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Annexes

NLFI advisory memorandum on
the sale of Reaal and ASR

Date 6 June 2014

Subject: Divestment plans for REAAL N.V. and ASR Nederland N.V.

This is a translation of the original text in Dutch. In case of divergences between the texts, the text of the Dutch version shall prevail.

Dear Mr Chairman,

This letter is to inform you of my intention to initiate, this summer, a divestment of the insurance activities of SNS REAAL N.V. (hereinafter "SNS Reaal") which is part of Reaal N.V. (hereinafter 'Reaal').¹ This is in line with the advisory memorandum of the stichting administratiekantoor beheer financiële instellingen (trust office foundation for the management of financial institutions, hereinafter "NLFI") which manages the shares of SNS Reaal. By arranging the speedy sale of Reaal, I am also complying with the requirements of the European Commission in connection with the nationalisation of SNS Reaal, of which I informed you previously². This letter also complies with the Van Vliet motion³ of not taking irreversible steps in the sale process for the financial institutions without first informing parliament. The divestment plans as described in this letter have been discussed with De Nederlandsche Bank (Dutch Central Bank) (hereinafter "DNB") and the Autoriteit Financiële Markten (Financial Markets authority, hereinafter "AFM").

NLFI was established as a result of the motion put forward by Weekers et. al. to manage the State's shareholdings in financial institutions in a commercial, non-political way and to ensure a transparent division of interests.⁴ NLFI has a legal duty to advise the Minister of Finance on strategy regarding the sale of these shares held by the State. NLFI has submitted an advisory memorandum to me regarding the sale of Reaal and the terms under which this should take place. This advisory memo is included as an attachment to this letter.

In line with NLFI's recommendation, I intend to set the Reaal sale process as outlined in motion this summer. To this end, I will authorise NLFI to initiate the

1 SNS Asset Management is strongly interconnected with SNS Reaal's insurance activities, therefore SNS Reaal intends to assign SNS Asset Management to Reaal prior to the sale of Reaal. In this letter, Reaal and SNS Asset Management are thus referred to jointly as Reaal.

2 Parliamentary Documents II, session 2013-2014, 33532, no. 31.

3 Parliamentary Documents II, session 2010-2011, 28 165, no. 125.

4 Parliamentary Documents II, session 2008-2009, 31 965, no. 7.

Reaal divestment. NLFI will then, on behalf of the State, execute the strategy to sell the shares in Reaal as described in this letter and perform all associated activities as defined by the NLFI Act.⁵ Given the interests of all the parties involved in this divestment and in view of the State's interests, particular attention will be focused on organising the divestment such that independence and transparency are safeguarded. Following the sale of Reaal, I will inform you of the outcomes.

NLFI also manages the shares which the State holds in the insurance company ASR Nederland N.V. (hereinafter "ASR"). I have informed you previously of the intention to privatise ASR following a *dual track* approach. However in the short-term, both the sale of Reaal and the potential flotation of Nationale Nederlanden are expected to take place. According to NLFI, the market's absorptive capacity is too limited to initiate the divestment for ASR at the same time as these transactions are underway. NLFI therefore recommends putting the dual track divestment of ASR on hold. I will therefore, once Reaal has been sold and Nationale Nederlanden has possibly been floated on the stock market, advise you further on the precise divestment for ASR.

The NLFI recommendation also considers the role of ASR in the sale of Reaal. NLFI advises to permit ASR, in principle, to make a bid for Reaal. I see no reason to rule out upfront ASR bidding for Reaal. However, ASR can only actually acquire Reaal after I have given permission for it to do so. My decision on whether or not to agree to an acquisition plan on the part of ASR will depend on my review of ASR's business and financing plans. ASR will only be able to prepare these documents during the Reaal divestment, partly on the basis of a financial due diligence. I shall inform parliament as to whether or not I agree to ASR taking over Reaal if and when it comes up for discussion.

How to deal with this letter

A key part of the restructuring plan agreed with the European Commission, following the nationalisation of SNS Reaal, is the divestment by SNS Reaal of all the insurance activities within a timeframe determined by the European Commission. The intention to start the divestment for Reaal in the summer is closely linked to this agreement. In light of this, it is important that this letter be dealt with by the parliament prior to the summer recess.

Reading Guide

The conditions that must be met to return the financial institutions to the market and the decision-making framework developed by the Eerste Kamer (Dutch Upper House) with respect to future decisions regarding privatisation and delegation of tasks to independent bodies are discussed in Chapter 1.⁶ Chapters 2 and 3 consider the Dutch insurance market and the stability of the financial sector. Chapter 4 looks at the proposed divestment for Reaal. In chapter 5 I explain why I am deferring the proposed ASR dual track divestment. Chapter 6 considers the role which ASR may play in the Reaal divestment. Chapter 7 describes the consequences for the national budget. Chapter 8 considers the further process with respect to parliament.

⁵ Article 3, under b, sub-section 1 of the Act of 19 May, i.e. Trust Office Foundation Management Financial Institutions Act.

⁶ Parliamentary documents I, session 2012-2013, C, A

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1. Decision-making framework

Decision-making framework for privatisation

In the Parliament's response to the "Verbindend verbroken" ("Connection lost") report by the parliamentary research committee "Privatisering en verzelfstandiging overheidsdiensten" (Privatisation and delegation of tasks to independent bodies of government services) commissioned by the Eerste Kamer (Dutch Upper House),⁷ the Parliament agreed to use the decision-making framework for future decisions regarding privatisation and delegation of tasks to independent bodies in order to inform parliament effectively and in good time. The decision-making framework includes five steps that must be completed as part of the process. The first step relates to the intention. Immediately following the respective procurements of the participations in the financial institutions an announcement was made that the participations will be temporary and can return to the private sector if the terms are met. The second step is the design. Concerning ASR I have informed you of this step in my letter dated 23 August 2013 with respect to the 'Toekomstplannen financiële instellingen ABN AMRO, ASR en SNS Reaal' (Plans for the future of the financial institutions ABN AMRO, ASR and SNS Reaal).⁸ In the case of Reaal, I informed you about this matter in my letter with respect to 'SNS Reaal - European Commission Decision 2013',⁹ dated 19 December 2013. The divestment for Reaal and ASR is now at stage three of the decision-making framework (the decision).

Once Parliament is informed by means of this letter, the implementation phase will commence for Reaal (step four). The decision-making framework states that it must be clear who has responsibility for the divestment of Reaal. I examine this per activity in chapters 4, 5 and 6.

The decision-making framework has a fifth step, the follow-up, which emphasises the importance of an evaluation discussed with Parliament. This evaluation must review whether the objectives that were the aim of the privatisation have in fact been achieved. For Reaal, the evaluation will look at whether the mandatory divestment of SNS Reaal's insurance activities as required by the European Commission has been fully achieved and how the divestment process was run. I will update you in this respect afterwards, once the divestment has been completed. The ASR evaluation will take place later, following the complete divestment of the State's holding in ASR.

Conditions for the divestment

As discussed with you in 2013 in the general consultation on, among other things, the Plans for the future of the financial institutions ABN AMRO, ASR and SNS REAAL, dated 27 November 2013,¹⁰ the financial institutions can be privatised if:¹¹

- the financial sector is stable. There are no longer any doubts about interbank funding, the quality of the assets held by individual system banks and their solidity;
- the market is ready for the intended transactions. There is adequate absorptive capacity, there is interest in investments in the financial sector and the expected proceeds are in line with that level of interest;
- the companies concerned are ready for the intended form of divestment or divestment. There is a good financial track record, the quality of reporting complies with the demands of the market, the executive board profile matches the strategy that has been determined and there are good prospects of sustained growth in value, particularly in a situation where the company continues as an independent operation;
- the objective is to recover the total investment, plus the costs of capital incurred by the State, as far as possible.

⁷ Parliamentary documents I, session 2012-2013, C, A

⁸ Parliamentary documents II, session 2012-2013, 32 013, no. 36.

⁹ Parliamentary documents II, session 2013-2014, 33 532, no. 31.

¹⁰ Parliamentary documents II, session 2013-2014, 32 013, no. 49.

¹¹ Parliamentary documents II, session 2010-2011, 28 165, no. 117.

2. The Dutch insurance sector

For a general perspective on the Dutch insurance sector, I refer you to the letter about the Plans for the future of the financial institutions ABN AMRO, ASR and SNS REAAL (Toekomstplannenbrief financiële instellingen). The financial year 2013 was positive for the sector, with generally good profits. This was in part due to the positive mood of the stock markets. Fundamentally, the life insurance business continues to grapple with a number of problems. The volume of premiums continues to fall as a result of the shrinking market for individual life policies, increasing competition from 'banksparen' (income tax deductible pension savings accounts), low risk-free long-term interest rates which are making savings insurance less attractive and the negative effect on image due to the unit-linked insurance affair. Furthermore, life insurance companies' profits have been under pressure for some time, because yield guarantees issued in the past are higher than the current rate of interest. Life insurance companies are also battling fixed costs which are difficult to reduce or make variable in the short term, while income is declining in line with turnover.

Insurance companies still have considerable portfolios of unit-linked insurance policies sold in the past. The problems with unit-linked insurance policies have eroded confidence in insurance companies. In recent years insurance companies, including Reaal and ASR, have been working to resolve various problems with unit-linked insurance policies to make them manageable. This has reduced costs and the supportive policies adopted by insurance companies have created further improvement opportunities for the future. Customers can now virtually always choose cheaper investments and switching costs have been eliminated. However, few customers take the opportunity to change their unit-linked insurance, despite improvements to insurance companies' policies. The AFM is thus prompting insurance companies and advisers to activate their customers that have a unit-linked insurance policy. This after-care is monitored from 2012 on, and a report will be passed to Parliament in the summer of 2014 indicating whether or not the target figures for activating customers have been met.

As indicated previously in the 'Plans for the future' letter, there are still many insurance companies operating in the insurance market. These insurance companies often form part of groups, as a result of which developments in the life and non-life market is closely interwoven via the provider side. The developments in the life insurance sector outlined above also impact upon the profitability of the insurance groups. In view of the declining life insurance sector, consolidation across the entire insurance market is therefore to be expected. A consideration in this process is that it is important that a sufficient level of competition remains.

3. Stability of the financial sector

In the most recent Overview of Financial Stability (OFS),¹² DNB states that the financial tensions with Europe have declined. Conversely, according to DNB, volatility in global financial markets has increased in recent months and this is having a particular impact on emerging economies. Cleaning up and strengthening European bank balance sheets is crucial for further recovery. This also applies to Dutch banks which are well on their way to complying with new capital requirements, but still need to manage increasing credit risks. DNB further reports that the structure of the Dutch financial system is changing rapidly since the crisis. The system is becoming smaller and is better capitalised.

This is particularly true of banking which – expressed as a percentage of GDP – has declined by around one third and is more than in most of our neighbouring countries. Despite this sharp decline, the banking sector is still considerably larger than the European average. Dutch banks have reduced in size primarily due to the divestment of foreign activities. This is in part the result of the splitting up of ABN Amro in 2007, which had a substantial foreign arm, but other banks have also sold activities outside the Netherlands. Insurance companies' activities also declined steadily, which becomes apparent from the decrease in premium revenue.

¹² Overview of Financial Stability, Spring 2014, De Nederlandsche Bank, 8 April 2014.

According to DNB, the aforementioned problems experienced by insurance companies, require a combination of cost reductions, a rethink of business models and an action plan to tackle the problems concerning the unit-linked insurance policies portfolios. Cost reductions are key in reducing the risks associated with a structural decline of the market size. Consolidation within the sector may be helpful in this matter to realize economies of scale. Apart from this it is also important that insurance companies strive for a sufficiently sustainable business model. This is one of the key topics that will be DNB's focus of its thematic supervision this year.

On balance, the stability of the financial sector has further improved. Risk perception among investors with respect to European governments and financial institutions has also improved. The conservative indications of economic recovery in the euro region and the policy revisions implemented contribute to this. This improvement is also associated with the recent unrest in emerging economies. Now that these markets are less attractive to investors, financing is flowing back to the European periphery.

Divestment of the insurance companies can proceed only once DNB has issued a declaration of no objection to the ultimate buyer. It issues its declaration of no objection as the prudential supervisory body. DNB focuses not only on the risks with respect to financial stability in the Netherlands, but also on the interests of policyholders. The basic premise here is that the insurance company must at all times be sufficiently capitalised in order to safeguard the interests of the policyholders.

4. Divestment of Reaal

In line with the restructuring plan for SNS Reaal agreed by the European Commission as communicated to you previously, Reaal should be sold as quickly as possible. Therefore NLFI intends to initiate the Reaal divestment process this summer. The divestment process will be directed by SNS Reaal as the selling party. Important steps in the process must be agreed by NLFI as the shareholder. My involvement is secured in that NLFI must submit key and/or weighty decisions to me in advance for approval. The first section below provides a description of the NLFI advisory memorandum regarding the extent to which the divestment terms have been met with respect to Reaal and the divestment process to be followed. This is followed by my considerations in respect of that matter and the process.

NLFI advisory memorandum regarding the extent to which the divestment terms have been met

Chapter 1 of this letter sets out the terms of divestment as formulated by my predecessor with which there must be compliance before NLFI can bring financial holdings to market. NLFI addresses this topic in its advisory memorandum.

The first condition is that the financial sector is sufficiently stable. For an overview of the market conditions and financial stability, see chapters 2 and 3 of this letter in addition to the NLFI advisory memorandum. These indicate that the market for insurance companies is difficult and the consequence of the developments outlined is that the value of individual insurance companies is under pressure. On the other hand the financial stability in the sector has markedly improved.

The second condition is that the market is ready for the intended transaction. Reaal could be an interesting merger candidate for a number of Dutch insurance companies. Reaal primarily engages in activities in which profits can be gained by economies of scale, such as individual life insurance. NLFI expects that acquisition by a strategic party that is not yet active in the Dutch market is not very likely. The Dutch market is relatively saturated. In addition to strategic parties, financial investors could also be interested in Reaal. Divestment to a consortium of market parties and/or financial investors is also a possibility. This allows the circle of interested parties to be expanded. The financial underpinning of the bid will be reviewed thoroughly to ensure that a sustainable business model remains after the divestment.

The third condition is the extent to which the company is itself ready for divestment. SNS Reaal has been working in the recent period to reduce the interdependencies between its banking and insurance activities. NLF I has indicated that the separation of Reaal is advanced to such an extent that it does not hinder a divestment. NLF I also notes that waiting too long with the divestment of Reaal could even have negative consequences for commercial operations.

It is therefore expected that postponing a divestment does not increase the proceeds from the divestment, which could benefit the fourth condition: recovering as much of the initial investment as possible. NLF I recommends that the divestment process commences as quickly as possible. The efforts will be aimed at achieving the highest possible return given the market conditions.

NLF I recommendation regarding the Reaal divestment process

In the advisory memorandum attached, NLF I describes the activities of SNS Reaal that can be deemed to be part of or closely related to the insurance activities. This includes Reaal N.V. with all its associated subsidiaries and SNS Asset Management (hereinafter: "SNS AM"). The NLF I advisory memorandum also describes the structure of Reaal. The divestment process will include all activities of Reaal. This is one of the requirements which the European Commission has imposed on the restructuring of SNS Reaal.

In my letter regarding 'SNS Reaal - European Commission decision 2013',¹³ dated 19 December 2013, I wrote to inform you that for Reaal, a private divestment seems to be the most obvious option. I asked NLF I to assess whether this still is the preferred route. The analysis carried out by NLF I confirms that this is the case. The other alternatives of a full market flotation and a divestment to customers cannot, unlike a private divestment, be completed within the timeframe set by the European Commission for the SNS Reaal restructuring plan. In case potential buyers must be facilitated in the time to carry out extensive financial due diligence to effectively evaluate the company, and the ultimate number of parties that can submit a realistic bid is limited, a controlled auction is the logical form of divestment. In the case of a private divestment in the form of a controlled auction, a wide circle of parties will be invited to submit a bid. Most privatisations take place via a controlled auction (exempting IPOs).¹⁴ A controlled auction complies, provided sufficient parties are invited, with the requirements set by the European Commission for an open and transparent process.

NLF I advises setting as a criterion for potential bids that such bids must be made in *cash* and not, for example, in shares. The argument in favour of this is that SNS Reaal could, with cash proceeds from divestment, reduce the *double leverage*¹⁵. Furthermore, cash bids are more transparent because it is easier to compare them. The European Commission has imposed as a condition that proceeds from the divestment must first be used to repay this double leverage. The double leverage is currently financed by a bridge loan that was granted to SNS Reaal upon nationalisation. Depending on the amount of the Reaal divestment price, reducing the double leverage will also reduce the State's bridge loan. Further, the proceeds from the divestment of SNS Reaal will be used in part to settle internal loans.

NLF I advises as a basic premise in the divestment of Reaal not to offer any guarantees (other than standard divestment guarantees) to the buyer on the part of SNS Reaal, NLF I or the State. This applies equally to guarantees concerning unit-linked insurances.

Once NLF I has given its consent, SNS Reaal will send an information memorandum to potential interested parties. Potential buyers can then submit a bid, which NLF I will review in a series of rounds. NLF I will assess the bids based on the offered price, but will also consider the following aspects:

- the certainty that the bidder can actually finance the bid;
- an action plan with respect to the unit-linked insurance affair following the acquisition;

¹³ Parliamentary documents II, session 2013-2014, 33 532, no. 31.

¹⁴ Privatisation: principles and practice

¹⁵ Double leverage means depositing loan capital from the parent company as equity in the subsidiary.

- legal risks in relation to the transaction;
- a well-founded synergy and integration plan;
- the likelihood that external supervisory bodies will approve the acquisition (issue declaration of no objection);
- the likelihood that a bid will pass the internal governance procedures of the companies concerned.

Conclusion

I share the view of NLF I that the market is difficult for insurance companies at the moment. Nevertheless, the conditions governing divestment give no reason to hinder the divestment of Reaal by SNS Reaal. I note here that the divestment of the insurance activities should be effected on the basis of the restructuring plan agreed with the European Commission. In this respect, there is little room for manoeuvre to postpone the divestment of Reaal for an extended period of time.

I support the NLF I recommendation to initiate the Reaal divestment process along the lines set out above. The basic principles are in line with the requirements imposed by the European Commission. In my view, opting for a controlled auction is a good choice. I also support the preference for cash bids given the obligation to use the proceeds from the divestment to settle the double leverage. I can accept the other basic principles, such as not providing any guarantees (other than standard divestment guarantees). The intention is not that the State continues to take responsibility for all sorts of risks. The market must mitigate, manage and factor these risks in.

Policyholders' interests are safeguarded via AFM and DNB supervision. After all, a divestment can proceed only if DNB issues a declaration of no objection to the buyer.

Decision, process & responsibility

Prior to the divestment of the Reaal shares, I will grant authorisation to NLF I. This authorisation will be in respect of the preparatory activities. There will be regular consultation between NLF I and the Ministry of Finance throughout the process. Before NLF I grants exclusivity to one party, I will be advised of this by NLF I and asked for approval. Before accepting a definitive bid and ultimate disposal of the shares I will, in accordance with the Wet stichting administratiekantoor beheer financiële instellingen (Trust Office Foundation Management Financial Institutions Act), grant separate authorisation to NLF I. Required for my approval is that the preparatory activities must have resulted in a good overview of the terms and conditions of divestment and (a bandwidth of) the price at which the divestment will take place.

5. Divestment of ASR

It has also previously been established that ASR will be privatised. NLF I has advised me to phase the divestment of the insurance companies and to sell Reaal first. Below, you will first be informed of the advisory memorandum issued by NLF I with respect to ASR, followed by my conclusion.

NLF I advisory memorandum regarding the extent to which the divestment terms have been met

In the enclosed advisory memorandum, NLF I states that ASR is ready to be returned to the market. According to NLF I, the condition that the institution itself is ready for divestment has been met. However, in the short-term, both the divestment of Reaal and the potential flotation of Nationale Nederlanden are expected to take place. According to NLF I, in such a situation the market's absorptive capacity is too limited to initiate the divestment process for ASR at the same time as these transactions. For this reason, NLF I recommends putting the ASR dual track divestment process on hold.

Conclusion

It remains my intention to privatise ASR. However there is no European Commission requirement to sell ASR as there is for Reaal. In this respect the

divestment of ASR can wait until the market, as expected, offers greater scope for a successful divestment. I consider the risk of bringing three insurance companies to market at the same time to be too great, the market's limited absorptive capacity may hinder a successful divestment of ASR. Following the Reaal and Nationale Nederlanden transactions, the ASR divestment process can proceed along the lines of a dual track divestment process as outlined in my letter of 23 August 2013.

Decision, process & responsibility

I will ask NLF I to advise me on starting the process that will lead to the full privatisation of ASR once the timelines for the divestment of Reaal and Nationale Nederlanden are clear.

6. Potential role of ASR in the divestment of Reaal and NLF I organisation

ASR has announced to NLF I its interest in buying Reaal and merging the two insurance companies. Unlike other potential bidders for Reaal, ASR operates in the exceptional position that the State is via NLF I its sole shareholder. For this reason, this letter specifically examines a potential role for ASR and the consequences that this may have on the organisation of NLF I. ASR does not, of course, enjoy a preferential position compared to other bidders. Below, I first explain in broad lines the NLF I advisory memorandum with respect to ASR, followed by my conclusions.

NLF I advisory memorandum regarding the role of ASR in the Reaal divestment process

In principle, NLF I is positive about ASR playing a role in the Reaal divestment process. The positive recommendation by NLF I is supported by expected cost reductions and synergistic benefits. NLF I describes these benefits in broad lines in the enclosed advisory memorandum. A concrete acquisition plan will thus be discussed only after ASR, in the context of the Reaal divestment process, has conducted a financial due diligence and arranged financing.

NLF I also provides advice on the way in which ASR might finance such a bid. ASR will need to raise its own financing for any acquisition in the form of new equity, hybrid (loan) equity or a combination of these two. The advantage that NLF I sees in financing the bid via equity is that it brings on board a partner to share the risks. As a joint shareholder, such a partner could also contribute knowledge and experience and introduce market discipline, which is important in achieving cost reductions and synergies. A joint shareholder will want to participate only if a reasonable offer is made for Reaal. This will mean market testing ASR's acquisition plans.

The outcome of issuing new shares would be dilution of the share that the State holds in ASR via NLF I. Currently, the State still holds 100% of the shares in ASR via NLF I. A dilution can thus be seen as a partial divestment of ASR on the part of the State. Only if an ASR bid for Reaal is accepted can ASR proceed with issuing new equity. Acceptance of a bid by ASR for SNS Reaal must be approved by both NLF I and myself. Thus, if the ASR bid is not accepted by SNS Reaal, there will be no financial transaction and therefore no dilution of the State's holding in ASR.

Changes to the organisation of NLF I

Any participation by ASR in the Reaal divestment process will impose a number of additional requirements on the set-up of the process. NLF I will implement a number of internal measures to prevent any conflicts of interest or unfair competition. NLF I will work with two completely separate teams. One team will focus on the Reaal divestment process and the other team will work on the potential bid by ASR for Reaal and how it will be financed. The teams will operate from separate locations and the ICT facilities will also be completely separated. The management of NLF I will also split up and advise me separately on the divestment of REAAL and the role played by ASR in this. NLF I thus ensures that ASR, as a potential bidder for Reaal, receives the same information and treatment as other potential buyers. This also ensures that the ASR bid is assessed by the Reaal team against the same criteria as bids from other parties.

Conclusion

I understand that ASR's role in the Reaal divestment process may be sensitive. Nevertheless, I feel that there are a number of reasons not to rule out an acquisition proposal by ASR for Reaal *in advance*:

- ASR is an independent, private company which is free, if it is in the company's interest, to consider an acquisition. Such an acquisition can proceed only if NLFI, as a shareholder in ASR, approves a takeover proposal and if the Minister of Finance grants prior consent;
- ASR has not received any state support nor has any acquisition ban been imposed by the European Commission;
- The State has an interest in generating the maximum cash yield from the Reaal divestment process in order to pay off as much as possible of the bridge loan which the State granted. Ruling out parties in advance is not beneficial to achieving this goal.

Given the above considerations, I do not want to rule out in advance a possible role for ASR in the divestment of Reaal. If and when ASR makes a bid for Reaal I will assess this on its merits for the State. NLFI (and consequently myself) can only weigh how realistic expected cost reductions and synergies are, and whether an ASR bid is an attractive proposition, when ASR makes a well-founded bid. ASR will need to put forward for approval a business and financing plan to further this goal. ASR can only prepare the necessary documents during the divestment process for Reaal, on the basis of among other things a due diligence at Reaal.

I believe it is of the utmost importance that the divestment is executed in a transparent manner, so as to assure that all competing parties are allowed to bid for the Reaal shares on an equal footing. I also believe that it is important that a good and independent valuation of both ASR and Reaal is made, so I can assess whether ASR's bid for the Reaal-related share issue is appropriate and in line with the market. Any role played by ASR must not block or hinder the previously stated intention of bringing both insurance companies to the market in good time. Whether or not a combination of Reaal and ASR is more attractive than selling Reaal and ASR separately will be assessed once all the bids for Reaal have been received.

One possible consequence of a bid by ASR is that it could complicate the REAAL divestment process. It is therefore very important that the process be organised in such a way that an independent and transparent assessment of the bids is guaranteed. A number of things will guarantee this independent and transparent process:

- NLFI will be organised such that there is an independent and transparent divestment process for Reaal, where it is ensured that ASR does not have a different position from other bidders;
- Furthermore, the *monitoring trustee* appointed by the European Commission for SNS Reaal will monitor (the transparency and independence of) the Reaal divestment process. This trustee reports to the European Commission;
- Added safeguards for a transparent process include the fact that the bid must be in cash. Such bids are generally easier to compare than a bid in shares;
- Any new shareholder which ASR may attract for financing will have an interest in a realistic offer and will thus provide an added test on the takeover plans of ASR.

Decision, process & responsibility

The acquisition of Reaal by ASR is subject to a shareholder resolution by NLFI which NLFI must submit to me as the Minister of Finance for prior approval. If ASR submits an acquisition plan to NLFI, with an accompanying financing plan, I will take advice from NLFI. I will assess the acquisition plan and financing plan according to how convincing the strategic rationale is (from the perspective of ASR) and whether it is a healthy financial proposition for the State.

7. Consequences for the national budget

This paragraph describes the impact on the national budget of both the divestment of Reaal as described above and the possible role which ASR may play in this.

Divestment of Reaal

The divestment of Reaal by SNS Reaal will not have any direct effect on the national budget. The proceeds will go to SNS Reaal, as the selling party. However there is an indirect effect: SNS Reaal is under an obligation from the European Commission to use the proceeds from the divestment to reduce its double leverage. The double leverage is currently financed by part of the €1.1 billion bridge loan granted by the State to SNS Reaal upon nationalisation. Reducing double leverage is, in this case, therefore the same as (partially) settling the bridge loan. Settlement of the bridge loan is a financial transaction and therefore has no effect on the EMU balance and the framework of expenditure. If the bridge loan can be (partially) settled with the proceeds from the divestment this will reduce the national debt and consequently reduce interest payments. This may reduce interest rate revenue from the bridge loan. The reduction in interest rate revenues and the lost revenue from interest are both relevant to the EMU balance and per balance form the effect on the EMU balance. The interest rate revenue from the bridge loan is calculated at around €6.6 million per annum. The interest payments for the State will generally be lower. In addition, all crisis measures fall within budget rule 24 and are therefore not relevant to the framework of expenditure for the state.

Potential role of ASR in the divestment of Reaal

If ASR acquires Reaal, there will be no impact on the national budget. However ASR possibly raising new equity (the issue of new shares) to finance a bid for Reaal will have an effect on the national budget. If the State's interest in ASR were to be diluted, future dividend payments would have to be shared with the new shareholders. On the other hand an offer by ASR for Reaal will be permitted only if sufficiently substantiated to show that an ASR/Reaal combination would report a better result than the individual parts do currently. This latter scenario would result in a higher dividend payment for the same *pay-out ratio*. On balance, it is impossible to predict the effect of this on the EMU balance at this moment.

8. Parliamentary process

With ABN AMRO, SNS Reaal and ASR, the State has control of a large number of Dutch financial institutions. This is an extraordinary situation, that is the result of a desire to safeguard a public interest: i.e. the stability of the financial system.

This letter is to inform you of my intention, in line with the NLF I advisory memorandum, to grant NLF I authorisation to initiate the Reaal divestment process this summer. NLF I will then, on behalf of the State, implement the strategy for the divestment of shares in Reaal as described in this letter and all associated activities as defined by the NLF I Act.¹⁶ I will advise Parliament in due course of the results of this process.

This letter is also to inform you of my opinion regarding not ruling out in advance a bid by ASR as part of the Reaal divestment process, given the considerations and conditions referred to in this letter. I have also informed you that ASR, should an acquisition go ahead, may want to attract a joint shareholder. The State's interest in ASR, held via NLF I, would in such a case be diluted. I will inform Parliament in advance, prior to an acquisition of Reaal by ASR being completed. Following completion of the divestment of Reaal and the possible market flotation of Nationale Nederlanden, I will return to Parliament with the divestment options for ASR.

¹⁶ Article 3, under b, sub-section 1 of the Act of 19 May, i.e. Trust Office Foundation Management Financial Institutions Act.

I expect to receive an advisory memorandum in respect of divestment SNS Bank from NLFI after the summer. Based on this advisory memorandum I will come back to you regarding the divestment of SNS Bank.

Kind regards,

The Minister of Finance;

J.R.V.A. Dijsselbloem