

30 NOVEMBER 2015

## INDICATIVE TERM SHEET — GDP BONDS

### REPUBLIC OF ARCADIA

*This Term Sheet sets out the indicative terms for a GDP linked bond of a fictitious sovereign, the Republic of Arcadia. It is intended to generate discussion and debate on the usefulness of such instruments. It has not been prepared in contemplation of any transaction for any sovereign entity.*

*This version of the Term Sheet has been prepared to promote a better discussion among participants at a workshop on sovereign GDP linked bonds organised by the Bank of England on 30 November 2015. It is intended that this Term Sheet will go through several iterations and that further work will be done on it as public discussion on sovereign GDP linked bonds continues.*

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<b>Issuer:</b>	The Republic of Arcadia (the <b>Republic</b> or the <b>Issuer</b> ).
<b>Currency:</b>	Arkadins [ <i>only domestic currency</i> ].
<b>Denomination:</b>	[●] per GDP Bond. [ <i>Denomination to be set at a level where only wholesale and not individual investors can participate.</i> ]
<b>Principal Amount:</b>	[●]. [ <i>Size should be large enough to provide liquidity</i> ]
<b>Form:</b>	Bearer or registered in global form held on behalf of Euroclear and Clearstream, Luxembourg.
<b>Issue Date:</b>	[DATE]
<b>Maturity Date:</b>	[DATE] [ <i>Term of the GDP Bonds should be sufficiently long to provide for a smoothing of payments over a number of economic cycles, for example [10]+ years</i> ]
<b>Status of GDP Bonds:</b>	The GDP Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Republic. The GDP Bonds rank, and will rank, equally among themselves and with all other unsubordinated and unsecured [borrowed money] [Relevant Indebtedness] of the Republic; provided, however, that, consistent with similar provisions in the Republic's other indebtedness, this provision shall not be construed so as to require the Republic to pay all items of its indebtedness rateably as they fall due. The due and punctual payment of the Bonds and the performance of the obligations of the Republic with respect thereto are backed by the full faith and credit of the Republic.
<b>Relevant Indebtedness:</b>	“ <b>Relevant Indebtedness</b> ” means any borrowed money in the form of bonds or similar debt instruments [(and whether linked to any index or not)] issued or guaranteed by the Republic which are, or are capable of being and intended to be, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over the counter or other securities market.
<b>Interest:</b>	The interest payable on each Interest Payment Date shall be equal to:  <b><i>Base Interest Rate x Nominal GDP Index Ratio</i></b>  <b>Base Interest Rate</b> means a positive number (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) as specified at the issue date.
<b>Interest payment frequency:</b>	Interest is payable annually on each Interest Payment Date.
<b>Interest Payment Dates:</b>	The Interest Payment Date for any Reference Year shall be [ <i>the calendar day of the Issue Date</i> ] first following the Calculation Date in respect of such Reference Year (or if any such calendar day is not a business day, the first following day that is a business day).
<b>Calculation Date:</b>	For any Reference Year, 15 December of the calendar year following such Reference Year or if 15 December in any year is not a business day, the first following business day.
<b>Calculation of Payments:</b>	All calculations relating to the GDP Bonds will be calculated by the

Issuer and any announcements will be made as set under 'Notices' below.

**Final Redemption Amount:** The Final Redemption Amount payable by the Issuer on the Maturity Date shall be determined in accordance with the following formula:

***Redemption Principal Amount x Principal Factor***

**Where:**

**Principal Factor** means a number, greater than zero but less than one, (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) as specified at the Issue Date.

**Redemption Principal Amount** means an amount in [Arkadins] (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) equal to:

***Principal Amount x Nominal GDP Index Ratio***

**Nominal GDP Index Ratio:** means, with respect to a Reference Year, GDP at Current Prices *divided* by GDP at Current Prices for the First Reference Year (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards).

**Where:**

**Reference Year** means each calendar year from and including one year prior to the Issue Date to and including the calendar year falling two years prior to the Maturity Date.

**First Reference Year** means the calendar year immediately preceding the calendar year during which the Issue Date falls.

**GDP at Current Prices** means the Issuer's gross domestic product at current prices in [Arkadins] for any Reference Year, as published by the Issuer's nationally recognised statistical institute as at the Calculation Date for that Reference Year.

If the Issuer's nationally recognised statistical institute fails to publish such statistic as at the Calculation Date for that Reference Year, the GDP at Current Prices shall be the gross domestic product at current prices for that Reference year, as published by the Issuer's Central Bank.

If the Issuer's Central Bank fails to publish such statistic as at the Calculation Date for that Reference Year, the GDP at Current Prices shall be the estimated gross domestic product at current prices for that Reference Year, as published by the IMF in the most recent issue of the World Economic Outlook as at the Calculation Date.

If the IMF fails to publish such estimate as at the Calculation Date it shall be the gross domestic product at current prices for the immediately preceding Reference Year (the **Preceding Reference Year**), as published at the Calculation Date for the Preceding Reference Year, *multiplied* by 1.1.

No adjustments will be made to any future payments as a result of any

revision of GDP at Current Prices following the Calculation Date.

*[Investors' requirements with respect to the sources of GDP data and relevant fallbacks for non-publication may vary depending on the particular sovereign and investors' concerns as to the reliability of the data].*

**Call Option:**

None.

**Put Option:**

The holder of any GDP Bond may, on the occurrence of a Put Event, exercise an option to require the Issuer to redeem such GDP Bond on a specified Put Date (as defined in the relevant put notice delivered to the Issuer by such holder) at their Early Redemption Amount.

**Put Event:**

These will include the following:

- (a) the Republic and/or the Republic's Central Bank fails to publish GDP data by the agreed date and in the manner agreed (subject to an agreed grace period);
- (b) the IMF fails to publish an Article IV report for the Republic for two consecutive calendar years prior to any Calculation Date;
- (c) the Republic ceases to subscribe to the IMF's Special Data Dissemination Standard applicable to it;
- (d) the IMF's Executive Board issues a declaration of censure of the Republic; and
- (e) the Republic ceases to be member of the IMF.

**Negative Pledge:**

So long as any GDP Bond remains outstanding, the Republic shall not create or permit to subsist any mortgage, pledge, lien or charge upon any of its present or future revenues, properties or assets to secure any Relevant Indebtedness, unless the GDP Bonds shall also be secured by such mortgage, pledge, lien or charge equally and rateably with such Relevant Indebtedness or by such other security (A) as the Trustee shall in its absolute discretion deem to be not materially less beneficial to the interests of the holders or (B) as may be approved by a resolution of the requisite majority of holders or written resolution of the holders.

**Events of Default:**

These will include the following (but will not include any events which are Put Events):

- (a) the Republic fails to pay principal or interest on any GDP Bond (subject to appropriate grace periods);
- (b) the Republic is in default in the performance of any covenant, condition or provision and continues to be in default for *[appropriate grace period]* after written notice has been given to the Republic by *[any Holder]* *[the Trustee]*;
- (c) (i) any payment of principal in relation to any Relevant Indebtedness is not paid when due after giving effect to any

applicable grace period or (ii) any Relevant Indebtedness has become due and payable prior to its stated maturity otherwise than at the option of the Republic (after giving effect to any applicable grace period) and has not been paid, provided that the amount of Relevant Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above individually or in the aggregate exceeds [AMOUNT] (or its equivalent in any other currency or currencies);

- (d) the Republic declares a moratorium with respect to the GDP Bonds, including where such moratorium forms part of a general moratorium over all or part of the Republic's indebtedness;
- (e) the Republic rescinds, repudiates or expropriates, (or purports to do so) any of the GDP Bonds or its obligations arising under the GDP Bonds or otherwise declares invalid its obligations under the GDP Bonds; and
- (f) any applicable order, decree, enactment, treaty or regulation prevents the Republic from performing its obligations under or in respect of the GDP Bonds.

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of the GDP Bonds then outstanding shall, give notice to the Issuer that each GDP Bond is, and shall forthwith become, immediately due and payable if any of the specified events occur.

“**Relevant Indebtedness**” for the purposes of cross-acceleration ((c) above) will be limited to Arcadia's other GDP Bonds and not to any other borrowed money obligation in the form of bonds or similar debt instruments.

Events of Default to be consistent across all of Arcadia's GDP-linked securities.

**Early Redemption Amount payable on redemption following the exercise of a Put Option or following an Event of Default:**

The Early Redemption Amount shall be determined in accordance with the following formula:

***Early Redemption Principal Amount x Principal Factor***

**Where:**

**Early Redemption Event** means (i) a Put Event or (ii) an Event of Default.

**Early Redemption GDP at Current Prices** means GDP at Current Prices for the Reference Year preceding the calendar year in which the Early Redemption Event occurs.

**Early Redemption Nominal GDP Index Ratio** means Early Redemption GDP at Current Prices *divided* by GDP at Current Prices for the First Reference Year.

**Early Redemption Principal Amount** means an amount equal to: *Principal Amount x Early Redemption Nominal GDP Index Ratio*.

**Listing:** Yes

**Rating:** Yes.

**Security:** None

**Holders' Voting Rights/CACs:** The GDP Bonds will contain provisions, commonly referred to as "collective action clauses", regarding approval of certain modifications and actions:

- (a) in respect of the GDP Bonds only, with the consent of the holders of at least [75.0%] (for certain "reserved matters") and at least [66<sup>2</sup>/<sub>3</sub>%] (for all other matters) of the aggregate principal amount of the outstanding GDP Bonds;
- (b) in respect of the GDP Bonds and at least one other series of GDP-linked securities (capable of aggregation for voting purposes with other series of GDP-linked securities) issued by the Republic, with the consent of both:
  - (i) the holders of at least [66<sup>2</sup>/<sub>3</sub>%] of the aggregate principal amount of the outstanding affected GDP-linked securities (taken in aggregate); and
  - (ii) the holders of more than [50%] of the aggregate principal amount of each series of affected GDP-linked securities (taken individually).

The GDP-linked securities in question will be similar to the GDP Bonds and will not include any GDP warrants.

GDP-linked securities held by the Republic or entities controlled by the Republic will not be considered to be outstanding and their holders will not be capable of voting.

**Taxation:** All payments by the Issuer on the GDP Bonds will be paid free and clear of any Arkadian withholding taxes or other applicable Arkadian taxes.

**Selling Restrictions:** [*Depending on type of offering*].

**Documentation:** Trust structure

**Notices:** Notices will be given in accordance with the rules of the stock exchange where the GDP Bonds are listed and via Euroclear and Clearstream in customary fashion. Notices will also be published on the website of the Ministry of Finance of Arcadia at ●

**Governing Law:** English law.

**Jurisdiction:** The courts of England and arbitration (at the option of the holder). The Issuer will appoint an independent process agent to receive service on its

behalf in England.

**Clearing Systems:**

Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme*