9 January 2008 Strictly private and confidential

Project Horizon – additional materials on hybrids (draft for discussion)

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A. Selected recapitalisations using Tier 1 hybrids

A.1 Overview of recent capital injections using hybrid structures

Government	Tier 1 securities issued	Issue call option timing	Limitations to callability	Amount deployed to date	Coupon	Implied capitalisation
UK	■ £9bn preferred shares ■ Recipients: Lloyds TSB, HBOS, RBS	■ Callable after 5 years at par	■ Has to be replaced by a hybrid instrument of equivalent subordination	■ £9bn	■ 12% on preferred shares	■ Proforma T1: RBS 12.6%, HBOS 12% ■ Proforma Core T1: RBS 8.4%, HBOS 9%, merged entity >8.55
USA	■ Preferred shares with stapled warrants (9 banks and counting)	■ Callable after 3 years at par	■ Must be at least partially financed with the proceeds from a "qualifying" equity offering of any Tier 1 perpetual preferred or common stock	■ $125bn direct commitment ■ $250bn in total made available	■ 5% first 5 years ■ 9% thereafter	■ Minimum subscription:1% of RWAs ■ Maximum subscription: the lesser of $25bn or 3% of RWAs
France	■ €10.5bn subordinated debt (6 banks)	■ Callable after 5 years at par	■ Early redemption permitted if debt is replaced by a hybrid of equivalent subordination and the Government agrees	■ €13.5bn	■ 400bps over risk free rate	■ 50bps average improvement in Tier 1 ratio of the 6 banks being capitalised
Netherlands	■ Non-voting Core T1 securities (ING, AEGON, SNS Reaal)	■ (1) Callable at any time @ 150% of par ■ (2) First year only: early redemption	■ (1) Subject to regulators approval ■ (2) Option available for a limited proportion of the issue; callable at par + repurchase fee + accrued interest	■ €10bn ING capital injection ■ €3bn AEGON ■ €750m SNS Reaal	■ Higher of 8.5% interest or 1.25x ordinary dividends to the extent these are paid	■ ING T1 ratio 10% ■ ING Core T1 ratio 8.5% ■ SNS Reaal T1 ratio 10%
Austria	■ €2.7bn non-voting / non-transferable / non-dilutive preference shares (Erste)	■ Callable after 5 years at par	■ Requires the Government's approval	■ €2.7bn in Erste ■ €15bn committed	■ 8.0% annually	■ T1 ratio: 10%

5 year non-call period is market standard in Europe, Dutch capital injection is the exception

B. Hybrid pricing sensitivity analysis

B.1 *Illustrative conversion premium sensitivity analysis for revised convertible hybrid*

Conversion premium required on a perpetual convertible hybrid (assuming a 10% total return)

Dividend assumption Zero in 2008-09 (thereafter coupon / 125%)

		Non-call period: 5 years	Non-call period: 3 years
Coupon	8%	31.0%	24.5%
	7%	22.5%	18.0%
	6%	15.2%	13.0%

Assumptions

Implied volatility assumption	33%
Theoretical stock borrow assumption	0.50%
All-in discount rate	10%
Theoretical value (% of face)	100%
Dividend dates	29/09 (ann.)

Delayed conversion

Convertible from 3rd anniversary only

Dividend assumptions (% of perpetual issue price)

		Dividend date: Sep-09	Sep-10	Sep-11	Sep-12	Sep-13
Coupon	8%	0.0%	0.0%	6.4%	6.4%	6.4%
	7%	0.0%	0.0%	5.6%	5.6%	5.6%
	6%	0.0%	0.0%	4.8%	4.8%	4.8%

3 year non-call period permits a conversion premium up to 6% lower than the one required for an otherwise identical instrument with a 5 year non-call period

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Project Horizon

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1. Executive summary

1.1 Key considerations by group

1 **Listed banks**

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

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

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

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

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

1. Executive summary

1.1 Key considerations by group (cont'd)

2 **Unlisted banks with listed parents**

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

3 **Unlisted banks**

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

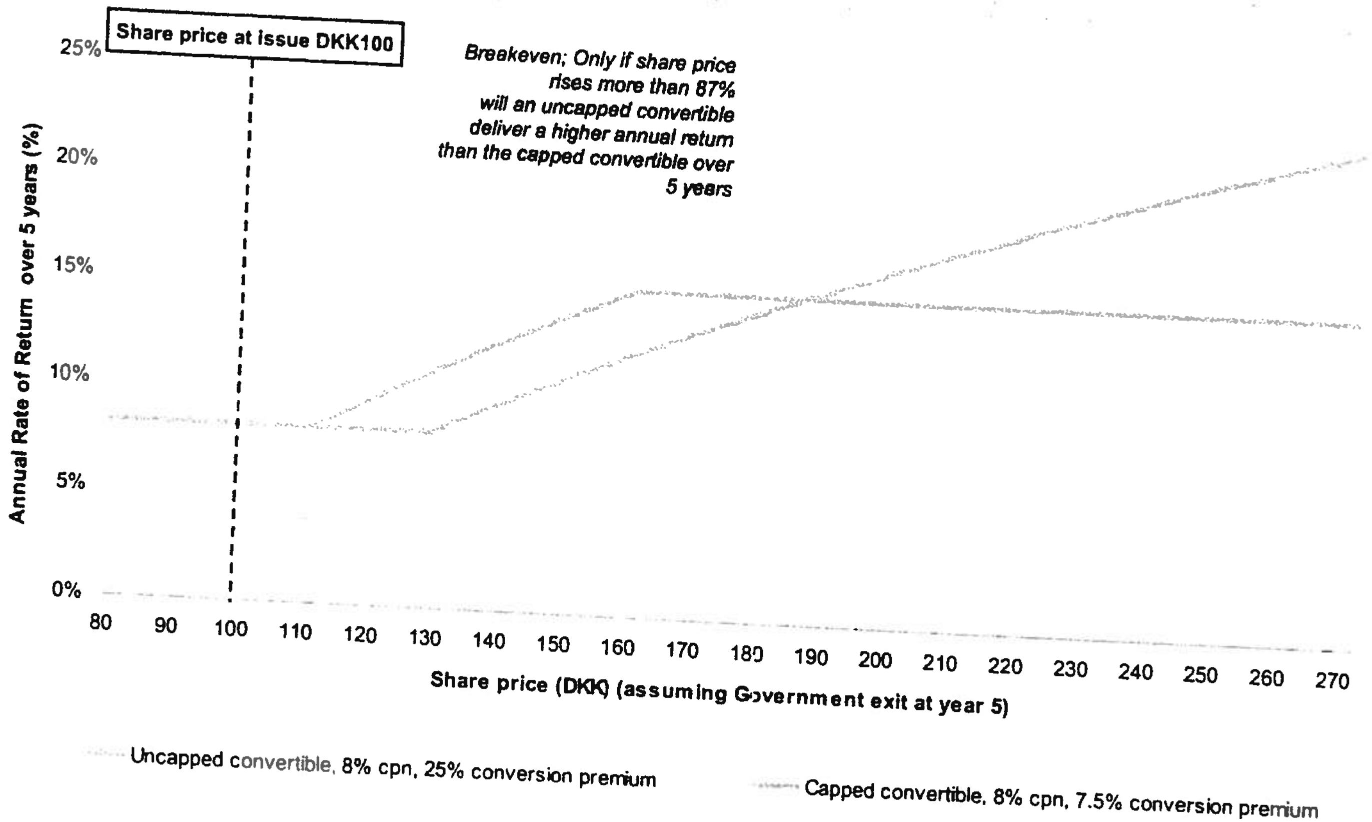
Return target

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

2. Return analysis

2.1 Comparison of returns for capped and uncapped convertible structures

Returns analysis for uncapped and capped convertible structures



10 January 2009 Strictly private and confidential

Project Horizon: Update on Government schemes (draft)

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Update on Government schemes

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Overview of selected schemes

Country	Capital injected	Details of injection
France	€40bn fund set up (SPPE) Injections (announced Oct-08, completed Nov-08) - €10.5bn hybrid capital (6 banks) - €3bn preferred shares (Dexia)	Instrument ■ Subordinated loan (Tier 1), preferred shares (Core Tier 1) Conversion ■ n/a Vehicle ■ SPPE (Government controlled company) Underwriting vs direct participation ■ Direct participation Conditions ■ Early redemption permitted for subordinated debt if (1) debt is replaced by a hybrid of equivalent subordination and (2) the Government agrees
Germany	€100bn fund set up (SoFFin) Injections (announced Oct 08 – completed Jan-09 (Commerzbank)) - €8.2bn (Commerzbank) - €3bn (Bayern LB)	Instrument ■ Commerzbank: Perpetual hybrid (silent participation, Tier 1), BayernLB: Preferred shares (Core Tier 1) Conversion ■ n/a Vehicle ■ SoFFin (Government controlled federal fund) Underwriting vs direct participation ■ Direct participation (Commerzbank and BayernLB) Conditions ■ May be redeemed at par, subject to the Government's approval

Update on Government schemes

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Overview of selected schemes

Country	Capital injected	Details of injection
Ireland	The Government announced intention to provide €10bn Has not been utilised to date	Instrument ■ Preference or ordinary shares Underwriting vs direct participation ■ Direct participation or underwriting contemplated
Netherlands	€20bn earmarked Injections to date (announced Oct-08 – Nov-08) - €10bn (ING) (Completed 12-Nov-08) - €3bn (Aegon) (Completed 1-Dec-08) - €750m (SNS Reaal) (Completed 11-Dec-08)	Instrument ■ Non-voting deeply subordinated securities (Core Tier 1) Conversion ■ Convertible into ordinary shares at the issuer's option after three years, at which stage the Dutch Government may also elect to receive cash at par Vehicle ■ n/a Underwriting vs direct participation ■ Direct participation Conditions ■ Callable anytime @ 150% of par (cash settled, subject to regulators approval)
Sweden	SEK 15bn fund set up for emergency share purchases in banks Has not been utilised to date	Vehicle ■ Stabilitetsfond (a Government controlled fund) Underwriting vs direct participation ■ Direct participation and underwriting

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Update on Government schemes

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Overview of selected schemes

Country	Capital injected	Details of injection
UK	£50bn scheme set up Injections (announced Oct-08 – RBS Nov-08, Lloyds TSB and HBOS to be fully completed upon successful merger) - £9bn preference shares - £28bn ordinary shares - Recipients: HBOS, Lloyds TSB and RBS	Instrument ▪ Preference and ordinary shares Conversion ▪ n/a Vehicle ▪ UKFI (Government-owned limited company) Underwriting vs direct participation ▪ Underwriting and direct participation Conditions ▪ Callable after 5 years at par, has to be replaced by a hybrid instrument of equivalent subordination
US	$250bn earmarked Injections (Oct-08) - $125bn direct commitment (9 banks)	Instrument ▪ Senior preferred shares with stapled warrants Conversion ▪ Warrants stapled Vehicle ▪ Treasury Underwriting vs direct participation ▪ Direct participation Conditions ▪ Callable after 3 years at par, must be at least partially financed from a "qualit equity offering of any Tier 1 perpetual preferred or common stock

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Update on Government schemes

Lending growth overview

Country	GDP growth	Lending growth
France	2008e: 0.9% 2009e: (1.2%)	▪ Total bank lending growth, 3 months to Nov-08, annualised: 6.5% (1 month annualised 8.2%) ▪ *"The [French] bankers had "signed a moral pact with the nation" in agreeing to increase the amount of credit in the real economy by 3-4 per cent a year in return for €10.5bn (£8.3bn) in subordinated loans from the government…[the requirement] does not seem onerous given last year's 11 per cent rise."* **Financial Times** 31 Oct 08
Germany	2008e: 1.4% 2009e: (0.7%)	▪ Growth in lending to non-financial institutions, 2 months to Nov-08: 0.3% (12 months 2.2%) ▪ *"The impact of guarantees offered to banks by Berlin [remains] to be felt."* **Financial Times** 16 Dec 08
Netherlands	2008e: 1.9% 2009e: (0.7%)	▪ Total private sector lending growth 2 months to Nov-08: 0.2% (12 months 7.3%) ▪ *"Assuming that the world economy recovers quickly, the Netherlands could return to growth in 2010 with a 0.5 percent expansion, but if world trade does not recover, banks remain reluctant to extend credit and consumers stay frugal, it could contract again by 0.8 percent."* **Reuters** 10 Dec 08
UK	2008e: 0.7% 2009e: (2.5%)	▪ 1-month M4 lending growth to private non-financial corporations Nov-08: (0.4%) ▪ 12-month M4 lending growth to private non-financial corporations Nov-08: 5.0% ▪ *"A Growth in bank lending to the corporate sector as a whole has been in sharp retreat for some time. Quarterly new lending to private non-financial institutions fell to just £447m in the third quarter of 2008 from an average of £16bn in 2007. The Bank of England's latest credit conditions survey suggest lending terms will tighten further in line with mounting concerns over the economic outlook and falling collateral values and recovery rates."* **Financial Times** 7 Jan 09
US	2008e: 1.3% 2009e: (1.0%)	▪ Seasonally adjusted lending growth by commercial banks in the US, Q4 2008: c.3.5% (LTM c.8.0%) ▪ *"The markets for low-cost, short-term debt that have been battered by the credit crunch have started the new year with signs of improving health following central bank actions to support the flow of cash to companies. Data from the US Federal Reserve showed that the overall market for short-term commercial paper saw, in the first week of this year, the second-biggest weekly expansion in the past two years, with outstanding volumes growing by $83.1bn."* **Financial Times** 10 Jan 09

Source **Central bank reports, EIU, Datamonitor, press**

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Update on Government schemes

Market reactions to recapitalisations

	Bank	Share price % change[1]	Market reaction
US	Bank of America	6.3%	■ Modest improvement of tier 1 ratio ■ Implicit government backstop ■ 'Capital ratios remain under pressure' **Credit Suisse**, 18-Dec-08
	Citigroup	9.1%	■ Stabilization of the group in the short term ■ EPS dilution in 2010, sizable but less than feared (16% in 2010) ■ Fixed income markets reacted positively to the bailout with sharp improvement in ABX, MBS spreads, and Citi CDS spreads ■ Potential boost to lending ■ 'US authorities provided the New York based bank with all the tools it needs to recover' **UniCredit 24-Nov-08**
	JPMorgan	13.5%	■ Capital provides powder to boost lending ■ 'Results in strong capital levels' **Bernstein Research** 16-Oct-08
UK	Lloyds TSB	(6.9%)	■ Capital provides greater freedom for the combined group (LTSB-HBOS) to provision aggressively against weaker credits on the closure of the deal ■ Concern that the bank may naturally find it harder to take decisions on mass foreclosures, lending strategies, and pricing policies in future ■ Costing appears onerous ■ May need to raise additional capital ■ 'Limited prospects of a dividend before 2011e is also an uncompelling investment case' **Societe Generale** 29-Oct-08
	RBS	0.8%	■ A positive development which limits risk of further dilution ■ Ends doubts over balance sheet strength ■ 58% ownership by government may limit future underlying returns ■ Existing shareholders significantly diluted again such that the cost of the capital buffer is significant ■ 'Core tier 1 ratio sufficient to see the group through the next few years' **KBW** 4-Nov-08

Note (1) Previous close share price vs post-announcement

Update on Government schemes

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Market reactions to recapitalisations

	Bank[1]	Share price % change[1]	Market reaction
UK	HBOS	24.5%	■ Substantial and necessary buffer created ■ 'Necessary buffer given HBOS's risky loan book', **Deutsche Bank**, 14-Oct-08
Germany	Commerzbank (Nov-08)	5.0%	■ Capital measure is relatively shareholder friendly – reducing earnings rather than diluting EPS ■ 'Large strengthening of tier 1 ratio', **UniCredit**, 22-Dec-08
	(Jan-09)	(13.8%)	■ Additional capital measures as a negative surprise ■ Injection is not only provided via a non-dilutive silent participation, but it is combined with a dilutive capital increase (25% stake for the German government) ■ 'Capital still short' **JPMorgan** 7-Jan-09
Netherlands	ING	(27.5%)	■ Means that ING can build capital over the next few years, minimizing dilution ■ 'We concur with ING's assurances that it is adequately capitalised but, in the current turmoil, this is probably no longer enough' **KBW** 19-Oct-08

Note (1) Previous close share price vs post-announcement

Update on Government schemes

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Market reactions to recapitalisations

	Bank	Share price % change[1]	Market reaction
Netherlands	▪ SNS Reaal	(4.8%)	▪ Slightly less dilutive than we had expected, due to the low coupon payable to the foundation ▪ Capital injection should protect its ratios in the event of further macro shocks ▪ Main capital metrics now look adequate ▪ 'Limited upside due to combination of ongoing earnings risks and materially restricted dividend capacity for several years is not an attractive Investment proposition '. **Citigroup,** 13-Nov-08
France	▪ BNP Paribas	7.5%	▪ 'Recapitalisations in Europe have left BNP Paribas behind the curve in terms of capital ratios' **JPMorgan** 28-Oct-08
	▪ Societe Generale	10.2%	▪ 'Current capital ratio is not a threat to its access to liquidity' **Deutsche Bank** 4-Nov-08

Note (1) Previous close share price vs post-announcement

22 January 2009 Strictly private and confidential

Project Horizon: market update

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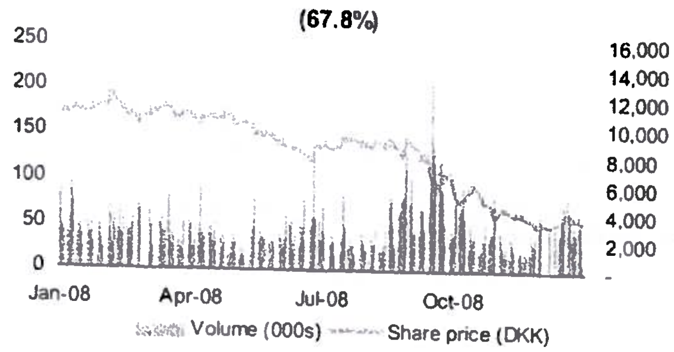
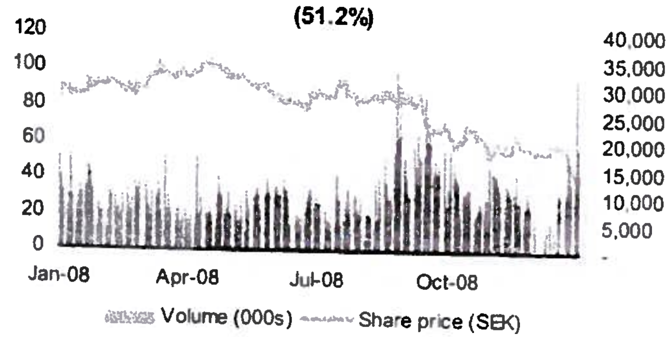
Group 1 banks: LTM share price performance and volume analysis

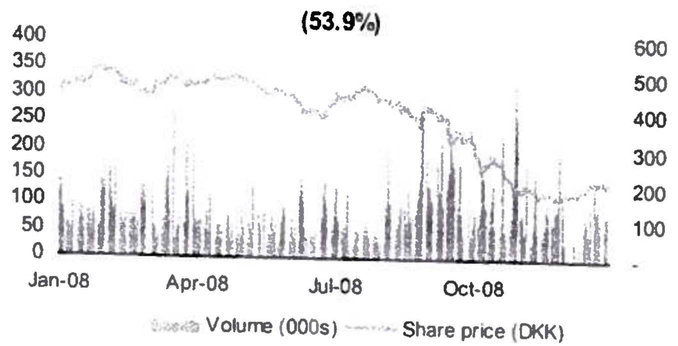
Danske Bank



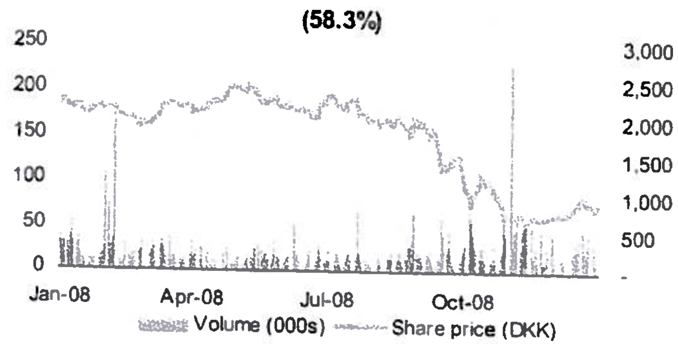
Nordea



Jyske Bank



Sydbank



Market update

Group 1 and 2 listed banks

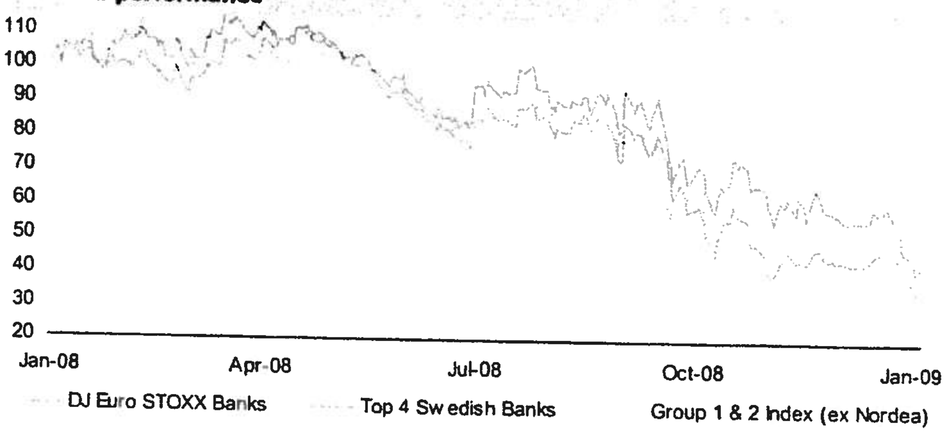
Share price performance

	Danske	Nordea	Jyske Bank	Sydbank	Spar Nord	Alm. Brand	Ringkjøbing LBB	Vestjysk	Fionia	Amagerbanken	Sparbank
1 day	0.5%	(6.1%)	(4.8%)	3.0%	(4.8%)	2.5%	(1.5%)	(4.3%)	8.6%	7.4%	3.0%
1 week	(8.3%)	(13.5%)	(3.8%)	(2.2%)	(4.8%)	2.5%	(4.4%)	(8.2%)	(17.4%)	(11.4%)	(6.2%)
1 month	8.8%	(26.0%)	13.8%	17.8%	5.4%	21.8%	8.3%	30.1%	101.1%	119.9%	(5.6%)
3 months	(44.9%)	(40.1%)	(36.4%)	(33.0%)	(28.3%)	(7.4%)	(37.5%)	(48.5%)	(39.7%)	(57.1%)	(60.0%)
6 months	(59.3%)	(51.6%)	(51.3%)	(59.0%)	(39.3%)	(58.2%)	(49.1%)	(60.6%)	(57.8%)	(73.1%)	(64.1%)
LTM	(67.8%)	(51.2%)	(53.9%)	(58.3%)	(50.3%)	(67.3%)	(49.1%)	(66.0%)	(69.1%)	(78.5%)	(71.1%)
Market cap (DKKm)	38,609	80,162	7,938	4,995	2,711	1,458	1,663	875	635	377	398

Index performance

	DJ Euro STOXX Banks	Top 4 Swedish Banks	**Group 1 & 2 Index (ex Nordea)**
1 day	(0.7%)	(4.7%)	**(0.2%)**
1 week	(13.0%)	(12.0%)	**(6.8%)**
1 month	(18.9%)	(26.0%)	**11.8%**
3 months	(38.7%)	(41.0%)	**(41.6%)**
6 months	(58.4%)	(54.7%)	**(57.9%)**
LTM	(64.9%)	(58.4%)	**(64.3%)**

Relative performance



Source Factset 22/01/2009

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Market update

News

Economist Intelligence Unit – Viewswire, 21 Jan 2009

"This follows a round of emergency relief measures implemented in October when the crisis erupted, which included a state guarantee for all bank depositors and other unsecured creditors and the creation of a fund to wind-up insolvent banks, part-financed by the banks themselves. Under the terms of the new deal, banks will have until the end of June to apply for injections of tier one capital at an average interest rate of between 9% and 11.25%, depending on the individual bank's credit rating, capital adequacy and liquidity risk. Total loans to banks could total up to Dkr75bn, with mortgage credit institutions receiving a further Dkr25bn, and may be redeemed after three years...

There is still widespread concem over banks' reluctance to lend and the overall strength of the banking system. Six banks were declared bankrupt last year and were either purchased by, or merged with, other banks, avoiding the need for nationalisation. But according to a recent survey, a growing number of firms are now reporting difficulties in accessing credit."

Børsen, 22 Jan 2009

According to Børsen, 12 smaller banks, including Amagerbanken and Fionia, will need DKK 5bn from the state. The article points out that Amagerbanken will need to borrow DKK 1.2bn from the state in order to increase its Tier 1 ratio to 12%. It then contrasts the sum with the bank's market value, DKK 355m, and asserts that interest rate for the scheme is high. Furthermore, it states that the cost will be falling on the banks' customers (quoting an analyst from Jyske Bank).

Market update

Broker comments

Moody's, 21 Jan 09 (re Danish scheme and banks)

"Moody's Investors Service today commented on the second government support package announced by the Danish government for the domestic financial sector. The package comprises the recapitalisation of the financial sector and the extension of the guarantee scheme for the issuance of medium-term loans by banks, and also includes senior unsecured debt of mortgage credit institutions and supplementary issuances (typically referred to as junior covered bonds). **Moody's views the package as a positive development in the current challenging market environment, but the rating agency does not expect it to lead to rating upgrades in the sector...**

Moody's expects that recapitalisation as such is unlikely to lead to rating upgrades given that the measure is intended to be temporary. However, higher capital levels would be viewed favourably by the rating agency given the pressure on profitability that Danish banks are experiencing, which reflects the increasing need for impairments on loan portfolios. Improved capital adequacy will merely help to counterbalance the downward pressure on the ratings exerted by the difficult operating environment, deteriorating asset quality and higher funding costs, as well as the cost of the two support packages."

UBS, 22 Jan 09 (re DnB NOR, with reference to Danske)

"Danish Commercial Real Estate portfolio that was the main driver of [DnB NOR's] Q4 losses is... DKr 4bn o/w DKr c1bn was provided for in Q4...

With Denmark being the main driver of the Q4 losses, we reiterate our Sell on Danske."