

INDICATIVE TERM SHEET — GDP BONDS

REPUBLIC OF ARCADIA

This Term Sheet sets out the indicative terms for a GDP-linked bond (GDP 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.

It is intended that this Term Sheet will go, in the context of this discussion and debate, through several iterations and that further work will be done on it as the discussion and debate on sovereign GDP-linked bonds continue.

ALLEN & OVERY

Allen & Overy LLP

Issuer:	The Republic of Arcadia (the Republic or the Issuer).
GDP Bonds:	The bonds issued by the Republic under this issue.
Form:	The GDP Bonds will be bearer or registered in global form held on behalf of Euroclear and Clearstream, Luxembourg.
GDP-linked Securities:	The Republic's GDP-linked securities similar to the GDP Bonds (excluding any GDP warrants) including, where the context permits, the GDP Bonds.
Currency:	Arkadins (K\$). <i>[only domestic currency issues]</i>
Status:	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 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 GDP Bonds and the performance of the obligations of the Republic with respect thereto are backed by the full faith and credit of the Republic. <i>[Status and ranking to be drafted to meet the requirements of individual issuers.]</i>
GDP:	In respect of a Reference Quarter, the Republic's seasonally-adjusted nominal gross domestic product (GDP) in K\$ for that Reference Quarter as published by the relevant Publishing Entity.
Denomination:	K\$[●] and integral multiples of K\$[●] in excess thereof up to and including K\$[●]. No Notes in definitive form will be issued with a denomination above K\$[●]. <i>[Denomination to be set for 'wholesale' investors only]</i>
Principal Amount:	K\$[●]. <i>[Principal Amount will be calculated by reference to the Base Date. Size should be large to enhance liquidity.]</i>
Principal Factor:	[●]. <i>[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.]</i>
Issue Price:	[●]% of the Principal Amount (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) as specified at the Issue Date.
Issue Date:	<i>[Issue date]</i>
Base Date:	[DATE]. <i>[The Base Date will be at least a few business days prior to the Issue Date but may be a longer period depending on the overall issuance programme of the Republic. The Republic may, for example, choose to have the same base date for a number of issues, so as to have a common pricing base for all of its GDP-linked issues.]</i>
Base Interest Rate:	[●]% <i>[A positive number expressed as a percentage specified at the Issue Date.]</i>

Interest: The interest payable on each Interest Payment Date per K\$[●] shall be an amount equal to:

$$\text{K\$ [●]} \times \frac{\text{Base Interest Rate}}{2} \times \text{Nominal GDP Index Ratio}_{\text{Payment Date}}$$

Each amount of interest so calculated shall be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards.

Interest Payment Dates: Interest is payable semi-annually on [●] and [●] in each year (each an **Interest Payment Date**). [*Interest Payment Dates will be dates falling on integral multiples of six month intervals from the Base Date*] [*Annual coupons are also possible depending on an Issuer's and its investors' preferences.*]

Maturity Date: [*Maturity date*] [*Term should be sufficiently long to provide for a smoothing of payments over a number of economic cycles, for example 10 or more years*]

Redemption Date:

- (a) The Maturity Date; or
- (b) an early redemption date following:
 - (i) the exercise of a Put Option; or
 - (ii) an acceleration on an Event of Default.

Payment Date: An Interest Payment Date or a Redemption Date.

Calculation Date: The date falling two business days prior to a Payment Date.

Redemption Amount: In respect of a Redemption Date, an amount payable in K\$ by the Republic on such Redemption Date per K\$[●] determined as follows:

Redemption Principal Amount x Principal Factor

Redemption Principal Amount: In respect of a Redemption Date, an amount in K\$ (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) equal to:

K\$[●] x Nominal GDP Index Ratio_{Redemption Date} x (Issue Price + Accrued Interest)

Nominal GDP Index Ratio_{Payment Date}: In respect of a Payment Date, the ratio of Reference GDP applicable to such Payment Date (**Ref GDP_{Payment Date}**) divided by the Reference GDP with respect to the Base Date (**Ref GDP_{Base Date}**), (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards), as expressed by this formula:

$$\text{Nominal GDP Index Ratio}_{\text{Payment Date}} = \frac{\text{Ref GDP}_{\text{Payment Date}}}{\text{Ref GDP}_{\text{Base Date}}}$$

Accrued Interest: Where interest is to be calculated in respect of a period which is less than a full six months, interest shall be calculated by applying the Base Interest Rate to each K\$[●] on the basis of (a) the actual number of days in the

period from and including the date from which interest begins to accrue (the **Accrual Date**) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date multiplied by 2. The resultant figure shall be rounded if necessary to the nearest cent, with half a cent being rounded upwards.

Reference Quarter:

Each calendar quarter for which the Republic is scheduled to publish GDP statistics.

Reference GDP for the Base Date:

The result of a straight-line-basis calculation between (i) the GDP for the Reference Quarter ended six months prior to the Reference Quarter in which the Base Date falls, and (ii) the GDP for the Reference Quarter ended three months prior to the Reference Quarter in which the Base Date falls, each as published by the Statistical Institute as at the Base Date, using the following formula:

$$\frac{\text{Nominal GDP for the calendar quarter ended six months prior to the Base Date} + \text{Actual number of days between the end of the previous calendar quarter and the Base Date} - 1}{\text{Actual number of days in the calendar quarter in which the Base Date falls}}$$

$$\times \left(\frac{\text{Nominal GDP for the calendar quarter ended three months prior to the Base Date}}{- \text{Nominal GDP for the calendar quarter ended six months prior to the Base Date}} \right)$$

Reference GDP for the Payment Date:

The result of a straight-line-basis calculation between (i) the GDP for the Reference Quarter ended six months prior to the Reference Quarter in which the Payment Date falls, and (ii) the GDP for the Reference Quarter ended three months prior to the Reference Quarter in which the Payment Date falls, each as published by the Statistical Institute as at the relevant Calculation Date, using the following formula:

$$= \frac{\text{Nominal GDP for the calendar quarter ended six months prior to the Payment Date} + \text{Actual number of days between the end of the previous calendar quarter and the Payment Date} - 1}{\text{Actual number of days in the calendar quarter in which the Payment Date falls}}$$

$$\times \left(\frac{\text{Nominal GDP for the calendar quarter ended three months prior to the Payment Date}}{- \text{Nominal GDP for the calendar quarter ended six months prior to the Payment Date}} \right)$$

If the Publishing Entity has not published such statistics for all relevant Reference Quarters by the Calculation Date, the Reference GDP for all such Reference Quarters shall be the nominal GDP for the immediately preceding Reference Quarter for which the Publishing Entity has published such statistics for all such Reference Quarters, *multiplied* by 1.1.

[Investors' requirements with respect to the sources of GDP, revisions of GDP and relevant fall-backs for late or non-publication of GDP may vary depending on the particular sovereign and investors' concerns as to the reliability of the GDP data available for that sovereign. In this

regard, an earlier warning trigger for non-availability of GDP may have to be considered].

No post-Calculation Date adjustments:	No adjustments will be made to any future payments as a result of any rebasing or revisions of Reference GDP following the Calculation Date.
Statistical Institute:	The Republic's nationally recognised statistical institute being [●].
Central Bank:	The Republic's central bank being [●].
Publishing Entity:	The Statistical Institute or, if the Statistical Institute fails to publish the relevant statistics, the Central Bank. <i>[For issues with annual coupons and depending on the issuer, the IMF and its relevant statistics in the most recent issue of the World Economic Outlook could be a further fall-back].</i>
Trustee:	[●]. <i>[Trust or Fiscal Agency structure will have to be discussed on a case by case basis as a matter of preference and policy for each issuer.]</i>
Calculation Agent:	[The Republic] <i>[Entity entrusted with this role].</i>
Calculation of Payments:	All calculations relating to the GDP Bonds will be calculated by the Calculation Agent and any announcements will be made as set out under 'Notices' below.
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 Republic to redeem such GDP Bond on a specified Put Date (as defined in the relevant put notice delivered to the Republic by such holder) at the Redemption Amount.
Put Event:	Will be deemed to occur if any of the following occurs: (a) the Republic and/or the 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. <i>[Requirement for a Put Option, the nature of the specified Put Events and interplay with Events of Default will be determined by the relevant parties on an issuer by issuer basis.]</i>
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.

[Inclusion of and/or scope of Negative Pledge to be determined by individual issuers.]

“**Relevant Indebtedness**” means, for the purpose of the Negative Pledge, 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.

Events of Default:

Each of the following events is an Event of Default:

- (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 GDP-linked Indebtedness is not paid when due after giving effect to any applicable grace period or (ii) any GDP-linked Indebtedness has become due and payable prior to its stated maturity by reason of an event of default (however described), *[provided that the amount of GDP-linked Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above individually or in the aggregate exceeds K\$[●] (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 Republic that each GDP Bond is, and

shall forthwith become, immediately due and payable at the Redemption Amount if any of Event of Default occurs.

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

[These are sample Events of Default. Events of Default to be set by individual issuers and to be consistent across all of such issuer’s GDP-linked Securities.]

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%] (for Reserved Matters) and at least [66²/₃%] (for all other matters) of the aggregate principal amount of the outstanding GDP Bonds; and
- (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 the holders of at least [75%] of the aggregate principal amount of the outstanding GDP-linked Securities of all affected GDP-linked Securities (taken in aggregate).

Aggregation will only be possible across series of GDP-linked Securities and not include any series of the Republic’s other outstanding debt.

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.

Multiple series aggregation and modification may only take place provided the ‘Uniformly Applicable’ condition is satisfied. Such Uniformly Applicable conditions will be satisfied if, *inter alia*, (i) the holders of all affected series are invited to exchange or convert their GDP-linked Securities for the same new instruments or new instruments from an identical menu of instruments or (ii) the amendments proposed result in the amended GDP-linked Securities having identical provisions (except as necessarily required) including without limitation the methodology for the calculation of the GDP-linked interest and principal payment amounts.

The above conditions will only be satisfied if all exchanging, converting

or amending holders of each aggregated series are offered (i) proportionally the same amount of consideration in respect of principal and interest accrued but unpaid as offered to each other holder of an affected series or (ii) where a menu of instruments is offered to holders, proportionally the same amount of consideration in respect of principal and interest accrued but unpaid as offered to each other holder of an affected series electing the same option from such menu of instruments.

Recognising the potential economic differences between series of GDP-linked Securities, proposed modifications or actions pursuant to the abovementioned aggregation may be made in respect of some series only or different offers may be made to different groups of GDP-linked Securities.

Reserved Matters:

These will include resolutions proposing changes to:

- (a) the date, amount, method of calculation, currency, place of any amounts payable;
- (b) the majorities required for the passing of certain resolutions;
- (c) certain definitions (including that of GDP-linked Securities, Uniformly Applicable and Reserved Matters) or certain other provisions, including majorities required, in the voting arrangements;
- (d) disenfranchisement provisions, ranking of GDP Bonds and calculation of outstanding GDP Bonds;
- (e) the Events of Default, the Put Events, the calculation of Reference GDP, the governing law and jurisdiction provisions; and
- (f) exchange of the GDP Bonds in a manner which results in inequitable treatment of the holders.

[Reserved Matters will seek to follow industry standards for aggregated CACs as published from time to time by ICMA.]

Taxation:

All payments by the Republic on the GDP Bonds will be paid free and clear of any Arcadian withholding taxes or other applicable Arcadian taxes.

Selling Restrictions:

[Depending on type of offering].

Documentation and structure:

Trust structure. The GDP Bonds will be constituted by a Trust Deed which will be available for inspection at the offices of the Trustee.

[Trust or Fiscal Agency structure will have to be discussed as a matter of preference and policy for sovereigns. For Arcadia a trust structure is proposed.]

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 [or such other law as customarily governs the Republic's international debt issuances].

Jurisdiction: [The courts of England and arbitration (at the option of the holder). The Republic will appoint an independent process agent to receive service on its behalf in England.] [*Jurisdiction to be consistent with choice of governing law.*]

Clearing Systems: Euroclear Bank S.A./N.V. and Clearstream Banking SA