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**From:** David Stern [REDACTED]  
**Sent:** Friday, May 8, 2015 3:09 PM  
**To:** jeffrey E.  
**Subject:** Fwd: Fyi only Fw: Pioneer structure

Here is a structuring challenge for you ! Just for some brain work to entertain you:

Begin forwarded message:

The convertible route does not seem to work. As explained previously, in order for the convertible to qualify as AT1 capital, the convertible will have to be structured in a way that the bank for any and no reason can cancel the coupon in its own discretion. Furthermore, the bank will only have to pay the coupon out of profits.

We therefore proposed an indemnity by the parent to make up for any shortfall if the bank does not pay the full coupon. However, Slaughters and A&O now agree that this indemnity will likely destroy the AT1 classification of the convertible.

I spoke to JM and he is currently exploring some alternative structures with the bank's lawyers. As previously discussed, one structure could be that KB Holdings issues an exchangeable loan and uses the GBP 8m proceeds to subscribe for ordinary shares in KBBL. The subscription monies will then qualify as common equity tier 1 (CET1) which is even better than AT1. At the end of the 3 years KB Holdings repays the principal and the coupon of the exchangeable in shares of KBBL.

There may be some other structures which JM is currently exploring.

The fact that the PRA meeting has been pushed back also gives us a little more breathing space on this regard.

I will let you know as soon as I have some concrete proposals.

Please feel free to call me if you would like to discuss.

All the best

M

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