Memorandum

TO	High Yield Commitment Committee Bridge Loan Committee European Commitment Committee
FROM	Project Sacher Deal Team
DATE	9 February 2007, 11:15am NY/ 4:15pm London
SUBJECT	BAWAG – Revised Terms and Underwriting Amount

1. Situation Update

Cerberus has requested that Lehman Brothers (and its ultimate underwriting partners – bank group still TBD) underwrite the proposed debt facilities in the form of a unit, including €250 million of equity co-invest that is expected to be sold in conjunction with the senior and junior debt tranches previously discussed.

That is to say, previously we were underwriting debt assuming that we would have up to €250 million of equity which we could sell to debt investors (at cost) in order to entice debt investors into the deal. While Cerberus have conceptually agreed to this coinvest equity concept, they have now asked that Lehman underwrite a proportion of the €250 million coinvested equity in line with our ultimate debt underwriting – which at this stage we continue to assume will be 50% of the debt facilities. I.e., LB underwrite of 50% of the debt facilities plus €125 million of equity.

The reason for including the equity in the underwriting is so that Cerberus can have certainty when they sign the loan documents about how much equity it needs to syndicate to its LPs and other relationships and avoid a scenario where they end up needing to syndicate or own an additional €250 million of equity late in the process. Cerberus has indicated that its target hold in the equity is €800 million, implying a sell down of €450 million in addition to the equity amount that the banks underwrite.

While Cerberus would gladly have Lehman underwrite a loan commitment that involved no co-invest equity or warrants, they are not willing to be in a position where Lehman has a call on the equity for a period of time for purposes of marketing the loan. They would rather confirm the amount of co-invest equity we need today and have us commit to it.

Committee Request

The Deal Team discussed the Transaction with the Committee on 13 November and 15 December, 2006 as well as on 2 February, 2007 and received approval to proceed with a financing commitment.

The Deal Team would now like to update the committee on this equity related material change to our underwriting commitment. Specifically, the Deal Team is seeking final Committee approval to provide a NO MACs/ "certain funds" financing commitment to Cerberus on the terms described herein for 50% of the total debt (plus coinvest equity) financing package. Given the competitive landscape, our expectation at this stage is that we will not have to sign a commitment letter for more than 50%-60% of the total underwrite. Should our current 50% underwrite assumption change as the process unfolds, we will revert to the Committee.

Lehman Commitment Amount						
	Total Facilities			50% Lehman Commitment		
	in %	**in €m**	**in $m**	**in %**	**in €m**	**in $m**
Senior HoldCo Loan	100.0%	1,772.0	2,296.0	50.0%	886.0	1,148.0
Subordinated HoldCo Loan	100.0%	172.0	222.9	50.0%	86.0	111.4
Total Debt Facilities	**100.0%**	**1,944.0**	**2,518.8**	**50.0%**	**972.0**	**1,259.4**
Equity Coinvestment	100.0%	250.0	323.9	50.0%	125.0	162.0
Total	**100.0%**	**2,194.0**	**2,842.8**	**50.0%**	**1,097.0**	**1,421.4**

Note: US$/ Euro exchange rate: 1.3 as of 8 February 2007.

Our commitment remains subject to the following:

- Customary conditions precedent including among other things: finance documentation, security documents, KYC documents, legal opinions, funds flow, all necessary approvals/consents (including FMA approval in respect of Sponsors and Co-Investors, reliance letters on all DD reports);
- Receipt of and satisfaction with the final tax and structure memorandum;
- Satisfaction with final Consortium agreement, related shareholder agreements and equity documents;
- Satisfaction with full year 2006 audit;
- Satisfactory legal report (the "Refco Report") from Cerberus' legal advisors detailing the status of the Refco litigation and settlement and confirming that risk of future Refco related claims is low. Such report to be reviewed by our legal advisors;
- Clarification by Cerberus' legal advisor in their final legal report that the guarantee in respect of the Mobtel transaction has expired or that the risk related to the Mobtel transaction is low;
- Final sources and uses and receipt of final agreed financial model; and
- Compliance with OFAC regulations (see below).

2. Transaction Structure

The tables below present Sources & Uses, Capitalisation and Credit Statistics for the funding of the Consortium's acquisition SPV under the proposed financing structure.

Note: Cerberus have now asked us to assume that we will provide financing to all parties in the Consortium (i.e., we are now leveraging 100% of the invested equity vs. the 90% assumption in the previous cc memo).

The latest debt structure is comprised of:

- Senior Loan: €1,772m gross/ €1,604m net debt; priced at E+50bps Cash pay + 750bps PIK in the first two years (i.e., E+8.0%) followed by E+400bps Cash pay +400bps PIK thereafter;
- Subordinated Loan: €172m gross/ €172m net debt; priced at E+ 800bps PIK + warrants equivalent to 1.0% of equity bringing all-in IRR to debt investors of c. 15% (assuming same exit as entry multiple of 1.91x P/B in year 5).

Latest Estimated Sources & Uses

Funding for BAWAG Acquisition SPV (100.0% ownership of BAWAG)

Sources *(€ million)*	**Amount**	**Uses**	**Amount**
Gross Senior Loan	1,772.0	Consortium Investment (100.0%)	3,210.0
Gross Subordinated Loan	172.0	*- of which: Purchase Equity*	*2,610.0*
Total Gross Debt	1,944.0	*- of which: Capital Injection*	*600.0*
- of which: Prefunded Interest	*168.1*	Pre-funding at E +50bps for 2 years	168.1
Consortium Investment	1,513.5	Transaction Expenses for BAWAG acquisition	30.0
- of which: Co-invest	*250.0*	Estimated Financing Fees	49.5
Total Sources	**3,457.5**	**Total Uses**	**3,457.5**

Latest Estimated Pro Forma Capitalisation

(€ million)	**Amount**	**% Loan to Proportionate Contribution incl. Capital Injection (1)**	**x Proportionate Normalised Net Income (2)**	**x Proportionate Net Asset Value (3)**
Gross Senior Loan	1,772.0	55.2%	4.9x	1.06x
Gross Subordinated Loan	172.0	5.4%	0.5x	0.10x
Total Gross Debt	**1,944.0**	**60.6%**	**5.4x**	**1.16x**
Pre-funding of CP interest for 2 years	(168.1)			
Net Senior Loan	1,603.9	50.0%	4.4x	0.96x
Net Subordinated Loan	172.0	5.4%	0.5x	0.10x
Total Net Debt	**1,775.9**	**55.3%**	**4.9x**	**1.06x**
Invested equity	1,434.1	44.7%	4.0x	**0.86x**
- of which: Co-invest	*250.0*	8.6%		
Cerberus Contribution	**3,210.0**	**100.0%**	**8.9x**	**1.91x**

1) *Proportionate Cerberus Contribution including Capital Injection of €600m totals €3,210m*
2) *Based on Normalised Post-tax ROAE (incl. 25% Tax Rate) of 21.5% Normalised Net Income for 2006 is €361m*
3) *Proportionate Net Asset Value for 2006 is €1,677m*

3. Summary Debt Financing Terms

The revised summary terms for the financing are provided in the table below:

Summary Terms of the SPV Loans for Underwritten Proposal	
Borrower:	Funding SPV
Lenders:	Lehman Brothers Commercial Paper Inc UK Branch or an affiliate thereof and a syndicate of investors to be determined in consultation with Borrower
Facilities:	Holdco Term Facilities (the "Facilities"): (i) Senior Holdco Loan (the "Senior Loan") (ii) Subordinated Holdco Loan (the "Subordinated Loan")
Purpose:	Proceeds to be used: (i) to finance part of the consideration for the Transaction (ii) to pay a portion of the costs and expenses related to the Transaction (iii) to pre-fund 2[1] years of cash pay interest[2] on the Senior Loan
Size:	Total Net Proceeds of €1,776m or Total Gross Proceeds of €1,944m comprising: (i) Senior Loan: €1,772m (the "Senior Gross Proceeds") or €1,604m excluding interest pre-funding (the "Senior Net Proceeds") (ii) Subordinated Loan: €172m (the "Subordinated Proceeds")
Maturity:	Senior Loan: 7 years Subordinated Loan: 8 years
Interest Service Account:	Senior Loan: Borrower's bank account holding 2[1] years of cash interest payment[2] for the Senior Loan
Pricing:	Senior Loan: E + 800 bps, split between: Years 1 and 2: (i) 50 bps cash pay margin (the "Senior Cash Pay Margin"), and (ii) 750 bps PIK margin (the "Senior PIK Margin"), + mandatory costs Years 3 to 7: (i) 400 bps Senior Cash Pay Margin, and (ii) 400 bps Senior PIK Margin, + mandatory costs Subordinated Loan: E + 800 bps PIK margin (the "Subordinated PIK Margin"), + mandatory costs
Non-call period and Prepayment Penalties:	Senior Loan: NC18 months/106/102/par Subordinated Loan: NC18 months/106/102/par
Warrants:	Senior Loan: None Subordinated Loan: Warrants in Holdco 1 (Dutch Coop) equivalent to [1.0]% equity participation, resulting in an IRR to Subordinated Lenders of c. 15% (assuming 5-year exit under the upside Sponsor case and same exit as entry multiple)
Co-Invest:	Ability for Senior Loan investors to co-invest equity at cost up to €250m (1:7; this would result in a blended margin to Senior Loan investors of c. 13.2%)
Flex:	Ability to increase the Senior PIK Margin and the Subordinated PIK Margin by 25 bps and change non-call period and repayment fees of both the Senior and Subordinated Facilities to NC2/106/102/par. Downward flex; incentive fee equal to 50% of interest saving in first year as a result of downward flex.
Arranging Fees:	Senior Loan: 2.50% Subordinated Loan: 3.00%

[1] *Interest pre-funding period can be shorter or longer as per model requirements*
[2] *Interest pre-funding amount calculated at E + 50 bps*

4. Revised Fee Analysis

Assuming a 50% underwriting, we expect the Transaction to result in net underwriting fees to Lehman Brothers of c. €29 m (c. $37m). We expect an additional M&A fee of c. €12m (or c. $16m).

Fees to Lehman Brothers assuming 50% underwriting

	50% Underwrite					
	Lehman Committment	**Amount (€m)**	**Amount ($m)**	**Lehman Fees %**	**Amount (€m)**	**Amount ($m)**
Total Underwritten Senior Loan		1,772.0	2,296.0			
Total Underwirtten Subordinated Loan		172.0	222.9			
Equity Coinvestment		250.0	323.9			
Underwritten Senior Loan	50.0%	886.0	1,148.0	2.50%	22.2	28.7
Underwirtten Subordinated Loan	50.0%	86.0	111.4	3.00%	2.6	3.3
Total Debt Financing Fees					24.7	32.0
Equity Coinvestment	50.0%	125.0	162.0	3.00%	3.8	4.9
Total Underwriting Fees					**28.5**	**36.9**
M&A fees					12.0	15.5
Hedging fees					TBD	TBD
Other capital markets related fees					TBD	TBD
Total Fees					**40.5**	**52.4**

Note: US$/ Euro exchange rate: 1.30 as of 1 February 2007.

5. Recent press coverage of BAWAG

To our knowledge, only one major article on BAWAG has recently appeared in the press. The article, published in the Wall Street Journal on 25 January 2007 (Appendix I), tells the illustrious story of Mr. Floettel (the son of BAWAG's former CEO), whose hedge-fund investments soured eight years ago, causing BAWAG to lose more than $1 billion, which the Bank hid from auditors for seven years through a complex series of transactions involving Refco (Please refer to p.16 of the CC Memo dated 15 December 2006 for more detail).

Additionally, according to an article published by the Financial Times on 16 December 2006 (Appendix II), the trials of nine former BAWAG executives and their advisors are starting early this year and might bring additional information on BAWAG's past to the public over the next several months.

APPENDIX I – Wall Street Journal Article dated 25 January 2007

THE WALL STREET JOURNAL.

Bad Bet: How a Hedge-Fund Mogul Disrupted an Austrian Bank --- Mr. Floettl's Big Losses Triggered a Coverup; Selling the Van Gogh

By David Crawford in Vienna and Carrick Mollenkamp in London
25 January 2007
The Wall Street Journal

For years, hedge-fund manager Wolfgang Floettl enjoyed the kind of lifestyle available to the very best in his profession.

He built an art collection that included works by Van Gogh, Picasso and Cezanne. He married Anne Eisenhower, granddaughter of the U.S. president, and climbed the ladder of New York's black-tie society.

More recently, the Austrian-born financier has emerged as a central figure in a bizarre postscript to the collapse of Refco Inc., the Chicago commodities and derivatives brokerage. The investigation into Refco's failure in late 2005 led to one of Austria's largest banks, Bawag PSK, which did business with Refco. Mr. Floettl, the son of Bawag's former chief executive, was one of the bank's highest-flying customers.

Austrian prosecutors say they discovered that Mr. Floettl's hedge-fund investments soured eight years ago, causing Bawag to lose more than $1 billion. But the bank hid those losses from auditors for seven years through a complex series of transactions involving Refco, the prosecutors say.

The story of Mr. Floettl and his bankers shows what can happen when a large and important bank customer runs into trouble, risk controls fail and bank executives are reluctant to cut him off. Bawag, in essence, doubled down on Mr. Floettl, throwing good money after bad.

The bank's effort to hide those losses unraveled after Refco investigators came calling in 2005. Austrian prosecutors hauled Mr. Floettl, whose business was based in New York, into a sparsely furnished government office in Vienna and questioned him for days. Last October, they accused him and six former Bawag executives of embezzlement in connection with funding he received from Bawag.

Mr. Floettl, who declined through his Austrian lawyer to comment, has told prosecutors he did nothing wrong. Bawag's new chief executive says the bank is now trying to collect $1.4 billion it says Mr. Floettl owes it. Mr. Floettl, who continues to spend most of his time in New York, has already given up much of his valuable art, Austrian authorities say. He has told prosecutors his assets today consist of his home on Manhattan's Upper East Side and 500,000 euros, or about $650,000. He and Bawag are fighting over ownership of an estate in Bermuda.

Bawag didn't start out as a bank for the wealthy. It was founded in 1922 by unions to cater to cafe waiters and carpenters. It merged with another big Austrian bank and now has 150 branches and 1,300 outlets in post offices. Until the scandal, it was known primarily as a provider of consumer-banking products such as home loans and credit cards.

Mr. Floettl, whose father, Walter, became chief executive of Bawag in 1972, attended law school in Vienna, graduated from Harvard Business School in 1981, then moved to New York to work for now-defunct Kidder Peabody & Co. By 1988, well in advance of the boom in hedge funds, he had set up his own fund, Belforte Group, in Greenwich, Conn. Like many hedge-fund managers, he valued secrecy. He traded through a string of companies he established with different names, according to a 1994 audit of Bawag by the Austrian National Bank, the central bank. His trading account at one brokerage firm was known simply as account "X," according to one person familiar with the account.

He never revealed to employees where the money he invested had come from, except to say it originated in Europe, another person familiar with the operation says. Austrian investigators now say that although Mr. Floettl had some outside investors, most of the money was borrowed from Bawag. In its initial years, Belforte's annual returns exceeded 35%, this person says.

Mr. Floettl hired publicists, including Stephan Bullard, to help him navigate New York's social and philanthropic circles, and his name began popping up in newspaper society columns. "The gals really liked him," Mr. Bullard recalls.

Soon, Anne Eisenhower began appearing on his arm. "It's too trendy for words. I met him at Mortimer's through a mutual friend," she later told Women's Wear Daily, referring to a one-time New York restaurant fashionable among the wealthy. They married in 1988. (They divorced the following year, but later remarried, Mr. Floettl told Austrian authorities.)

By 1989, Mr. Floettl had sufficient social stature, says Mr. Bullard, that he underwrote the Metropolitan Museum of Art's annual benefit for its Costume Institute -- and a swanky pre-event dinner for society doyenne Pat Buckley. According to Mr. Bullard, few society types knew precisely what Mr. Floettl did. "Investment banker was the standard line," he says.

Mr. Floettl began accumulating expensive art. During the 1990s, he purchased at least 79 paintings, including works by French masters Cezanne, Degas and Renoir. He bought Van Gogh's "Portrait of Dr. Gachet" and Picasso's "Le Reve." Sotheby's Holdings Inc. of New York helped him finance the purchases with a $244 million line of credit, according to an audit last year by the Austrian National Bank. Sotheby's said in a statement that it made a loan of about $240 million in 1998 to a borrower it declined to identify, and that it was repaid that same year.

His investment firm traded heavily in stocks and in emerging-market debt known as Brady bonds, according to the person familiar with the operation. Firms such as Morgan Stanley and Nomura Securities Co. vied for his securities-processing business, according to Bawag.

Mr. Floettl did a lot of commodities trading through Refco, then one of the largest players in that sector, and got to know Thomas Dittmer, Refco's chairman. Mr. Floettl's Refco connection helped cement the relationship between Refco and Bawag, according to a senior Austrian investigator.

In 1994, auditors from Austria's central bank discovered that, over the years, Bawag had lent as much as $2 billion to various Caribbean entities about which it knew little. The auditors' report noted that Mr. Floettl's name appeared in those entities' records "whenever the name of the 'director' is specified." The auditors concluded that banking regulations had been violated and ordered Bawag to tighten its auditing procedures.

Mr. Floettl paid back the loans. Nevertheless, after a raft of press coverage of lax Bawag auditing connected to Mr. Floettl, his father resigned as the bank's CEO. His replacement, Helmut Elsner, pledged that the bank's future dealings with the younger Mr. Floettl would comply with banking standards.

Mr. Elsner, who moved into a penthouse above Bawag's headquarters, had grand ambitions for the bank. In 1995, a year in which Bawag's earnings dropped 12.5%, Mr. Elsner "phoned Mr. Floettl and asked him to resume the trades to improve our profit margin," Mr. Elsner told Austrian prosecutors investigating the matter last year, according to a transcript of his statement. Mr. Elsner told Bawag's supervisory board that the bank needed Mr. Floettl's business because the higher interest rates he paid would generate additional income, according to prosecutors.

Mr. Elsner assured the board the bank's money was safe, says a senior investigator in the case. Mr. Elsner said he checked out Mr. Floettl's bona fides himself. "He showed me a bank statement from a Bermuda bank revealing $250 million in holdings," Mr. Elsner told prosecutors, according to the transcript. "He also showed me photos of paintings he held at a storage site near Zurich." Mr. Floettl's lawyer denies this encounter took place.

Bawag agreed to lend Mr. Floettl money to invest through his hedge fund, according to a prosecutor. The loans would be unsecured: If his investments went bad and he couldn't repay the loans, Bawag had no right to go after his other assets, the prosecutor says. What made the arrangement attractive to Bawag is that he would pay higher interest rates than customers in Austria, Mr. Elsner later told police and prosecutors.

Beginning in late 1995, Bawag lent hundreds of millions of dollars to entities Mr. Floettl controlled, according to Bawag records. In the summer of 1998, with markets volatile, Mr. Floettl placed a big bet that the yen would fall against the dollar. "But that didn't happen," Mr. Floettl told Austrian prosecutors early last year, according to a transcript. "The dollar weakened because of a crisis in the American financial market."

As his trading positions deteriorated, Wall Street firms issued margin calls, demanding cash to cover his positions, Mr. Floettl later told police. Selling off the positions to meet the calls would have left him broke, Mr. Floettl said. He met the margin calls primarily with money he had borrowed from Bawag, according to an Austrian National Bank audit conducted during the investigation last year.

"The margin calls over a period of six business days reduced our investment to almost nothing," Mr. Floettl said in his statement to prosecutors and police. He lost about $759 million over a short period in 1998, including about $640 million borrowed from Bawag, according to an Arthur Andersen audit of Mr. Floettl's trading records ordered by the bank's board.

Mr. Elsner later told police investigators that he began to worry that Bawag's losses would be revealed. That October, Bawag lent Mr. Floettl another $90 million, according to a written statement by Mr. Elsner to other bank executives.

"Mr. Floettl has very prominent friends," Mr. Elsner told prosecutors. "We had a lively discussion in the management board meeting and decided to prevent the situation from becoming public. That required Bawag to ensure Mr. Floettl's economic survival."

Bawag lent Mr. Floettl an additional $18 million to keep his Gulfstream jet aloft, according to the central bank audit last year. Mr. Elsner told the bank's management board the loan was to ensure no one noticed Mr. Floettl's financial troubles, according to a transcript of the board meeting cited in the audit. (The plane was later sold.)

Mr. Floettl sold Van Gogh's "Portrait of Dr. Gachet" for $100 million to pay down part of what he owed Sotheby's. In an effort to repay his Bawag loans, Mr. Floettl transferred to the bank the title to tens of millions of dollars of art, including works by Cezanne, Renoir and Manet, and helped the bank sell the work.

Mr. Floettl later told prosecutors he "felt awful" about the trading losses. "That's why I was willing to sign a major part of my private wealth to Bawag, even though I didn't need to do so."

While Mr. Elsner was trying to contain the fallout from Mr. Floettl's losses, he also was finalizing an agreement with Refco for a joint venture. Bawag wanted a larger presence in the securities business; Refco wanted one in Europe. In 1999, Bawag took a 10% stake in Refco. (It sold that stake in 2004.)

Mr. Elsner was determined to try to recoup the loan losses stemming from Mr. Floettl's trading. Once again, he decided that Mr. Floettl could help out. In 2000, Bawag lent him an additional 350 million euros, on the condition that Mr. Floettl shared his trading profits with the bank, according to the Austrian National Bank audit. Mr. Floettl later told prosecutors that Bawag wanted to earn about $600 million over five to six years.

Trading through a brokerage account at Lehman Brothers, Mr. Floettl made another bet on the yen, Austrian prosecutors say. By December 2000, Mr. Floettl had lost "substantially all" of the money, according to Bawag's later settlement with U.S. regulators. Soon thereafter, Messrs. Elsner and Floettl met in London. "Mr. Elsner terminated our business relations," Mr. Floettl told prosecutors. "He said he doesn't want to have anything more to do with me."

Bawag wanted to find a way to permanently hide its losses, Austrian National Bank auditors later concluded. The result, they say, was a complex series of transactions beginning in 2000 that had the effect of converting the bad loans to Mr. Floettl into an asset that appeared on Bawag's balance sheet to be worth far more.

A settlement agreement struck last year by Bawag with the U.S. Justice Department and Securities and Exchange Commission described the scheme as follows: Bawag sold bonds to a Virgin Islands fund for 364 million euros, which roughly equaled what the bank had lost in its most recent transaction with Mr. Floettl. But the deal was a sham: Bawag simultaneously wired the same amount to the fund and took a controlling stake in it. Bawag's shares in the fund -- which also contained other assets that were allegedly misvalued -- were held in an account at Refco. Bawag valued that account on its balance sheet at between 495 million euros and 514 million euros.

Details of Mr. Floettl's losses didn't leak out for five more years. Mr. Floettl continued to sell art: in 2001, a Van Gogh for $22.5 million; in 2003, a dozen or so paintings for about $30,000 each.

It was the unraveling of a separate coverup at Refco that threw light on Bawag's scheme to conceal Mr. Floettl's losses. By the late 1990s, Refco was also facing losses stemming from customer trading. Refco's chief executive at the time, Phillip R. Bennett, tried to hide them using a complex scheme in which debt and expenses were shifted temporarily off Refco's financial statements, according to court claims by Refco investors and charges filed against Mr. Bennett by the Justice Department. (Mr. Bennett denies the charges.) Bawag participated in some of the transactions, U.S. prosecutors say.

On Oct. 10, 2005, Refco said an internal review had uncovered Mr. Bennett's scheme, sending the brokerage into a tailspin that led to a bankruptcy filing. Investigators and creditors delving into Refco's collapse began unearthing details of Bawag's coverup of Mr. Floettl's losses. In March 2006, Bawag said bank executives had failed to disclose losses totaling more than 1 billion euros on the loans to Mr. Floettl.

In mid-September, acting on an Austrian warrant, French police arrested Mr. Elsner at his home in the south of France. Austrian prosecutors charged Mr. Elsner with embezzlement and fraud and Mr. Floettl with embezzlement. They say the two men and five others, in an effort to save their jobs and reputations, improperly engaged in transactions that cost the bank 1.44 billion euros.

Mr. Elsner subsequently complained of a heart ailment and was hospitalized. He is fighting extradition to Austria. His lawyer says he is innocent.

Prosecutors in Austria say they are now preparing a second round of indictments related to the Bawag-Refco relationship.

Last month, a U.S. federal judge approved Refco's bankruptcy plan, which calls for what remains of the firm to be shut down. On Dec. 14, Bawag agreed to be sold to a consortium led by Cerberus Capital Management LP, a U.S. investment firm, for 3.2 billion euros.

APPENDIX II – Financial Times Article dated 16 December 2006

FT FINANCIAL TIMES
World business newspaper

Sale does not close Bawag scandal Questions over the Austrian bank's transactions remain unanswered, writes Haig Simonian.

By HAIG SIMONIAN
16 December 2006
Financial Times

The sale of Bawag PSK to an investor consortium led by Cerberus, the US private equity group, brings an apparent end to the travails of Austria's fourth-largest bank.

But the deal announced on Thursday, which saw Cerberus beat Lone Star and Bayersiche Landesbank of Germany with a Euros 3.2bn bid, still leaves questions about Bawag's future unanswered.

It troubles started in October last year, when three former Bawag executives approved a Euros 350m loan to Philipp Bennett, then head of Refco, the US futuresbroker that subsequently collapsed. The bank had also extended a Euros 75m loan to Refco itself.

The furore over the size and circumstances of the loans, approved shortly before Mr Bennett's arrest, was soon overshadowed by revelations the bank had covered up years of losses incurred through derivatives trading in the Caribbean.

The news brought Bawag to the brink of collapse as customers withdrew deposits. Austria's once powerful trade union federation, Bawag's owner, found itself in a financial crisis and made the decision to sell.

Rudolf Hundstorfer, the federation's chairman, yesterday said Cerberus's commitment to retaining an "Austrian identity" at the bank had played a large part in its victory.

He pointed to Cerberus's decision to bring in the Austrian Post Office, with which Bawag is closely associated, as a minority consortium member. Another factor was the late arrival of Hannes Androsch, a former Social Democrat finance minister, as head of a small group of Austrian business leaders joining the Cerberus bid.

How much of a stake each investor will take remains unclear. There have been suggestions the Post Office will have a 5-10 per cent stake while the Austrian businessmen will hold 5 per cent, with Mr Androsch expected to gain a seat on Bawag's supervisory board.

Other stakeholders will include Generali, the Italian insurer, and Wustenrot, the German mortgage bank, with both likely to take 5 per cent of the bank each. Cerberus, which is considering plans to float Bawag in a few years, is expected to retain the majority stake.

The unions may also have been swayed by Cerberus's commitment not to break up the bank. Job guarantees may not have been explicit, but Cerberus's growth plans probably went down well.

In spite of strong political factors behind thedecision, price would probably have been the key factor for Ceberus's victory.

The unions will receive Euros 2.61bn, with the remainder going to recapitalise Bawag. That should be enough to cover the Euros 2.1bn of commitments the unions have to Bawag, as well as other outstanding borrowings.

While the sale marks an important landmark for the bank's recovery, the investigation into the causes of Bawag's crisis and the matter of who was responsible for them will see the bank staying in the headlines.

The trial of nine former executives and their advisers should open early nextyear after months of preparation by Vienna public prosecutors.

Meanwhile, Helmut Els-ner, Bawag's former chief executive, has so far eluded Austrian attempts to extradite him from his French retirement retreat. Last week, Mr Elsner's lawyers claimed he had to undergo "urgent" heart surgery.

But, however bright Bawag's future, only when Mr Elsner faces the music may the full details of its murkier past be known.

APPENDIX III – Credit Statistics – Sponsor Case

Credit Statistics – Sponsor Case

(€ million)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
BAWAG Profit Before Tax	**(5.0)**	**120.5**	**312.7**	**497.7**	**672.8**	**799.4**	**823.4**	**848.1**	**873.5**	**899.7**	**926.7**
% Growth	*nm*	*nm*	*159.6%*	*59.2%*	*35.2%*	*18.8%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*
Taxes	-	-	-	-	-	-	(132.7)	(180.4)	(190.2)	(196.0)	(202.0)
BAWAG Net Income	**(5.0)**	**120.5**	**312.7**	**497.7**	**672.8**	**799.4**	**690.6**	**667.7**	**683.3**	**703.7**	**724.7**
% Growth	*nm*	*nm*	*159.6%*	*59.2%*	*35.2%*	*18.8%*	*(13.6%)*	*(3.3%)*	*2.3%*	*3.0%*	*3.0%*
Dividend to HoldCo (100.0% ownership)	-	-	-	**168.1**	**174.8**	**181.8**	**206.4**	**216.2**	**226.5**	**237.2**	**248.5**
BAWAG Book Equity	**1,677.0**	**1,797.5**	**2,003.2**	**2,207.9**	**2,607.8**	**3,213.1**	**3,662.6**	**4,121.7**	**4,586.4**	**5,060.9**	**5,545.5**
Sustainable normalised RoE	*21.5%*	*21.5%*	*21.5%*	*21.5%*	*21.5%*	*21.5%*	*21.5%*	*21.5%*	*21.5%*	*21.5%*	*21.5%*
Normalised Net Income	**361.0**	**386.9**	**431.2**	**475.3**	**561.3**	**691.7**	**788.4**	**887.2**	**987.2**	**1,089.4**	**1,193.7**
Tangible Book Value (100%)	**1,472.0**	**1,592.5**	**1,798.2**	**2,002.9**	**2,402.8**	**3,008.1**	**3,457.6**	**3,916.7**	**4,381.4**	**4,855.9**	**5,340.5**
Normalised Earnings Multiple	*8.9x*	*8.9x*	*8.9x*	*8.9x*	*8.9x*	*8.9x*	*8.9x*	*8.9x*	*8.9x*	*8.9x*	*8.9x*
Implied Equity Value (100%)	**3,210.0**	**3,472.7**	**3,921.3**	**4,367.5**	**5,239.6**	**6,559.6**	**7,539.7**	**8,540.9**	**9,554.1**	**10,589.0**	**11,645.7**
Implied Price / BV Multiple	*1.9x*	*1.9x*	*2.0x*	*2.0x*	*2.0x*	*2.0x*	*2.1x*	*2.1x*	*2.1x*	*2.1x*	*2.1x*
Cash Flow for Debt Service	-	-	-	**168.1**	**174.8**	**181.8**	**206.4**	**216.2**	**226.5**	**237.2**	**248.5**
Cash Sweep	-	-	-	-	-	-	-	-	-	-	-
Net Interest Expense / (Income)	234.0	234.0	254.4	276.5	289.7	303.7	355.5	375.6	397.1	420.1	444.8
Cash Net Interest Expense / (Income)	80.1	80.1	88.0	168.1	174.8	181.8	206.4	216.2	226.5	237.2	248.5
BAWAG Capital Surplus	-	**122.8**	**229.7**	**437.4**	**734.4**	**1,216.2**	**1,630.5**	**2,038.0**	**2,449.7**	**2,869.8**	**3,298.5**
Tier 1 Capital ratio	5.4%	7.0%	7.4%	7.5%	8.5%	9.9%	11.0%	12.1%	13.1%	14.1%	15.1%
Summary Balance Sheet:											
Prefunded Interest (Cash on BS)	168.1	88.0	-	-	-	-	-	-	-	-	-
Working Capital Revolver	-	-	-	-	-	-	-	-	-	-	-
Senior Loan	1,772.0	1,904.9	2,047.8	2,129.7	2,214.9	2,303.5	2,412.9	2,527.5	2,647.5	2,773.3	2,905.0
Net Senior Loan	*1,603.9*	*1,824.8*	*1,959.8*	*2,129.7*	*2,214.9*	*2,303.5*	*2,412.9*	*2,527.5*	*2,647.5*	*2,773.3*	*2,905.0*
Subordinated Loan	172.0	193.0	216.6	243.0	272.7	306.0	345.6	390.4	441.0	498.2	562.7
Net Subordinated Loan	*172.0*	*193.0*	*216.6*	*243.0*	*272.7*	*306.0*	*345.6*	*390.4*	*441.0*	*498.2*	*562.7*
Total Cash Pay Debt	1,944.0	2,097.9	2,264.3	2,372.7	2,487.5	2,609.4	2,758.5	2,917.9	3,088.6	3,271.5	3,467.8
% Total Cash Pay Debt Amortized	-	*(7.9%)*	*(16.5%)*	*(22.1%)*	*(28.0%)*	*(34.2%)*	*(41.9%)*	*(50.1%)*	*(58.9%)*	*(68.3%)*	*(78.4%)*
Total Net Debt (incl. PIK)	**1,775.9**	**2,009.9**	**2,264.3**	**2,372.7**	**2,487.5**	**2,609.4**	**2,758.5**	**2,917.9**	**3,088.6**	**3,271.5**	**3,467.8**
% Net SPV Loan Amortized	-	*(13.2%)*	*(27.5%)*	*(33.6%)*	*(40.1%)*	*(46.9%)*	*(55.3%)*	*(64.3%)*	*(73.9%)*	*(84.2%)*	*(95.3%)*
Total grossed-up Net Debt	1,775.9	2,009.9	2,264.3	2,372.7	2,487.5	2,609.4	2,758.5	2,917.9	3,088.6	3,271.5	3,467.8
Summary Credit Statistics (Grossed-up):											
Total Gross Cash Pay Debt to Equity Value	*60.6%*	*60.4%*	*57.7%*	*54.3%*	*47.5%*	*39.8%*	*36.6%*	*34.2%*	*32.3%*	*30.9%*	*29.8%*
Total Net Debt to Equity Value	*55.3%*	*57.9%*	*57.7%*	*54.3%*	*47.5%*	*39.8%*	*36.6%*	*34.2%*	*32.3%*	*30.9%*	*29.8%*
Distributable Reserves (1) / Net Debt	*nm*	*0.1x*	*0.1x*	*0.2x*	*0.3x*	*0.5x*	*0.6x*	*0.7x*	*0.8x*	*0.9x*	*1.0x*
Distributable Reserves (1) / Cash Net Interest Expense	*nm*	*1.5x*	*2.6x*	*2.6x*	*4.2x*	*6.7x*	*7.9x*	*9.4x*	*10.8x*	*12.1x*	*13.3x*
Distributable Reserves (1) / Net Interest Expense	*nm*	*0.5x*	*0.9x*	*1.6x*	*2.5x*	*4.0x*	*4.6x*	*5.4x*	*6.2x*	*6.8x*	*7.4x*
Net Debt / Tangible Book Value	*1.2x*	*1.3x*	*1.3x*	*1.2x*	*1.0x*	*0.9x*	*0.8x*	*0.7x*	*0.7x*	*0.7x*	*0.6x*
Net Debt / Book Equity	*1.1x*	*1.1x*	*1.1x*	*1.1x*	*1.0x*	*0.8x*	*0.8x*	*0.7x*	*0.7x*	*0.6x*	*0.6x*
Net Debt / Normalised Net Income (2)	*4.9x*	*5.2x*	*5.3x*	*5.0x*	*4.4x*	*3.8x*	*3.5x*	*3.3x*	*3.1x*	*3.0x*	*2.9x*
Net Debt / Actual Net Income	*(358.6x)*	*16.7x*	*7.2x*	*4.8x*	*3.7x*	*3.3x*	*4.0x*	*4.4x*	*4.5x*	*4.6x*	*4.8x*

(1) Based on a Target Tier 1 ratio of 6.5%
(2) Based on a Nomalised Post-tax ROAE (incl. 25% Tax Rate) of 21.5%

APPENDIX IV – IRRs – Year 5 Exit

Assuming a Price/ Terminal Book Value of 1.91x (i.e. same as entry multiple post reduced capital injection and write-offs of €600m) at exit in year 5, warrants equivalent to c. 1.0% equity participation in the Consortium's equity will yield a return to Subordinate Loan investors of c.15% IRR as illustrated below.

IRR to Subordinate Loan Investors – Exit in Year 5

5 Year IRR to Subordinate Loan Investors

		Subordinate Loan Investors Equity Participation								
		0.70%	**0.80%**	**0.90%**	**1.00%**	**1.10%**	**1.20%**	**1.30%**		
	1.16x	13.2%	13.2%	13.2%	13.2%	13.2%	13.2%	13.2%	**6.2x**	
	1.41x	13.7%	13.7%	13.7%	13.7%	13.7%	13.7%	13.7%	**7.6x**	
Exit	**1.66x**	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	**8.9x**	**Implied**
P/ B	**1.91x**	14.8%	14.8%	14.8%	**14.8%**	14.8%	14.8%	14.8%	**10.3x**	**Exit**
Multiple	**2.16x**	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	**11.6x**	**P/ E**
	2.41x	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%	**12.9x**	
	2.66x	16.4%	16.4%	16.4%	16.4%	16.4%	16.4%	16.4%	**14.3x**	

Assuming the same exit multiple and amount of warrants, an exit in year 5 would yield an IRR of 20% to Cerberus.

IRR to Cerberus – Exit in Year 5

5 Year IRR to Equity Investors

		Total Debt Investor Equity Participation								
		0.70%	**0.80%**	**0.90%**	**1.00%**	**1.10%**	**1.20%**	**1.30%**		
	1.16x	(2.5%)	(2.6%)	(2.6%)	(2.6%)	(2.6%)	(2.6%)	(2.6%)	**6.2x**	
	1.41x	7.1%	7.0%	7.0%	7.0%	7.0%	7.0%	6.9%	**7.6x**	
Exit	**1.66x**	14.1%	14.1%	14.1%	14.0%	14.0%	14.0%	14.0%	**8.9x**	**Implied**
P/ B	**1.91x**	19.7%	19.7%	19.7%	**19.7%**	19.6%	19.6%	19.6%	**10.3x**	**Exit**
Multiple	**2.16x**	24.5%	24.4%	24.4%	24.4%	24.4%	24.3%	24.3%	**11.6x**	**P/ E**
	2.41x	28.6%	28.6%	28.5%	28.5%	28.5%	28.5%	28.4%	**12.9x**	
	2.66x	32.2%	32.2%	32.2%	32.1%	32.1%	32.1%	32.1%	**14.3x**	