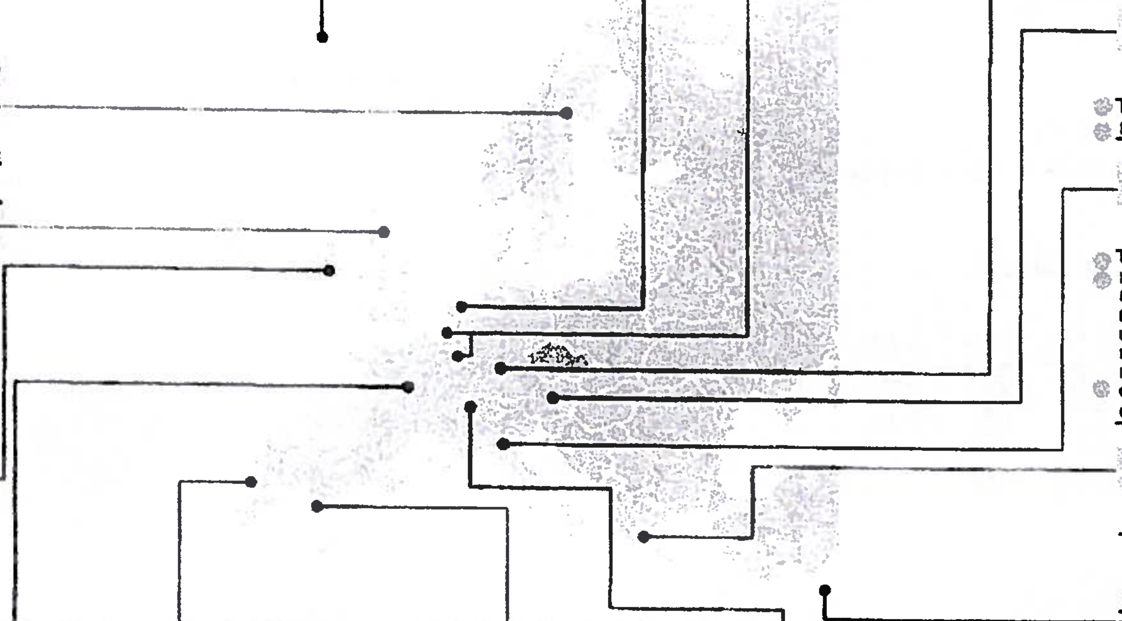
2. Developments in the global banking sector

2.4 The spreading credit crunch...



US "casualties"

	Total assets $bn	Total assets to GDP (%)
Citi	1,488.0	2.7
AIG	665.0	1.2
Fannie Mae	581.0	1.0
Freddie Mac	557.0	1.0
Wachovia	515.0	0.9
Lehman Brothers	402.0	0.7
Bear Stearns	253.0	0.4
WaMu	199.0	0.4
IndyMac Bank	29.9	0.0

Sweden

	Total assets $bn	Total assets to GDP (%)
Nordea	388.1	167.4
Carnegie	4.9	2.1

UK

	Total assets $bn	Total assets to GDP (%)
RBS	2,078.0	126.4
HSBC	1,607.9	97.8
Barclays	1,541.7	93.7
HBOS	837.8	50.9
Lloyds TSB	443.6	27.0
Standard Chartered	224.8	13.7
Alliance & Leicester	98.2	6.0
Bradford & Bingley	65.3	4.0

Ireland

	Total assets $bn	Total assets to GDP (%)
Bank of Ireland	183.4	102.0
Allied Irish	177.9	98.9
Anglo Irish	96.7	53.8

France

	Total assets $bn	Total assets to GDP (%)
BNP Paribas	1,694.5	104.4
Crédit Agricole	1,414.2	87.1
Société Générale	1,071.6	66.0

Iceland

	Total assets $bn	Total assets to GDP (%)
Kaupthing	53.1	822.5
Glitnir	32.0	375.1
Landsbanki	31.9	374.3
Straumur	7.1	83.5
Spron	2.5	28.7

Netherlands

	Total assets $bn	Total assets to GDP (%)
ING	1,370.0	269.6
Rabobank	570.0	120.6

Belgium / **Lux'bourg**

	Total assets $bn	Total assets to GDP (%)
Fortis	866.3	254.0
Dexia	604.6	173.3
KBC	355.6	101.9

Germany

	Total assets $bn	Total assets to GDP (%)
Deutsche Bank	1,917.1	85.7
Commerzbank	618.5	27.8
Hypo Real Estate	400.2	17.9
Deutsche Postbank	203.0	9.1

Austria

	Total assets $bn	Total assets to GDP (%)
Erste Bank	208.0	85.3
Raiffeisen Intl	72.7	30.1

Italy

	Total assets $bn	Total assets to GDP (%)
UniCredit	1,021.6	79.5
Intesa Sanpaolo	605.3	47.1
MPS	199.4	15.5
Banca Popolare	128.4	10.0
UBI banca	121.5	9.5
BPM	43.6	3.4
Mediobanca	43.5	3.4
Credem	26.2	2.0
Creval	17.2	1.3

Greece

	Total assets $bn	Total assets to GDP (%)
NBG	90.4	49.4
EFG Eurobank	68.4	37.4
Piraeus Bank	46.4	25.4
Marfin	30.3	16.5

Portugal

	Total assets $bn	Total assets to GDP (%)
Millennium BCP	86.2	66.9
BES	66.4	51.6
BPI	40.6	30.8
BPN	7.7	5.9

Spain

	Total assets $bn	Total assets to GDP (%)
Santander	912.9	131.8
BBVA	502.2	72.5
Banesto	110.1	15.9
Popular	107.2	15.5
Sabadell	76.8	11.1
Bankinter	49.6	7.2

Switzerland

	Total assets $bn	Total assets to GDP (%)
UBS	1,428.4	464.0
Credit Suisse	854.0	299.7

Cyprus

	Total assets $bn	Total assets to GDP (%)
Bank of Cyprus	31.8	252.5

(grey dot) Institutions raising capital since June 2008

(black dot) Institutions receiving direct Government help

Note 2007 GDP used
Source KBW, IMF, Financial Times

In Denmark, Roskilde Bank is the only major bank having received state aid

2.5 Plunging bank values – more than halved since last July

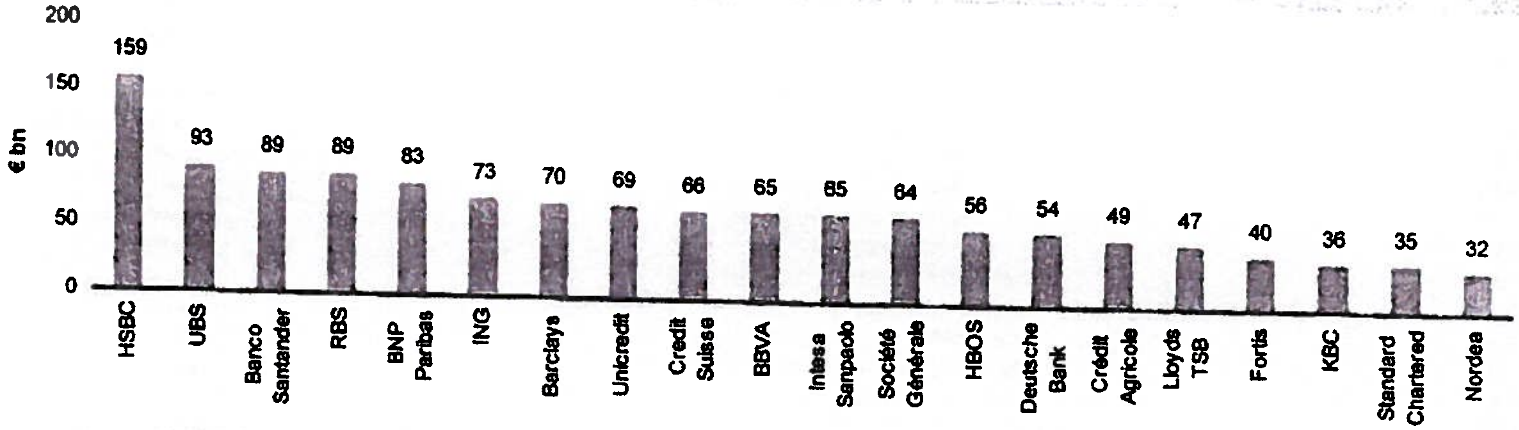
Total Top 20 Market Caps
16 July, 2007
€ 1,336 bn

-67%

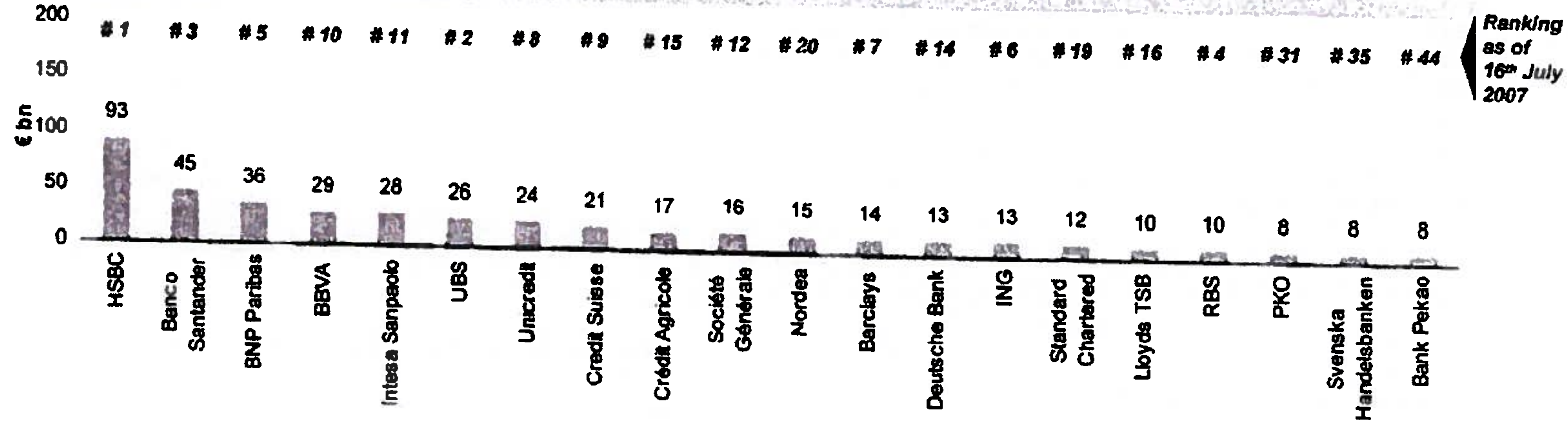
-€892 bn

Total Top 20 Market Caps
24 November, 2008
€ 444 bn

European bank market capitalisations as at 16th July 2007



European bank market capitalisations as at 24nd November 2008



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2. Developments in the global banking sector

2.6 *Fundraising / capital positions*

2007a Tier 1 ratio (T1)

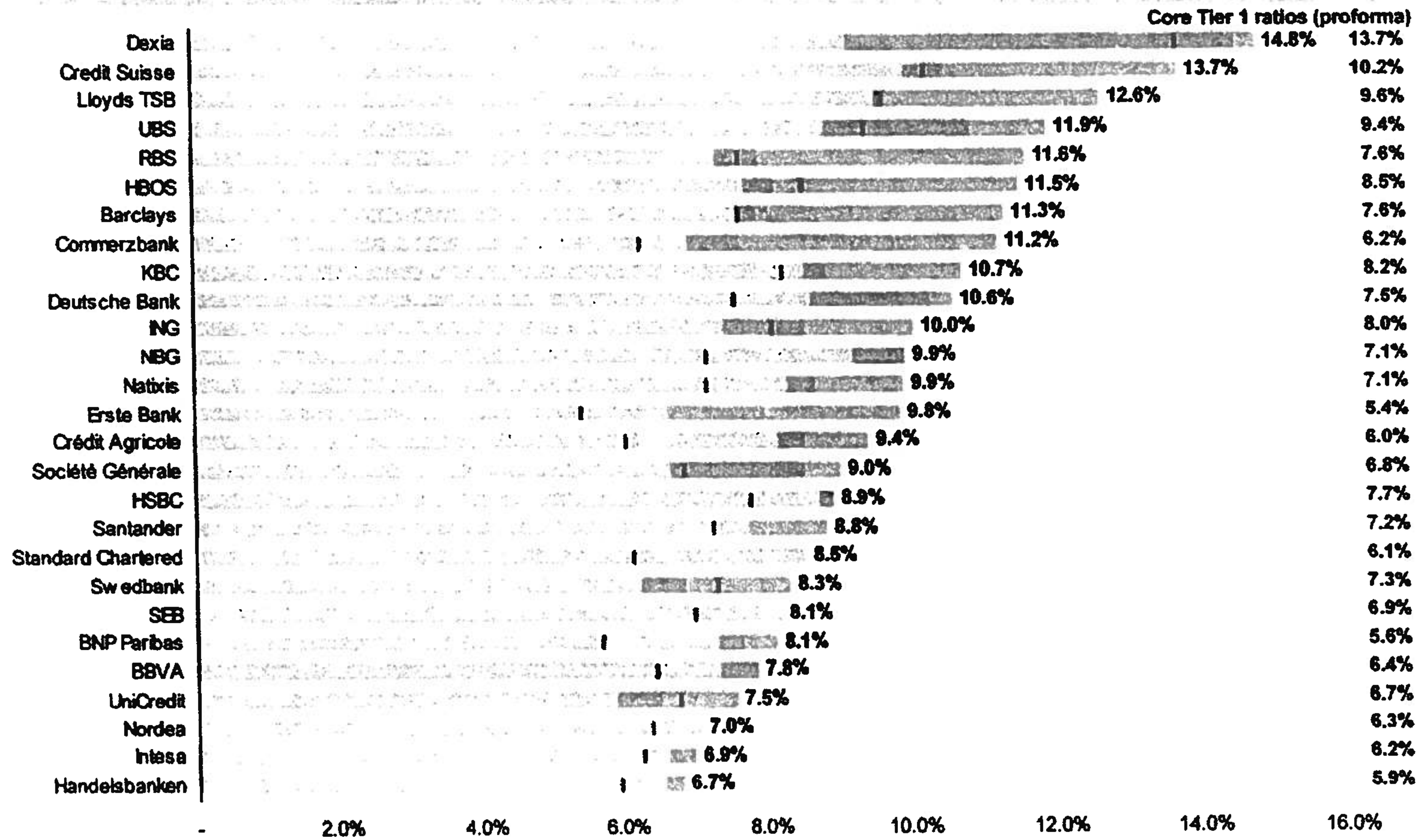
Last reported T1

Latest pro forma T1

| *Of which Core T1*

	Latest reported	
	Core T1	T1
Danske Bank	8.8%	10.0%
Nykredit Realkredit	n/a	16.1%
Nordea Bank Denmark	n/a	7.2%
Jyske Bank	9.3%	10.3%
Sydbank	9.6%	11.2%
FIH	n/a	9.1%

Evolution of European banks' Tier 1 capital ratios

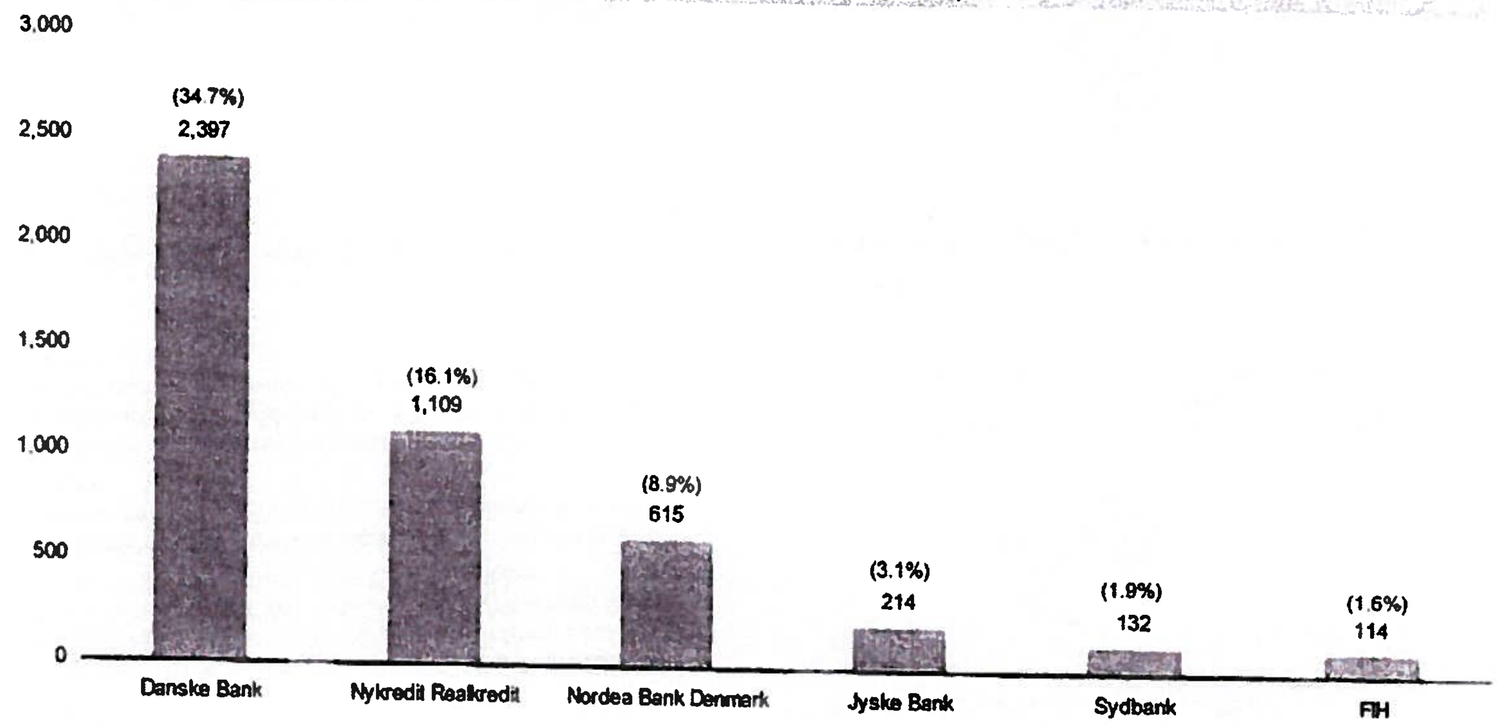


Denotes 2007 Tier 1 reported on a Basel I basis

Denotes transitional capital adequacy rules applies for Swedish banks

HSBC core Tier 1 ratio is from Q2 whereas its Tier 1 ratio is from Q3

Ranking and market share of Danish banks by total assets in DKKbn (FY 2007)



Note: Nykredit Realkredit is proforma for the acquisition of Forstædernes Bank
Source Finanstilsynet

2. Developments in the global banking sector

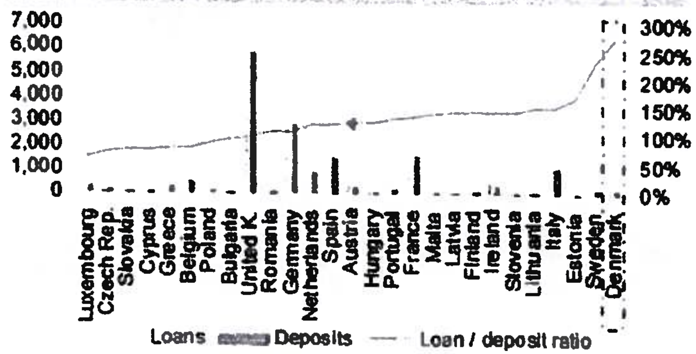
2.7 *Danish banks*

With their exposure to risky economies and the difficulties in the real estate market, Danish banks could start to struggle to finance their loan book in the very short term

Comments

- According to ECB data, the ratio of loans granted to customers / deposits from customers differs greatly across Europe but is generally lower than 150%. With a ratio of 279% overall, Denmark has by far the highest ratio in the European Union
- The Danish banking market is highly concentrated: the largest 2 banks account for 50% of banks and mortgage-credit institutions assets
- Top 5 banks have a loan to deposit ratio between 122% and 224% (excluding Nykredit Realkredit), implying that smaller institutions and mortgage-credit institutions have a much higher wholesale funds exposure

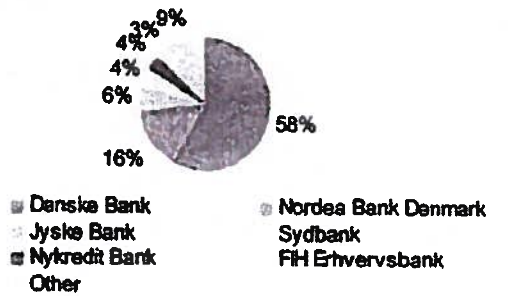
Loan / deposit ratios in the EU (2007, in €bn)



Source European Central Bank

Danish lending breakdown (2007) – Banks only

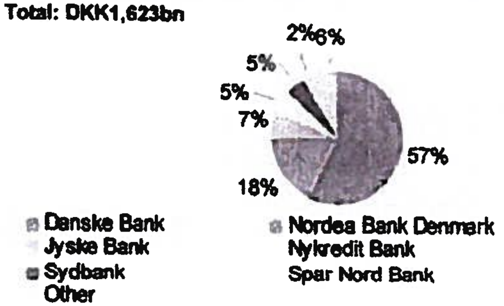
Total: DKK1,890bn



Source Finanstilsynet

Danish deposits breakdown (2007) – Banks only

Total: DKK1,623bn



Source Finanstilsynet

3. Overview of Government assistance to date

3. Overview of Government assistance to date

3.1 Crucial considerations

Government considerations

Capital

- Balance between ordinary equity and preference shares (pure or convertible)
- Desirability of restrictions on the business and operation of guaranteed banks (dividend policy, remuneration, governance)
- Government management of stakes in banks (e.g. in the UK via the Bank Recapitalisation Fund)

Guarantee

- Government objectives for the take-up and phasing out of guarantee arrangements
- Ensuring widest possible access to guarantees (those on outside may fail)
- Use of pricing as in instrument of policy

Toxic assets

- Toxic asset funds or over capitalisation (where does the risk lie)?
- Pricing assets
- Accessing other pools of capital

Broader economic impact

- **Immediate:** Impact on counterparties: insurers, hedge funds (and their impact in turn on the same banks)
- **Near Term:** Impact on housing stock: Government backed funds for repossessed properties (facilitate owner to tenant)
- **Medium Term:** Sovereign gilt issuance (ratings); rising national debt; urgency of generating new cash resources (asset disposals)

Bank –level considerations

Liquidity

- Maturity profiles
- Scenario planning
- Qualifying collateral
- Pricing and deployment of funds
- Restoration of counterparty confidence

Capital

- Tier 1 capital
- Quality of loan book / appropriate writedowns today
- Underlying profitability
- Quality of capital base
- Leverage (not just Basel ratios)

Market objective

Stability, transparency and confidence

3. Overview of Government assistance to date

3.2 *Overview of methods*

Government support to financial institutions since the start of the credit crunch has taken many forms, while becoming increasingly <u>proactive</u> rather than reactive as taxpayers' money is put at stake. The various methods witnessed include:

	1	**Injecting additional liquidity into the system:** Through increased overnight or longer term auction facilities
Central Bank Operations	2	**Special liquidity schemes:** Accepting mortgages and a range of other assets as collateral in return for treasury securities
	3	**Monetary policy decisions:** Cutting interest rates
	4	**Arranging / facilitating transactions between institutions:** Facilitating takeover discussions, waiving anti-trust issues
Legislative support and guarantees	5	**Bank debt guarantees:** Interbank money borrowed and guaranteed by the Government, then lent to banks in order to bolster liquidity
	6	**Deposit insurance:** Outright guarantees on retail / wholesale deposits, raising insurance levels on retail deposits
	7	**Regulatory amendments:** Reducing bank ownership / investment restrictions, revising regulatory capital definitions and limits, constraining bank chiefs' compensation, providing additional support to mortgage holders, reconsidering fair value accounting...
	8	**(Pseudo) Nationalisations:** Full takeovers of banks or majority equity / equity type injections in emergency situations
Direct capital commitment	9	**Establishing Government sponsored funds to buy toxic assets or guarantee risky assets**
	10	**Direct capital support:** taking direct stakes in banks, often with corporate governance conditions attached

Benchmarking packages

Government assistance in relation to GDP and banking assets

(In €bn)	Guarantees	Capital	Buying toxic ass.	Liquidity	Other / Ad hoc	*Deposit insurance*	Total (excl. dep. ins.)	GDP[1]	Package / GDP	Banking Assets[1]	Package / bank ass.
USA	1,112.7	556.3	0.0	927.5	139.9	*7.2*	2,736	11,287	*24%*	12,395.0	*22%*
EU - total	1,458.4	243.2	40.0	846.5	168.9	*580.0*	2,816	12,294	*23%*	41,072.3	*7%*
ECB	0.0	0.0	0.0	200.0	20.0	*0.0*	220	-	-	-	-
Sweden	150.0	1.5	0.0	0.0	0.0	*n.q.*	162	332	*46%*	846.0	*18%*
Germany	400.0	90.0	10.0	400.0	35.8	*570.0*	936	2,423	*39%*	7,562.4	*12%*
Austria	0.0	15.0	0.0	75.0	0.0	*10.0*	90	271	*33%*	890.7	*10%*
UK	250.0	61.7	0.0	123.5	57.7	*4/n.q.*	551	2,019	*27%*	10,093.1	*5%*
Benelux	200.0	0.0	0.0	0.0	52.5	*0.0*	253	926	*27%*	4,408.3	*6%*
France	320.0	40.0	0.0	0.0	3.0	*n.q.*	363	1,892	*19%*	6,682.3	*5%*
Spain	100.0	30.0	30.0	0.0	0.0	*n.q.*	160	1,050	*15%*	2,945.3	*5%*
Portugal	20.0	0.0	0.0	0.0	0.0	*n.q.*	20	163	*12%*	440.1	*5%*
Greece	15.0	5.0	0.0	8.0	0.0	*0.0*	28	229	*12%*	383.3	*7%*
Italy	n.q.	n.q.	n.q.	40.0	0.0	*n.q.*	40	1,536	*3%*	3,331.8	*1%*
Denmark	3.4+	0.0	0.0	0.0	0.0	*0.0*	3+	228	*1%*	978	*0%*
Russia	173.0	0.0	0.0	0.0	35.0	*0.0*	170	1,309	*13%*	863.2	*20%*
Norway	0.0	0.0	0.0	41.0	0.0	*0.0*	41	379	*11%*	673.1	*6%*
Japan	0.0	0.0	0.0	0.0	155.6	*0.0*	156	3,843	*4%*	6,085.2	*3%*
Switzerland	0.0	0.0	0.0	5.6	46.1	*0.0*	52	380	*14%*	2,478.8	*2%*
Iceland	0.0	0.0	0.0	0	600	*0.0*	600	14	*n.m.*	56.0	*n.m.*

Notes

All figures as of 24/11/2008. Deposit insurance excluded from total due to lack of data. Other/ad hoc measures include measures taken with respect of specific situations without announcement of national program

1 Data for EU: ECB report (2007), rest of world: EIU database (assets with BIS reporting 2008E converted from USD with OANDA exchange rate of 24/11/2008)

Although the new EU member states have hardly announced any measures yet, the EU has already committed a similar share of its GDP to rescue packages as the US

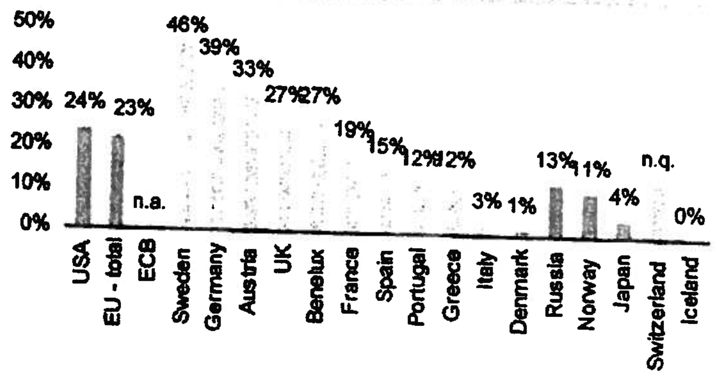
3. Overview of Government assistance to date

3.3 Overview of Government packages in selected countries

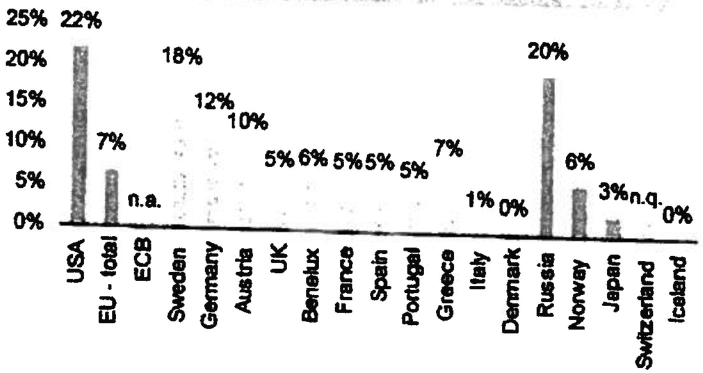
Total size of rescue package (€bn)

- The measures taken are very different across countries, making quantification of their consequences and comparison difficult
- Regulatory measures such as lowering interest rates or lowering minimum rating requirements for accepted collaterals can hardly be quantified
- Guarantees provided may or may not be drawn
- Different capital markets structures imply the need for different approaches. For example, bank loans are far more important for financing companies in Europe than in the US
  - Compared to the GDP, European governments and the ECB have invested as much in rescue packages as the US
  - Compared to total banking assets, that figure is lower due to much lower volume of banking assets in the US

Rescue package as % of GDP[1]



Rescue package as % of total banking assets[2]



Rescue package – absolute figures (in €bn)

Notes
1 2008 expected
2 Assets with BIS-reporting
Source Economist Intelligence Unit, Rothschild analysis

4. Danish rescue package

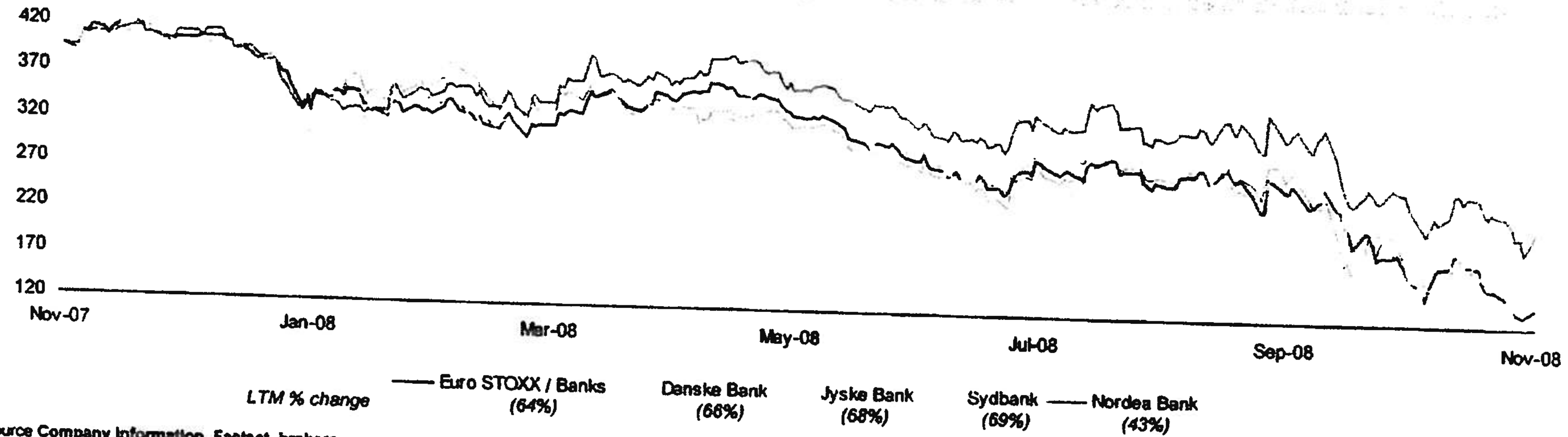
Impact of the guarantee scheme on major banks

Impact of the scheme on major banks

DKKm

Name	Min. contribution to the scheme (2 yrs)	Max. contribution to the scheme (2 yrs)	Min. annual cost as a % of earnings 08E	Max. annual cost as a % of earnings 08E	Current core tier 1 ratio	Proforma core tier 1 min impact	Proforma core tier 1 max impact	Min. annual cost as a % of tangible equity	Max. annual cost as a % of tangible equity
Danske Bank	4,950	11,550	25.2%	58.8%	8.8%	8.3%	7.6%	3.2%	7.5%
Jyske Bank	900	2,100	41.4%	96.7%	9.3%	8.5%	7.4%	4.4%	10.4%
Sydbank	750	1,750	39.3%	91.7%	9.6%	8.6%	7.2%	5.2%	12.2%
FIH Erhvervsbank	643	1,500	51.2%	119.4%	n/a	n/a	n/a	4.0%	9.3%
Nykredit Realkredit	375	450	n/m	n/m	16.2%	16.0%	16.0%	0.4%	0.5%
Nordea Danmark	3,000	7,000	67.9%	158.4%	7.2%	6.3%	5.2%	14.8%	34.6%
Total	**10,618**	**24,350**							
As a total of scheme	*71%*	*70%*							

Share price performance (rebased to index)



Source Company Information, Factset, brokers

Notes FIH and Nykredit earnings estimate is based on annualised Jan-Sep 08 figures. Nordea Group's capital is analysed on fully IRB implemented Basel II basis (consistent with the Danish banks). Nykredit and Nordea on a full tier 1 basis, negative earnings of DKK134m in Jan-Sep 08. Capital positions as at Q3 08

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4. Danish rescue package

4.1 Overview

Policy action	Comments	Cost / exposure
▪ Guarantees for deposits and bank debt	▪ The guarantee scheme protects the depositors and other unsecured creditors of banks in case of liquidations for the next two years ▪ Secured the contribution of Danish banking industry to the scheme (133 banks in total participating) ▪ The scheme provides unlimited guarantee to bank deposits and also guarantees coverage for other claims of unsecured creditors in case a bank is liquidated ▪ A government-operated winding-up company has been set up to administer the scheme – it will settle the activities in any ailing banks covered by the scheme and to secure the claims of depositors and other creditors ▪ The participating organisations will contribute DKK7.5bn per annum for the next two years. The companies will also set in place a DKK10bn loss guarantee and may be required to contribute an additional DKK10bn in case losses in excess of DKK25bn are incurred ▪ This equates the liability of the financial institutions to DKK 15-35bn, depending on the severity of the losses	▪ The scheme is self-funding up to DKK35bn
▪ Statutory deposit guarantees	▪ The statutory deposit guarantee of up to DKK300,000 will be available for banks that have not joined the scheme	▪ Low given high levels of participation in the guarantee scheme

The Danish guarantee scheme will provide support the funding capability of the financial institutions

4. Danish rescue package

4.2 Preliminary observations

- Danish package addresses short / medium term liquidity and funding issues through the guarantee scheme for unsecured banking debt
  - Covered bonds, which play a significant role in the domestic banking system are not guaranteed. Germany pledged to support Pfandbriefe in the short term and has bailed out Hypo Real Estate Bank, also to avoid a collapse of the covered bond market where HRE is a key player

- Most of European countries have provided their banks with the opportunity to have direct capital support either through hybrid capital (core capital / Tier 1 securities) or underwriting of rights issues. Investors and counterparties are increasingly focusing on default risk when assessing quality of guarantees provided

- Cross banking industry guarantee and worsening quality of assets across the board combined with weak macro outlook likely to impact on future earnings expectations and capital ratios of the domestic banks, thus also limiting scope for future capital accumulation
  - Potentially negative effects on Danish economy from banks reducing loan portfolios as a consequence of capital restrictions

- Danish rescue package currently compares less favourably to those of other jurisdictions and in our opinion, it will require a capital intervention to bolster equity of domestic banks and prevent systemic risks in the future

5. Structural options

5. Structural options

5.1 Structural options for Government capital injections

Summary table of structural options for Government capital injections

Capital type	Instrument	Maturity	Yield	Issues to consider
Core Tier 1	Ordinary shares (e.g. UK)	Perpetual	?	■ No enhanced yield – all upside and downside ■ Simple, easy to structure and understand ■ Dealing with voting rights / mandatory offer threshold ■ Need for AGM and pre-emption
Core Tier 1	Equity Linked Core Tier 1 securities ("ELCT1") (e.g. Netherlands)	Perpetual	c. 8.5%	■ Enhanced yield but capped upside ■ No AGM required, no pre-emption required ■ Buyback rights / redemption assist efficient exit ■ Complex structure
Core Tier 1 (c.80%)	Enhanced equity securities (e.g. Unicredit)	Perpetual	c. 6% – 8%	■ Enhanced yield and no capped upside ■ Issue price per share higher than equivalent equity or ELCT1 ■ Need for AGM and pre-emption ■ Complex structure
Core Tier 1 (c.80%)	Mandatory convertible securities (e.g. UBS)	Conversion after 3 years	c. 6% – 13%	■ Coupons and senior / subordinated debt obligations ■ Initial issue price equivalent to equity ■ Actual dilution reduced if share price rises by maturity ■ Need for AGM, relatively complex structure
Tier 1	Preference shares plus warrants (e.g. Warren Buffet / Goldman Sachs)	Perpetual	c. 8% – 10%	■ Yield is more reliable - some downside protection ■ Warrants provide taxpayer with upside ■ Redemption provides efficient exit
Tier 1	Preference shares (e.g. UK)	Perpetual	10%+	■ Yield is more reliable and some downside protection ■ No upside beyond yield ■ Redemption provides efficient exit

Key driver is the extent of the need for Core Tier 1 relative to Tier 1 capital

5. Structural options

5.2 *Pricing considerations*

EU State aid

- EC is focused on ensuring a degree of pricing consistency between the various Government recapitalisation packages
- Surprisingly high degree of detailed scrutiny and questioning should be expected from EC (e.g. public questioning of Commerzbank deal)
- Rothschild can provide detailed support in defending the package

Appropriate returns for taxpayers

- Policy objectives are not just related to achieving good economic returns (focus more on financial stability)
- Nevertheless, it is essential that any capital injection can withstand political, press and public scrutiny

Key issues

- Pricing of equity: set with reference to recent average share price, or at a modest discount (provided fundamental valuation is objectively low) – however one should also take into account drastic falls in the share price that may result due to lack of Government intervention
- Pricing of preference shares : Consider risk profile of entity – to be guided by EC view of 10% minimum (in Euros)
- Pricing of options: Correctly value embedded derivative elements within any structure using appropriate pricing models (Black & Scholes, Trinomial etc.)
- Fees / expenses: consider forcing each bank to pay all the government costs (legal, financial advice etc.) as in Netherlands

We can help navigate a course through these complex areas

6. Rothschild's expertise

Uniquely positioned to advise Governments in the current crisis

1 Major involvement in current crisis-driven bank recapitalisations and rescues

- Adviser to France on Dexia; Germany on IKB; Alliance & Leicester lead adviser; Advised potential purchasers of Lehman Brothers, Northern Rock and Fortis shortly prior to collapse / rescue; Rescue sales of Lehman Asia and Kensington Mortgages

2 Major involvement in FIG strategic advice, M&A and financings – around the world

- Key clients: Santander, Deutsche Bank, UBS, Société Générale, Crédit Agricole, ABN AMRO, Bank of China, EFG Hermes, Bayern LB, Erste Bank, Banques Populaires, BBVA, Itau, Intesa, Monte Paschi di Siena, Old Mutual, Royal & Sun Alliance
- Top 3 European FIG adviser for the past five years

3 Leading independent adviser in the equity markets

- Advised on $220bn of equity capital raisings including the only major IPO currently planned in Europe (Deutsche Bahn)
- Access to and regular dialogue with all major long-only and alternative investors

4 The adviser of choice in the debt markets

- Largest and most experienced independent debt advisory practice
- 2008 Acquisitions Monthly Debt Advisory House of the Year
- Completed complex debt advisory projects for both corporate clients (e.g. BA, BAA, Royal Mail, Ericsson), private equity clients (Providence, Cinven, Apax, Blackstone) and Government organisations including the UK, Danish and Hong Kong Governments

5 Confidence in our independence and discretion

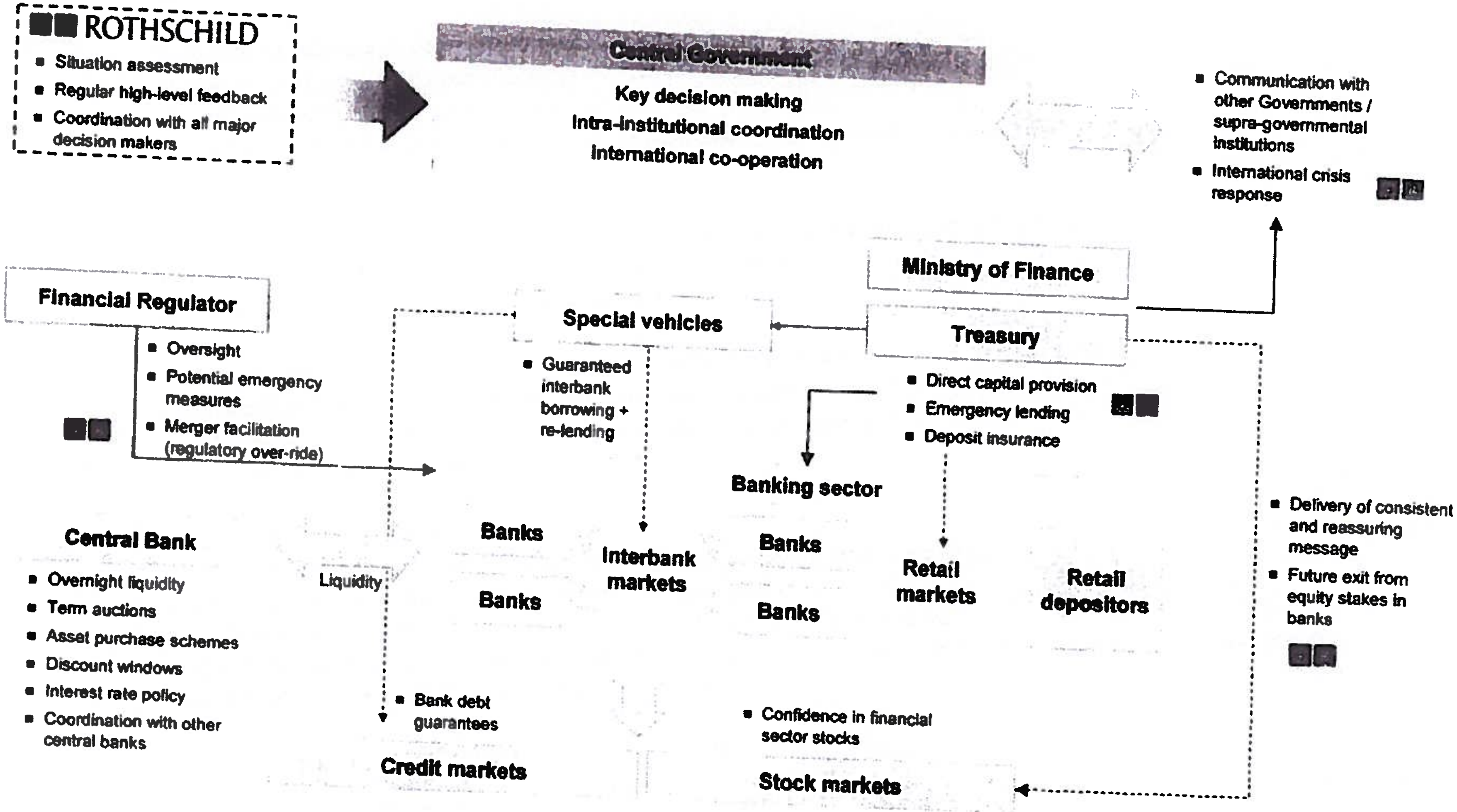
- As a pure adviser, Rothschild has freer dialogue with candidate banks on their strategy and business plans than the integrated banks that they compete with globally
- Frequently asked by Banks to provide Board level governance and strategic advice because we do not compete with them
- Experience to judge strategy, risk and where next options for the candidate banks with an unbiased and discrete approach

6 An adviser who understands Government

- Rothschild has led Government transactions over 35 years
- Unrivalled track record in major privatisations – 55 deals in the last five years. Understand language of Government, the need to be defensible to public scrutiny and the European state aid framework

6. Rothschild's expertise

6.1 Where Rothschild can add value



6. Rothschild's expertise

6.2 Where Rothschild can add value (continued)

1 **Structuring creative capital and support packages**
- Comprehensive evaluation of bank capital requirements; relative benchmarking analysis: case-by-case vs. blanket solution
- Structuring of the investment instrument – nature, price / discount, duration, terms
- Negotiation/implementation of holistic solution (including debt)
- Advice on corporate governance; assessment of impact of other constraints and tights
- State aid (where European)

2 **Impact on counterparties eg: insurers**
- Assessment of counterparty risk (on counterparties and investment banks)
- Planning for unintended consequences: housing support / pooling repossession funds
- Other sources of capital: asset side (mezzanine funding), resource side (sale of Government assets)

3 **Governance – where independence is crucial**
- Advice on management of resultant assets (in part nationalisation)
- Governance: to Government shareholder, on Bank governance and in communication to the market

4 **Refinancing / restructuring**
- Detailed structuring of the loan; assessment of Government risk and fairness of the terms
- Evaluation of attached equity instruments
- Ratings advice (sovereign and corporate)
- Advice on protection of depositor, creditor and shareholder interests

5 **Merger facilitation**
- In-depth understanding of banks involved
- Valuation and merger impact analysis
- Advice on protection of depositor, creditor and shareholder interests

A. Overview of Government assistance to date

Summary of major financial institution failures / bailouts

Summer 2007

Entity	Tot. assets	"White knight"	Method	Stakeholders protected		
				Deposit holders	Senior debt holders	Equity holders
IKB	€50bn	German Gov't Lone Star	Emergency funding Distressed sale	✓	✓	×
Northern Rock	€125bn	UK Government	Emergency funding Nationalisation	✓	✓	×
Bear Stearns	€253bn	JP Morgan	Government-assisted takeover	✓	✓	~
IndyMac Bank	€20bn	US FDIC	Insolvency FDIC administration	✓	×	×
Fannie Mae	€561bn	US Government	Conservatorship Government funding	n/a	✓	×
Freddie Mac	€557bn	US Government	Conservatorship Government funding	n/a	✓	×
Lehman Brothers	€402bn	None	Chapter 11 bankruptcy Distressed sales	×	×	×
AIG	€665bn	US Government	Government loan Part-nationalisation	✓	✓	×
HBOS	€838bn	Lloyds TSB	Government-assisted takeover	✓	✓	✓
Washington Mutual	€199bn	JP Morgan	Receivership Distressed sale	✓	×	×

September 2008

A. Overview of Government assistance to date

A.1 Summary of major financial institution failures / bailouts

	Entity	Tot. assets	"White knight"	Method	Stakeholders protected		
					Deposit holders	Senior debt holders	Equity holders
Since September	Bradford & Bingley	€65bn	UK Government Abbey (Santander)	Government-assisted takeover	✓	✓	x
	Fortis	€886bn	Benelux Govt's BNP Paribas	Direct capital from Government	✓	Most	x
	Hypo Real Estate	€400bn	German Government	Emergency Government funding	✓	✓	~
	Dexia	€577bn	French & Belgian Governments	Direct capital from Government	✓	✓	~
	Glitnir	€30bn	Icelandic Government	Nationalisation	Some	?	x
	Landsbanki	€32bn	Icelandic Government	Nationalisation	Some	?	x
	Kaupthing	€53bn	Icelandic Government	Nationalisation	Some	?	x
	UBS	€1,292bn	Swiss Government	Direct capital from Government	✓	✓	~
	ING	€1,370bn	Dutch Government	Direct capital from Government	✓	✓	~
	KBC	€377bn	Belgian Government	Direct capital from Government	✓	✓	~

A. Overview of Government assistance to date

A.1 Summary of major financial institution failures / bailouts (cont'd)

Since September

Entity	Tot. assets	"White knight"	Method	Stakeholders protected		
				Deposit holders	Senior debt holders	Equity holders
Six French Banks ■ Société Générale ■ Crédit Agricole ■ BNP Paribas ■ Caisse d'Epargne ■ Crédit Mutuel ■ Banque Populaire	 € 1,076bn € 1,465bn € 1,817bn € 540bn € 553bn € 360bn	French Government by way of subordinated debt	Direct capital from Government: €10.5 bn total	✓	✓	✓
National City Corp	US$144 bn	PNC	Government-assisted takeover	✓	✓	×
Nine US Banks ■ Goldman Sachs ■ Merrill Lynch ■ Morgan Stanley ■ Bank of America ■ BoNY Mellon ■ JP Morgan ■ State Street Corp ■ Citigroup ■ Wells Fargo	 US$ 1,081bn US$ 876bn US$ 987bn US$ 1,831bn US$ 198bn US$ 2,251bn US$ 145bn US$ 2,050bn US$ 622bn	US Government by way of senior preferred stock with stapled warrants	Direct capital from Government: US$125 bn total	✓	✓	✓

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A. Overview of Government assistance to date

A.2 Case study – United States

The US Government has actively tackled the liquidity shortage in the commercial paper markets while also facilitating a wide array of corporate bailouts, guarantees and bank transformations

As a result, under 50% of the Fed's balance sheet is now in unencumbered treasuries (historically this has rarely fallen below 90%) – the rest has been lent to banks against various (increasingly broadening) forms of collateral

Policy action	Comments	Cost / exposure
■ Pumping liquidity into the system ■ Special liquidity schemes	■ Term Auction Facility (TAF) introduced in December 2007 to offer extended liquidity to banks via increased fortnightly term loan auctions ■ Term Securities Lending Facility (TSLF) approved in March 08: a $200bn programme with a wider range of accepted collateral ■ Prime Dealer Credit Facility: emergency liquidity for brokers [1] ■ Swap lines with major central banks around the world to support dollar auctions abroad, which are conducted in parallel with the TAF. Since Oct 08, unlimited amounts are being made available at fixed rates ■ The Fed is also offering a backstop on 3 month commercial paper from high-quality issuers under a purchase programme announced in Oct 08: unsecured CP will be priced at 200bps over the 3m overnight index swap rate, while asset-backed CP will bear an extra 100bp premium	■ TAF: $150bn currently outstanding ■ TSLF: $200bn currently outstanding ■ Currency lines with central banks around the world: currently $277bn – but not capped ■ CP - intended purchase quantity unknown
■ Nationalisations	■ Fannie Mae and Freddie Mac taken into conservatorship in Sep 2008 – The Treasury can purchase Fannie and Freddie senior preferred securities (up to an 80% stake in each) or even MBS directly - and the Fed can lend to the agencies as and when needed ■ AIG - 80% nationalised in return for an immediate government loan[3]	■ $25bn weighted estimated cost of conservatorship [2] ■ Guarantees: limited only by the agencies' collateral ■ $150bn of support to AIG
■ Arranging / facilitating transactions between institutions	■ JP Morgan's takeover of Bear Stearns was government-assisted ■ The Government also seized Washington Mutual's assets before selling them to JP Morgan for $1.9bn in Sep 08 ■ The Federal Deposit Insurance Corporation's (FDIC) support of Citigroup's (failed) takeover of Wachovia would have seen the FDIC guaranteeing any losses of Wachovia's $312bn loan book above $42bn, in return for $12bn of preferred stock and warrants in Citigroup ■ PNC Financial became one of the first recipients of direct capital support under the EESA (see overleaf), using part of a $7.7bn cash injection by the Treasury to fund its takeover of distressed rival National City in Oct 08	■ $29bn of Bear obligations now held in an SPV

Notes

1 Access to credit under this facility allowed Goldman Sachs and Morgan Stanley to make the transition to bank holding company status

2 The final cost to the Government of the Fannie and Freddie bailout will depend on the agencies' future losses, offset by the return they make on the new loans and senior preferred stock injected by the federal authorities

3 The Fed will buy $40bn of AIG 10% preferred shares, lend it $60bn under a five-year credit facility at LIBOR+3% and provide $50bn to buy distressed securities and backstop AIG's securities lending portfolio. The Government's equity stake in the insurer will be about 80%

A. Overview of Government assistance to date

A.2 Case study – United States (cont'd)

The $700bn "bailout package" is a comprehensive set of policy instruments granting the Government great powers to provide liquidity to banks and, on a voluntary basis, to participate in their preferred equity

Policy action	Comments	Cost / exposure

■ Direct capital support	■ EESA[4] ("bailout package"): passed through Congress on second try
	– Initial plan was to allow Government to buy up to **$700bn** of toxic assets from US banks in return for a non-voting stake in the banks that are helped. This would include MBS and whole loans, as well as an insurance program for troubled assets
	– The Government announced in Oct 08 that **nine**[5] large financial institutions had already agreed to partake in the scheme (**$125bn** total injection), with the Government receiving callable preference shares in the banks yielding **5%**[6], with stapled warrants
	  – Securities issued to the Treasury under this scheme may be counted towards Tier 1 capital under a special interim rule
	  – Scheme set to extend to thousands of smaller US lenders
	– Corporate governance conditions are attached to the scheme
		■ **$700bn** ($250bn of which immediately)
		■ Funded by issuance of Treasury securities into international markets
		■ First nine recipients to receive $125bn in capital via preference share issue

■ Government funds to buy assets	■ Money Market Investor Funding Facility: – The New York Fed is providing senior secured funding to a series of special purpose vehicles established by the private sector to finance the purchase of money market instruments from eligible investors – Eligible assets include dollar-denominated CDs, bank notes and commercial paper issued by highly rated financial institutions and having remaining maturities of 90 days or less – Eligible investors include US money market mutual funds and over time may include other U.S. money market investors ■ Citigroup rescue package (Nov 08) included a 90% guarantee on a $306bn asset portfolio (after $29bn first-loss to Citi) and additional warrants worth $2.7bn, as well as a top-up injection via prefs	■ Maximum Fed lending under the facility: $540bn ■ Citigroup: additional injection in Nov 08 included partial guarantee
■ Deposit insurance	■ The FDIC insures up to $250k per deposit at insured banks – but the fund's size is rapidly falling as it takes on more distressed assets ■ In Oct 08 the Government announced that the FDIC would "immediately and temporarily" insure non-interest-bearing transaction accounts which were used mainly by small businesses to cover day-to-day operations	■ IndyMac: $9bn estimated cost of deposit insurance

Notes

4 Emergency Economic Stabilisation Act 2008

5 Bank of America, BoNY Mellon Citigroup, Goldman Sachs, JP Morgan, Merrill Lynch, Morgan Stanley, State Street and Wells Fargo

6 The preferred shares rank pari passu and are callable at par after 3 years. They may be redeemed beforehand with the proceeds from a qualifying equity offering. The Treasury will also receive warrants to purchase common stock (up to 15% of the senior preferred investment)

A. Overview of Government assistance to date

A.2 *Case study – United States (cont'd)*

Policy action	Comments	Cost / exposure
■ Bank debt guarantees	■ The FDIC has been granted the flexibility to offer a 100% guarantee on new senior unsecured non-subordinated debt issued by banks, thrifts and certain holding companies (issued before June 2009, guarantee for up to three years), as well as on non-interest bearing transaction deposit accounts (announced in Oct 08) – 75bp annualised fee for the senior unsecured debt insurance	■ Estimated $1.4 trillion in bank debt could be covered
■ Monetary policy decisions	■ Rate cuts: Sep 07 (50bps), Oct 07 (25), Dec 07 (25), Jan 08 (75+50), Mar 08 (75), Apr 08 (25) and Oct 08 (50+50) – now at 1.0% ■ Lengthening the term and reducing the interest rate on direct loans to banks via the discount window (which was opened to investment banks)	■ Unquantifiable
■ Regulatory amendments	■ Various powers granted to the Treasury, Fed and FDIC (some temporary) – including the authority to purchase and insure mortgage assets, and to purchase "any other financial instrument" that the Government deems necessary to stabilize financial markets ■ Additional regulatory powers introduced to oversee the EESA and other bank assistance: an Oversight Board, on-site visits by the General Accounting Office, and the creation of a Special Inspector General ■ Additional flexibility to homeowners to refinance mortgages ■ Temporary restrictions on selling of financials	■ Numerous new laws are set to emerge

A. Overview of Government assistance to date

A.3 Case study – United Kingdom

The actions of the UK Government until recently largely mirrored those of the US, with liquidity being injected into the market, as well as special assistance for bank consolidation – including two high profile nationalisations

However, the move to guarantee band debt and take direct preference and equity positions in the country's largest banks set a precedent for the rest of Europe – and indeed the US

Policy action	Comments	Cost / exposure
■ Pumping liquidity into the system	■ Long and short term repo operations by the Bank of England (BoE) have been significantly expanded with wide range of collateral allowed ■ US dollar tenders at 7, 28 and 84 day maturities to offer unlimited amounts at a fixed interest rate against all eligible collateral ■ Permanent Discount Window to supply 30-day liquidity at any time ■ Disclosure on overnight standing facility use laxened to boost usage	■ £100bn of extra liquidity before the introduction of the Discount Window
■ Direct capital support	■ The eight largest retail banks pledged to increase their capital by at least £25bn and can receive capital from the government to do so – An additional £25bn in extra capital has been available from the government in exchange for ordinary and preference shares in the banks – Conditions relating to dividend policy, executive compensation and small business lending are all attached to the scheme – The first investments made under the scheme were in RBS and upon successful merger, Lloyds TSB and HBOS, totalling £37bn, which will raise all these banks' Tier 1 capital ratios above 9% ■ The Government will underwrite the three institutions' open offers of common shares (totaling £28bn) and invest in 12% preference shares (remaining £9bn)	■ £50bn scheme to supply Tier 1 capital to banks, of which up to £37bn is already set to be deployed
■ Special liquidity schemes	■ Special Liquidity Scheme (SLS) announced in Apr 08: £50bn plan to allow banks to swap existing mortgage-backed and other assets for Treasury Bills for periods of one year (extendible by three years) – The risk of losses on the assets stays with the banks, who must provide additional collateral or return some of the Bills if this occurs – Scheme expanded to a total of £200bn in Oct 08, and the drawdown period extended indefinitely with collateral rules further amended	■ The current size of an SLS-type arrangement is now unlimited ■ Risk of falling values of collateral pledged under the scheme is borne by the banks
■ Bank debt guarantees	■ Government guarantee of up to a total of £250bn on new short/medium term debt issuance made available to banks on "commercial terms" ■ The guarantee, designed to kick-start interbank lending, will be initially made available to the same eight banks considered "eligible" for the £50bn extra capital facility	■ Up to £250bn exposure

A. Overview of Government assistance to date

A.3 Case study – United Kingdom (cont'd)

There has been a substantial effort in the UK to cement many of these measures in new legislation that expands the powers of the Tripartite Authorities[1] to stabilise the financial system

Policy action	Comments	Cost / exposure
▪ Nationalisations	▪ Northern Rock was granted emergency support by the Bank of England in Sep 07 before being nationalised in Feb 08 ▪ Bradford & Bingley nationalised in Sep 08, with Abbey (Santander) buying the savings business while the Treasury acquired the mortgage and loan portfolio, becoming entitled to all wind-down proceeds	▪ Northern Rock funding: £27bn at end 2007 ▪ Six month guarantee of B&B's wholesale deposits and borrowings
▪ Deposit insurance and guarantees	▪ Compensation limit on bank deposits increased from £35k to £50k ▪ The government also fully guaranteed savings held with Icesave, a UK subsidiary of the nationalised Icelandic bank Landsbanki	▪ The limit could be raised ▪ c.£4bn in Icesave
▪ Arranging / facilitating transactions between institutions	▪ Lloyds-HBOS merger pushed through the Competition Commission by government powers to act in the "national interest" to execute the deal ▪ The Treasury and Financial Services Compensation Scheme paid to ensure the transfer of Bradford & Bingley's retail deposits to Abbey ▪ Recent building society consolidation approved by Board Resolution only, under powers granted to the FSA to expedite the process	▪ £19.1bn paid to effect transfer of B&B's retail deposits to Abbey
▪ Monetary policy decisions	▪ Rate cuts: Dec 07 (25bps), Feb 08 (25), Apr 08 (25), Oct 08 (50) ▪ Unprecedented **150bp rate cut** in Nov 08, taking the base rate to 3.0%	▪ Unquantifiable
▪ Regulatory amendments	▪ Restrictions on short selling financial institution stocks (Sep 08) ▪ A one-year rise in stamp duty exemption, from £125k to £175k was announced in Sep 08 to attempt to kick-start the housing market ▪ Powers to be granted to the Bank of England to seize the assets and take control of failing banks once they have been identified by the FSA, which will also be given increased powers to oversee balance sheets ▪ The Tier 1 capital facility and bank debt guarantees announced in Oct 08 all come with conditions about bank governance, liquidity, lending practices and executive compensation limits ▪ Government also moving forward with an "internationally agreed proposal" for colleges of supervision and other measures to improve supervision of the system	▪ £600m estimated cost of stamp duty exemption ▪ Taxpayers could potentially benefit from the preference shares that the government is acquiring in certain eligible banks

Note
1 The Tripartite Authorities, who share responsibility for maintaining financial stability in the UK, are the Treasury, the Financial Services Authority and the Bank of England

A. Overview of Government assistance to date

A.4 Case study – European Central Bank / European Union

The European Central Bank's wider range of collateral accepted in repo auctions (which pre-dates the credit crunch) has been helping many continental banks through the credit crisis – however, there is concern that recent further measures to boost liquidity have made the ECB a lender of first rather than last resort to large European banks

Policy action	Comments	Cost / exposure
▪ Pumping liquidity into the system ▪ Special liquidity schemes	▪ Has been consistently injecting additional liquidity into the market since Aug 07, through additional monthly repo auctions (LTROs) ▪ Uncapped below-rate auction in Dec 07 (accepted all bids at 4.21% or above), leading to a record €349bn two-week facility to help banks over the year-end (similar facilities made regular until March 2009) ▪ Extended participation in Fed's Term Auction Facility (TAF) programme to ensure dollar liquidity in European markets, including the introduction of 84-day facilities, now available without limitation ▪ Expanded the list of collateral accepted in credit operations, with the credit threshold for non-marketable assets lowered from A- to BBB-	▪ €200bn+ currently outstanding under extra long term repurchase operations (3m and 6m) in addition to normal monthly auctions ▪ Uncapped support for Fed's TAF programme ▪ $240bn reciprocal swap agreement with US Fed – now also uncapped
▪ Monetary policy decisions	▪ Interest rate on Main Refinancing Operations (MRO) increased by 25bps in Jun 07 and again in Jun 08 in a crusade against inflation ▪ However, joined other central banks in 50bp cuts in Oct and Nov 08	▪ MRO rate now at 3.25%
▪ Arranging / facilitating transactions between institutions	▪ The ECB and the Eurozone's 15 Central Banks do not have the power to shore up institutions facing a solvency crisis ▪ However, the presence of ECB President at the talks to rescue Fortis was a clear show of support for Eurozone governments taking action	
▪ Deposit insurance	▪ Subject to national arrangements – e.g. many Eurozone governments have guaranteed all bank deposits for 2-3 years ▪ The ECB has indicated strong support for a minimum of €50k across the Eurozone, with ministers calling for €100k (Oct 08)	
▪ Establishing government sponsored funds to alleviate the crisis	▪ EU talks in Paris in Oct 08 led to an agreement that joint action was needed to support financial institutions – however, no joint fund was created, and separate national measures have been announced ▪ A c.€20bn EU fund has also been announced to help small businesses	▪ c.€20bn SME fund ▪ Other national funds (e.g. French fund to protect the economy and create jobs)
▪ Regulatory amendments	▪ EU budget rules - requiring Eurozone states to keep their budget deficits below 3% and overall public debt below 60% of GDP - would be adapted to deal with the current "exceptional circumstances"	▪ Impossible to estimate potential impact on government deficits

A. Overview of Government assistance to date

A.5 Case study – Germany

German banks have benefited from the ECB's greatly enhanced lending facilities for short term liquidity

The role of the Government has been more focused on helping troubled regional banks with exposure to the subprime markets – its seven Landesbanken have already written down around €15bn of subprime exposure

This role was dramatically expanded with a €500bn rescue package announced in Oct 08

Policy action	Comments	Cost / exposure
▪ Direct capital support	▪ Up to €70bn of a €500bn "rescue package" announced in Oct 08 to be used to take equity stakes in banks through a Government fund – Among the stringent conditions set to qualify are a €10bn cap on capital infusion and an initially contemplated limit of €500,000 on executive compensation (later backed down from this position) – The official line is that participating banks must agree to discontinue bonuses unless the sum of bonuses and fixed pay is "appropriate" ▪ An additional €20bn will be set aside for provisions under the facility ▪ Finally, €10bn can be used to directly acquire assets from banks, which could be placed into Government-guaranteed "bad banks" ▪ The use of the facility is voluntary – Commerzbank became the first to use it (€8.2bn), and some Landesbanken have followed suit	▪ €100bn committed ▪ So far used by – Commerzbank €8.2bn – LBBW €5bn
▪ Nationalisations	▪ Orchestrated a €50bn joint bailout of distressed property lender Hypo Real Estate (Oct 08), with a consortium of banks putting up €30bn of the package, having earlier withdrawn their support for a €35bn deal – The plan had called for Hypo Real Estate to use €42bn in assets, mostly government debt, as collateral ▪ The state also shouldered up to €6bn in two consecutive bailouts of IKB in 2007 before it was sold to Lone Star in Aug 08	▪ Direct support €20bn ▪ Government's guarantee for Hypo worth c.€27bn ▪ c.€6bn for IKB
▪ Interbank loan guarantees	▪ Pledged €400bn in interbank loan guarantees with maturities of up to 36 months. This facility will bear at least a 2% charge for use ▪ The Government will also take "short term" steps to guarantee "pfandbriefe" (covered bonds)	▪ €400bn maximum intended exposure ▪ Has been used by several German banks
▪ Deposit guarantees	▪ Announced in Oct 08 a full guarantee for all private deposits in German banks (excluding commercial deposits)	▪ c.€570bn would have been covered at end 2007
▪ Arranging / facilitating transactions between institutions	▪ The State of Saxony provided guarantees of €2.75bn in the fire-sale of troubled Sachsen LB to LBBW in Sep 2007 ▪ LBBW claimed to be seeking merger talks with Bayerische Landsbank following its €5bn capital injection from the Government in Nov 08	▪ €2.75bn exposure

A. Overview of Government assistance to date

A.6 Case study – Benelux

With some of the most internationally exposed banks in Europe based in the region, the Benelux Governments have taken collective measures to rescue Fortis and – in conjunction with the French government – shore up the capital strength of Dexia

The Dutch Government then followed with a direct €10bn injection into ING – on the back of similar moves in the UK and in the US

Policy action

- Nationalisations
- Direct capital support

Comments

- **Fortis** – a joint investment of €11.2bn by the three Benelux governments on 29 Sep 08 was to be made in return for a 49% stake in Fortis' banking operations in each country
  - The Dutch government (having originally intended to invest €4bn) subsequently announced that it was acquiring 100% of Fortis Banking and Insurance Netherlands, including Fortis' share of ABN Amro Holding NV, raising its investment to €16.8bn
  - The Belgian government acquired the remaining 50% + 1 share of Fortis Banque Belgium for €4.7bn, at the same time transferring a 75% controlling interest in the entity to BNP Paribas for €8.25bn, who also acquired Fortis' Belgian insurance activities
  - The Luxembourg government sold 16% of the Fortis' Luxembourg banking operations that it had acquired a stake in to BNP
- **Dexia** – the Belgian authorities and institutional shareholders agreed to invest €3bn into new equity in Sep 08, with the French government and CDC also investing €3bn and the government of Luxembourg investing €376m in the form of convertible bonds
  - The three governments shortly undertook to guarantee new interbank and institutional deposits and financing with Dexia, as well as new bond issuance for institutional investors (max 3 yrs.)
- Both transactions involved the departure of senior management
- **ING** – the Dutch Government has injected €10bn into ING in a deal structured to not dilute existing shareholders, thereby making use of a €20bn fund to be used by banks to improve their capital position
  - The Government will make at least 8.5% interest on its shares but only if common dividends are paid by ING in the respective period
  - ING's Core Tier 1 ratio boosted to 8% and Tier 1 above 10%
  - ING can buy back the securities at €15 per share at any time
  - The Government appoints two members to the Supervisory Board
- **SNS Reaal** – the Dutch Government has injected €750m into SNS Reaal in Nov 08 under the same fund and on similar terms to the investment in ING (see above)

Cost / exposure

- €16.8bn cost to Netherlands Government
- €1.15 effective cost to Belgian Government
- €1.75 estimated cost to Luxembourg Government

- €3bn Belgium
- €3bn France
- €0.3bn Luxembourg (convertible bonds)

- €20bn fund available
- €13.75bn used to date

A. Overview of Government assistance to date

A.6 *Case study* – Benelux (cont'd)

The Dutch Government's rescue of ING set the precedent for further moves to boost the capital positions of KBC and insurer Aegon, whose share prices had continued their free-fall

Policy action	Comments	Cost / exposure
■ Nationalisations ■ Direct capital support (cont.)	■ Aegon: received a €3bn capital injection from the Dutch Government in Oct 08 – Non-voting securities paying an 8.5% coupon as long as Aegon declares a dividend; the payment also rises over time – Aegon can buy back up to €1bn of the securities at their issue price within the first year, while the remainder must be bought back at 150% of their issue price (like the ING and KBC deals) ■ Aegon will scrap its final dividend for 2008, its board will give up all cash and share bonuses for 2008 and the Government will appoint two supervisory board members ■ KBC: issued €3.5bn of non-dilutive securities qualifying as core capital to the Belgian Government in Oct 08 – Issued at average 3-day closing price (€29.50 per share) – Annual cash coupon set at higher of (up to) 115% of ordinary dividend (if paid) and €2.51 (i.e. 8.5% interest rate) – Proceeds to boost Core Tier 1 capital in the banking business and solvency margin of the insurance business – Core Tier 1 ratio boosted to 8.2%, and Tier 1 to 10.7% – KBC has right to buy back securities at 150% of issue price, but a 1-for-1 exchange for ordinary shares can also be demanded – The State can nominate two members to the Board of Directors	■ €3.5bn for KBC
■ Bank debt guarantees	■ Netherlands – pursuant to the EU agreement, the Government will guarantee up to €200bn of interbank lending ■ Belgium – has extended the terms of the Dexia backing scheme (see above) to all other Belgian financial institutions	■ €200bn Netherlands – maximum intended exposure
■ Regulatory amendments	■ Netherlands – the market regulator has announced that it is taking action against "naked" short selling by submitting appropriate legislation to the Dutch House of Representatives	

A. Overview of Government assistance to date

A.7 Case study – France

The French Government has been at the heart of EU efforts to jointly tackle the financial crisis

Its own set of efforts was announced together with most other Eurozone Governments, and, similarly to plans announced by Germany, Italy and Spain, largely follows the lead of the UK in terms of its structure

Policy action	Comments	Cost / exposure
▪ Direct capital support	▪ Up to €40bn will be placed into a government-created company that will provide capital injections to French banks when needed ▪ The first €10.5bn used to shore up the capital of the six largest banks: – Crédit Agricole (€3bn), BNP Paribas (€2.55bn), Société Générale (€1.7bn), Crédit Mutuel (€1.2bn), Caisse d'Epargne (€1.1bn) and Banque Populaire (€0.95bn) – T1 Ratios to rise by average 50bps – The subscription will be in subordinated loans, hence non-dilutive – The debt will carry an interest of 400bps above the risk free rate – No change in dividend policy will be required, but executive remuneration and "ethics" will have to be reviewed and credit growth targets will have to be met ▪ Participated in the capital increase of Dexia (see "Benelux" section)	▪ €40bn committed in direct capital support (of which €10.5bn deployed in Oct 08) ▪ €3bn invested in Dexia
▪ Bank debt guarantees	▪ Pledged **€320bn** to guarantee new bonds and other bank debt ▪ This will be conducted through an agency that will borrow funds on the interbank money market with state guarantees and loan them on to banks, charging them for the service ▪ The facility will apply to credits with maturities of up to five years that are contracted before the end of 2009	▪ €320bn maximum intended exposure
▪ Deposit guarantees	▪ Subscribed to the pan-European €50,000 deposit guarantee in early Oct 08	
▪ Arranging / facilitating transactions between institutions	▪ The French government has repeatedly declared that it will defend French banks against potential foreign takeovers by third parties seeking to take advantage of cheap valuations ▪ Sepculation that State will give the go-ahead for the planned merger of Groupe Caisse d'Epargne and Banque Populaire to create France's second largest retail bank with €480bn of deposits (25% market share)	
▪ Regulatory amendments	▪ France has taken the lead on an international discussion on changes to accounting standards regarding the treatment of certain financial instruments held by banks	

A. Overview of Government assistance to date

A.8 Case study – Iceland

The most highly leveraged banking sector in Europe has collapsed and is now largely nationalised

National banks were holding assets nine times the small country's GDP and facing expensive funding as the Icelandic currency tumbled

Iceland may not be the last over-leveraged economy in similar trouble: Turkey, Ukraine and Latvia have all been mentioned

Policy action	Comments	Cost / exposure
▪ Nationalisations	▪ The government bought a 75% stake in Glitnir, the country's third largest lender, for €600m in Sep 08, although it expressed the intent to not hold the stake for long ▪ This was soon followed by the nationalisation of Landsbanki, the second largest bank, and Kaupthing, the top lender, in consecutive days ▪ With very high interest rates, inflation at 14%, a dramatically weakening currency, and recent downgrades of the sovereign rating, these moves were effectively forced onto Iceland's government ▪ Attempts to peg the currency to the Euro also failed	▪ €600m for Glitnir ▪ Actual cost to economy is significant and will likely require third party support from other governments / institutions
▪ Guarantees on domestic deposits	▪ Announced a guarantee on domestic – but not foreign – deposits of the nationalised banks, which have been taken over by the "new" banks created to manage the assets and liabilities of the banks ▪ This has led to an array of lawsuits and special meetings focused on finding mutually acceptable solutions with other governments	▪ €2.3bn combined equity of the "new" Glitnir, Kaupthing and Landsbanki
▪ Where next?	▪ Iceland is facing billions in foreign currency debts (estimated at over $62bn) that it will not be able to repay on its own ▪ Initial help was received from other Governments, e.g. Bank of England lending to the UK arm of Landsbanki, loans from other Nordic Governments (an estimated €4bn loan was also envisaged from Russia) before the IMF stepped in ▪ Deal with IMF: Iceland initially granted a two-year $2.1bn loan as part of a larger $10.2bn package co-sponsored by several other Governments – As part of the deal, interest rates were boosted by 600bps to 18% (had been cut from 15.5% to 12%) to help stabilise the currency, which had fallen 50% since the start of 2008 – Similar arrangements (on a larger scale) have since been reached between the IMF and Ukraine / Hungary	▪ €10.2bn package from the IMF

A. Overview of Government assistance to date

A.9 *Case study – Russia*

The Russian stock markets have seen a more than 80% decline in total market value since May 08

The Lehman bankruptcy has also directly impacted major brokers in the country, leading to rapid falls in the major banking stocks

Policy action	Comments	Cost / exposure
■ Special liquidity schemes	■ The Ministry of Finance will be placing excess budgets funds into short-term deposits with 28 banks (rated BB-/Ba3 and above). Currently RUR830bn placed at c.9% ■ Central Bank of Russia (CBR): provision of unsecured loans to 116 Russian banks; first tranche of RUR388bn 35-day ■ RUR950bn subordinated loans to banks (RUR500bn from CBR and RUR450bn from the National Welfare Fund), including to Sberbank (RUR500bn, interest rate of c.8%, maturing in 2019) and VEB (remaining RUR450bn, interest rate 7%). VEB, which is State-owned, then lends to VTB (RUR200bn) and Rosselkhozbank (25bn) ■ Deposit of available funds with commercial banks by the Public Utilities State Corporation and State Fund for the Reform of Public Utilities ■ CBR deposit of foreign reserves with Vneshekonombank to be used for refinancing Russian corporates' and banks' foreign debts in 2008/09 at LIBOR+5%. Maximum loan - $2.5bn, 20 banks and 35 non-banks have applied	■ Total US$173bn
■ Direct capital support	■ RUR60bn from the federal budget to State Mortgage-Lending Agency (AIZhK) ■ RUR175bn taken from the National Welfare Fund to be spent on buying shares and bonds in those Russian companies with high liquidity and ratings ■ RUR200bn from the federal budget to the Deposit Insurance Agency for providing mid-sized banks with capital support	■ Total US$17bn
■ Facilitating bank mergers	■ CBR loans to Vneshekonombank at LIBOR+1% to take over failing banks Svyazbank and Globexbank ■ CBR loan to Gazenergoprombank to take over failing bank Sobinbank	■ Total US$5bn
■ Regulatory amendments	■ Reduction of reserve requirements by 450bps ■ Banks can postpone paying VAT for 3 months ■ Obligatory payments to Deposit Insurance Agency reduced by 23%	■ US$34bn estimated capital release & savings

A. Overview of Government assistance to date

A.10 Case study – Switzerland

The Swiss Government has taken an innovative approach towards its rescue of UBS – by not only purchasing mandatory convertible securities in the bank, but also providing leverage to an SPV created to hold a large portion of UBS' toxic assets

Policy action	Comments	Cost / exposure
■ Funds to purchase toxic assets	■ The Swiss National Bank (SNB) and UBS reached an agreement to transfer up to $60bn of toxic loans from UBS to an SPV – Fund (to be controlled by SNB) capitalised with up to $6bn of equity from UBS and a non-recourse loan up to $54bn from SNB – Loan priced at LIBOR+250bps, maturing in 8 years but may be extended – UBS to sell its equity interest in the fund to SNB for $1 with a call option on the equity once the loan is fully repaid – If SPV's equity declines in value SNB will be able to participate in UBS shares (no more than 100m shares), with details to be defined ■ $49bn of toxic assets already marked for transfer to the SPV by Q1'09, priced at valuations on 30 Sep 2008	■ Up to $54bn non-recourse loan and assumption of UBS' equity in the SPV ■ Mitigated by upside participation in UBS
■ Direct capital support	■ Support offered in Oct 08 to UBS and Credit Suisse. Credit Suisse declined the offer of Government capital, raising c.$10bn from private investors instead ■ UBS – Purchase of $5.2bn of mandatory convertible notes (MCNs) by the Swiss Confederation – MCNs to pay a 12.5% coupon until conversion into UBS shares within 30 months of issuance – Upon conversion, the Government will hold 9.3% of UBS's share capital	■ $5.2bn for UBS
■ Deposit guarantees	■ Under active consideration, but details yet to be announced	
■ Additional liquidity	■ SNB released $7.2bn into their wholesale funding markets in Oct 08	■ $7.2bn additional liquidity

A. Overview of Government assistance to date

A.11 Other countries

	Interbank debt guarantees	Direct capital support	Funds to purchase assets	Other measures
Spain	▪ Up to €100bn dedicated	▪ Can use the €30bn allocated for asset purchases to take stakes in Spanish banks if needed	▪ Up to €30bn	▪ Increased bank deposit guarantee to €100,000
Italy	▪ Will guarantee new bank bonds of up to five years until end 2009, but no figures given	▪ No figures given but will provide "as much as is necessary"	▪ No figures given but will provide "as much as is necessary"	▪ Providing up to €40bn in treasury bills to banks against inferior assets not currently usable as collateral in the Eurosystem
Austria	▪ Understood to be planned if necessary	▪ €15bn ready to be committed as capital: €2.7bn already committed to Erste Bank Group	▪ €85bn special clearing house to be established to buy up illiquid bank assets if necessary	▪ Guaranteed bank deposits up to their full value
Norway	▪ Understood to be planned if necessary	▪ Not currently envisaged	▪ Not currently envisaged	▪ €41bn will be used to allow government bonds to be lent to banks against MBS
Sweden	▪ Offering guarantees on bank loans up to a total of 1.5 trillion kronor (€150bn). Will also guarantee deposits at foreign banks with clients in Sweden if their respective governments are unable to do so	▪ Has set aside 15bn kronor (€1.5bn) in a "financial stabilisation fund" that could buy shares in banks if needed	▪ A fund ready to help banks in trouble has been announced	▪ Increased bank deposit guarantee to €50,000 ▪ Nationalised distressed bank Carnegie amid a trading scandal in Nov 08
Greece	▪ Government guarantee on financing and refinancing needs in 2009. A government representative will hold veto rights to decisions involving dividend policy and executive compensation	▪ Invest up to €5bn to become a preferred equity investor in banks with a 10% coupon	▪ None announced	▪ €8bn lending facility offered to the banks which require a liquidity injection
Portugal	▪ Financing line worth €20bn to guarantee interbank lending	▪ Not currently envisaged	▪ Not currently envisaged	▪ Increased bank deposit guarantee to €100,000 ▪ Nationalised BPN after a significant Q3 loss

A. Overview of Government assistance to date

A.11 Other countries (cont'd)

	Interbank debt guarantees	Direct capital support	Funds to purchase assets	Other measures
Japan	▪ None announced	▪ Will suspend a program of selling shares it bought in banks between 2002-04 (held c.€13bn at the end of March) – and will reverse it	▪ None announced	▪ Will guarantee bank deposits for two years in full ▪ $200bn stimulus package for households and businesses to weather the recession
Canada	▪ Measures expected to be announced within days	▪ None announced	▪ None announced	▪ Measures expected to be announced within days
South Korea	▪ Will guarantee up to US$100bn of banks' foreign currency debt for three years	▪ Pledged to inject US$770m into the Industrial Bank of Korea, the largest lender to SMEs	▪ In talks to contribute to $10bn fund to buy toxic assets in SE Asia	▪ Will inject US$30bn of dollar liquidity into the banking system from foreign exchange reserves
UAE	▪ Will guarantee interbank lending in the UAE	▪ Not currently envisaged	▪ Not currently envisaged	▪ Will guarantee all deposits with local banks indefinitely
Qatar	▪ None announced	▪ Launching a $5.3bn plan to purchase shares in its listed banks (QIA backed)	▪ None announced	▪ None announced
Australia	▪ Will guarantee all term wholesale funding by Australian banks operating in international financial markets	▪ None announced	▪ Doubled the Government's investment in RMBS to A$8bn	▪ Will guarantee bank deposits for three years in full ▪ AUD10.4bn stimulus package
Hong Kong	▪ Did not identify a need to do this	▪ Not currently envisaged	▪ Has expanded the collateral accepted for refinancing operations	▪ Will provide dollars at fixed interest rates for an unlimited amount against pooled collateral ▪ Full guarantee of all bank deposits

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B. Conditions of announced bank recapitalisations

B. Conditions of announced bank recapitalisations

B.1 UK Bank Recapitalisation Fund

Securities that can be purchased	Terms	Implied capitalisation	Dividend policy and corporate governance	Other conditions
■ Preference ■ Ordinary	■ £9bn total preference shares purchased by Government with a coupon of 12% (callable after 5 years) – RBS £5bn – Lloyds £1bn – HBOS £3bn ■ Government will underwrite an aggregate or £28bn of open offers of common stock by RBS, Lloyds and HBOS at an 8.5% discount to their market price on 10 October – RBS £15bn – Lloyds £4.5bn – HBOS £8.5bn	■ Proforma T1: – RBS 12.6% – HBOS 12% ■ Proforma Core T1: – RBS 8.4%[1] – HBOS 9% – Merged Lloyds + HBOS >8.5%	■ No dividends on ordinary shares until the preference shares are repaid in full ■ No bonuses to RBS or HBOS Board members in 2008 (Lloyds' Directors can receive restricted stock) ■ Review of incentive schemes going forward to be linked to long-term value creation ■ The right for Government to agree with Boards the appointment of new independent Non-Executive Directors ■ CEOs and Chairmen of RBS and HBOS to step down	■ The Lloyds and HBOS recapitalisations are contingent on their merger going ahead ■ Banks will maintain, over the next 3 years, the availability and active marketing of competitively-priced lending to homeowners and to SMEs at 2007 levels (subject to interpretation) ■ Banks to demonstrate support for schemes to help people struggling with mortgage payments ■ Government could end up owning up to 43.5% in Lloyds-HBOS and 60% in RBS

Note
1 RBS Core Tier 1 ratio adjusted to reflect methodology used by other UK banks

B. Conditions of announced bank recapitalisations

B.2 US Capital Purchase Plan

Securities that can be purchased	Terms	Implied capitalisation	Dividend policy and corporate governance	Other conditions
▪ Senior preferred with stapled warrants	▪ $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 ▪ 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 ▪ Subscriptions to date: – Bank of America **$15bn** – BoNY Mellon **$3bn** – Citigroup **$25bn** [1] – Goldman Sachs **$10bn** – JP Morgan **$25bn** – Merrill Lynch **$10bn** – Morgan Stanley **$10bn** – State Stree Corp **$2bn** – Wells Fargo **$25bn**	▪ Minimum subscription: 1% of RWAs ▪ Maximum subscription: the lesser of $25bn or 3% of RWAs	▪ These standards generally apply to the CEO, CFO plus the next three most highly compensated executive officers: – Banks to ensure that incentive compensation for executives does not encourage "unnecessary and excessive risks" – Required clawback of any bonus or incentive compensation paid to a senior executive based on statements later proven to be materially inaccurate – Limits on golden parachute payments to senior executives – Agreement not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive ▪ 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)	▪ 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 ▪ 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

Note
1 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

B. Conditions of announced bank recapitalisations

B.3 French bank assistance package

Securities that can be purchased	Terms	Implied capitalisation	Dividend policy and corporate governance	Other conditions
■ Subordinated debt ■ Preference shares	■ €40bn made available to directly invest in French banks ■ €10.5bn already deployed by way of subordinated loans in Oct 2008 to boost the capital of the six largest banks ■ The banks receiving aid: – Crédit Agricole: **€3.0bn** – BNP Paribas: **€2.55bn** – Société Générale: **€1.7bn** – Crédit Mutuel: **€1.2bn** – Caisse d'Epargne: **€1.1bn** – Banque Populaire: **€0.95bn** ■ Government will receive 400bps above the risk free rate (equalling a coupon of c.8% at the time of the announcement) ■ The banks have a five year call option on the debt ■ An earlier reimbursement is allowed in agreement with the Government if the securities are replaced by hybrids of equivalent subordination and nominal value	■ The six banks receiving loans will improve their Tier 1 Ratios by an average of 50bps ■ The subordinated debt will have no impact on Core Tier 1 capital	■ 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 ■ All French banks have agreed to abide by a code of practice setting out these curbs ■ There will not be an impact on dividend policy	■ 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 ■ The same will apply to banks receiving support under the Government's €320bn loan guarantee fund ■ 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 than can be a hybrid of equity and debt instruments

B. Conditions of announced bank recapitalisations

B.4 Swiss Government investment into UBS

Securities that can be purchased	Terms	Implied capitalisation	Dividend policy and corporate governance	Other conditions
■ Mandatory Convertible Notes (MCNs) ■ Ordinary shares	■ $5.2bn in 12.5% MCNs convertible within 30 months ■ Minimum conversion price = "reference price " (the lower of CHF20.24 and the average volume-weighted price over the three days preceding UBS' EGM, subject to a floor of CHF18.21) and maximum conversion price = 117% of the "reference price" ■ The Swiss Central Bank will also have the option to participate in UBS shares (up to 100m new shares) if the value of the equity in their joint toxic-asset SPV with UBS declines	■ USB's proforma Tier 1 ratio at the end of 2008 is expected to be c.11.5%	■ No dividend policy conditions announced ■ UBS has already undergone a corporate governance review (advised by Rothschild)	■ The Swiss Confederation is reserving the right to reduce part or all of its investment by transferring the MCNs to third party investors

Other simultaneously announced measures included a Government loan to facilitate the establishment of an SPV where up to $60bn of toxic loans from UBS would be transferred, with upside to the Government (in the form of equity participation in UBS) if the equity component of the SPV were to lose value following further writedowns on the assets

B. Conditions of announced bank recapitalisations

B.5 Dutch Government investments into ING and SNS Reaal

Securities issued	Terms	Implied capitalisation	Dividend policy and corporate governance	Other conditions
▪ Core Tier 1 securities	▪ €10bn ING; €750m SNS ▪ Newly issued non-voting deeply subordinated Core Tier 1 securities ranking pari passu with ordinary shares ▪ 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 ▪ Pay the higher of a fixed coupon of 8.5% or up to 1.25x the dividend on ordinary ING / SNS Reaal shares, payable only to the extent that dividends are paid on ordinary shares	▪ ING Bank's Core Tier 1 ratio following the transaction: 8% ▪ SNS Reaal's Banking Tier 1 ratio: 10% ▪ SNS Reaal's Insurance solvency 200%	▪ 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 ▪ The State's representatives will thereby have the ability to veto major decisions ▪ ING's and SNS Reaal's Executive Directors have relinquished their 2008 bonuses, and "golden parachute" arrangements have been substantially curtailed ▪ Both institutions have decided to pass over the final dividend for 2008	▪ Some or all of the securities can be repurchased by the issuer for a 50% premium to the issue price at any time ▪ The securities are only transferable with the permission of the issuer and the Dutch Central Bank ▪ SNS Reaal has the additional 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 ▪ SNS Reaal simultaneously raised an extra €500m from its Foundation on similar terms – however, these securities are not convertible

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B. Conditions of announced bank recapitalisations

B.6 Belgian Government investment into KBC

Securities issued	Terms	Implied capitalisation	Dividend policy and corporate governance	Other conditions
▪ Core Tier 1 securities	▪ €3.5bn newly issued non-dilutive Core Tier 1 securities ▪ Issued at 3-day average closing price (€29.50) ▪ Non transferable and non voting ▪ Pay the higher of up to 115% of the ordinary dividend and 8.5% of the issue price, but only to the extent that an ordinary dividend is paid ▪ Rank pari passu with existing ordinary shares	▪ Banking: ▪ Tier 1: 10.7% ▪ Core Tier 1: 8.2%	▪ KBC had already decided to forego all bonuses – either in cash, options or shares – relating to performance in 2008 ▪ The Government has the right to nominate two members for KBC Group's Board of Directors ▪ 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 – Those relating to share issuance or share buybacks – Acquisitions whose value equal more than one quarter of KBC's share capital and reserves – The remuneration policy for the members of the Executive Committee	▪ The securities can be repurchased by KBC for 150% of the issue price at any time (cash settlement) ▪ However, the Government can require that the buyback be settled by a 1-to-1 conversion of the securities into ordinary shares ▪ Furthermore, KBC is entitled to exchange some or all of the securities into ordinary shares (also 1-for-1) from three years after issuance onwards. If KBC chooses to do so, the Government can opt to redeem the securities in cash at 100% of the issue price

B. Conditions of announced bank recapitalisations

B.7 Austrian Government investment into Erste Bank Group

Securities issued	Terms	Implied capitalisation	Dividend policy and corporate governance	Other conditions
▪ Preference shares	▪ €2.7bn newly issued non-dilutive Tier 1 securities ▪ Non transferable, non listed and non voting ▪ Fixed annual interest payment of 8%	▪ Tier 1: 10%	▪ No dividend policy "strings" attached – Erste still intends to pay its 2008 final dividend ▪ Management Board members had already decided to forego their 2008 bonuses ▪ Erste Group will review its remuneration policy with respect to ethical and sustainability standards	▪ The securities will be repaid at 100% of the nominal value at the earliest after five years ▪ Erste Group undertakes to ensure jointly with the savings banks that both Austrian commercial and retail customers will each have access to at least €3bn in credit over the coming three years

B. Conditions of announced bank recapitalisations

B.8 German Government investment into Commerzbank

Securities issued	Terms	Implied capitalisation	Dividend policy and corporate governance	Other conditions
▪ Tier 1 securities	▪ €8.2bn newly issued non-dilutive Tier 1 securities (in two €4.1bn tranches) ▪ Non transferable, non listed and non voting ▪ Dividend-linked coupons on top of base rates of 8.5% and 5.5% interest p.a. ▪ Second tranche includes upside participation in case of share price increase ▪ Subject to dividend payments	▪ Tier 1: 11.2%	▪ No dividends to be paid in 2009 and 2010 ▪ Bonuses for 2008 and 2009 will not be granted ▪ Management Board member's salary and CEO compensation capped at €500,000 for 2008/9 ▪ No changes to current corporate governance structure	▪ Stabilisation fund will also guarantee additional debt securities to be issued by Dec 2009 up to €15m ▪ Committed to paying the silent participation mid-term, given sound capitalisation

C. Case studies

C.1 Adviser to the Dutch government on €750m recapitalisation of SNS Reaal

SNS REAAL

Overview

- Rothschild advised the Dutch government on its €750m capital injection into SNS Reaal, the Dutch banking and insurance group
  - SNS issued to the State a new class of securities that count towards its core Tier 1 capital but have no voting rights and are not dilutive for ordinary shareholders
  - The securities earn a coupon of 8.5% or a multiple of up to 1.25x the ordinary coupon on SNS shares – whichever is higher – but only to the extent that an ordinary dividend is paid
  - The securities can convert into ordinary equity at the issuer's option after three years, and can also be redeemed at a 150% premium to the issue price at any time (cheaper if done within one year)
  - State representation in SNS Reaal's corporate governance structure, as well as some curtails on remuneration and dividends, were part of the terms of the deal
- In addition to the injection from the State, SNS Reaal received €500m from the Stichting Beheer SNS REAAL (the Foundation) on similar terms – although these securities are not convertible
  - The injection allowed SNS Reaal to improve the capitalisation and solvency of its core business in a difficult financial period
- The mandate marked Rothschild's third consecutive engagement to advise the Dutch government on the stabilisation of the country's financial system
  - Previous deployments of the €20bn government fund dedicated to meeting bank and insurer recapitalisation requirements were a €10bn investment into ING and a €3bn injection into AEGON – both advised on by Rothschild

Selected issues arising

- The negotiations were conducted within a tight timeframe and had to be completed before SNS Reaal's Q3 2008 results announcement (13 Nov 2008)
- Care had to be taken to ensure the instrument would not contravene EU legislation on State Aid
- Had to assess the impact of the Foundation's co-investment on the financial ratios of SNS and the risk of the State's instrument
- The stock markets were nervous about the adequacy of banks' and insurers' capital raising measures, so an appropriate and reassuring message had to be delivered in the context of SNS Reaal's own Q3 trading update

Rothschild's added value

- Advised the Dutch state on structuring and valuation of the highly complex instrument
  - Incorporated structural measures into the instrument which protect the interests of the Dutch state
- Provided advice on the appropriate level of capitalisation required by SNS Reaal
- Provided an independent view on the value of SNS Reaal's banking and insurance businesses
- Coordinated the talks between SNS Reaal, the Ministry of Finance and De Nederlandsche Bank (central bank and regulator)
- Advised on dealing with the European Commission (State Aid Department) on the legislative treatment of the instrument

Rothschild's third consecutive engagement with the Dutch Government's banking and insurance recapitalisation scheme

C.2 Adviser to the Dutch government on €10bn recapitalisation of ING

ING

Overview

- Rothschild advised the Dutch government on its €10bn capital injection into ING, the Dutch banking and insurance group
- After announcing its first quarterly loss and following rumours about funding concerns, ING's share price fell sharply on 17 October 2008
  - Impairments on equity, bond and real estate investments, losses due to the collapse of other banks and higher loan loss provisions (e.g. US Alt-A portfolio)
- Rothschild participated in ING / government emergency negotiations over the weekend
  - Advised the government in its response to proposals regarding rescuing ING
  - An important part of a broader solution to stabilise the Dutch financial system and economy post nationalisation of Fortis and ABN AMRO
- The government will buy a new class of securities that count towards ING's core Tier 1 capital but have no voting rights and are not dilutive for ordinary shareholders, redeemable by the issuer
- As a part of the solution, a new corporate governance regime was set in place
  - ING will scrap its final dividend for 2008, and the executive board will take no bonuses – either in cash or shares – for the year
  - The government will take two of the 12 supervisory board seats

Selected issues arising

- Time constraints – the negotiations were conducted on a short notice in less than 72 hours
- Complexity of the US Alt-A portfolio
- The issued instrument was highly complex and illiquid
- Conflicts of interest arising from the use of taxpayer money in support of a financial institution

Rothschild's added value

- Coordination with broader measures taken to underpin the financial sector
- Advised the Dutch state on structuring and valuation of highly complex instruments
  - Provided advice on the appropriate level of capitalisation
- Provided independent view on value and impact of the US Alt-A portfolio
- Devised and introduced important structural improvements to the instrument, protecting the interests of the Dutch state
- Assisted in agreement of an appropriate corporate governance regime
- Rothschild coordinated response between the Ministry of Finance and De Nederlandsche Bank (central bank as well as the regulator)

Rothschild provided high-quality independent advice to the government and mobilised significant resources at a short notice

C.3 Adviser to the French State on €6.4bn recapitalisation of Dexia

Liberté • Égalité • Fraternité
RÉPUBLIQUE FRANÇAISE

Overview

- Rothschild advised the French State in connection with its joint-support of Dexia, together with the Belgian and Luxembourg Governments
- Dexia, a French-Belgian specialist in public financing (local authorities) and project financing , went under pressure notably because of i) the potential downgrade of its Triple A monoline bond insurer subsidiary, FSA, that would trigger needs of additional collateral and liquidity to meet its GIC's portfolio obligations and, ii) losses from its OCI (other comprehensive income) portfolio

The rescue package

- September 30th: €6.4bn capital injection
  - €3.0bn by Belgian federal/regional governments and private shareholders plus €3.0bn by the French government and state controlled companies at €9.9/share (32% premium to previous closing price)
  - €0.4bn by Luxembourg government through convertible bonds
  - Resulted in 26.4% stake to France and 25.4% to Belgium, effectively bringing Dexia under public sector control
- October 7th: Appointment of a new management team, including CEO/chairman
- October 10th: Deposit guarantees covering :
  - New inter-bank, institutional deposits and bond issuances with maturities up to 3 years targeted at institutional investors
  - Valid from Oct 10th to Oct 31st, renewable for 1 year
  - Subject to remuneration in favour of the government

Rothschild's added value

- Supporting the French State in swiftly assessing the liquidity position and short-term needs of Dexia's banking, monoline and financial services activity
- Reviewing the various capital and liquidity support options
- Pricing the liquidity line
- Advising on legal and governance issues
  - Support in the negotiation of the terms of the guarantee
  - Support in the negotiation of the share attributed to the French State

Rothschild acted quickly in helping coordinate one of the few multi-national rescue efforts of the current credit crisis

C.4 Sale of Lehman Brothers Asia Group to Nomura

LEHMAN BROTHERS

NOMURA

Background

- Following the Chapter 11 filing of Lehman Brothers Holdings Inc. on 11 September 2008, the US bank's overseas operations were left without funding from their parent or a business platform
- Rothschild was called in at short notice to find a buyer for the Asia Pacific operations, spanning 10 countries and 3,000 employees
- Our sector specialist teams were on the ground in Hong Kong within hours and, supported by our offices in Singapore, Mumbai and London, ran a competitive process culminating in a sale of Lehman's Asian operations to Nomura – all in just under 70 hours

Location of assets sold

Lehman Brothers Asia:
Capital Markets
Investment Banking
Principal Investments
10 countries
$2.9bn Revenue (2007)
c. 3,000 employees
c.40 entities

Challenges

- Numerous entities for sale under complex ownership structures in ten different jurisdictions and in varying degrees of insolvency
- Deal had to be agreed with US parent, itself under Chapter 11 proceedings
- Critically, the case for sale had to be made to both the Japanese and Hong Kong courts
- Number of parties interested in various assets and parts of the business
- Pressure to sign a deal by open of the markets on Monday morning

Rothschild value added

- Immediate and effective assessment of required transaction structure
- Maintained competitive pressure between parties throughout the weekend
- Coordinated management's response and delivery of a credible equity story
- Demanded and obtained expressions of interest for the whole Asian business in order to maximise franchise value
- Negotiated intensely with regulators, liquidators, lawyers and the courts to make a transaction commercially feasible
- Convincingly met the desired timeline

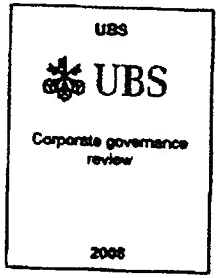
Outcome

- Significant goodwill payment for the Asian business – value for creditors and in contrast to the deals for the US and European businesses
- Lehman's Asian franchise across ten different countries kept intact
- All employees retained and incentivised
- Creation of a powerful regional and global player in investment banking
- All of this achieved in the middle of the most volatile banking environment ever seen

The Lehman Asia transaction highlights Rothschild's ability to move quickly and decisively without compromising the value and quality of our advice or execution

C. Case studies

C.5 Governance case study: UBS



Corporate governance review for UBS AG (Summer 2008)

- Rothschild recently advised UBS AG, one of the world's leading financial firms, on a review of its corporate governance structure
- Changes were required as a result of the perceived governance and risk control weaknesses which had led to UBS's significant writedowns at the end of 2007 and the beginning of 2008
- The main aims of the review were to
  - Ensure a clear separation of roles and responsibilities between UBS's Board of Directors and its executive management
  - Strengthen the oversight role of the Board through the operation of its committees

Rothschild's role

- Conducted a thorough review of international best practices in corporate governance, resulting in, for example, the appointment of a member of the Board as senior independent director (following UK governance practice)
- Helped define role profiles and expectations for members of the Board: Chairman, Vice-Chairman, senior independent director and all Board members
  - Special care was required with the role of the Chairman who had stepped up from an executive position within UBS
- Assisted in formulating including a clear specification of the mandate and scope of operations of all Board committees

Outcome of the review

- Going forward, the Board (which, as required by Swiss banking law, is entirely non-executive) will have a clear responsibility for setting the strategy of the UBS group and will supervise and monitor its business
- The Chief Executive Officer and the Group Executive Board will be fully responsible for the executive management of UBS
- The duties and responsibilities of the former Chairman's Office have now been allocated to a number of Board committees, including a new Risk Committee and a new Strategy Committee
- The remits of the Governance and Nomination Committee and the Human Resources and Compensation Committee have been expanded

Insight into critical corporate governance issues is an essential tool for Governments in the current climate – and Rothschild can deliver independence and expertise

D. Danish banking market overview

D. Danish banking market overview

D.1 Danish banking industry

Macro environment

- The country has entered technical recession (2009 GDP growth outlook -0.4%[1])
- Enjoys a current account surplus (net exporter of food and energy), however it is decreasing sharply - trade balance deficit is expected in 2008
- Low but rising unemployment, inflation increasing sharply

Competitive landscape

- Relatively high number of banks (175, out of which 25 foreign subsidiaries[2]), although the market is dominated by Danske Bank and Nordea
- Most of the Danish banks are small-to-medium sized savings banks
- Particularly the small banks have aggressively expanded their loan portfolios

Credit quality

- Small banks have been criticised for taking imprudent credit risks
- Leverage loans portfolios have grown significantly on the back of Nordic private equity activity
- The Danish government has set up a scheme to guarantee all deposits and claims of unsecured creditors for the next two years. The cost of the scheme is shared by the banks participating in the scheme and the government – the bulk of the minimum cost is borne by Danske (DKK5.0bn), Nordea (DKK3.0bn) and Jyske (DKK0.9bn)

Capital adequacy

- Danish banks have relatively good Tier 1 ratios compared to European peers (in general, from 8 to 10%)

Funding

- High loan to deposit ratio – partly explained by mortgage books / covered bonds
- The state guarantee removes much of the competitive advantage the larger banks stood to gain in relation to funding
- Funding is becoming a major concern amongst the smaller banks

Exotic products

- To date, little evidence of Danish banks having large exposure to structured products, but active participants in global capital markets

Profit outlook

- Return on equity likely to be depressed in a slowing economy, earnings hit hard by the falling property prices
- Re-pricing of risk likely to reduce capital market activity

Icelandic exposure

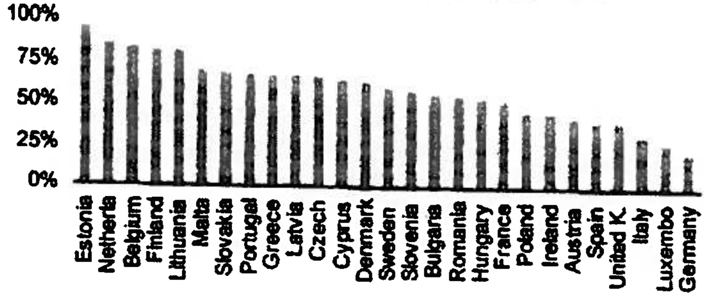
- The Danish banks are in general exposed to Iceland, the full impact of the country's collapse is not yet visible

[1] Source EIU 24/11/08
[2] Source Finansrådet report 2007

Structure of the Danish banking system

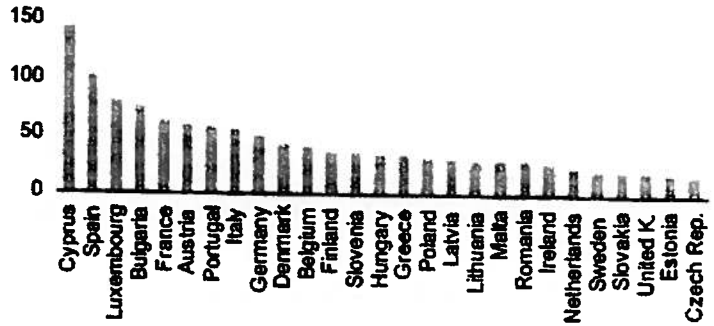
Denmark has a relatively mature banking market with a high level of concentration between largest players

Market share of top 5 banks by assets (2007)



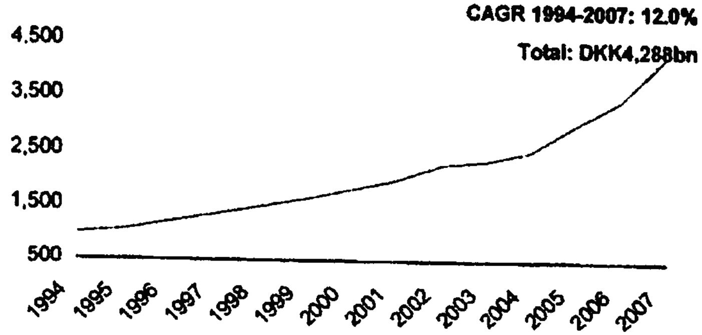
Source European Central Bank

Bank outlets per 100,000 inhabitants (2007)



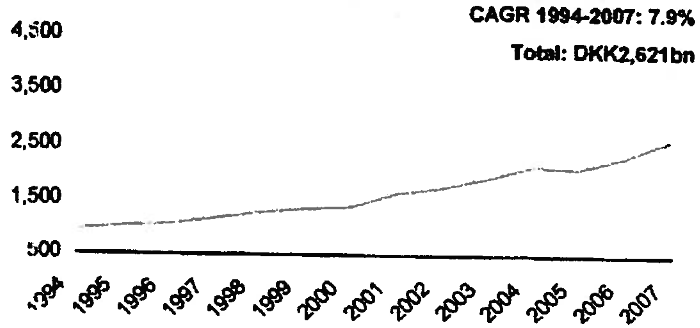
Source European Central Bank

Danish banks assets (in DKK bn)



Source Finanstilsynet

Danish mortgage credit institutions assets (in DKK bn)



Source Finanstilsynet

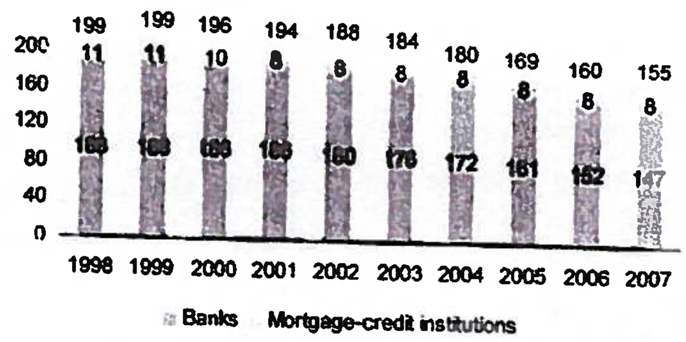
D. Danish banking market overview

D.2 Danish Banking market

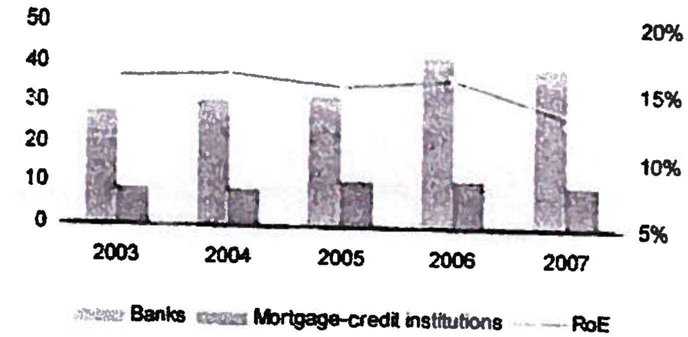
Comments

- The Danish banking system is comprised of 147 banks and 8 mortgage-credit institutions (excluding branches of foreign banks)
- The Danish banking market has experienced a strong growth in assets mainly driven by banks (12.0% CAGR between 1994 and 2007) versus 7.9% for mortgage credit-institutions
  - As a consequence, banks account for 62% of total assets in 2007 versus 50% in 1994
- PBT has also gone through a period of strong growth in the last few years growing at a 2003a-07a CAGR of 7.9% (9.1% for banks vs. 3.9% for mortgage-credit in institutions)
- In the meantime, profitability (pre-tax RoE) has slightly deteriorated to 13.4% in 2007 from 16.0% in 2003, also due to the stronger increase in equity (2003a-07a CAGR of 12.9%, 15.1% for banks and 9.3% for mortgage-credit institutions)
- The Danish banking system has also seen an initial consolidation with a steady decline in the number of banks and mortgage credit-institutions from 199 in 1998 to 155 in 2007
- During the same period, the number of employees in the sector has slightly increased to 49,164 in 2007 vs. 44,743 in 1998 (1.1% CAGR between 1998 and 2007, o/w 1.2% for banks and (0.5)% for mortgage-credit institutions)

Banks and mortgage credit-institutions number



PBT (DKK bn) and RoE (%) evolution



Note RoE calculated as PBT over equity
Source Finanstilsynet

ROTHSCHILD

D. Danish banking market overview

D.3 Benchmarking of selected Danish banks

Key indicators for selected banks (DKKm, as at Q3 2008)

Data as at Q3 2008	Danske Bank	Nykredit Realkredit	Nordea Bank Denmark	Jyske Bank	Sydbank	FIH
Market cap (24-Nov-2008)	46,995	not listed	not listed	6,912	4,388	not listed
Q3 2008e ROE	*8.7%*	*(0.3%)*	*7.6%*	*10.2%*	*13.8%*	*7.7%*
Q3 2008e ROA	*0.3%*	*(0.0%)*	*0.2%*	*0.5%*	*0.7%*	*0.6%*
Q3 2008e NIM	*1.1%*	*0.7%*	*0.6%*	*1.6%*	*1.9%*	*1.2%*
Net income (9M 2008)	6,905	(134)	1,657	798	744	471
Loans to deposits ratio	*224.4%*	*n/m*	*198.4%*	*122.3%*	*132.4%*	*394.5%*
Tangible SHE / Assets	*2.2%*	*4.3%*	*3.0%*	*4.5%*	*5.0%*	*7.3%*
Tier 1 ratio	*10.0%*	*16.1%*	*7.2%*	*10.3%*	*11.2%*	*9.1%*
Total capital ratio	*13.9%*	*17.0%*	*9.4%*	*11.8%*	*15.5%*	*12.1%*
Total assets	*3,515,851*	*1,103,653*	*948,113*	*224,608*	*143,500*	*109,448*
RWA	*927,477*	*310,031*	*352,776*	*110,072*	*73,457*	*n/a*
Cost / Income ratio	*60.5%*	*75.8%*	*63.6%*	*66.3%*	*66.0%*	*48.2%*
Credit Rating S&P	AA-	A+	AA-	A+	n/a	n/a
Credit Rating Moody's	Aa1	Aa3	Aa1	Aa2	Aa3	A2
P/E 2008e	4.8x	n/a	n/a	6.4x	4.6x	n/a
P/E 2009e	4.7x	n/a	n/a	5.6x	4.0x	n/a
P/BV Q3 2008a	0.4x	n/a	n/a	0.7x	0.6x	n/a
Last 3M change (%)	*(52.0%)*	n/a	n/a	*(57.3%)*	*(61.8%)*	n/a
Key Shareholders	A.P. Moller Maersk Group (22.3%), Fonden Realdania (11.8%)	Foreningen Nykredit (88.8%), Industriens Realkreditfond (5.4%), Foreningen Østifterne (3.2%), PRAS (3.2%)	Nordea (100%)	Foreningen Nykredit (6.3%), Jyske Bank (3.0%)	ATP Investment Manager (5.3%), Foreningen Nykredit (5.2%), Sydbank (5.1%)	Kaupthing (100%)

Note
1 Figures as at Q3 2008 except for Nordea Bank Denmark as at H1 2008
2 P&L items not annualised
Source Company's information

E. Introduction to Rothschild

E. Introduction to Rothschild

E.1 World class international investment bank

FINANCIAL NEWS

2007 French M&A House of the Year

2006 UK M&A House of the Year
2006 European M&A House of the Decade - Runner-up

2005 European M&A House of the Year
2005 UK M&A House of the Year
2005 French M&A House of the Year

2008 Best UK M&A House of the Year

Deals of the Year 2007: France, Italy, Romania, and Serbia

Financial Adviser for the UK - 2007

Debt Advisory House of the Year
German M&A Adviser of the Year
Health & Pharma Adviser of the Year
Restructuring Deal of the Year: Eurotunnel
Defence of the Year: Altadis

M&A Bank of the Year

Restructuring Adviser of the Year
Restructuring Deal of the Year

World-leading position

- Advised on more European deals than any other Investment Bank in 2003, 2004, 2005, 2006, 2007 and YTD 2008
- Recognition from peers and industry with awards from Financial News, Acquisitions Monthly and Euromoney
- Advised on some of the largest and most complex deals in 2005, 2006, 2007 and 2008
- 329 completed deals worldwide totalling US$354bn in 2007
- 357 announced deals worldwide totalling US$336bn in 2006

Global perspective and scale

- 880 advisory bankers worldwide, 600 in Europe, including CEE and Russia
- 45 offices in 33 countries
- Dedicated sector teams providing in-depth industry expertise

Objective advice

- Strategic advice
- M&A origination and execution
- Equity capital markets
- Restructuring
- Debt advisory
- Debt and equity private placements

Global focus on advice, excellence in our chosen markets

Landmark deals

Unibanco
Unibanco's US$14bn merger with Banco Itau
Current

British Energy
Lead financial adviser to BE on its £12.5bn recommended sale to EDF
Current

Enodis plc
£1.4bn recommended cash acquisition of Enodis plc by The Manitowoc Company, Inc.
Current

China Netcom
Fairness opinion on the US$31.5bn proposed merger with China Unicom
Current

GMR Infrastructure
US$1.1bn acquisition of 50% stake in InterGen N.V from AIG Highstar Capital II, L.P
Current

Lehman Brothers
Sale of Lehman Brothers Asia Pacific businesses to Nomura Holdings
2008

Genefar BV
Financial adviser to the shareholders of Polpharma on its US$5.4bn combination with Gedeon Richter
Current

Finmeccanica
US$1.2bn strategic partnership between Finmeccanica and Sukhoi Holding
Current

Rio Tinto PLC
Financial adviser to Rio Tinto on its defence in relation to the approach by BHP Billiton
Current

Dresdner Bank
Fairness opinion on €9.0bn acquisition by Commerzbank
Current

Power Sector Assets & Liabilities Management Corporation (PSALM)
US$3.95bn privatisation by way of concession of the National Transmission Corporation (TransCo)
2008

BM&F
US$20bn merger with Bovespa Holding
2008

CVC Capital Partners
€2.4bn acquisition of a 25.01% stake in Evonik Industries AB by CVC Capital Partners
2008

Antofagasta plc
US$1.3bn disposal of a 30% stake in the Esperanza project and Tesoro mine to Marubeni Corporation
2008

Arcandor
€2.3bn disposal of a 49% stake in Highstreet real-estate portfolio to a bidder consortium led by RREEF, Pirelli Real Estate and Borletti Group
2008

Suez
Merger between Suez and Gaz de France
Combined EV €103.7bn
2008

Scottish & Newcastle
Financial adviser to S&N on its defence and subsequent recommended £10.2bn cash offer from Carlsberg and Heineken consortium
2008

Banco Santander
€9bn disposal of Banca Antonveneta to Monte dei Paschi

€1bn disposal of Interbanca to General Electric
2008

E. Introduction to Rothschild

E.2 Reputation for providing robust, objective relationship-based advice

Private firm

- Leading privately owned international investment bank
- Encourages longer-term, relationship-driven perspective
- Ownership stability; senior banker stability

Relationship banking

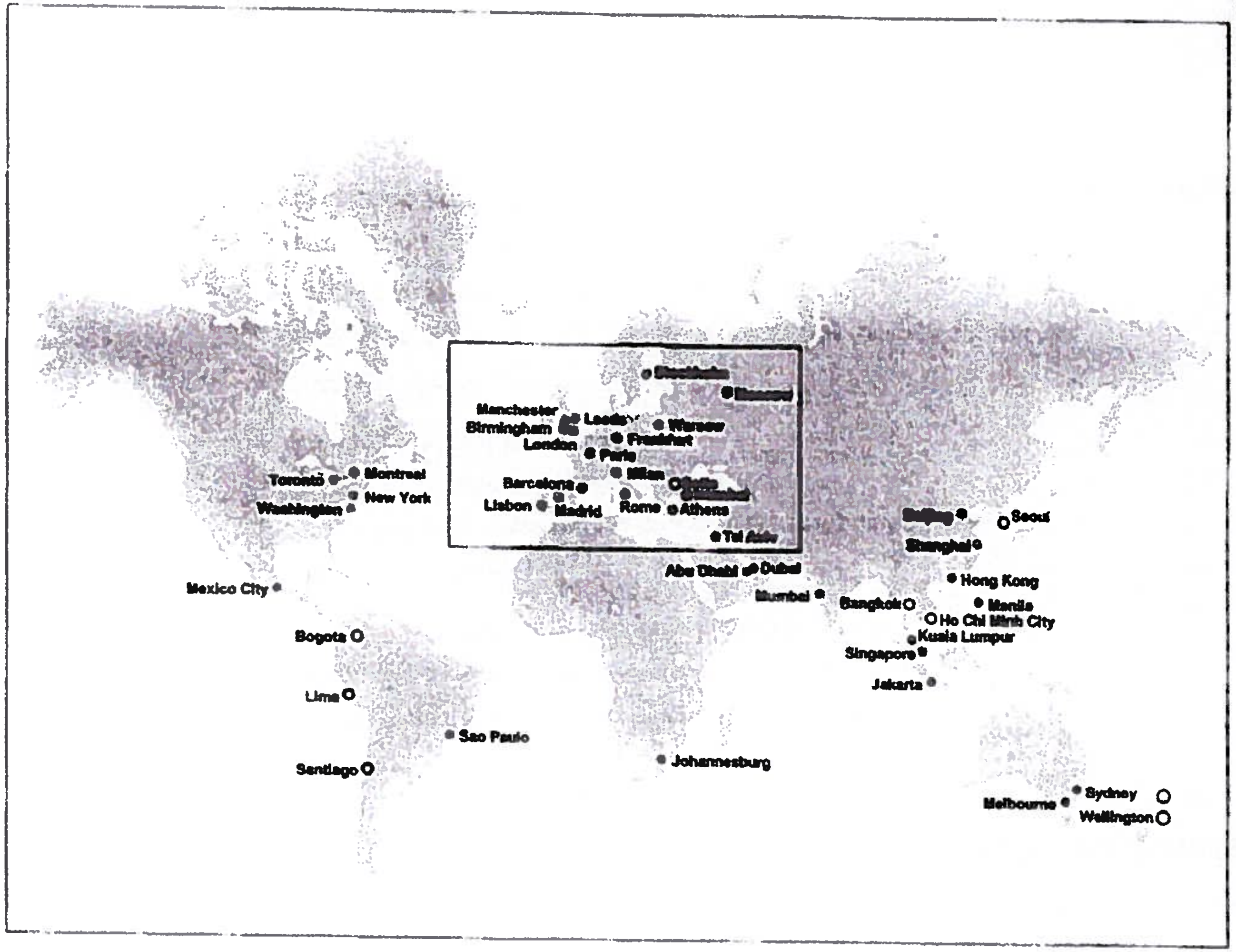
- Objective and robust advice free from balance sheet pressures
- Focus on relationship building
- Able to advise against a deal

Senior bankers

- Managing Directors and Directors involved from pitch to completion
- Mature experienced, realistic, client focused
- Consistency of people and quality of relationships
- Supported by dedicated teams committed to the highest standards of advice and execution

Working to further our clients' objectives, and exceed their expectations

A global financial services team



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Ben Davey	+44 (0)20 7280 5211
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Dubai	
Michael Helou	+971 4 365 0181

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E.3 A specialist FIG adviser - League table performance & selected financial sector transactions

More than 50 FIG bankers worldwide

Leading position in Europe

Strong reputation in cross border deals

European FIG M&A	US$bn	No
1 Morgan Stanley	55.0	37
2 **Rothschild**	23.7	35
3 Merrill Lynch	38.9	29
4 JP Morgan	35.1	27
5 Mediobanca	18.7	24
6 Goldman Sachs	23.0	17
Credit Suisse	19.6	17
7 Lazard	26.8	15
8 Citi	35.9	13
9 Dresdner Kleinwort	23.1	2

Announced deals by number (1 Jan to 30 Sept 2008)
Source Thomson Reuters 1 Oct 2008

European FIG M&A	US$bn	No
1 Morgan Stanley	36.7	18
JP Morgan	34.2	18
Merrill Lynch	33.2	18
2 Citi	23.9	17
3 **Rothschild**	17.8	15
Credit Suisse	29.8	15
4 Mediobanca	25.5	9
Lehmans	22.3	9
5 Gruppo Banca Leonardo	22.5	8
6 UBS	24.2	6

Completed deals by number (1 Jan to 30 Sept 2008)
Source Thomson Reuters 1 Oct 2008

Unibanco
UNIBANCO Itau
Unibanco's US$14bn merger with Banco Itau
Current

Kingdom of Netherlands
ministry of Finance
AEGON
Sole financial adviser to the Kingdom of the Netherlands on the €3bn recapitalisation of AEGON N V
Current

Kingdom of Netherlands
ministry of Finance
ING
Sole financial adviser to the Kingdom of the Netherlands on the €10bn recapitalisation of ING Groep N V
Current

Kingdom of Netherlands
ministry of Finance
SNS REAAL
Sole financial adviser to the Kingdom of the Netherlands on the €750m recapitalisation of SNS Reaal
Current

Deutsche Bank
Acquisition of a 29 75% stake in Deutsche Postbank
Current

The Republic of France
Advice to Agence des Participations de L'Etat in conjunction with the €6 4bn coordinated liquidity support jointly granted to the Dexia Group
Current

Dresdner Bank
Dresdner Bank
Fairness opinion on €9 8bn acquisition by Commerzbank
Current

Groupe Banque Populaire
Merger with Caisse d'Epargne
Current

Lehman Brothers
LEHMAN BROTHERS
Sale of Lehman Brothers Asia Pacific businesses to Nomura Holdings
2008

Alliance & Leicester
Alliance Leicester
£1 3bn recommended acquisition of Alliance & Leicester by Banco Santander
2008

UBS
UBS
Corporate governance review
2008

Banco Santander
Santander
€9bn disposal of Banca Antonveneta to Monte dei Paschi
€1bn disposal of Interbanca to General Electric
2008

E. Introduction to Rothschild

E.3 A specialist FIG adviser - Selected financial sector transactions (cont.)

BM&F $20bn merger with Bovespa Holding Exclusive adviser to BM&F 2008	German Federal Ministry of Finance Opinion on options regarding state-owned KfW's stake in IKB Deutsche Industriebank AG 2008	Italian Fondazioni Advice on the €6.6bn recapitalisation of Unicredit 2008	Banca Popolare di Milano S.c.a.r.l. €32.5m acquisition of a 56.99% stake in Banca Popolare di Mantova from Banca Popolare di Lodi 2008	Credit Agricole SA €2.6bn merger of Agos and Ducato 2008	Banca Monte Paschi dei Siena €191.8m disposal of a 49% stake in Banca Monte Parma to a consortium composed by 5 buyers led by Banca Sella 2008
Cheshire Building Society Merger with Nationwide Building Society 2008	Bank of China Limited Fairness opinion to the independent board committee on continuing transactions with BOC Hong Kong 2008	Société Générale €195m acquisition of Capitalia securities services from UniCredit 2008	Central Bank of Libya €210m disposal of a 19% stake in Wahda Bank to Arab Bank 2008	JSC Pravex Bank US$750m disposal of JSC Pravex Bank to Intesa Sanpaolo SpA 2008	Fiamet Disposal of Fiamet to Sofinco / Credit Agricole 2008
Vietnam National Reinsurance Corporation US$79m disposal of a 25% stake in VinaRe to Swiss Re 2008	Capitalia SpA €80bn merger with Unicredito Italiano SpA 2007	ABN AMRO Holding NV €71bn acquisition of ABN AMRO Holding NV by RFS Holdings NV 2007	Allianz €10.3bn acquisition of the 42.4% stake in AGF 2007	SanPaolo IMI €70bn agreed merger with Banca Intesa 2007	Banca Lombarda €13.5bn merger between Banca Lombarda and Banche Popolari Unite 2007

F. Trading multiples

Overview

Bank	Mkt Cap	PER			EPS	P/Bk			BPS	Div. Yield			DPS	RoE			Share price perf.		
	(EURm)	2008	2009	2010	CAGR	2008	2009	2010	CAGR	2008	2009	2010	CAGR	2008	2009	2010	-1M	-3M	-6M
Central & Eastern Europe																			
PKO	8,179	8.7x	8.6x	8.1x	3.6%	2.2x	1.9x	1.6x	16.0%	4.4%	4.5%	4.6%	2.6%	25.2%	22.0%	20.1%	27%	(35%)	(39%)
Bank Pekao	7,777	8.5x	8.9x	8.2x	1.9%	1.9x	1.8x	1.7x	6.0%	8.3%	8.0%	7.8%	(2.7%)	22.3%	20.5%	20.6%	9%	(34%)	(55%)
Komercni Bank	4,074	8.1x	8.3x	7.9x	1.3%	1.9x	1.7x	1.6x	8.9%	7.0%	7.2%	7.5%	3.2%	23.3%	20.7%	20.2%	15%	(28%)	(33%)
OTP	2,873	2.8x	3.6x	3.4x	(8.7%)	0.6x	0.5x	0.5x	13.3%	3.6%	5.6%	7.0%	39.9%	21.7%	14.8%	14.1%	(1%)	(62%)	(67%)
BZ WBK	1,955	7.6x	7.7x	7.1x	3.2%	1.5x	1.3x	1.2x	13.6%	3.4%	3.9%	4.2%	10.6%	19.9%	17.2%	16.4%	9%	(39%)	(58%)
Bank Handlowy w Warszaw	1,564	7.9x	8.1x	7.7x	0.9%	1.0x	1.0x	1.0x	4.1%	9.6%	9.2%	9.5%	(0.9%)	13.3%	12.7%	12.5%	12%	(29%)	(54%)
BRE Bank	1,499	6.1x	6.9x	6.7x	(4.6%)	1.3x	1.1x	1.0x	17.1%	na	1.2%	1.5%	na	22.2%	16.4%	14.8%	34%	(48%)	(63%)
BRD	1,459	4.7x	4.6x	4.7x	(0.9%)	1.5x	1.1x	1.0x	20.6%	9.6%	8.7%	7.3%	(13.0%)	31.7%	24.5%	21.4%	7%	(53%)	(65%)
ING Bank Slaski	1,405	7.5x	8.1x	7.1x	2.9%	1.2x	1.1x	1.0x	11.1%	4.1%	4.8%	4.5%	5.0%	16.4%	13.9%	14.1%	17%	(15%)	(48%)
Getin Holding S.A.	921	6.3x	7.4x	7.0x	(4.6%)	1.0x	0.8x	0.7x	14.4%	na	na	na	na	15.4%	11.3%	10.7%	(6%)	(50%)	(64%)
Bank Millennium	806	6.3x	6.4x	6.3x	0.4%	1.1x	1.0x	0.9x	11.6%	5.3%	4.9%	3.4%	(20.2%)	17.6%	15.1%	14.3%	25%	(48%)	(70%)
Kredyt Bank	742	9.2x	9.7x	8.8x	1.9%	1.1x	1.1x	1.0x	7.9%	2.8%	3.0%	3.0%	2.1%	12.5%	11.1%	11.2%	17%	(25%)	(52%)
Banca Transilvania	731	6.7x	10.4x	13.1x	(28.2%)	1.6x	1.4x	1.3x	10.2%	na	na	na	na	23.9%	13.1%	10.2%	0%	(13%)	(46%)
Bank BPH	235	24.0x	14.1x	na	na	0.6x	0.6x	na	na	na	na	na	na	2.5%	4.2%	na	(27%)	(59%)	(76%)
FHB Jelzalogbank Nyrt.	159	7.7x	7.1x	6.9x	5.6%	1.3x	1.2x	1.1x	10.1%	3.5%	3.7%	5.8%	28.2%	17.1%	16.6%	15.7%	5%	(39%)	(56%)
Mean		8.1x	8.0x	7.4x	(1.8%)	1.3x	1.2x	1.1x	11.8%	5.6%	5.4%	5.5%	5.0%	19.0%	15.6%	15.4%	10%	(39%)	(56%)
Median		7.6x	8.1x	7.1x	1.1%	1.3x	1.1x	1.0x	11.3%	4.4%	4.8%	5.2%	2.6%	19.9%	15.1%	14.5%	9%	(39%)	(56%)
Iberia																			
Banco Santander	45,406	4.4x	4.8x	4.6x	(1.8%)	0.7x	0.7x	0.7x	3.2%	11.3%	11.4%	11.7%	1.7%	16.4%	15.0%	14.9%	(15%)	(48%)	(58%)
BBVA	29,459	5.1x	5.1x	4.8x	3.2%	1.1x	1.0x	0.9x	9.2%	9.8%	9.6%	10.2%	2.4%	22.1%	19.9%	19.7%	(2%)	(29%)	(52%)
Banco Popular Espanol	7,426	6.7x	7.7x	7.7x	(7.0%)	1.1x	1.0x	1.0x	6.9%	7.7%	6.8%	6.6%	(7.7%)	16.6%	13.5%	12.5%	(4%)	(13%)	(47%)
Banco de Sabadell	6,157	8.1x	11.0x	11.0x	(14.3%)	1.3x	1.2x	1.1x	6.9%	5.8%	4.7%	4.9%	(8.1%)	15.6%	10.8%	10.0%	1%	(5%)	(31%)
Banco Espanol de Credito	6,056	7.4x	8.5x	8.6x	(7.0%)	1.2x	1.2x	1.1x	7.4%	6.5%	6.0%	6.7%	1.3%	16.5%	13.7%	12.4%	(7%)	(4%)	(36%)
Banco de Valencia	3,490	22.7x	21.2x	21.2x	3.5%	3.1x	2.9x	2.7x	7.3%	0.7%	0.7%	0.3%	(28.9%)	13.6%	13.7%	12.7%	18%	10%	(21%)
Millenium BCP	3,310	7.1x	5.7x	4.8x	20.9%	0.6x	0.6x	0.5x	13.4%	4.5%	8.1%	9.5%	46.2%	8.8%	9.7%	10.0%	(22%)	(39%)	(75%)
Bankinter	2,983	11.4x	13.0x	13.6x	(8.5%)	1.6x	1.5x	1.4x	6.7%	4.0%	3.6%	3.4%	(7.4%)	13.7%	11.4%	10.1%	(13%)	7%	(41%)
Banco Espirito Santo	2,920	6.2x	5.8x	5.1x	10.0%	0.6x	0.6x	0.5x	4.5%	7.3%	7.5%	8.1%	5.6%	9.6%	9.9%	10.7%	(21%)	(34%)	(62%)
Banco BPI	1,287	5.9x	4.9x	4.2x	18.3%	0.7x	0.6x	0.6x	7.8%	9.3%	9.8%	11.6%	11.4%	11.6%	12.6%	13.9%	(13%)	(35%)	(74%)
Mean		8.5x	8.8x	8.6x	1.7%	1.2x	1.1x	1.0x	7.3%	6.7%	6.8%	7.3%	1.7%	14.4%	13.0%	12.7%	(8%)	(19%)	(50%)
Median		6.9x	6.7x	6.4x	0.7%	1.1x	1.0x	1.0x	7.1%	6.9%	7.2%	7.4%	1.5%	14.6%	13.0%	12.4%	(10%)	(21%)	(50%)

F. Trading multiples

F.1 European stock market multiples overview

Bank	Mkt Cap	PER			EPS	P/Bk			BPS	Div. Yield			DPS	RoE			Share price perf.		
	(EURm)	2008	2009	2010	CAGR	2008	2009	2010	CAGR	2008	2009	2010	CAGR	2008	2009	2010	-1M	-3M	-6M
Nordic																			
Nordea	14,758	5.8x	6.8x	6.5x	(5.3%)	0.9x	0.8x	0.8x	6.4%	7.6%	7.2%	7.7%	0.7%	14.6%	11.8%	11.6%	(10%)	(31%)	(43%)
Svenska Handelsbanken	7,812	8.2x	8.6x	8.2x	0.4%	1.1x	1.0x	1.0x	6.0%	6.0%	6.1%	6.5%	4.2%	13.5%	12.2%	12.1%	2%	(14%)	(30%)
Danske Bank	6,303	4.8x	4.7x	4.3x	5.0%	0.4x	0.4x	0.4x	9.4%	2.0%	2.4%	9.0%	109.8%	9.1%	8.6%	8.3%	(21%)	(52%)	(66%)
SEB	4,369	5.4x	6.3x	5.7x	(3.4%)	0.6x	0.6x	0.5x	5.3%	7.2%	7.1%	7.7%	3.1%	11.0%	8.9%	9.3%	6%	(42%)	(58%)
DnB Nor	3,941	3.7x	3.9x	3.6x	1.7%	0.4x	0.4x	0.4x	7.3%	6.1%	8.3%	11.4%	36.2%	12.1%	10.6%	10.8%	(18%)	(58%)	(69%)
Swedbank	2,962	3.1x	5.8x	5.5x	(25.7%)	0.4x	0.4x	0.4x	6.8%	10.7%	7.4%	7.6%	(15.5%)	13.2%	6.2%	6.4%	0%	(51%)	(68%)
OKO	1,436	12.8x	7.5x	7.2x	33.1%	1.0x	1.0x	0.9x	5.3%	6.0%	7.4%	7.7%	13.5%	7.9%	12.8%	12.7%	7%	(17%)	(31%)
Jyske Bank	927	6.4x	5.6x	4.9x	14.0%	0.6x	0.6x	0.5x	9.7%	na	na	na	na	10.1%	10.6%	10.9%	(37%)	(57%)	(68%)
Sydbank	589	4.6x	4.0x	3.8x	9.7%	0.6x	0.5x	0.5x	9.3%	0.9%	na	5.5%	147.2%	12.5%	12.8%	12.6%	(30%)	(62%)	(69%)
Spar Nord Bank	398	26.2x	9.4x	7.4x	88.2%	0.7x	0.7x	0.6x	8.6%	na	na	11.5%	na	2.7%	7.0%	8.1%	(9%)	(34%)	(56%)
Mean		8.1x	6.3x	5.7x	11.8%	0.7x	0.6x	0.6x	7.4%	5.8%	6.6%	8.3%	37.4%	10.7%	10.2%	10.3%	(11%)	(42%)	(56%)
Median		5.6x	6.1x	5.6x	3.3%	0.6x	0.8x	0.5x	7.1%	6.1%	7.2%	7.7%	8.8%	11.6%	10.6%	10.9%	(9%)	(47%)	(62%)
Benelux																			
ING	12,955	3.3x	2.8x	2.5x	15.5%	0.4x	0.4x	0.4x	7.9%	14.4%	12.4%	13.4%	(3.3%)	13.3%	14.2%	15.2%	(13%)	(70%)	(75%)
KBC	6,962	11.0x	3.7x	3.2x	85.1%	0.4x	0.4x	0.4x	5.4%	3.5%	10.4%	10.3%	72.3%	3.9%	11.2%	12.1%	(27%)	(69%)	(78%)
Dexia	3,617	nm	4.1x	3.1x	na	0.4x	0.4x	0.3x	8.5%	5.5%	10.7%	14.3%	61.3%	(1.5%)	9.1%	10.5%	(29%)	(65%)	(82%)
Mean		nm	3.5x	2.9x	50.3%	0.4x	0.4x	0.4x	7.3%	7.8%	11.2%	12.7%	43.4%	5.2%	11.5%	12.6%	(23%)	(68%)	(78%)
Median		3.3x	3.7x	3.1x	50.3%	0.4x	0.4x	0.4x	7.9%	5.5%	10.7%	13.4%	61.3%	3.9%	11.2%	12.1%	(27%)	(69%)	(78%)

F. Trading multiples

F.1 European stock market multiples overview (cont'd)

Bank	Mkt Cap	PER			EPS	P/Bk			BPS	Div. Yield			DPS	RoE			Share price perf.		
	(EURm)	2008	2009	2010	CAGR	2008	2009	2010	CAGR	2008	2009	2010	CAGR	2008	2009	2010	-1M	-3M	-6M
Germany																			
Deutsche Bank	13,272	9.5x	3.6x	3.4x	67.4%	0.4x	0.3x	0.3x	3.3%	6.4%	9.5%	10.1%	26.3%	3.7%	9.4%	9.7%	(23%)	(60%)	(72%)
Commerzbank	4,480	4.3x	6.6x	4.3x	(0.7%)	0.3x	0.3x	0.3x	0.5%	4.7%	5.7%	6.2%	15.1%	6.9%	4.6%	6.7%	(32%)	(70%)	(74%)
Deutsche Postbank	2,603	24.0x	6.2x	5.2x	115.5%	0.7x	0.6x	0.6x	9.4%	0.5%	4.1%	6.3%	259.0%	2.8%	10.0%	10.8%	(15%)	(63%)	(73%)
Comdirect Bank	682	12.3x	10.5x	8.7x	19.2%	1.6x	1.5x	1.5x	0.9%	8.1%	9.5%	11.4%	18.4%	12.6%	14.6%	17.6%	(9%)	(32%)	(41%)
Mean		12.5x	6.7x	5.4x	50.3%	0.7x	0.7x	0.7x	3.6%	4.9%	7.2%	8.5%	79.7%	6.5%	9.6%	11.2%	(20%)	(56%)	(65%)
Median		10.9x	6.4x	4.7x	43.3%	0.5x	0.5x	0.4x	2.1%	5.5%	7.6%	8.2%	22.3%	5.3%	9.7%	10.2%	(19%)	(61%)	(73%)
Italy																			
Intesa Sanpaolo	28,320	6.5x	6.1x	5.5x	8.9%	0.6x	0.5x	0.5x	3.3%	4.1%	8.2%	10.5%	60.2%	8.9%	9.0%	9.8%	(9%)	(31%)	(54%)
Unicredit	24,371	5.2x	4.7x	4.4x	8.9%	0.4x	0.4x	0.4x	2.3%	3.7%	10.5%	11.3%	74.4%	8.0%	8.9%	9.1%	(2%)	(49%)	(68%)
Banche Popolari Unite	7,440	9.0x	8.6x	7.6x	8.4%	0.7x	0.7x	0.6x	4.1%	5.9%	7.3%	7.7%	14.0%	7.7%	7.6%	8.3%	3%	(25%)	(38%)
MDP Siena	7,152	9.2x	7.8x	6.6x	17.6%	0.6x	0.6x	0.6x	4.2%	3.5%	6.1%	8.0%	50.6%	6.9%	7.4%	8.8%	(3%)	(26%)	(54%)
Banco Popolare Scarl	4,471	6.7x	6.0x	5.3x	12.7%	0.4x	0.4x	0.4x	1.9%	2.9%	7.7%	9.0%	75.8%	6.5%	6.9%	8.0%	(13%)	(44%)	(51%)
BP dell'Emilia Romagna	2,445	8.6x	8.2x	7.2x	8.9%	0.8x	0.7x	0.7x	7.0%	3.6%	3.8%	4.6%	13.6%	9.3%	9.1%	9.6%	(2%)	(18%)	(37%)
Credito Emiliano	1,140	6.6x	7.8x	7.1x	(3.3%)	0.7x	0.7x	0.7x	2.5%	7.4%	7.4%	7.6%	1.5%	10.6%	9.0%	9.4%	(12%)	(36%)	(53%)
Credito Valtellinese	1,094	10.4x	10.8x	12.2x	(7.4%)	0.6x	0.6x	na	na	3.9%	3.5%	3.7%	(3.3%)	5.7%	5.3%	na	5%	(7%)	(33%)
Mean		7.8x	7.5x	7.0x	6.8%	0.6x	0.6x	0.6x	3.6%	4.4%	6.8%	7.8%	35.8%	7.9%	7.9%	8.0%	(4%)	(30%)	(49%)
Median		7.6x	7.8x	6.9x	8.9%	0.6x	0.6x	0.6x	3.3%	3.8%	7.3%	7.9%	32.3%	7.9%	8.3%	9.1%	(2%)	(28%)	(52%)