



БЪЛГАРСКА  
НАРОДНА БАНКА

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София, пл. „Княз Александър I“ № 1

The Government of the Republic of Bulgaria  
Prime Minister's Office  
1 Dondukov Blvd  
1594 Sofia  
Bulgaria

Attention: Prime Minister Georgi Bliznashki  
BY EMAIL: [primeminister@government.bg](mailto:primeminister@government.bg)

Ministry of Finance  
102, G.S.Rakovski str.  
Sofia, 1040  
Bulgaria

Attention: Finance Minister Roumen Porozhanov  
BY EMAIL: [rporozhanov@minfin.bg](mailto:rporozhanov@minfin.bg)

The Governor of the Bulgarian National Bank  
1, Knyaz Alexander I Sq.  
1000 Sofia  
Bulgaria

Attention: Governor Ivan Iskrov  
BY EMAIL: [Stoyanova.Nina@bnb.org](mailto:Stoyanova.Nina@bnb.org)

29 October 2014

Dear Sirs,

#### Letter of Intent

The State General Reserve Fund of Oman ("SGRF"), Gemcorp Capital LLP ("GemCorp") and EPIC Group ("EPIC") have formed a consortium (the "Consortium") in respect of the ongoing reorganisation of Corporate Commercial Bank (the "Bank"). The Consortium may add other members in the future if deemed necessary to reopen the Bank.

The purpose of this letter of intent (the "Letter") is to set out the Consortium's current view of what is required to secure a successful reorganisation of the Bank.

The Consortium wishes to emphasise that it acts fully independently of, and not in concert with Mr Vassilev.

### Auditors' Reports

The auditors appointed by the Bulgarian National Bank, being Deloitte Bulgaria OOD, Ernest & Young Audit OOD and AFA OOD, (the "Auditors") have estimated that the Bank has a BGN 4.3bn deficiency in its Tier 1 Capital (the "Shortfall"). The Consortium has not had access to the Auditors' report. In order to finalise the Consortium's evaluation, it would need access to such report. If the Auditors generally require recipients of the report to sign standard release letters, the Consortium is willing to sign such a letter in order to gain access.

The Consortium also needs to gain access to the report in order to work with the present and former management of the Bank to determine if the Shortfall is similar to what is currently estimated. This could have a significant impact on the proposal set out in this Letter.

### Proposal

In order to start discussions and for the purpose of this proposal, the Consortium has used the degree of the Shortfall assumed by the Auditors for illustration purposes. However, this by no means implies that the Consortium agrees with this assessment of the Shortfall or that it considers the Auditors' report to be correct as such, as the Consortium has not yet had access to the report. The Consortium will review the Auditors' report as soon as available and work constructively on improving the Banks' position.

The Consortium's proposal is as follows:

### Capital/Asset Injections

To the extent that a recapitalisation of the Bank is not achieved by bail-ins and haircuts as proposed below for Non-guaranteed depositors, bondholders and lenders or any other measures in accordance with and subject to the terms of this Letter, the Consortium would expect the Government of Bulgaria, via the Bulgarian Development Bank (or any other entity designated by the Government) to provide up to BGN 2.3bn as a cash capital contribution as per the terms of this Letter. Simultaneously, the Consortium would be willing to provide the required top up in assets and cash to the Bank to fill the agreed Shortfall, subject to the terms set out in this Letter. This would provide the Bank with new capital sufficient for the re-opening of the Bank.

### Depositors

Guaranteed depositors wishing to withdraw would be paid out in full without the activation of the depositors' insurance scheme.

As part of the reorganisation of the Bank, it is the expectation of the Consortium that all parties will do their utmost to ensure that current depositors (whether or not their deposits fall under the state guaranteed category) keep their deposits with the Bank. A detailed plan for consulting with the larger depositors shall be agreed between the parties in advance.

Depositors whose deposits are not guaranteed by the state ("Non-guaranteed depositors") may need to accept a haircut as part of the bail-in of the existing creditors and certain depositors of the Bank. The Consortium will consider whether it is possible to place the Non-guaranteed depositors into separate groups based on (i) the size of deposits, (ii) the willingness to keep deposits with the Bank and (iii) the strategic importance to the Bank's continued operations. This may be combined with a scheme whereby the Non-guaranteed depositors are given an incentive to keep their deposits with the Bank for a longer period of time. Typically, they would be offered smaller haircuts (sliding scale) if they keep their deposits with the bank for longer. This can be combined with a staggered withdrawal mechanism whereby only a month-by-month increasing percentage is 'released' for potential withdrawal. Any haircut achieved will ensure that the Bulgarian taxpayers do not bear the full burden of the Bank's recapitalisation.

In the Consortium's opinion a tapered approach that rewards Non-guaranteed depositors who agree to keep their deposits with the Bank for a longer time period would be in the Bank's and the Bulgarian taxpayers' interest. The proposal would see Non-guaranteed depositors who elect to withdraw their deposits already when the Bank re-opens to bear the highest haircut. It is yet too early to quantify the size of such haircut on non-guaranteed deposits. Non-guaranteed depositors who elect to keep their deposits with the Bank for [3-4] years would be rewarded by (i) a sliding haircut percentage (depending on length of deposit) *plus* (ii) a participation for the remaining amount in a 5-year recovery note secured on an agreed portfolio of assets of the Bank (portfolio to be agreed) (the "Recovery Note"). Any further sums will be written off.

Non-guaranteed depositors who elect immediate withdrawal of their deposits will receive payment of their deposits (less haircut) in the form of Bulgarian Government bonds which may be converted into cash in the market immediately.

### Bondholders and Lenders

As with the Non-guaranteed depositors, bondholders and other senior lenders may have to accept haircuts. Again, the Consortium will consider whether it will be possible to distinguish between the bondholders and bilateral lenders when designing the

appropriate recovery scheme. As a starting point bondholders/lenders who elect immediate pay-out would bear the highest haircut. Again, it is too early to quantify such haircut. Bondholders/lenders who wish to remain senior lenders to the Bank and participate in the Recovery Note (as described above) will have (i) a lower haircut of the outstanding amount owed to them under the bond/loan *plus* (ii) a participation for the remaining amount in the Recovery Note. Any further sums will be written off.

Bondholders/lenders who elect immediate pay-out will receive their payment (less haircut) in Bulgarian Government bonds which may be converted into cash in the market immediately.

The Consortium believes that an approach based (only) on negotiations with the Non-guaranteed depositors, bondholders and lenders would risk to be threatened by legal action by potential 'hold-out' debt holders, including civil and criminal actions against the Bank. The Consortium is strongly convinced that any effective haircut of such Non-guaranteed depositors, bondholders and lenders should be supported by suitable bail-in legislation, which the Republic of Bulgaria should adopt (see below).

Generally, the Consortium believes it is essential to keep the concepts discussed in this Letter confidential for the time being.

It is expected that subordinated debt will be extinguished.

#### Structure

The Consortium and the Bulgarian Government will form an acquisition vehicle ("Bidco") which will acquire all new shares to be issued by the Bank. Bidco will be 50/50 per cent owned by the Consortium and the Bulgarian Government. The final result should be Bidco to obtain 100% control over the Bank following the recapitalization.

In the event that the haircuts set out above are implemented they will have a significant positive impact on the deficit.

#### Asset Contribution

The Consortium will seek to expedite the planned recapitalisation of the Bank by arranging for the raising of funds by a special purpose entity ("SPV"). Bromak (and related Bromak parties) shall transfer all assets held by it to the SPV (the "Transfer Assets"). Such Transfer Asset will be used as collateral by the SPV to raise capital for the recapitalisation of the Bank through Bidco.

The Consortium may elect to effect all or part of its contribution to the Bank through the SPV by way of such funds raised by the SPV.

### Management

The Consortium and the Bulgarian Government shall agree on the new management team of the Bank.

The former management of the Bank shall be compelled to participate in the internal investigation as part of the recovery the Bank's outstanding loans.

### Upstreaming of Capital

In order to ensure a successful reorganisation, the capital contributed to the Bank by the parties may be in excess of what is actually required for the reopening of the Bank. The Bidco shareholders shall therefore agree that if on the date falling six months after the reopening of the Bank (the "Reopening Date") the Bank's capital requirements as on the Reopening Date, based on agreed capital parameters (to be agreed) exceeds the required capital, such excess amount shall be upstreamed from the Bank to Bidco and immediately paid out to the shareholders of Bidco in proportions to be agreed. Such mechanism is paramount to ensure that the Consortium's participation in the reorganisation is not hampered by considerations relating to potential lock-ups.

The parties will cooperate on ensuring that such mechanism is structured in compliance with EU regulation or that necessary waivers are granted.

### Legislative Requirements

The Consortium will work with the Bulgarian Government to have all elements of the final reorganisation plan approved by the EU Commission.

The Consortium is concerned by set-off agreements between the Bank and its debtors at severely discounted rates which may have taken place since the Bank was put in conservatorship. Such agreements/set-off will need to be immediately rescinded. The Bulgarian Government shall therefore procure the passing of legislation to achieve the following:

1. bail-in of Non-guaranteed depositors, bondholders and lenders to the Bank as described above (using BRRD-style bail-in technique but independently of EU legislation);
2. the preservation of the Banks' assets and capital. This will require, the rescission of all agreements, set-offs and enforcement proceedings resulting in any reduction (or loss of value) of the Bank's assets which have been entered into or commenced by any creditor, obligor or entities related to such obligor from the date the Bank was put in conservatorship;

3. the Consortium is concerned that similar set-off and enforcement agreements may have been entered into or commenced between companies which are included in the Transfer Assets and any creditor, obligor or entities related to such obligor of such companies. The Consortium wishes to emphasise that the assets of such companies must be preserved by ensuring that such agreements and enforcement proceedings are avoided and reversed.

The purpose of this is to ensure that no individuals shall be able to claim a preferential position or participate in asset stripping in advance of the reorganisation of the Bank.

#### Transaction Cost

The Parties agree that any cost associated by the restructuring and reopening of the Bank will be borne by the Bank. This covers the direct cost incurred by the Consortium members in relation to the reopening of the Bank effective from 20 June 2014 till the "Reopening Date". This includes the cost paid to the consultants, advisors, lawyers and any hired firms of such nature to help in the restructuring of the Bank.

This Letter is not intended to constitute legal binding obligations, and should not be construed as a commitment or obligation on the part of the Consortium or its members to underwrite, arrange or purchase any securities and/or provide investment vehicles and/or enter into any transaction as part of a potential restructuring. Any commitment will be subject to contract and due diligence on the Bank and the involved parties.

This Letter shall be governed by English law and subject to exclusive jurisdiction in the High Court of England & Wales.

We look forward to hearing from you on a possible date for a meeting at your earliest convenience.

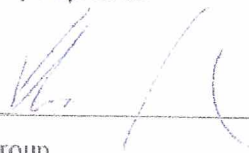
Yours sincerely,



State General Reserve Fund



GemCorp Capital LLP



EPIC Group