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The Hague, 6 July 2015

NLFI 2015/207

Subject: Advisory report on the amendment of the conditional sales agreement for the sale of REAAL N.V. to Anbang Insurance Group Co. Limited.

Dear Mr Dijsselbloem,

In your letter to the House of Representatives dated 16 February 2015, ("Conditional sale of REAAL") you announced the conditional sale of REAAL NV (REAAL) to Anbang Group Holdings Co. Limited (Anbang).<sup>1</sup> This letter was based on the sales agreement concluded between SNS REAAL NV (SNS REAAL), Anbang and Anbang Life Insurance Co. Limited and signed on 14 February 2015 (the Original Sales Agreement). In your letter, you emphasised the conditional nature of the Original Sales Agreement concluded between SNS REAAL and Anbang. For instance, the prior approval of the relevant regulators is required for the ultimate completion (closing) of the transaction.

Since the time of signing of the Original Sales Agreement, facts and circumstances have arisen that have a material impact on the finalisation of the transaction. These developments are explained below. They have subsequently led to an Amended Sales Agreement dated 30 June 2015 (the Amended Sales Agreement). By means of this letter, NLFI provides you its advice in respect of this Amended Sales Agreement.

NLFI manages the interests of the Dutch State in a number of financial institutions, including SNS REAAL. NLFI has the statutory task of managing the shareholdings in these financial institutions in a commercial and non-political manner. NLFI is also tasked with advising the Minister of Finance on the sale of shares in these institutions.

In drawing up this advisory report, NLFI has been guided by the statutory description of NLFI's goals. In discharging its statutory task and in exercising the rights associated with the shares held by NLFI, NLFI has focused primarily on the financial and economic interests of the State, while taking into consideration the interests of the company, its affiliated companies and the employees involved.

<sup>1</sup> House of Representatives, 2014-2015 session, 33 532, no. 39

The sale of REAAL is the result of the decision of the European Commission on 19 December 2013 to approve the rescue aid for SNS REAAL. An important condition for this approval is the sale of all SNS REAAL's insurance activities within the period set out in the restructuring plan, approved by the European Commission. SNS REAAL's insurance activities are housed in REAAL and its subsidiaries. The asset management activities (grouped in Actiam N.V.) are also part of REAAL. The sale of REAAL to Anbang satisfies the requirement of the European Commission regarding the sale of all insurance activities of SNS REAAL.

### Original Sales Agreement

The Original Sales Agreement consisted of a number of components, of which the following are the most important:

- The selling price for the shares was set at EUR 150 million.
- It was agreed that a recapitalisation would occur at the time of closing. The required amount of recapitalisation was, at the time of signing the Original Sales Agreement, estimated at a level ranging from EUR 770 million to EUR 1 billion.
- Transfer to Anbang (consolidated companies) of three internal loans in the nominal amount of EUR 552 million. These loans consist of 1) a hybrid loan to REAAL by SNS REAAL of EUR 207 million, 2) a hybrid loan to SRLEV by SNS REAAL of EUR 95 million, and 3) a senior loan to REAAL by SNS REAAL of EUR 250 million. These loans were to be transferred and paid 90 days after closing.
- A price adjustment mechanism in order to take account of the developments in the IFRS-based shareholders' equity of the REAAL Group between 1 January 2015 and 30 June 2015.
- The right of Anbang to cancel the purchase of REAAL if the IFRS equity between the end of 2014 and the end of the second quarter of 2015 declined by more than approximately EUR 500 million.

To proportionally take account in the purchase price of any volatility in the value of REAAL during the period between late 2014 and the actual completion of the transaction, a price adjustment mechanism was included in the Original Sales Agreement. It took the form a symmetrical mechanism in which any increase in IFRS equity between the agreed reference level of EUR 2.015 billion and the level on 30 June 2015 would be Euro for Euro taken into account in the purchase price. In the case of a decrease in IFRS equity, the difference would be subtracted Euro for Euro from the purchase price. It was agreed that the first EUR 50 million difference in IFRS equity either positive or negative would not affect the purchase price. The bottom threshold of the price adjustment mechanism was determined by the accumulated principal plus accrued interest of the two internal hybrid loans from SNS REAAL. A strong decrease in IFRS equity would translate into a lower price. Since these two loans have an aggregate principal amount of EUR 302 million, this reduction would not exceed EUR 302 million plus accrued interest on this amount. The maximum downward adjustment of the selling price would therefore amount to a total of EUR 150 million (for the shares) and EUR 302 million plus accrued interest (for the two internal hybrid loans), hence a total of EUR 452 million excluding accrued interest.



### Developments since the signing of the Original Sales Agreement

Since the time of signing of the Original Sales Agreement, a number of facts and circumstances have arisen that have a material impact on the finalisation of the transaction:

- The assets and liabilities of REAAL are discounted according to different interest rate curves as a result of which big moves in swap spreads (the difference between the ECB-AAA yield curve and the swap curve) lead to different degrees of change in assets and liabilities. As a result of the exceptional policy of the ECB, the results of these valuation methods unexpectedly became strongly divergent, leading to high volatility in the IFRS equity of REAAL. Shareholders' equity increased in the first few months by several hundred million Euro but, at the end of May 2015, fell back to the level of year-end 2014 (about EUR 2 billion).
- The operating profitability of REAAL during the first quarter of 2015 was nil.
- The Solvency II ratio has fallen since the binding bid, which has increased the required capital injection. In the course of May, it became apparent that REAAL needed a capital injection of EUR 1.35 billion to achieve an adequate level of capitalisation.
- The high volatility in both the IFRS equity and the Solvency II ratio had unintended effects, this as a result of the price adjustment mechanism in the conditional sales agreement not suited to accommodate the high volatility.

### Amended Sales Agreement

The above facts and circumstances led Anbang to seek amendment of the Original Sales Agreement. As a result of the increased level of required capital injection, negotiations were held between SNS REAAL and Anbang resulting in changes in the price and other conditions as set out in the Amended Sales Agreement. The Management Board of SNS REAAL has approved the Amended Sales Agreement. The resolution of the Management Board of SNS REAAL has been approved by its Supervisory Board after a positive recommendation by the works councils at SNS REAAL.

The most important changes from the Original Sales Agreement are:

- The purchase price is set at EUR 85 million for the shares in REAAL as well as certain tax assets of SNS REAAL in REAAL group companies in connection with the fiscal unity. The purchase price must be paid by Anbang within 30 days following closing. At that time, SNS REAAL will transfer the tax assets for 2013 and 2014 to Anbang. According to the best conservative estimate by SNS REAAL, the value of these tax assets amounts to approximately EUR 85 million. If the ultimate value of the tax assets is lower, the difference will then have to be paid to Anbang by SNS REAAL. Net, after deduction of the tax assets, the sale price is therefore approximately EUR 1. The tax asset for the first half of this year will be paid by REAAL to SNS REAAL for a maximum amount of EUR 30 million.
- The price adjustment mechanism will no longer be applicable. This means that the two internal hybrid loans of SNS REAAL to (subsidiaries of) REAAL cannot be transferred for a lower amount.
- Anbang no longer has the right to cancel the purchase if there is a substantial decline in the IFRS equity of REAAL.
- To strengthen the capital position of REAAL, it has been agreed with the Dutch Central Bank (DNB) that Anbang shall inject EUR 1.35 billion. The capital injection must be made within 90 days following closing.

- Instead of transferring the three internal loans to Anbang, Anbang has agreed to ensure that repayment of the loans in the nominal amount of EUR 552 million will be made to the relevant group companies within 180 days following closing. The internal loan by SNS Bank NV is due on 31 December 2015. Repayment of this loan will take place no more than 180 days after closing, or on 31 December 2015, depending on which day is earlier. The hybrid loans are perpetual and unsecured. If REAAL and/or SRLEV do not fulfil their obligations, SNS REAAL must obtain repayment of the loans primarily from Anbang. SNS Bank can demand compliance if REAAL fails to comply with its obligations under the senior bank loan. SNS REAAL may also require Anbang to fulfil its obligations. To secure SNS Bank's loan to REAAL, the latter has granted a right of pledge to SNS Bank NV on the shares in SRLEV, Schadeverzekeringen Reaal NV and Proteq Life NVC.
- The total liability of SNS REAAL to Anbang stemming from the Amended Sales Agreement shall, just as in the Original Sales Agreement, in no case exceed EUR 150 million. Under the Amended Sales Agreement, any payment obligations of SNS REAAL to Anbang for losses suffered by Anbang are suspended until the hybrid loans have been repaid.
- SNS REAAL has to transfer the obligation to fully finance an IAS 19 pension scheme to REAAL. It was originally the intention to transfer this in its entirety. The pension scheme has however been transferred at its book value as at 30 June 2015. Any difference between the fully funded receivable and the carrying amount will also be transferred as soon as possible by SNS REAAL.

In the Original Sales Agreement, there were no guarantees or warranties issued by SNS REAAL regarding the investment-linked insurance file. The same applies to the Amended Sales Agreement.

Based on the Amended Sales Agreement, the Dutch Central Bank (DNB), acting as prudential supervisor of the Dutch insurance industry, provided Anbang with the required declaration of no objection to the sale of REAAL on 3 July of this year.

### **Recommendation**

Due to the above changes in facts and circumstances, an amendment of the Original Sale Agreement may be deemed reasonable. In particular, the purchase price was reduced and the capital injection by Anbang increased to EUR 1.35 billion (excluding the refinancing of the internal loans). This is EUR 350 million to EUR 580 million more than the estimated capital injection at the time of signing of the Original Sales Agreement. The obligation to sell REAAL pursuant to the aforementioned decision of the European Commission remains undiminished. No buyers other than Anbang have emerged.

Based on the principles underlying the Original Sales Agreement and the aforementioned developments, NLFI has conferred with its advisors on the renegotiated price and conditions. All things considered, NLFI believes that the Amended Sales Agreement with Anbang will result in greater (business) certainty and that it takes account (i) the legitimate interests of SNS REAAL and its affiliated companies, as well as its continuity, along with the interests of the workers concerned and (ii) the financial and economic interests of the State.

There are currently two main suspensive conditions in the Amended Sales Agreement to be fulfilled before the sale of REAAL can be completed. Firstly, Anbang must obtain approval from the Chinese regulator of the insurance industry ("CIRC"). This approval is expected to occur in the course of this summer. A second suspensive condition in the Amended Sales Agreement concerns your prior approval for the transaction. NLFI hereby makes a favourable recommendation regarding the content of the Amended Sales Agreement and asks for your approval to complete the transaction on the basis of this Amended Sales Agreement, once CIRC has granted its approval for Anbang to conclude the same



transaction. After receiving your approval, NLFI may, as the sole shareholder of SNS REAAL, authorise completion of the transaction.

Yours sincerely,

NLFI