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Information

Our reference
FIN/2015/227 U

Your letter (reference)

Enclosures

Date
Re Sale of ABN AMRO

Dear President,

I am writing to inform you of the government decision to sell ABN AMRO Group N.V. (hereinafter referred to as 'ABN AMRO'). In 2008, the government nationalised ABN AMRO at considerable costs in order to safeguard financial stability, save the bank and maintain it for the Netherlands. The prime considerations have always been that this was a temporary emergency measure and that ABN AMRO would be sold again in due course.

In order to determine the right time to sell, three conditions have been applied: Firstly, a stable financial sector. Secondly, sufficient buyers who are interested. And thirdly, a bank that is ready to stand on its own feet again permanently. One of the objectives of the sale is, of course, to recover as many of the costs incurred as possible.

Earlier this year, these conditions seemed to have been met and my intention was to present a sales decision to the government. Due to a concurrence of critical events, i.e. the pay rise for the management board, irregularities at the ABN AMRO office in Dubai and vulnerabilities in the bank's integrity policy, I postponed the decision to sell ABN AMRO on 27 March.

In the following weeks, the House of Representatives and I extensively discussed the problems that arose, both orally and in writing. The bank itself took action on all the above points and provided further clarification. For instance, the management board decided not to accept the additional remuneration. Although this remuneration was in accordance with the law and administrative agreements made in 2012, it was indefensible considering the expensive public rescue of the bank, the sacrifices required of present and former staff and the necessary restoration of trust in the bank. The management board also realised this. This was an important step towards restoring trust.
The problems regarding compliance with regulations at the ABN AMRO branch in Dubai were handled adequately. ABN AMRO also complied with the confidential supervisory letter from De Nederlandsche Bank (DNB) on the integrity policy. In this letter, DNB stated that the guarantees of the integrity policy had to be strengthened further. This was addressed with great urgency. As a result, enough

Financing Department

Our reference
FIN/2015/227 U

calm has returned to the bank. Public trust is vulnerable and will have to be earned back gradually. The steps taken by ABN AMRO over the past few months have surely contributed to this.

The bank delivers a good commercial and financial performance, as also shown by the results for the first quarter of 2015. Having considered all this, the government has decided today to definitively set the selling process in motion. The selling process will be in phases, with the first tranche varying between 20% and 30%.

In my letter of 23 August 2013 titled 'Future plans for the financial institutions ABN AMRO, ASR and SNS REAAL' (hereinafter referred to as 'Future Plans Letter') and the subsequent general consultation, I informed the House of Representatives of my plans with respect to ABN AMRO for the first time.[1] In this letter, I also discussed the above-mentioned conditions for the sale of ABN AMRO. After the general consultation on 27 November 2013, I decided to wait for more than a year before I would again assess whether the conditions for ABN AMRO entering the market are met.

I asked NL Financial Investments (hereinafter referred to as 'NLFI')[2] to advise me on the matter. Based on the updated advice of NLFI, I am confident that the conditions are met in order to start the process of selling ABN AMRO. In this letter, I will explain this conclusion and my plans in more detail and will discuss the further process.

The text in this letter regarding topics in which the Netherlands Authority for the Financial Markets (hereinafter 'AFM') and De Nederlandsche Bank/the European Central Bank (hereinafter 'DNB/ECB' or 'the regulator')[3] play a role has been discussed with them. I also discussed the letter with the supervisory board and the management board of ABN AMRO. ABN AMRO supports the sales plans as described in this letter.

Assessment of exit conditions

Since my last letter, further steps have been taken, both at national and European level, to strengthen the stability of the financial sector. The Single Supervisory Mechanism (SSM) entered into force on 4 November 2014. Before its entry into force, in October 2014, the ECB published the results of the financial health check of the 130 largest European banks (the Comprehensive Assessment). The balance sheet assessment showed that the seven Dutch banks that were checked (ING Bank, Rabobank, ABN AMRO, SNS Bank, BNG Bank, NWB Bank and RBS N.V.) had sufficient capital. The stress test, which was also included in the Comprehensive Assessment, showed that the banks will, even in case of strongly disappointing economic developments, continue to have sufficient capital. The majority of the European banks passed the test. The measures taken by governments and central banks have contributed to restoring the stability of the financial markets in the Netherlands and Europe to an important degree. I will continue to monitor this

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[1] Parliamentary Papers II, 2013-2014, 32 013, no. 36

[2] NLFI was set up following the motion tabled by Weekers et al. for the purpose of implementing the share ownership of the financial institutions in a businesslike, non-political manner and to separate the government stakes in a transparent manner.[2] It is also the statutory duty of NLFI to advise the Minister of Finance on the strategy regarding the sale of the shares by the government. This advice has been enclosed with this letter.

[3] Since 4 November 2014, the ECB has been responsible for the supervision of ABN AMRO in accordance with the Single Supervisory Mechanism. In performing this task, the ECB closely cooperates with DNB.

closely. I consider the current market to be sufficiently stable for a transaction of a bank such as ABN AMRO. So the first condition is met.

The sale will require sufficient market interest. NLFI's analysis shows that investors are more interested in shares now than in the past few years, also in shares of financial institutions. The number of IPOs has been increasing since the end of 2013 and is back at pre-crisis level. So my conclusion is that the second condition is met as well.

ABN AMRO has successfully completed the integration with the former Fortis Bank Nederland and has implemented various cost savings. ABN AMRO has a solid position when it comes to consumer and commercial lending in the Netherlands, the private banking activities in North-West Europe and a limited number of specific investment bank activities such as clearing and international lending in Energy, Commodities and Transportation. Recent figures show that ABN AMRO is well on track to meet its strategic objectives. I am confident that ABN AMRO can continue to provide proper services to customers, can pay shareholders an attractive dividend and can maintain a large capital buffer. ABN AMRO expects that it can meet the regulator's conditions this year in order to facilitate an IPO.

The regulator shares my view that ABN AMRO can take the final steps in time in order for an IPO to take place from the fourth quarter of 2015. As a result, the conditions as set in the exit policy have been met and it is possible to start preparations for the selling process.[4] The regulator will ultimately have to assess whether its conditions have been met.[5]

Method of sale

I concluded in my Future Plans Letter that an IPO or a private sale is the selling form that is the most practicable and produces the best results. At that time, an IPO of ABN AMRO was the most realistic option. At the request of the House of Representatives, I assessed whether this is still the case. According to NLFI, an IPO is still the best option and has sufficient interest. Considering the company's size, balance sheet total, sales and expected valuation, ABN AMRO belongs in a listed environment. Moreover, an IPO will offer ABN AMRO the possibility to raise additional shareholders' equity in the stock market. Considering the size of ABN AMRO and the limited interest and possibilities of market players, NLFI believes that a private sale is still less likely.

Other selling forms were excluded in the Future Plans Letter because they fail to produce the desired results. For example, the letter discussed the option of converting ABN AMRO into a cooperative, with ABN AMRO selling member certificates to customers. This selling form still raises the same considerable financial and practical objections. In a cooperative, customers participate in the company's capital on a risk basis, risking the capital paid in by them. NLFI expects that ABN AMRO's customers will have little interest in this form and that this will be reflected in lower sales proceeds for the government. In case of an imminent capital shortage, customers will be less inclined to buy additional certificates in order to increase the bank's own funds. As a result, it will be difficult for ABN

[4] Parliamentary Papers II, 2010-2011, 28 165, no. 117.
[5] DNB has to issue a declaration of no objection; in ECB terms, this is called the granting of an authorisation. Both terms have the same meaning in this letter.

AMRO to raise additional capital in an emergency situation. This will have an adverse effect on the bank and the customers participating in ABN AMRO. Moreover, practice has shown that it will take decades to issue member certificates. This means that the government will continue to run a long-term risk in respect of its participating interest in ABN AMRO, for the government will remain shareholder for a much longer period of time.

Based on these conclusions, I will ask NLFI and ABN AMRO to start the selling process through an IPO. The IPO does not alter the fact that any remaining government stake can still be sold privately. If a party makes a specific bid to buy 10% or more of the shares that is worth considering, I will, before I make the decision to sell, inform the House of Representatives of this in confidence. The House of Representatives will also be informed in confidence before the government stake drops below 50% (due to an IPO or private sale). When that happens, the government will lose its decisive control over ABN AMRO. Apart from these moments, I will inform the House of Representatives of each sale of shares afterwards, due to price sensitivity of information. In accordance with the Trust Office for the Management of Financial Institutions Act [*Wet stichting administratiekantoor beheer financiële instellingen*], I will always grant NLFI a separate authorisation for the implementation of the sales strategy. So all implementing acts will be carried out by or on behalf of the Minister of Finance.

I cannot decide now on the selling price per share. It is up to ABN AMRO and NLFI to position the company on the market as well as they can and at the best possible selling price. The aim of the government is to recover as much of the capital invested as possible. This letter will explain how to keep the selling costs as low as possible, without this affecting the quality of the advice. ABN AMRO will be sold on a phased basis. In case of an IPO, 20% to 30% of the share capital will be sold, depending on market conditions. After that, the other shares will be sold over a period of several years. So the government will (through NLFI) continue to be shareholder of ABN AMRO for a number of years.

Governance of ABN AMRO
Public interests are guaranteed under general laws and regulations that apply to all banks. Given the history of ABN AMRO and the lessons learnt from the financial crisis, I attach additional importance to good governance of the bank. I am concerned about the financial interest of the government as well as the health of the company as an important part of the financial sector. The new articles of association of the bank will provide, among other things, that the company's interest also includes the legitimate interests of the customers, depositors and deposit holders, shareholders, employees and the society in which the bank operates. I consider this to be a valuable addition given the societal role played by a bank such as ABN AMRO.

In order to protect the government's remaining stake after an IPO, ABN AMRO's control structure will be organised such that NLFI/the government may block any decisions on changes to the company's identity or nature as long as it still holds more than one third of the shares. In doing so, the government can protect the company against any undesirable bids and against unwanted shareholders' activism. An example is a bid from a party who takes insufficient account of the company's continuity or social interests. In such a situation, I will, on the advice of

NLFI and with due consideration of the company's position, assess whether any undesirable bid or unwanted shareholders' activism is at issue. I will inform the House of Representatives accordingly before I make such decision.

In order to protect the company's continuity, I want to transfer the shares to a trust office. With the cooperation of ABN AMRO, the trust office will then issue depository receipts for shares which are offered on the stock exchange.[6] This allows investors to become the beneficial owners of the shares, while the trust office will retain the legal title to the shares. In times of peace, the position of depository receipt holders does not differ significantly from the position of ordinary shareholders. Depository receipt holders have a right to vote, but can also leave the voting to the trust office or a third party or indicate that they do not want to exercise their right to vote. The trust office automatically grants a voting proxy to the depository receipt holders. In terms of anti-takeover measures, the trust office is therefore similar to a continuity foundation. An advantage of this structure is that the trust office must apply for a declaration of no objection (DNO) for a qualified holding immediately upon the transfer of the shares. A continuity foundation only needs to apply for a DNO when the rights to subscribe for preference shares are exercised. I believe it is important to obtain as much assurance in advance as possible about the effect of the structure. Consultations are being held with the ECB on the intended defensive structure.
In certain cases of unwanted shareholders' activism and in case of an (imminent) takeover bid on which no agreement is reached with ABN AMRO, the trust office may temporarily revoke the voting proxies for all shares for which depository receipts have been issued. The aim is to create time and space in order to study and decide on the bid. As long as the government stake does not drop below one third of the issued capital, the trust office may only revoke the proxies after the approval of NLFI/the government. The infringement of the voting rights of the depository receipt holders will be temporary and limited to situations in which the company's continuity is at issue due to an imminent, undesirable takeover or undesirable actions by one or more shareholders.

In conclusion
I will discuss the above points in more detail and will further explain my plans regarding ABN AMRO below. I will first discuss the general decision-making framework for future decisions on privatisations and spin-offs which is applicable to ABN AMRO. I will then describe how the various conditions for sale are met, the sale through an IPO, the governance and protection of ABN AMRO in case of an IPO and, finally, the consequences for the National Budget.

In line with NLFI's advice, I intend to initiate the sales process for ABN AMRO as outlined below. I will grant NLFI an authorisation to start the process of selling ABN AMRO. NLFI will then implement the sales strategy described in this letter as referred to in the Trust Office for the Management of Financial Institutions Act.

During the presentation of the plans for the sale of ABN AMRO, I will clarify how and when the government wants to sell its stake. Steps will also be taken with respect to the other state-owned financial institutions. A conditional sales contract was recently signed for Vivat, the insurance arm of SNS REAAL.[7] Moreover,

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[6] Wherever this letter refers to listed ABN AMRO shares, this means listed depository receipts.
[7] Parliamentary Papers II, 2013-2014, 33 532, nos. 36 and 39

Financing Department

Our reference
FIN/2015/227 U

Propertize is gradually scaling down its portfolio as planned.[8] A decision is yet to be made on two financial institutions. After the sale of Vivat, SNS Bank will be split off from SNS REAAL and become a separate company. SNS Bank is currently the fourth largest bank in the Netherlands, with a large mortgage portfolio in addition to its basic banking activities. Before a decision is made on the future of SNS Bank, it is important for the bank to gain a strong independent position within the Dutch banking landscape. In view of this, I will not decide on the sale of SNS Bank this year. NLFI will be asked to give advice first in mid-2016. I do intend to make a decision on the sale of ASR this year.

[8] Parliamentary Papers II, 2012-2013, 33 532, no. 1. & Parliamentary Papers II, 2013-2014, 33 532, nos. 30 and 33

Contents

Financing Department

Our reference
FIN/2015/227 U

Financing Department

Our reference
FIN/2015/227 U

1. Decision-making framework

The 'Privatisation of Government Services' investigative committee of the Senate presented its report titled '*Verbinding verbroken*' on 30 October 2012.[9] In its response to this report, the government promised to use the decision-making framework developed in order to timely and adequately inform parliament of any future decisions on privatisations involving a public interest.

The decision-making framework comprises five steps to be followed in case of a privatisation:

1. The intention
2. The design
3. The decision
4. The implementation
5. The follow-up

The intention to sell marked the first step. The state is the shareholder of ABN AMRO (and of the other financial institutions under the management of NLFI) in order to guarantee the stability of the Dutch financial system. Unlike with other state participations, it is not in the public interest to continue to be shareholder. It has always been the government's intention[10] (step one) to return ABN AMRO to the market at a suitable time. The public interests associated with the financial institutions are laid down in laws and regulations (see paragraph 'Guaranteeing public interest').

The second step was the design. In my Future Plans Letter and the subsequent general consultation on 27 November 2013, I explained my plans with ABN AMRO to the House of Representatives.[11] In this letter, I examined other selling options in accordance with the Groot-Bashir motion,[12] the Van Hijum-Nijboer motion and the decision-making framework.[13] My conclusion was that out of all the options, only an IPO or a private sale of the shares in ABN AMRO would produce the desired results for the state.

This letter implements the third step of the decision-making framework, with the government submitting the intended sale of ABN AMRO to the House of Representatives for a decision. The question central to the decision is whether the House of Representatives agrees to an IPO of ABN AMRO. The conditions outlined in the letter are the starting point.

If the House of Representatives agrees to the sale of ABN AMRO through an IPO, this will be followed by the fourth step of the decision-making framework: the implementation. Here, it should be clear who is responsible for the sale. For the implementation phase of the sale of the shares in ABN AMRO, I want to authorise NLFI to start with the implementation of an IPO. ABN AMRO will be sold in several steps, each step marking the sale of part of the company.

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[9] Parliamentary Papers I, 2012-2013, C, A.
[10] Parliamentary Papers II, 2010-2011, 28 165, no. 117.
[11] Parliamentary Papers II, 2013-2014, 32 013, no. 49.
[12] Parliamentary Papers II, 2010-2011, 28 165, no. 127.
[13] Parliamentary Papers II, 2013-2013, 33 532, no. 17.

Financing Department

Our reference
FIN/2015/227 U

It is up to ABN AMRO and NLFI, supported by their advisers, to position the company on the market as well as they can and to get the best possible selling price. The initial placement, follow-up placements or a private sale will each time require my prior approval.

The decision-making framework has a fifth step: the follow-up. This step includes an evaluation as to whether the objectives have been achieved. Considering the extent of this privatisation, I believe it is important to look back on the sale. That is why the selling process will be evaluated after the entire government stake in ABN AMRO has been phased out. This privatisation does not mean that the public interest is no longer guaranteed by general laws and regulations. The evaluation will therefore focus on a comparison of the performance delivered by ABN AMRO before and after the privatisation in comparison with other Dutch banks. Attention will also be paid to the customer's interest and the societal role played by ABN AMRO. The results of this evaluation will be shared with the House of Representatives.

2. Exit conditions

I asked NLFI to investigate whether the exit conditions are met and to advise me on this matter. Their advice has been enclosed with this letter. The conditions are that the financial sector is stable, the market is sufficiently interested and the company is sufficiently prepared for a transaction. My aim is to recover as much of the capital invested at the time as possible.[14] Each of the following paragraphs will state the conclusions I draw from the NLFI advice.

2.1. Stability of the financial sector

Over the past period, important steps have been taken at European level in order to further strengthen the stability of the financial sector. Since my last letter, the European banking union has come into effect. The banking union rests on several pillars, the most important ones of which I will briefly explain below.

Strong European supervision was introduced with the Single Supervisory Mechanism, which took effect on 4 November 2014. As I have already stated above, ABN AMRO and the Dutch banking sector have passed the prior audit of the balance sheets and the stress test. Another important principle of the banking union is to minimise the costs of resolution of banks and to exclude reliance on public funds as much as possible. For this purpose, the Single Resolution Mechanism (SRM) entered into force on 1 January 2015. A Single Resolution Board (SRB) has been set up, which has been directly responsible for the resolution planning of significant and cross-border banks since 1 January 2015. As from 2016, this authority may resolve institutions where necessary.

The European banking union breaks the vicious circle between national governments and banks. Moreover, the introduction of CRD IV, CRR and BRRD has resulted in uniform rules for banks and a permanent strengthening of the requirements for banks,[15] so that banks are more highly capitalised now than a

[14] Parliamentary Papers II, 2010-2011, 28 165, no. 117.
[15] The revised capital requirements directive (CRD IV) and the capital requirements regulation (CRR) have tightened and extended the prudential rules for banks and investment firms (e.g. higher capital requirements) and have also introduced measures to enhance supervision. Through minimum harmonisation, the Bank Recovery and

Financing Department

Our reference
FIN/2015/227 U

few years ago. As a result, the financial sector is more robust and better able to face any future shocks.

The financial market stress indicators have decreased to levels comparable to pre-crisis levels (see figures 1 and 2). DNB also states that the unrest in financial markets has subsided.[16] The measures taken by governments and central banks have largely contributed to this. However, DNB warns that a turnaround in market sentiment cannot be ruled out and states that the consequences of such turnaround could be major. So a finger on the pulse continues to be necessary. Yet, the situation on the financial markets has improved significantly compared to the past few years.

Figure 1 – Composite Indicator of Systemic Stress (CISS)[17]

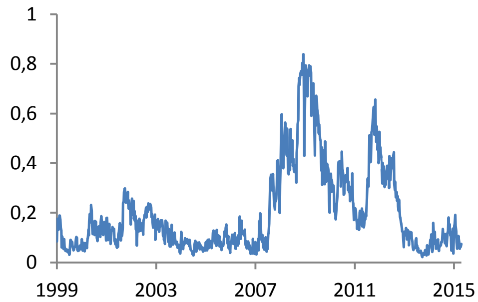
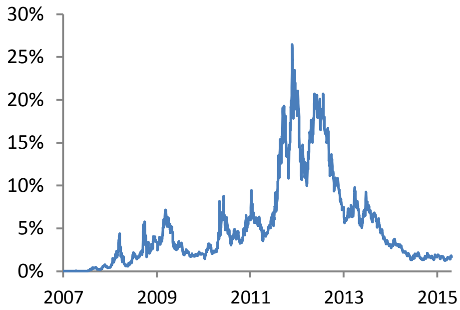


Figure 2 – Systemic Risk Measure (SRM)[18]



The above shows that important steps have been taken in order to further stabilise the financial sector. Partly due to the establishment of the banking union and the tightening of the capital requirements for banks, market sentiment with respect to European banks has also clearly improved compared to 2008, when the government acquired ABN AMRO. My conclusion is that the precondition of a stable financial sector has been met.

2.2. Market interest

In order for an IPO to be successful, investors must be sufficiently interested. NLFI's analysis shows that, across the board, investors are more interested in investing in shares, including shares of financial institutions. Compared to the crisis years, the number of IPOs increased in 2013 and 2014 and is back at a level comparable with pre-crisis levels. In 2013, there were 189 IPOs (€ 28.2 billion) in Europe. In 2014, this number further increased to 283 IPOs, with a total amount of € 51.6 billion being collected from investors. This number included 36 IPOs of financial institutions for a total amount of € 11.3 billion.

Resolution Directive (BRRD) offers effective and credible tools for quickly and effectively resolving financial problems of banks and for an orderly resolution of banks, if required.

[16] DNB, *Overzicht Financiële Stabiliteit* [Overview of Financial Stability], spring 2015, no. 21, page 7 to 12.

[17] The Composite Indicator of Systemic Stress (CISS) is a composite indicator comprising 15 mostly market-based financial stress indicators in the euro zone which are equally split into the following five categories: interbank markets, money markets, equity markets, bond markets and foreign exchange markets. A higher value means relatively more stress in the system and vice versa. *Source: ECB Statistical Data Warehouse (8 Jan 1999 – 5 May 2015).*

[18] The Systemic Risk Measure (SRM) measures the chance of a systemic crisis based on an estimate of the chance that two or more systemically important banks fail simultaneously within a period of one year. The sample covers 15 systemically important banks in the euro zone. *Source: ECB Statistical Data Warehouse (1 Jan 2007 – 23 Apr 2015).*

Financing Department

Our reference
FIN/2015/227 U

Moreover, the volatility of equity markets has, since the crisis, decreased from peaks far exceeding 40% to more stable levels between 15% and 30% at the end of 2014. This is favourable situation for IPOs. Finally, the shares of European financial institutions have risen by approximately 100% for the past three years,[19] indicating increased interest in the market for shares of financial institutions. The interest of investors in the IPO of Nationale Nederlanden is also a good example of this.[20] Moreover, several investment banks have stated that investors would like to invest in a bank such as ABN AMRO.

My conclusion is that the condition of sufficient market interest has been met, but I will ask NLFI to keep monitoring developments in the period before the sale closely.

2.3. ABN AMRO ready to be sold

After the successful integration of ABN AMRO and Fortis Bank Nederland, ABN AMRO has prepared itself for the sale over the past year. ABN AMRO offers products and services to private and business customers and is mostly active in the Netherlands, with a number of specialised activities abroad. In my Future Plans Letter, I concluded that ABN AMRO still had to face a number of strategic challenges before the government could proceed with the sale. For instance, a number of units of the bank had to achieve better results. ABN AMRO has shown sufficient progress over the past year.

An important element for making ABN AMRO attractive to investors is the strategic plan for the years 2014 – 2017. The goals ABN AMRO sets for itself for 2017 are:

- Return on Equity (ROE – the profitability of a bank) of 9-12%;
- Cost/income ratio ("C/I ratio" – the indicator of a bank's efficiency) of 56-60%;
- Common Equity Tier 1 ("CET1 ratio" – the solvency of a bank) of 11.5-12.5%.

Recent figures show that ABN AMRO is well on track to achieve these goals: an ROE of 14.1%, a C/I ratio of 56% and a CET1 ratio of 14.2% in the first quarter of 2015.[21] For 2014, the bank reported an underlying profit of € 1.55 billion and ABN AMRO paid a total dividend of € 400 million, or 35% of its net profit. ABN AMRO's capital position (fully loaded CET1 ratio[22]) enables the bank to pay such dividend. So the dividend payment is in line with the Nijboer/Koolmees motion on exercising restraint when it comes to dividend payments by state-owned banks.[23] With a leverage ratio of 3.5%, ABN AMRO is on track to reach the national minimum required ratio of 4% by 2017[24].

Before the IPO of ABN AMRO, a declaration of no objection must be applied for to the regulator. In assessing the application, the regulator will check if ABN AMRO meets the applicable criteria[25]. The regulator has detailed the DNO criteria in a

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[19] EURO STOXX Financials, share index of European financial institutions
[20] Other examples are the IPOs of: Virgin Money (November 2014, UK); TSB (June 2014, UK); One Savings Bank (June 2014, UK); Santander Mexico (September 2012); and Talanx (October 2012, Germany).
[21] Based on the underlying results from the quarterly report for the first quarter of 2015.
[22] Capital ratio on full application of Basel III
[23] Parliamentary Papers II, 2013-2014, 32 013, no. 63
[24] Parliamentary Papers II, 2014-2015, 32 013, no. 93
[25] When handling this application, the regulator will assess whether (Article 3:96(1) of the Financial Supervision Act):

number of conditions for an IPO. ABN AMRO has informed me that the conditions pertain to, among other things, a strengthening of the internal organisation as far as the reporting, risk management and compliance parts are concerned and the partially higher requirements that will be set on these functions after an IPO. The recent irregularities at a branch office of ABN AMRO in Dubai were a reason for ABN AMRO to take additional measures in order to strengthen internal control.

ABN AMRO has made progress in order to meet the conditions set by DNB. A number of procedures are still pending, but ABN AMRO expects that these will be completed in time in order to allow for an IPO from the fourth quarter of 2015. The management board and supervisory board of ABN AMRO confirm that the bank is ready to be sold. NLFI also concludes that ABN AMRO is ready to be sold, based on the progress of the preparations, the tightening of the strategy and the positive developments of the financial results.

Next, preparations for the IPO can be made. Postponing an IPO in hopes of higher proceeds will involve risks, as there is no certainty about the development of the value of ABN AMRO and market interest. The state is no investor and therefore does not make high-risk investments if they do not serve a public interest. An IPO will not involve the sale of all shares at once. Given the size of ABN AMRO, the sales will be sold in phases. In doing so, the state will prevent that, in retrospect, all shares were sold at an unfavourable moment. Some spread in time is advisable from this perspective.

Based on the above, I believe that the process of selling ABN AMRO can be initiated. I am sufficiently confident that ABN AMRO will have met the regulator's conditions at the time of sale. I have asked NLFI to continue monitoring this closely.

3. Method of sale

In my Future Plans Letter, I already discussed the various ways in which ABN AMRO can enter the market, outlining the advantages and disadvantages of various options. At the general consultation following this letter, I promised the House of Representatives that, in my next letter, I will again assess whether an IPO is the preferred selling form for the government's equity interest in ABN AMRO. NLFI endorses this. Considering the company's size, balance sheet total, sales and expected valuation, ABN AMRO is a company that belongs in a listed environment. Moreover, an IPO will grant ABN AMRO access to the equity market in order to raise any additional equity capital. Given the current market interest, I consider an IPO to be the best option for ABN AMRO. Given the increase in IPOs and decrease in the volatility of shares, investors are more interested in shares, while strategic buyers or retail investors have, so far, not shown any specific, serious interest in a private sale. I will first outline the selling process for an IPO. I will then describe the process of a direct (partial) sale of shares.

- the act is or could become contrary to the solvency requirements set for the relevant bank;
- the act is or could become contrary to healthy and prudent operations in some other manner;
- the act results or could result in an undesirable development in the financial sector.

3.1. IPO

In case of an IPO, part of the shares of ABN AMRO will be sold to private and institutional investors and listed and traded on a stock exchange.[26] As far as ABN AMRO is concerned, I want to make sure that part of the shares is offered to retail investors. As investments will be made in the bank's capital, I will follow the advice of NLFI to choose a careful approach here. Although retail investors will be given the opportunity to buy shares in ABN AMRO through the general placement, this is done without the use of an explicit marketing campaign or other (financial) incentives to buy shares. I will make sure that the size of the final private tranche depends on the interest of this group of investors, among other things. Of course, ABN AMRO staff are also at liberty to buy ABN AMRO shares, just as any other private individual. The allocation of shares will not take into account the fact whether or not a person is working for ABN AMRO. No discounts will be given upon the purchase of shares.

It is expected that ABN AMRO can be sold through an IPO in the foreseeable future. I expect that the first tranche can be brought onto the market as from the fourth quarter of 2015, provided that circumstances remain the same. An IPO roughly comprises three steps: (1) preparation/marketing, (2) subscription/book building of shares and (3) listing. After ABN AMRO has been listed on the stock exchange, the remaining shares will be sold in stages covering an expected period of several years. I will outline my considerations in organising this process below.

During the *preparation/marketing*, ABN AMRO will draw up an equity story[27] together with NLFI. Moreover, the bank will make contact with possible investors in order to sound out their interest in an informal manner and ABN AMRO will draw up the documentation required for the IPO, which especially includes a prospectus to be approved by AFM. Recent IPOs successfully allowed investors who want to make pre-investments (or want to commit to making pre-investments), in order to send the market a signal about a share's attractiveness. This method will also reduce the risk that part of the intended shares will remain unsold. However, this may limit liquidity at the time of the IPO. At present, I have not yet made a decision on whether such investors should be allowed or not. I will weigh up the advantages and disadvantages when assessing any proposal. Finally, the bank syndicate confirms the internal readiness of ABN AMRO to go public and the regulator must issue a DNO to an IPO, after which the IPO may take effect.

During the *subscription/book building*, the target price will be set first, and then the selling price. The exact price of a share is set during a phased process: book building. A target price is set on the basis of a value appraisal and the price ambition of NLFI. During the subsequent period, investors will communicate the price for which they would like to acquire a certain amount of shares. The investors will not yet commit themselves to a purchase. A delicate process will be followed in order for the final selling price to be set: the shares should not be offered too cheaply, as the seller will then miss out on proceeds. If the share price is too high, investors will withdraw and chances will be that the share price will fall after the IPO. This may negatively affect the government's remaining equity interest and

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[26] In the Netherlands, this is the Euronext in Amsterdam.
[27] A summary of the plans stating why investors should by ABN AMRO shares.

the follow-up placements. The introduction price,[28] i.e. the selling price of the shares, will be set at the end of the subscription process, but before the shares become listed. This is a principal and important decision, for which my approval is required.

Not all shares will be sold at once during an IPO of this scope. Usually, the first tranche of a company of the size of ABN AMRO includes 15% to 30% of the shares. NLFI recommends to sell 20% to 30% in the first tranche.[29] The exact size of the first tranche will be determined immediately before the IPO and will require my approval. I will base my approval on the absorption capacity of the market in relation to the size of ABN AMRO, the pricing and minimisation of the costs of an IPO. Investors attach importance to shares being sufficiently liquid. The requirements set on this liquidity are important in order to determine the scope of the IPO. A placement of 20% to 30% of the shares should provide sufficient liquidity. It is likely for ABN AMRO to be included in the AEX in due course in case of a minimum free float[30] of 15%. Inclusion in the AEX (and other indexes) is expected to result in additional demand from investors who track the indexes and will automatically include the share in their portfolio.

Upon the *listing*, the ABN AMRO shares will be listed on a regulated market: the Euronext Amsterdam. A greenshoe/overallotment option is used for the purpose of stabilising the price immediately after the IPO. The greenshoe is a common provision that has been used for the majority of recent IPOs in Europe. The greenshoe allows underwriters to allocate an additional maximum of 15% of the first tranche of shares to investors, if required and in case of sufficient demand. Until thirty days after the listing, banks can stabilise the price by buying additional shares or selling shares that are already listed, in order to create a normal pattern of trade.[31] In case of a first tranche of, for example, 20% and a greenshoe of 15% of this, the percentage of the first tranche may become 23%.

During the *follow-up transactions*, the remaining government stake in ABN AMRO will go public or will be sold privately. In general, a lock-up period of 180 days will apply after the IPO, during which the state may not sell any shares. This will give investors certainty about the possible number of shares to be traded and will protect them against oversupply, which may reduce the price pressure. The usual procedure is that the follow-up tranches will be smaller than the first tranche of shares. In case of a first tranche of 20% to 30% and a 180-day period in which no shares are sold,[32] expectations are that it will take several years before all shares will have been sold. This means that the state will remain (major) shareholder of ABN AMRO for a longer period of time and the total proceeds will only be known in several years.

A placement of shares on the stock exchange was mentioned in earlier letters on the IPO of ABN AMRO. My current intention is to place depository receipts for

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[28] If I decide to allow the aforementioned investors making pre-investments, these will have to pay the regular introduction price.
[29] Including the greenshoe as described in more detail below.
[30] The percentage of shares in a company which is freely negotiable on the stock exchange.
[31] This will have to take place in accordance with Commission Regulation (EC) No. 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments.
[32] In case of a lock-up period, the selling shareholder undertakes not to sell any additional shares during a certain period (usually 180 days). It is possible to deviate from this rule in certain cases.

ordinary shares on the stock exchange (Chapter 4). The shares themselves will be owned by a trust office, which will issue the depository receipts for these shares. This will be discussed in more detail in Chapter 4. The depository receipts can be bought on the stock exchange by institutional and retail investors.

3.2. Proceeds of sale

During the financial crisis, the valuations of financial enterprises showed a clear downward trend. Since 2012, there has been a turn of the tide: an upward trend. However, the demand for shares is not the only factor determining the value of ABN AMRO. The financial results obtained are also important. These results have shown a clear improvement over the past year. NLFI expects a valuation of at least once the book value. For 2014, this would be an amount of around € 15 billion. However, the final introduction price depends on a large number of factors at the time of the IPO, such as the size of the first tranche, financial market conditions, interest from investors, the influence of investors on the bank's management, and the price development of comparable banks. As ABN AMRO will also make further improvements in the years to come and convince investors that the strategy adopted is the right strategy and is implemented strictly, the value of ABN AMRO may increase further. Analysts keeping a critical eye on the then listed company ABN AMRO may contribute to this. As ABN AMRO will be sold over a period of several years, the value of the company will inevitably fluctuate. So at this time, it is uncertain how much of the amount invested by the state will be recovered. The chapter titled 'Consequences for national budget' describes the effect of the sale on the national budget.

3.3. Fees and expenses

Several advisers are involved in a worldwide IPO. Investment banks are involved in the marketing, distribution and sale. However, they also play an important role in trading after the IPO, for example by conducting equities research and ensuring sufficient tradability. Apart from the investment banks, legal advisers, accountants and communications advisers are involved as well. They make sure that the right mixture of investors pays the optimum price for the depository receipts. For instance, they conduct a well-prepared, very intensive worldwide marketing campaign among potential investors. Such campaign will increase the IPO costs, an issue the House of Representatives is concerned about. That is why I had an external expert conduct a cost investigation. This investigation has been enclosed with this letter.

NLFI and the external expert estimate the expected costs for investment banks in case of an IPO to amount between 0.9% and 1.3% of the proceeds of the first tranche. It is the NLFI's aim to keep the fee for the bank syndicate below 1% (including the aforementioned greenshoe). The average costs of a follow-up tranche are around 0.1% to 0.3% of the relevant tranche. The final costs will depend, among other things, on the value of ABN AMRO, which is expressed in the final selling price.

In case of a market cap of € 15 billion and a first tranche of 30%,[33] for example, the total fees and expenses to be incurred by the state (IPO and follow-up

[33] This sample calculation serves as an illustration; the price may also be lower or higher, depending on the various factors stated in the letter.

tranches) will be around € 90 million. Apart from the fees for the investment banks, this amount also includes fees for independent financial and legal advice.

3.4. A direct (partial) sale of shares

As explained above, all or part of the government stake remaining after the IPO can be sold privately. If an interested party makes a bid, I will ask the management board and supervisory board of ABN AMRO for their point of view and will ask NLFI for advice on the desirability of the bid. Based on these points of view and this advice, I will give a final opinion on behalf of the state. This process will be described in more detail in the next chapter.

If another party wants to acquire a minimum stake of 10% in ABN AMRO, this party must request authorisation from the regulator.[34] The buyer will be granted this approval if the assessment criteria are met, such as reliability, suitability, financial soundness and compliance with prudential rules.

Another consideration is the amount of the bid compared to the expected proceeds of an IPO. I will also include the structure of the bid and any risks in my considerations. If a bid is worth considering, I will inform the House of Representatives in confidence.

4. Governance after IPO

The general consultation of 27 November 2013 focussed on the public interest associated with a bank such as ABN AMRO. The key question at the consultation was whether the public interest was sufficiently guaranteed and whether the anti-takeover measures in the area of governance are satisfactory for this purpose.

In this chapter, I will first discuss the three anti-takeover measures that are the most common in the Netherlands for listed companies. I will then discuss the specific case of ABN AMRO and the anti-takeover measures I intend to take here. After that, I will discuss the public interest associated with ABN AMRO and how to guarantee this public interest in the company's articles of association. Finally, I will discuss the advantages and disadvantages of loyalty shares.

4.1. Possible anti-takeover measures

There are three anti-takeover measures that can be taken in respect of Dutch listed companies: preference shares, priority shares and issue of depository receipts for shares. The first measure is the most common measure for listed companies in the Netherlands.

4.1.1. Preference shares

A foundation is given the right (call option) to subscribe for preference shares on payment of 25% of the nominal value in case of any threat to the continuity of the company.[35] The exact objects of the foundation are laid down in the articles of association. The voting rights attached to preference shares are the same as the voting rights attached to ordinary shares. As a result, the foundation will have a large number of voting rights for a relatively small amount and can therefore block motions from other shareholders.

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[34] Here, it concerns this party's total equity interest in ABN AMRO, not the scope of the transaction.
[35] The original issue price laid down in the articles of association.

Based on legal precedents, the assessment framework for using this option is as follows:[36]

1. anti-takeover measures must be necessary in order to temporarily preserve the status quo within the company;
2. the time and space created as a result of the anti-takeover measures must be used for further consultation between the relevant parties; and
3. the anti-takeover measures must be implemented adequately and must be proportionate to the (perceived) imminent danger.

4.1.2. Priority shares

Priority shares are shares with special control rights. For instance, a company's articles of association may provide that certain resolutions may be adopted only by a priority shareholder, only on a motion by or a binding recommendation from a priority shareholder, or only after the approval of a priority shareholder.

4.1.3. Issue of depository receipts for shares (trust office)

The issue of depository receipts for shares is a fairly common measure used to counter absenteeism of shareholders at a shareholders' meeting. The issue of depository receipts for shares will prevent possible chance majorities at a shareholders' meeting which will allow a small number of shareholders to easily block a motion.

The issue of depository receipts for shares can also be used as an anti-takeover measure. An issue of depository receipts for shares means that a company's shares are usually transferred to a trust office which, in return, issues depository receipts for shares to investors. This allows investors to become the beneficial owners of the shares, while the trust office will retain the legal title to the shares. So in principle, the trust office will keep the voting rights. In 'times of peace', the position of depository receipt holders does not differ significantly from the position of shareholders. The voting rights attached to the shares will be vested in the depository receipt holders by the granting of a voting proxy, unless the depository receipt holders state that the trust office is allowed to exercise the voting rights or state that they do not want to make use of the voting proxy.

Article 118a of Book 2 of the Dutch Civil Code provides that a trust office may only limit, exclude or revoke a proxy that has been granted if a public bid has been announced without agreement first having been reached with the company on such bid, in case of a concentration of 25% or more of the depository receipts in one depository receipt holder or if, in the opinion of the trust office, the exercise of the voting right by a depository receipt holder is effectively in conflict with the interest of the company and the undertaking connected with it.

4.2. Anti-takeover measures for ABN AMRO

An IPO will mean that the government stake in ABN AMRO will be reduced in favour of new shareholders. It is therefore important to ensure adequate protection of the (remaining) government stake in ABN AMRO in advance. Considering the experiences in 2007, when ABN AMRO (which had lifted its anti-takeover measure in 2004) was divided into three parts, the management board, the supervisory board and the board of employees of ABN AMRO argued for

[36] NJ 2003, 286, Rodamco North America (RNA).

adequate protection of the bank against unwanted shareholders' activism and against undesirable public bids that take insufficient account of the company's interests. I believe that ABN AMRO has a legitimate interest in this.

In my Future Plans Letter, I proposed two anti-takeover measures for this purpose. The first measure was a qualified majority - required under the articles of association - in the shareholders' meeting of ABN AMRO for important resolutions. The second measure was a trust office which is granted the right to subscribe for protective preference shares (also referred to in this letter as ‘continuity foundation’).

4.2.1. Two-tier board structure
ABN AMRO is currently subject to the mitigated two-tier board structure (Article 155a of Book 2 of the Dutch Civil Code). In case of an IPO of ABN AMRO, the full two-tier board structure will apply. This means that the power to appoint and remove members of the management board will shift from the shareholders' meeting to the supervisory board. The two-tier board structure therefore indirectly protects a company against shareholders that are perceived as ‘hostile’, because the shareholders can no longer appoint any directors. This is no full protection, as the shareholders' meeting can pass a resolution of no confidence in the entire supervisory board.

4.2.2. Qualified majority of NLFI/the state
The state and NLFI can offer protection against unwanted shareholders' activism, as long as NLFI holds more than 50% of the voting rights and therefore has controlling interest at the shareholders' meeting. Moreover, in case of an IPO, the articles of association will provide that any resolutions on important changes to the company's identity or nature will require a qualified majority of two thirds of the votes cast at the shareholders' meeting, at which at least half of the issued capital is represented. This will allow NLFI/the state to block such resolutions as long as it holds at least one third of the shares.

NLFI/the state will not cooperate in a bid for ABN AMRO, (private) sale of the shares NLFI holds in ABN AMRO or shareholders' activism, which I qualify in this case as ‘unwanted’. Important considerations here include an (imminent) split-up of ABN AMRO, the abandonment of its utility function in the Dutch market, the disposal or transfer of important business units, otherwise being forced to review its long-term strategy without any demonstrable, long-term synergy and other benefits for the company and its stakeholders, or having serious doubts about the durability of the intended business strategy and the revenue model of the purchasing party/parties. This list is not exhaustive. In case of a bid or sale or shareholders' activism, the management board and the supervisory board will adopt a position on the desirability thereof. Of course, the management board and the supervisory board cannot reject a public bid or private sale on the basis of their personal preference or protection of their own legal status or position. They will adequately substantiate their position and coordinate this with the board of employees, after which ABN AMRO will discuss this position and substantiation with NLFI. Based on the recommendation given by NLFI and the position adopted by ABN AMRO, I will form a final opinion and send a letter to the House of Representatives. The position of ABN AMRO will weigh heavily when I will form my opinion. If my opinion differs from the company's position, I will properly substantiate my decision. After I have consulted the House of Representatives, I will adopt a final position on the desirability of the bid.

If an activist shareholder has acquired a substantial interest or has managed to mobilise an important group of shareholders, a suitable response will be determined in joint consultation between ABN AMRO and NLFI, based on the principles described above.

4.2.3. Functioning of ABN AMRO's trust office

The purpose of the anti-takeover measure for ABN AMRO is to protect the company's continuity. Once the stake has been reduced such that NLFI/the state no longer has controlling interest, the bank will no longer be protected by NLFI/the state against imminent, unwanted takeovers or undesirable actions by one or more activist shareholders. As described in the previous paragraph, protection can be offered in various ways. In my Future Plans Letter, I announced that the company will continue to be protected through protective preference shares. This is common for comparable listed companies. However, an anti-takeover measure for a bank such as ABN AMRO has one important difference. A DNO from the regulator is required for the acquisition of an (equity) interest of at least 10% in a bank. So this also applies to a continuity foundation relying on the call option for preference shares. This DNO must be applied for in advance, which can only be done in case of a real threat. The regulator will indicate whether the anti-takeover measure can be allowed only if a threat already exists. In order to obtain more certainty in advance, I looked for a structure which offers comparable protection, but which requires a DNO immediately when the structure is set up. This could be true for the issue of depository receipts for shares, in which case the infringement of the rights of the investors will be temporary and can be limited. This structure will be similar to that of a continuity foundation.

Under normal circumstances, holders of depository receipts for shares in ABN AMRO can be compared with normal shareholders. So the trust office is not to acquire voting rights automatically as a result of shareholders' absenteeism. Shareholders will receive dividends and may vote as they see fit through the automatic voting proxy granted by the trust office. If depository receipt holders do not want to make use of this proxy, they can return their vote to the trust office[37] or refrain from voting. In terms of anti-takeover measures, this makes the trust office similar to a continuity foundation.

In special circumstances, the law offers the possibility of limiting,[38] excluding or revoking the voting proxies. In that case, the trust office can vote itself and protect the company from unwanted takeover bids or shareholders' activism. The board of the trust office may only limit, exclude or revoke voting proxies if this is necessary in order to protect the continuity of ABN AMRO. This deprivation of voting rights may not exceed a period of two years. In accordance with the requirement in the Corporate Governance code, it will be explained why and how the issue of depository receipts for shares serves as an anti-takeover measure. As long as the equity interest of NLFI/the state does not drop below one third, the trust office may only revoke voting proxies if I agree to this.

[37] By actively giving voting recommendations, the trust office can ensure that shareholders ask the trust office to vote on their behalf.

[38] Article 118a(2) of Book 2 of the Dutch Civil Code

4.2.4. Value effect of ABN AMRO's anti-takeover measures

In special circumstances, anti-takeover measures limit the rights of the depository receipt holders/shareholders. Although research does not clearly demonstrate the negative effect of anti-takeover measures on the shareholder value, this effect may be reduced by limiting the infringement of the rights of depository receipt holders as much as possible. For instance, the trust office may only revoke voting proxies under special circumstances and the period of revocation does not exceed two years. This will limit any value effects. So in case of an unwanted takeover, this anti-takeover measure will temporarily preserve the status quo at ABN AMRO, which will give the relevant parties time and space to carefully balance alternatives against each other.

Based on empiricism, the CPB Netherlands Bureau for Economic Policy Analysis identifies two effects on the value depending on the degree of protection. Firstly, a limited defensive structure can have a positive value effect because the company then buys extra time in case of an imminent hostile takeover. Secondly, empiricism shows that the introduction of a less limited defensive structure, such as the issue of depository receipts for shares, results in an average decrease in the value of the issuer by around 8 to 10%. As financial institutions are also protected through a DNO issued by the regulator, this will result in an average decrease in value by around 5 to 10%.
One question is to what extent the results of studies into non-financial institutions can be translated into current practice in the financial sector. The chance of a hostile takeover cannot be excluded, but is probably less likely in this sector. For no audit will be possible in case of a hostile takeover, which increases the financial risk run by the hostile bidder and, incidentally, that of the transaction. The question is whether the relevant regulators will allow such transaction. Moreover, the proposed form of issue of depository receipts for shares by voting proxies that are granted automatically differs from the traditional form, so that the infringement of the rights of the depository receipt holders will be limited to a situation of a hostile takeover. So the structure can be compared to the structure of protection through preference shares ('*stichting continuiteit*' or continuity foundation).

ABN AMRO and the NLFI advisers have had frequent meetings with potential investors over the past period. They indicated that, partly due to the history of ABN AMRO, its size and the absence of specific prospective purchasers, the market will expect a recognisable defensive structure, such as a continuity foundation. Another relevant factor here is that financial and other listed companies use a defensive structure against a hostile takeover. Moreover, as I already indicated, I will not rule out the possibility of a private sale of ABN AMRO after the IPO. So if a suitable prospective purchaser offers a good price, this value will fully accrue to the state.

In summary, the implementation of an anti-takeover measure may have a negative effect on the value. On the other hand, any takeover attempts may take place in an orderly fashion and according to a more structured procedure, so that social interests can also be taken into account.

4.2.5. Structure of ABN AMRO's trust office

The board of the trust office will be composed of at least three board members. The first members will be appointed by the Minister of Finance, on the recommendation of NLFI and after consultation with ABN AMRO. After the first appointment, future board members will be appointed by the current board (co-optation). The composition of the board of the trust office will meet the requirements of independence as laid down by law. In the job profile of the board of the trust office, important selection criteria will be social involvement and the importance of diversity between board members. This will offer an additional guarantee of the independence of the board members and will prevent any imbalanced decision-making. When assessing the DNO application, the ECB will include the reliability and suitability of the board as criteria.

Consultations are being held with the ECB on the intended defensive structure. By involving the regulator at an early stage, I will try to obtain the desired clarity on the lawfulness of the anti-takeover measure before the IPO. Depending on the results of the consultation with the regulator, I will assess whether the trust office will be an effective anti-takeover measure and whether a DNO application will be filed for the trust office.

4.3. Guaranteeing public interest

With the Nijboer motion[39], the House of Representatives asked the government to "further substantiate how the public interests associated with the stability and continuity of the services provided by ABN AMRO can be enshrined in the company's articles of association or can be linked to the reliance on the rights to the preference shares in the articles of association of the Continuity Foundation".

In my Future Plans Letter, I wrote that the government believes that public interests in a competitive sector can be guaranteed best by laws and regulations. In that case, the rules will be the same for all financial institutions. The government's view of the Dutch banking sector[40] explained how to guarantee the public interest of a solid, transparent, honest and competitive banking sector that focuses on customers and is of service to the real economy. Nevertheless, each individual financial institution must also contribute to the public interest of a healthy and stable financial sector. That is why NLFI recommends that the new articles of association of the bank explicitly provide that the company's interest also includes the interests of the customers, depositors and deposit holders, shareholders, employees and the society in which the bank operates. Moreover, the articles of association should explicitly state that ABN AMRO takes account of society as a whole. This is in line with relevant case law and the general duty of care imposed on financial institutions as included in the Financial Supervision Act. This also applies to all actions taken by the management board and the supervisory board of ABN AMRO in the performance of their corporate duties. This translates into the strategy, set-up of the organisation and remuneration policy of the bank. In my opinion, this is a valuable addition and makes the societal role fulfilled by a bank such as ABN AMRO more explicit.

[39] Parliamentary Papers II, 2013-2014, 32 013, no. 46
[40] Parliamentary Papers II, 2012-2013, 32 013, no. 35

4.4. Loyalty shares

This paragraphs answers a question posed by Senator Barth[41] and makes a promise following the answers to Parliamentary questions about my Future Plans Letter.

Shares which, under certain conditions, grant an additional voting rights or rights to dividend are also called 'loyalty shares'. The purpose of a loyalty scheme is to attract and maintain long-term shareholders in order to create a more stable shareholder base.

4.4.1. More detailed legal analysis of loyalty shares

The Prime Minister promised Ms Barth (Dutch Labour Party) that the Minister of Security and Justice and the Minister of Finance will send a letter about the advantages and disadvantages of loyalty shares for shareholders who are involved in a company on a long-term basis. Two questions came to the fore during the debate.

1. What can be done in order to provide a legal framework for loyalty shares?
2. What are the advantages and disadvantages of loyalty shares?

I will discuss the advantages and disadvantages of a statutory framework for loyalty shares below. This analysis was carried out in agreement with the Minister of Security and Justice.

The Netherlands has no statutory regulations on loyalty divided. Under current law, companies can reward shareholders who have invested in their company for a longer period of time with additional voting rights or dividend. With respect to the granting of additional dividend under the articles of association, the Supreme Court of the Netherlands ruled in the DSM case that the law does not prescribe as mandatory that shares of the same type are always subject to equal dividend claims.[42] The provision that all shares carry equal rights and obligations in relation to their amount does not preclude a regulation in the articles of association granting additional dividend to registered shareholders, provided that this regulation does not violate the principle of equality of shareholders as laid down in Article 92 of Book 2 of the Dutch Civil Code. The principle of equality means that the company must equally treat shareholders who are in the same position.[43] Moreover, the possibility of granting additional voting rights to long-term shareholders is also used in practice. An example is the merger of Fiat and CNH Global into a Dutch public limited company in 2013, whereby the shareholders who participated in the loyalty programme could acquire shares with special voting rights.

So it is already possible for companies to opt for additional voting rights or additional dividend. Practice shows, however, that almost no companies take advantage of this possibility, let alone within the context of an IPO. It is expected that a facilitating statutory regulation will not or hardly make any difference. A

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[41] Proceedings of the Senate, 2013-2014, no. 5, items 2 and 4. Page 1-79

[42] Supreme Court of the Netherlands, 14 December 2007, LJN: BB3523.

[43] See the letter from the Minister of Security and Justice of 28 April 2011 on rewarding long-term shareholders, Parliamentary Papers II 2010/11, 31 980, no 48 and the Memorandum on rewarding loyal shareholders, Parliamentary Papers II 2008/09, 31 083, no 26

mandatory statutory regulation under which companies would be obliged to introduce loyalty shares has the disadvantages outlined below in the case of ABN AMRO.

Financing Department

Our reference
FIN/2015/227 U

4.4.2. Demand for loyalty shares
In answering the Parliamentary questions following my Future Plans Letter, I made the following promise: "to again explore whether the granting of loyalty dividend will result in sufficient interest in order to achieve a good yield and whether this could possibly harm the interest of investors". NLFI has explored this.

The idea behind a loyalty share is that it could attract loyal shareholders. By binding shareholders to a company for a longer period of time, they may become more involved in the company's policy and provide more counterweight to shareholders who are mostly guided by short-term interests.

According to NLFI, the issue of loyalty shares is unusual in the Netherlands and is even unprecedented when it comes to IPOs. Based on meetings with a number of large and smaller investors, NLFI concludes that there is little interest in loyalty shares.

A discussion that has been held in the Netherlands for some time now is whether a loyal shareholder is even involved in the company's long-term objectives. So far, there is no research demonstrating any involved behaviour among investors. Moreover, organisations such as Eumedion and VEB (Dutch Association of Shareholders) emphasise that it has not been established that shareholders who hold their shares for a longer period of time are involved and contribute to creating shareholder value in the long term. Shareholders will have to invest time and money in order to be actively involved. This is not always in proportion to the objective of many investors to achieve the highest possible yield for a certain risk profile[44]. The question is also whether loyal shareholders who are given the prospect of a takeover premium actually stay loyal to the company and not sell their shares for this reason.

The second part of my promise concerns the effect of loyalty shares on the proceeds and interest of investors. Listed companies and shareholders attach value to shares being sufficiently liquid. As already mentioned in this letter, such tradability is the most important criterion for inclusion in the AEX index and other similar indexes. If a listed company issues loyalty shares, tradability will decrease. For all investors can register for a loyalty share. This means that the shareholders will hold their shares at least for a predetermined period. In order to prove this, a shareholder must register his shares with the company. As a result of the registration of the shares, the shares can no longer be traded on the stock exchange. This decreased tradability may result in a share price that is more susceptible to fluctuations, causing shareholders to run a higher price risk. Moreover, the decreased liquidity may increase the costs of attracting capital by the company, which may, in turn, result in a lower weighting or exclusion of the share in the indexes. For funds and institutional investors tracking these indexes,

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[44] *Loyaliteitsdividend bij beursvennootschappen: gerechtvaardigd?*, S.F. de Beurs, *Ondernemingsrecht en Financiering*, 2011, page 6/7 and *Invoering loyaliteitsaandelen onzalig plan*, Eumedion, 24 May 2013 and *Onderzoek korte termijngedrag Nederlandse institutionele beleggers*, W. Kuipers, *Ondernemingsrecht* 2013/106.

this could mean that they will have to sell the relevant shares, which will result in a lower share price.

In short, the issue of loyalty shares has its disadvantages, while there are no proven advantages (yet). Based on this, I do not want to experiment with loyalty shares when ABN AMRO goes public (which involves major financial and other interests). I believe that long-term shareholders can contribute to the company's stability in particular, while short-term shareholders can contribute to the liquidity of the shares in particular. So my aim is to find a balance between short-term and long-term investors. For liquidity is also an important criterion for the stock exchange in order to admit a company to an index that shareholders can track. This will attract index investors who will ensure a more stable price development.[45] In case of an IPO, there is a relatively high demand from short-term investors. That is why I will give as much preference as possible to long-term shareholders when issuing ABN AMRO shares. Incidentally, ABN AMRO can also ensure for itself that shareholders bind themselves to the company for a longer period of time. For example by setting a clear course for the long term, with a clear dividend policy. This could ensure that shareholders also consider the sustainability of the shareholder value to be the company's objective.

5. Consequences for national budget

The proceeds of the sale of ABN AMRO will be used to pay off the public debt. As a result of the economic crisis, the EMU debt as a percentage of the GDP has increased from 42% in 2007 to 69% in 2014. The capital expenditure previously incurred by the state in relation to ABN AMRO amounts to € 21.66 billion. The sale of ABN AMRO is considered to be a financial transaction. So the proceeds of the sale will not be relevant for the EMU balance. The effect on the EMU balance will be twofold: on the one hand, interest expenses will decline due to a lower EMU debt, which will have a positive effect on the EMU balance. On the other hand, future dividend payments will decrease due to the sale, which will have a negative effect on the EMU balance. Whether both these effects will, on balance, have a positive or negative effect depends on the size of the first tranche, the selling price, the interest expenses and ABN AMRO's dividend payment.

The proceeds of the sale and expenses will be accounted for in Article 3 of the budget of the Ministry of Finance. Incidentally, all crisis measures fall under budgetary rule 24. This means that the expenditure and receipts associated with the sale of ABN AMRO will not be relevant for the expenditure framework.

6. In conclusion

The state is no obvious owner of a financial institution such as ABN AMRO. The state nationalised and recapitalised ABN AMRO in order to guarantee the public interest of the stability of the financial system. The prime consideration has always been that the state participation in ABN AMRO should be temporary. The state is no investor and therefore does not make high-risk investments if they do not serve a public interest. The state has a responsibility to use public funds carefully and wisely. The sale will mark the beginning of the recovery of as much of the capital

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[45] Based on the report by Lord Myners following the privatisation of Royal Mail (IPOs and Bookbuilding in Future HM Government Primary Share Disposals dated 16 December 2014)

invested as possible, simultaneously paving the way for a new, stable future for ABN AMO. As the financial sector is stable enough for a sale, there is sufficient market interest and ABN AMRO is ready to be sold, it is time to take the next step towards normalisation of the Dutch financial sector.

Yours sincerely,
the Minister of Finance,

J.R.V.A. Dijsselbloem

Enclosure: IPO costs

Financing Department

Our reference
FIN/2015/227 U

As already stated, I share the concerns expressed by the House of Representatives about an IPO involving high costs. I promised[46] to examine the advantages and disadvantages of the below alternatives in order for the IPO to involve the lowest possible costs, under the precondition of maximum proceeds for the state. An important basic principle is that the alternative may not result in the IPO having less chance of success. The following alternatives were examined:

1. agreeing on a fixed fee for advisers hired;
2. limiting supervision by having the Agency of the Ministry of Finance of ABN AMRO itself perform certain activities;
3. auctioning the shares, as with Google;
4. introducing a people's share or offering part of the shares to private individuals;

I had an independent expert and NLFI examine these alternatives.

1. Fixed fee

Apart from ABN AMRO, investment banks, legal advisers and accountants are also involved in a traditional IPO. Unlike these advisers, a fee is agreed upon with investment banks which is linked to the amount and price of the shares issued. So if there is no IPO, these investment banks (the underwriters[47]) are not paid any fee either. Normally, one half of the fee comprises a fixed part for each investment bank and the other half comprises a variable part that is allocated among parties based on the satisfaction of NLFI. NLFI will examine which fee structure is the best for this specific IPO.

A fixed fee will provide more clarity in advance about the exact costs for investment banks, irrespective of the size and price of the first tranche of shares. This means, however, that in case of a small first tranche, the fixed fee converted into a percentage may be high. A disadvantage of a fixed fee is that the interests between the seller and the investment banks are not always the same. Investment banks have the incentive to have the buyers of the share (the bank's customers) pay an advantageous price as well. A fixed fee will take remove the incentive for investment banks to make additional efforts for a better price for the share in order to receive a larger portion of the variable remuneration.

It is the aim of NLFI to agree on fees lower than in comparable transactions and to ensure that the fees paid to the investment banks amount to less than 1% of the first tranche. During the negotiations with the investment banks, NLFI will structure the fee that will eventually result in the lowest costs. Another option is that a partially fixed/variable fee is chosen, as this will bring the interests of the seller and investment banks more in line with each other.

2. Alternatives to supervision

The sale of ABN AMRO shares will require the use of an international sales network that has intensive contacts with a broad base of institutional investors across the world. Only banks have such network for the stock market. The possibilities of limiting supervision by having ABN AMRO or the Agency perform certain activities have been examined.

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[46] Parliamentary Papers II, 2013-2014, 32 013, no. 40
[47] Investment banks in the bank syndicate assuming the risk of the actual placement and payment of the shares.

Another important consideration for choosing supervision is that a stable shareholder base will be created for ABN AMRO with a focus on the long term. Searching for and proactively contacting new, suitable long-term shareholders, with the support of an experienced syndicate of distributing banks, is in line with this ambition. This makes certain other, less common methods of share placements as described below, less suitable.

As usual, ABN AMRO also performs many preparatory activities itself. The scope and importance of this IPO are such that it is necessary to divide responsibility among several underwriters. If ABN AMRO is asked by NLFI to perform all or part of the activities, this must be agreed on the basis of an arm's length price[48]. So ABN AMRO cannot perform the activities for free. ABN AMRO will, however, benefit from this because the fee is paid to its own company. During the pre-selection, NLFI selected ABN AMRO as possible service provider. So there is a chance that ABN AMRO will play a role in the IPO.

The Agency of the Ministry of Finance has a great deal of experience with offering securities in the form of state loans. However, the Agency has no sales network of its own and lacks experience with supervising an initial public offering of shares. This will also force the Agency to engage investment banks. So this option does not offer any cost savings. The costs therefore depend more on the placement technique (see the next point) and the distribution of risks between the state as seller and the banks.

In case of supervision by investment banks, the investment banks must reach a fair price for the seller as well as for the buyer of the shares. In order to reduce the risk of a conflict of interest between the state and underwriters, NLFI has an independent adviser who will not place any shares itself. This adviser can give an independent opinion with respect to the underwriters at times when the interests of the state and these agents may differ, in order to maximise the proceeds for the state (given the chance of success).

3. Auctioning shares

In case of a 'Dutch auction'[49], the share price is determined on the basis of subscription; the shares will be transferred to the highest bidder. Interested buyers can contact one or more investment banks and place their order. This will result in cost savings because there will be no marketing[50] of the shares. Buyers must decide for themselves whether or not to place an order on the basis of the prospectus. Google shares were sold in this way. Such auctioning method may work for a brand as well-known and unique such as Google. However, in order for the placement to be successful, the shares had to be placed at a large discount. As a result, the IPO of Google was less successful than anticipated. ABN AMRO is less unique than Google, because there are over 250 listed banks in Europe and investors only select a few of these banks to invest in. That is why ABN AMRO

[48] Arm's length principle: an in-company transaction must be conducted under the same conditions as when this transaction would have been conducted with a third party.
[49] A method in which shares are allocated on the basis of predefined rules and in which different types of investors can be distinguished.
[50] Presentations given by the management board to investors, analysts writing a report and an active approach to investors by specialists.

needs extensive marketing, for which equivalent costs would also have to be incurred if the ABN AMRO shares were to be auctioned.

4. Introducing people's share

A people's share is a share that can be held by many retail investors in relatively small quantities. This is possible by means of a gift of the shares or by means of a sale to private individuals.

In itself, selling a people's share to private individuals does not result in lower costs in case of an IPO. Although it is possible to negotiate a lower fee with the investment banks on the part of the shares to be sold to private individuals, I do not expect that this will result in considerable cost savings. A sale to private individuals will also involve additional execution costs, such as the set-up of a call centre that private individuals can call if they have any questions.

Conclusion

It is the aim of NLFI to agree on low fees for investment banks and to ensure that the fees amount to less than 1%, without this affecting the quality of the services provided by the advisers. The sale of ABN AMRO will require an international sales network. Only investment banks can offer this. The investment bank of ABN AMRO could play a role in the advice on the IPO.