

[Draft for Discussion: work in progress]

10 Jan 2008 Strictly private and confidential

Project Horizon

■ Illustrative coupon analysis: Worked Examples

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Illustrative coupon analysis: Worked example

1.1 Basic illustration

Assumptions

Current share price (DKK)	10
Fixed Coupon (p.a. as a % of Issue Price)	8%
Dividend linked coupon multiplier**	125%
Per security (DKK)	
Issue price	DKK 12.50
Number of Securities	1
Conversion ratio (N.o of shares underlying each security)	1
Fixed Coupon (nominal amount p.a.)	DKK 1.00
* Dividend Linked Coupon = ordinary dividend declared per share for financial year * Conversion Ratio	
** Dividend linked coupon multiplier	

Actual Coupon Payment vs. ordinary dividend paid

Dividend paid per share (DKK)	Fixed Coupon (DKK)	Dividend Linked Coupon (DKK)	Actual Coupon Payment (DKK)
0.3	1.00	0.38	1.00
0.4	1.00	0.50	1.00
0.5	1.00	0.63	1.00
0.6	1.00	0.75	1.00
0.7	1.00	0.88	1.00
0.80	1.00	1.00	1.00
0.9	1.00	1.13	1.13
1	1.00	1.25	1.25
1.1	1.00	1.38	1.38
1.2	1.00	1.50	1.50
1.3	1.00	1.63	1.63

The above table provides a simple theoretical worked example of how the Government's income payment is calculated:

- If the Issue price of 1 security is 12.5 DKK, the annual income (Actual Coupon Payment) will be the higher of:
 - i. a fixed nominal coupon of DKK 1 p.a. (i.e. 8% of the issue price); and
 - ii. 125% of the nominal ordinary dividend paid per share for the relevant financial year
- The table highlights that if the ordinary dividend per share is greater than DKK 0.8 then the Actual Coupon Payment received by the Government per security will be higher than the Fixed Coupon (i.e. DKK 0.8*125%= DKK1)
- Finally, the table also highlights that the income received by the Government is linked only to the nominal dividend paid by the issuer and is not linked to the share price at the time (i.e. the prevailing dividend yield)

Nominal dividend paid per share and not the dividend yield drives actual income received

UK launches business loan guarantee scheme

Overview

Key details

- 14 Jan 09 - The UK Government announced a new set of measures in an attempt to address the cash flow, credit and investment needs of SMEs
 - The measures build upon previous commitments made in the November 2008 Pre-Budget Report
- The **Working Capital Scheme (WCS)** endeavours to bypass current difficulties in obtaining credit
 - A condition of the scheme requires that banks use the capital freed up by the guarantee for new lending (extra credit of which would not have been provided)
- The **Enterprise Finance Guarantee (EFG)** aims to help smaller credit-worthy companies which find it difficult obtaining finance in the current tough lending conditions
 - Such loans will provide crucial working capital and investment finance, preventing company failure
 - The EFG will be available through high-street banks and can be used to convert existing overdrafts into loans, freeing up current overdraft facilities to meet working capital demands
- The **Capital for Enterprise Fund** exists to help firms with high levels of debt raise long-term finance
 - This newly-raised capital can then be used to invest and grow the business
- These measures come the day Gordon Brown meets Nicolas Sarkozy for economic discussions and the day after the German government pledges an extensive €50bn fiscal stimulus package

Summary of new measures

- **Working Capital Scheme (WCS)**
 - Existing or new bank loans made to companies with <£500m annual turnover will be 50% guaranteed by the Government (in return for a fee), securing up to £20bn of short-term bank lending
- **Enterprise Finance Guarantee (EFG)**
 - Government to secure up to £1.3bn of additional bank loans to smaller firms with <£25m annual turnover
 - The state will guarantee 75% of business loans, with banks covering the remaining 25% (each may borrow up to a maximum of £1m)
- **Capital for Enterprise Fund**
 - Worth £75m, the externally-managed fund will seek to convert business debt into equity
 - The Government will provide £50m, with banks pledging a further £25m

Measures outlined today seek to stimulate lending to SMEs and encourage growth

UK launches business loan guarantee scheme

Political commentary

Helping SMEs obtain credit seen as a primary economic concern

Lord Mandelson, Business Secretary

"UK companies are the lifeblood of the economy and it is crucial that Government acts now to provide real help to support them through the downturn and see them emerge stronger on the other side.

We know that some companies are struggling to secure the finance they need, not because of any failure in their business but due to the tougher credit conditions. That is why we have designed a package of measures addressing different forms of credit and providing real help for businesses."

Source **BERR** (Department for Business, Enterprise and Regulatory Reform) 14/1/08

Plans for further radical measures

"Lord Mandelson also confirmed today the Government is discussing with trade credit insurance providers a Government scheme to help companies affected by reductions in their credit insurance."

Source **BERR** (Department for Business, Enterprise and Regulatory Reform) 14/1/08

Supplementary plans to ease credit lending conditions will fiscally stimulate the economy

Conservative Party

"It's good the Government is finally looking at loan guarantees. We've been arguing that a lack of credit is the problem at the heart of the recession."

Source **UK Conservative Party** 14/1/08

Calls for more extensive loan guarantees

"Ministers have rejected Tony (Conservative party) calls for a national £50bn loan guarantee scheme, saying it would risk handing money to firms who do not need it. The Government will consider help for specific sectors of the economy, including the car industry, on a case-by-case basis."

Source **The Independent** 14/1/08

Hanne Lanther (DEP)

Fra: Lotte Aakjær Jensen (DEP)**Sendt:** 14. januar 2009 09:20**Til:** Kenneth Lundgaard Christensen (DEP); Jesper Fredborg Huric Larsen (DEP); Ole Jørgensen (DEP); Tove B. Pedersen Foxman (DEP)**Cc:** Ulrik Nødgaard (DEP)**Emne:** VS: Lige lidt flere S-spørgsmål....vh Sass

Hvis I er kommet ind, så må I gerne kigge på følgende:

KLH: 15 og 16

JFL: 18

Jeg har bedt tilsynet kigge på 5,6,11,12 og 13.

OJR og jeg kan aftale, hvilke nogen som vi hver især ser på.

Lotte

Fra: Laura Purup (DEP)**Sendt:** 14. januar 2009 08:38**Til:** Ulrik Nødgaard (DEP); Michael Dithmer (DEP); Lotte Aakjær Jensen (DEP)**Cc:** Mette Kaae Hansen (DEP)**Emne:** VS: Lige lidt flere S-spørgsmål....vh Sass

Fra: Henrik Sass Larsen [mailto:Henrik.Sass.Larsen@ft.dk]**Sendt:** on 14-01-2009 08:20**Til:** Laura Purup (DEP)**Emne:** Lige lidt flere S-spørgsmål....vh Sass

1. Hvad er begrundelse for at bankerne ikke på markedsvilkår vil kunne skaffe ansvarlig lånekapital til en given rente og upside?
2. Hvori ligger forskellen mellem den prisfastsættelse markedet ville kræve - og den der ligger i bankbakke 2 - på ansvarlig lånekapital?
3. Hvor meget kan den løbende rente på ansvarlig lånekapital variere - og vil den løbende rente kunne fastsættes til under obligationsrenten?
4. Der ønskes en beskrivelse af processen for tre henvendelser om statslige kapitalindskud, herunder bud på det nødvendige hhv. maksimale omfang af kapital, der kan tilføres bankerne.

a. En bank med solvensprocent på 11,8 og kernekapitalprocent på 6,9

b. En bank med solvensprocent på 15,5 og kernekapitalprocent på 12,4

