

13 January 2009    Strictly private and confidential

## ■ Project Horizon: Supplementary materials on pricing

■ ■ ROTHSCHILD

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# 1. Further thoughts on pricing

## 1.1 Overview

As requested, we summarize below few considerations for the approach to pricing  
Our approach is based on a combination of:

- **A. ECB guidelines for equity like instruments**
    - the required rate of return for equity like instruments is: *Benchmark Government rate (3.3%) + 500bp equity risk premium + 100bp margin*
- If we apply the formula above the resulting pricing is 9.3% (**Base Pricing**)

- **B. Risk premium.** This is derived from an analysis of the spread on Euro-denominated Tier 1 securities issued by European banks with different credit rating for the period 1/1/2007 - 31/8/2008 (period consistent with the ECB guidelines for the CDS analysis). The purpose is to assess the implicit risk premium that the market requires for banks with a higher risk and hence to determine the additional risk premium to be applied on top of the Base Pricing

**We have then Identified 3 groups of banks based on rating (taking into account all the main rating agencies)**

1. **Group A:** top rated banks (rating AA- or above)
2. **Group B:** Mid rated banks (A- to A+)
3. **Group C:** Low rated banks (BBB+ or below)

We have then calculated the differential spread (**Risk Premium**) of Group B and Group C versus the top rated banks (Group A)

**Credit rating is a key indicator when considering the pricing of the instruments**

# 1. Further thoughts on pricing

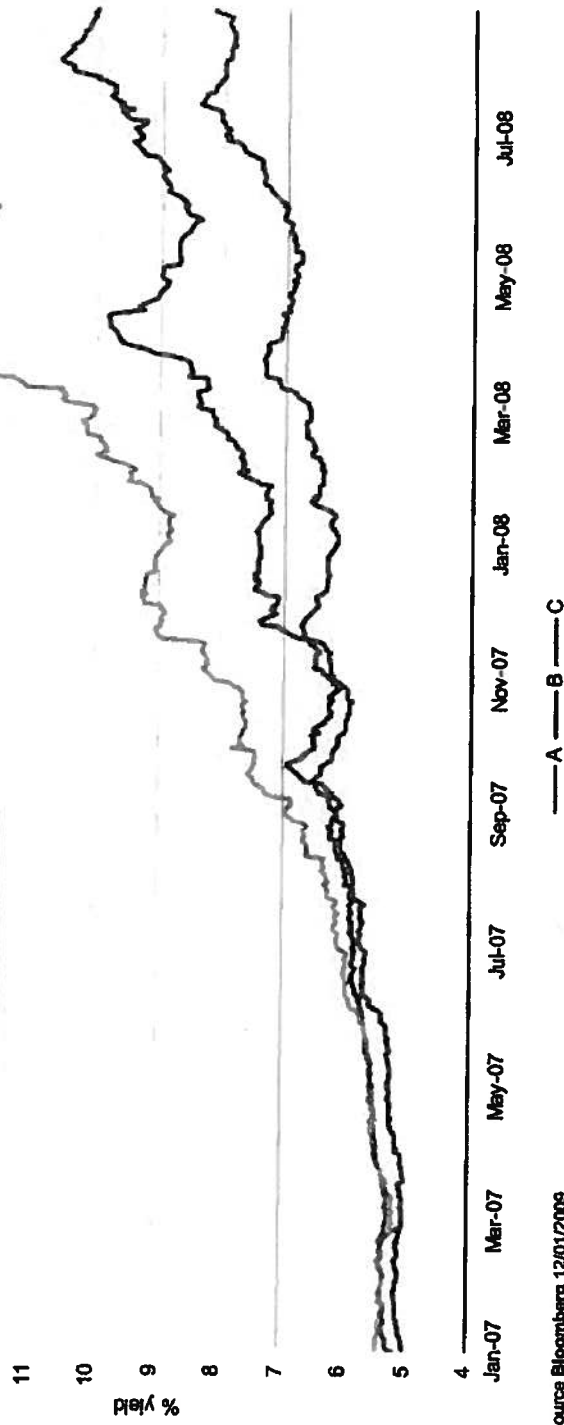
## 1.2 Yield and spread analysis

The chart below sets out the results of the analysis and the range of Risk Premium for banks belonging to Group B and Group C

Yield and spread analysis of the instruments of different quality banks since January 2007

bps	A	B	C
Min	501	515	518
Max	838	1069	1307
Mean	627	712	849
Mean change vs. A		84	221

We estimated that the risk premium for Group B is c. 0.8% and for Group C is 2.2% (1.4% above B)



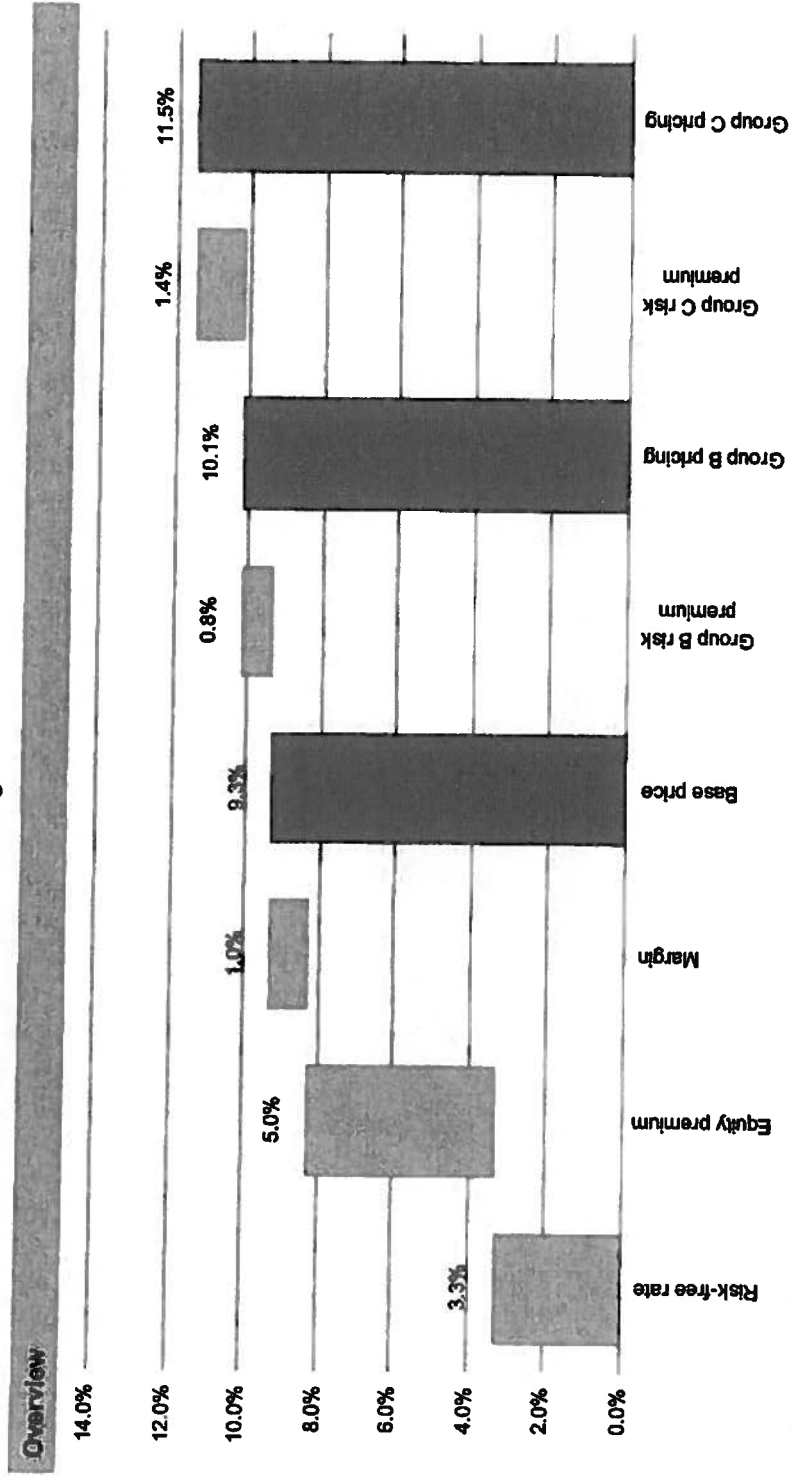
Source Bloomberg 12/01/2009

Group A: BBVA, BNP Paribas, Deutsche Bank, ING, RBS  
 Group B: Banco Popolare, Fortis, SNS  
 Group C: OTP, Bancaja

# I. Further thoughts on pricing

## 1.3 Preliminary pricing analysis

The chart below summarizes our approach to price setting



Source Bloomberg 12/01/2009

Note: The risk-free rate is for 5 to 10 years maturity, i.e. when the security is expected to be called. For longer term maturity the risk-free rate is 3.8 / 3.9%

Group A: BEVA, BNP Paribas, Deutsche Bank, Handelsbanken, ING, RBS

Group B: Banco Popolare, Fortis, SNS

Group C: OTP, Bancaja

# 1. Project Horizon [REDACTED] dilution analysis

## 1.1 Summary of potential pre / post-conversion dilution

**Summary table of pre / post-conversion dilution for capped convertible with 8% and 9% coupon scenarios with 10% discount factor**

Issue size (% RWA) Issue size DKK m	1.0%		2.0%		3.0%		4.0%	
	Dilution pre-conversion	Dilution post-conversion	Dilution pre-conversion	Dilution post-conversion	Dilution pre-conversion	Dilution post-conversion	Dilution pre-conversion	Dilution post-conversion
	9,593	19,185	28,778	38,370				
<b>Scenario 1: 8% coupon &amp; 7.5% conversion premium</b>								
<b>Capped</b>								
At issue (Share price inc. of 0%) (DKK)								
Share price inc. of 50% (DKK)	21.3%	17.5%	42.6%	29.9%	63.8%	39.0%	85.1%	46.0%
Share price inc. of 65% (DKK)	21.3%	17.5%	42.6%	29.9%	63.8%	39.0%	85.1%	46.0%
Share price inc. of 75% (DKK)	20.8%	17.2%	41.6%	29.4%	62.4%	38.4%	83.2%	45.4%
Share price inc. of 100% (DKK)	19.6%	16.4%	39.2%	28.2%	58.8%	37.0%	78.4%	44.0%
Share price inc. of 200% (DKK)	17.2%	14.6%	34.3%	25.5%	51.5%	34.0%	68.6%	40.7%
	11.4%	10.3%	22.9%	18.6%	34.3%	25.5%	45.8%	31.4%
<b>Scenario 2: 9% coupon &amp; 13.5% conversion premium</b>								
<b>Capped</b>								
At issue (Share price inc. of 0%) (DKK)								
Share price inc. of 50% (DKK)	20.2%	16.8%	40.3%	28.7%	60.5%	37.7%	80.6%	44.6%
Share price inc. of 65% (DKK)	20.2%	16.8%	40.3%	28.7%	60.5%	37.7%	80.6%	44.6%
Share price inc. of 75% (DKK)	19.6%	16.4%	38.2%	28.2%	58.8%	37.0%	78.4%	44.0%
Share price inc. of 100% (DKK)	17.2%	14.6%	34.3%	25.5%	51.5%	34.0%	68.6%	40.7%
Share price inc. of 200% (DKK)	11.4%	10.3%	22.9%	18.6%	34.3%	25.5%	45.8%	31.4%

Note: Assuming a DKK 60 reference share price at issue and current issued Share Capital of 698,804m shares. Conversion value cap representing 50% of issue size.  
Source: Morris valuation tool, Rothschild 16 Jan 09

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# Illustrative coupon analysis: Worked example

## 2.1 Illustration for [REDACTED]: Assumptions

### Assumptions: Illustration for [REDACTED] Capital Injection

Risk weighted assets (DKKm)	[REDACTED]
Issue size (% of risk weighted assets)	2.0%
Number of outstanding shares (m)	[REDACTED]
Market Capitalisation (DKKm)	[REDACTED]
Current share price (DKK)	[REDACTED]
Conversion premium	25%
Fixed Coupon (p.a. as a % of Issue Price)	8%
Dividend linked coupon multiplier*	125%

	Per security	Total Issue Size
Issue price	[REDACTED]	DKK [REDACTED]
Number of Securities	1	[REDACTED]
Conversion Ratio (n.o of shares underlying each security if converted)	1	[REDACTED]
Fixed Coupon (nominal amount p.a.)	DKK [REDACTED]	DKK [REDACTED]

\* Dividend Linked Coupon = ordinary dividend declared per share for financial year \* Conversion Ratio \* Dividend linked coupon multiplier

The illustrative assumptions above represent a theoretical capital injection for [REDACTED]

# Illustrative coupon analysis: Worked example

## 2.2 Illustration for **DKK**: Analysis

**Actual Coupon Payment per Security vs. ordinary dividend paid**

Implied ordinary dividend yield (for reference purposes only)	Actual Coupon Payment per Security vs. ordinary dividend paid			Implied ordinary dividend yield vs. share price performance to year 3	
	Dividend paid per Share (DKK)	Fixed Coupon (DKK)	Dividend Linked Coupon (DKK)		Actual Coupon Payment (DKK)
-50%					
3%					
6%					
9%					
12%					
15%					
18%					
21%					
24%					
27%					
31%					

**Total Income vs. dividends paid on underlying shares**

Implied ordinary dividend yield (for reference purposes only)	Total Income vs. dividends paid on underlying shares		Implied ordinary dividend yield vs. share price performance to year 3
	Dividend paid per Share (DKK)	Actual Coupon Payment (DKK)	
-50%			
3%			
6%			
9%			
12%			
15%			
18%			
21%			
24%			
27%			
31%			

**Government's coupon payment would start to increase if the Issuer paid a nominal dividend greater than DKK 5.24 per share in this illustration**

- In this example, once the dividend paid by the Issuer exceeds DKK 5.24 per ordinary share the Actual Coupon Payment to the Government will begin to increase
- DKK 5.24 would represent a crude dividend yield to shareholders of 8.0% if the share price remained unchanged over 3 years and 3.2% if the share price increased 150%
- This analysis would apply for any year in which a dividend was paid although we have assumed/note that the first dividend will likely not be paid until the 3<sup>rd</sup> financial year following issue