

Minister of Finance  
PO Box 20201  
2500 EE The Hague

Lange Houtstraat 26  
2511 CW The Hague  
Postbus 20201  
2500 EE The Hague

www.nlfi.nl  
T +31 (0) 70 20 50 600

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The Hague, 15 February 2015

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

Dear Mr Dijsselbloem,

In your letter to the House of Representatives of 6 June 2014 ('Sales plans for REAAL N.V. and ASR Nederland N.V.')

<sup>1</sup> you asked NLFI to execute the sales strategy for the shares in REAAL N.V. (now known as Vivat Verzekeringen) described in your letter and in the associated memorandum from NLFI<sup>2</sup>, as well as to perform all the related activities described in the Wet NLFI (Trust Office Foundation for the Management of Financial Institutions Act)<sup>3</sup>. NLFI is fulfilling that request with this letter.

NLFI manages the interests of the State in a number of financial institutions, including SNS REAAL N.V. (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 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 focuses 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.

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<sup>1</sup> House of Representatives, 2013-2014 session, 33 532, no. 36

<sup>2</sup> NLFI, Advisory memorandum on the sale of REAAL and ASR, May 2014

<sup>3</sup> Act of 19 May 2011 containing Wet stichting administratiekantoor beheer financiële instellingen (Trust Office Foundation for the Management of Financial Institutions Act), Kamerstukken (Parliamentary Papers) 32613, Stb. 2011, 282

The sale of REAAL N.V. (REAAL) is the consequence of the decision of the European Commission of 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 deadlines 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 Actiaam N.V.) are also part of REAAL.

REAAL is a fully-owned subsidiary of SNS REAAL. As the holder of the shares in REAAL, SNS REAAL is acting as the seller. As the sole shareholder in SNS REAAL and as an indirect shareholder in REAAL, NLF1 is closely involved in the sale of REAAL, under the framework that the government adopts for the sale of State shareholdings. SNS REAAL must also submit decisions regarding a sale transaction to NLF1 for approval<sup>4</sup>. NLF1 also regards its role as shareholder to include overseeing the repayment by SNS REAAL of the EUR 1.1 billion bridge loan provided by the State. NLF1 has additionally taken care that the sales process complies with the requirements stipulated by the European Commission for an open and transparent process.

You approved the Assessment Framework for the Sale of REAAL on 10 October 2014.<sup>5</sup> This assessment framework includes, firstly, the preconditions which you have stipulated for the execution of the sales process by NLF1 and SNS REAAL. Secondly this assessment framework contains criteria on the basis of which you will assess the selected bid submitted to you by NLF1 for approval. The assessment framework was sent to parties who then carried out an examination of the accounts. In assessing bids, NLF1 has taken account of the criteria contained in the assessment framework.

Because of the possibility that ASR Nederland N.V. (ASR) - in which NLF1 holds all the shares - could participate as a bidder in the REAAL sales process, NLF1 structured its internal operations in such a way that portfolio optimisation is ruled out in order to avoid a conflict of interest and potential breach of the requirement for an open and transparent process for the sale of REAAL. The NLF1 team that has worked on the execution of the REAAL sales process carried out this work strictly separate from the team at NLF1 involved to date in the implementation of ASR's strategy. The principle of collegial governance within NLF1 has been temporarily suspended with regard to this transaction. Both teams have reported directly to you independently of one another and have submitted fundamental and significant decisions to you directly.

### **Conduct of the sales process**

At the start of the sales process SNS REAAL issued invitations to a large group of parties (86 in total). An announcement was also published in the Financial Times in order to publicise the process. A total of thirteen parties signed a confidentiality agreement and received the information memorandum with the request that they indicate no later than 20 October 2014 whether they had any further interest. On that date, SNS REAAL received a non-binding offer

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<sup>4</sup> This follows from Civil Code section 2: 107a and the articles of association of SNS REAAL. NLF1 must then submit fundamental and significant decisions to the Minister for approval under article 4 of the Wet NLF1.

<sup>5</sup> The Assessment Framework is included in the Appendix to this report.

from the insurer ASR with a consortium of other parties. SNS REAAL received a non-binding offer from Anbang Group Holdings Co. Ltd (Anbang) on 18 December 2014. ASR and Anbang were admitted to the due diligence phase, in which they were able to examine REAAL's books more closely in order to decide whether they wanted to make a binding offer.

ASR and Anbang both had until the end of January 2015 to submit a binding offer. At the end of this period ASR indicated that it would not make an offer. Its management believed that there were insufficient benefits offsetting the specific risks to justify the action.. Anbang made a binding offer on 30 January 2015.

Negotiations between SNS REAAL and Anbang resulted in agreement on price and terms, as stipulated in the conditional purchase agreement between SNS REAAL and Anbang. The Executive Board of SNS REAAL approved the conditional purchase agreement with Anbang. The decision of the executive board of SNS REAAL was then approved by its Supervisory Board.

### **Financial details**

The purchase price consists of the following elements:

- The selling price of the shares has been set at EUR 150 million<sup>6</sup>.
- It has been agreed that a recapitalisation at a level of 140%-150%<sup>7</sup> (Solvency II) will take place (estimated at EUR 770 million to EUR 1 billion in recapitalisation).
- Anbang will also repay the three internal loans (one from the bank and two from the holding company); this involves EUR 552 million in total.
- A price adjustment mechanism in order to take account of the developments in the shareholders' equity between 1 January 2015 and 30 June 2015.

The transaction includes a distribution agreement for insurance products between SNS Bank and REAAL.

Developments may occur during the period between the signing of the purchase agreement and the delivery of shares that may affect the value of REAAL. For this reason the aforementioned price adjustment mechanism was agreed in order to hedge this uncertainty concerning the value. This takes the form of a symmetrical mechanism which stipulates that if there are positive developments between the signing of the purchase agreement and 30 June 2015, this will be added euro for euro to the purchase price, but equally if there are negative developments these will be deducted euro for euro from the selling price of EUR 150 million; finally it is thereby also agreed that the first EUR 50 million will have minor impact on the selling price either positively or negatively.

The price adjustment mechanism has a lower limit. This is determined by the size of the two internal hybrid loans from the holding company. In the event of negative developments, they will not be repaid but will be (partly) written off. Since the loans total EUR 302 million,

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<sup>6</sup> This EUR 150 million can be set against the book value of the available shareholders' equity according to IFRS at 31 December 2014 of around EUR 2 billion.

<sup>7</sup> The actual capitalisation will depend on the final decision in the declaration of no objection procedure.

no more than EUR 302 million can be written off. The maximum downward adjustment of the selling price is then EUR 452 million (EUR 150 million less for the shares in the event of a transfer of the shares for EUR 1 + EUR 302 million write-off on the internal loans). This adjustment will take place in the event of negative developments which exceed a rounded figure of EUR 500 million. If the negative developments between the end of 2014 and the end of the second quarter of 2015 exceed a rounded figure of EUR 500 million, Anbang has the right to withdraw from the purchase.<sup>8</sup>

The financing of Anbang's bid is not subject to any conditions; Anbang has indicated that it will finance this from its own resources. This assessment will also be performed by De Nederlandsche Bank (DNB) as part of the approval process.

### **Independent valuation**

In your letter of 16 June 2014, you indicated the importance that you placed on the need to carry out an independent valuation of REAAL. Such a valuation will make it possible to determine if the price for REAAL is in line with the market. NLFI has asked a financial adviser, Macquarie Capital (Europe) Ltd., to carry out this independent valuation on the basis of information which was also available to potential buyers of REAAL. The price offered by Anbang is in line with the independent valuation.

### **Other considerations**

In the advisory memorandum<sup>9</sup> from NLFI relating to the sale of REAAL, NLFI stated that SNS REAAL and/or the State will on no condition provide any guarantees concerning the investment-linked insurance policy dossier. The purchase agreement between SNS REAAL and Anbang contains neither guarantees nor indemnities in this regard from SNS REAAL and/or the State.

In its letter of intent, Anbang expressed its intention to retain the current management of REAAL and to work closely with them in order to strengthen and develop the business together. No binding agreements have yet been made between REAAL and Anbang concerning the proposed governance of REAAL after closing.

### **Approval by supervising authorities**

One important condition in the purchase agreement is that the proposed transaction must be approved by the relevant supervising authorities in the Netherlands and China. In order for a declaration of no objection to be granted by DNB, there will, in any case, have to be sufficient solvency on the part of REAAL, a skilled and experienced executive board (governance) and a credible earnings model for the future. Anbang must also provide DNB with insight into such factors as the management structure and ownership structure of its own business.

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<sup>8</sup> This is formally stipulated in the purchase agreement as a right to withdraw from the purchase if the shareholders' equity for accounting purposes under IFRS has fallen by 25% or more at 30 June 2015 compared to 31 December 2014 (value at 31 December: EUR 2,015 million).

<sup>9</sup> NLFI, Advisory memorandum on the sale of REAAL and ASR, May 2014

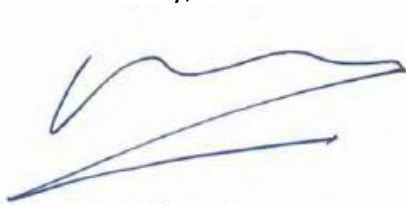
## **Recommendation**

NLFI is of the opinion that the sales process complies with the requirements stipulated for it by the European Commission, in particular the requirement for an open and transparent sales process.

NLFI makes a positive recommendation with regard to the contents of the purchase agreement, and recommends that you grant conditional approval for SNS REAAL to enter into this agreement with Anbang. NLFI will, in due course, ask you for final approval for 'closing' the transaction if and when all conditions for the transaction have been met and the supervising authorities have granted their approval for the closing of the transaction.

Taking everything into account, NLFI is of the opinion that this conditional purchase agreement with Anbang is the most economically advantageous outcome of the sales process, taking account of (i) the criteria in the Assessment Framework for the Sale of REAAL of 10 October 2014 from the Ministry of Finance, (ii) the justified interests of SNS REAAL and REAAL, and (iii) the financial and economic interests of the State.

Yours sincerely,



M. Enthoven  
Voorzitter Bestuur NLFI



L.Y. Gonçalves-Ho Kang You  
Bestuur NLFI



A. Weiss  
Managing Director NLFI

**Appendix: Assessment Framework for the Sale of REAAL of 10 October 2014**