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Information

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Annexes

Date 23 August 2013
Subject Plans for the ABN AMRO, ASR and SNS REAAL financial institutions

Dear President,

The purpose of this letter is to inform the House of Representatives of the States-General of my plans for the ABN AMRO Group N.V. (hereinafter referred to as 'ABN AMRO'), ASR Nederland N.V. (hereinafter referred to as 'ASR') and SNS REAAL N.V. (hereinafter referred to as 'SNS REAAL') financial institutions. These plans are closely related to the Government's viewpoint on the Dutch banking sector which were submitted today, on the 23rd of August. This viewpoint incorporates the Government's intention to create an open and diversified sector with adequate competition. This letter also extends to a brief review of the competition in the banking and insurance sector in view of its potential influence on the options available for the sale of the financial institutions. This letter also implements the contents of the Koolmees-Harbers motion.[1] The plans laid down in this letter have been discussed with the Netherlands Authority for the Financial Markets (hereinafter referred to as 'AFM') and De Nederlandsche Bank (hereinafter referred to as 'DNB').

The shares in ABN AMRO and ASR are managed by the *stichting administratiekantoor beheer financiële instellingen* ('Trust Office Foundation Management Financial Institutions', trading under the 'NLFI' name). NLFI was formed following the adoption of the motion of Weekers *et. al.* requiring professional, non-political arrangements to be made for the management of the shareholding in ABN AMRO and ASR and for the transparent separation of the interests.[2] NLFI has also been assigned the statutory duty of advising the Minister of Finance on the strategy to be adopted for the sale of the shares held by the State. This advice is enclosed in an annex to this letter. The advice does not address SNS REAAL, as the shares in SNS REAAL will not be transferred to NLFI until clarity has been obtained regarding the organisation of NLFI's management of a third financial institution in a manner that is not in conflict with the competition regulations. Consultations on this issue are currently being held between NLFI and the Authority for Consumers and Markets (hereinafter referred to as 'ACM'). Moreover, the options available for the sale of SNS REAAL are dependent on the

[1] Parliamentary Documents II, 2012-2013, 33 532, no. 14.
[2] Parliamentary Documents II, 2008-2009, 31 965, no. 7.

European Commission's decision on the restructuring plan submitted very recently, on 19th August. The information pertaining to SNS REAAL in this letter is therefore restricted to the content of the restructuring plan submitted to the European Commission.

As discussed with the House of Representatives of the States-General in 2011, and incorporated in the Coalition Agreement, ABN AMRO and ASR may return to the market only when the financial sector is sufficiently stable[3], the market exhibits adequate interest and the institutions are ready for this transition. The objective will then be to recover as much of the State's total capital expenditure as possible. Options other than a full stock market flotation have therefore also been reviewed. Final decisions on the future of the institutions shall only be reached after a review to assess whether this is still the best option, whether the institutions are ready for the sale, whether the stability of the financial sector is adequate and whether the market's interest is sufficient to do justice to the taxpayers' interests.

Steps intended to improve the stability of the financial sector have been taken at both the national and European level. Actions taken at European level and by the ECB have contributed to alleviation of the acute market stress, and the stability of the sector has been improved. Nevertheless, the market is still uncertain and the financial sector has yet to regain its full stability. Further endeavours to alleviate this uncertainty and enhance the sector's stability will be made during the coming period. My letter of today, 23 August, explaining my viewpoint on the financial sector also reviews the measures to be implemented to achieve these objectives. The final decision on the initiation of the sale of ABN AMRO and ASR shall only be if a review reveals the financial sector to be sufficiently stable for the sale.

NLFI's advice states that strategic parties, such as other national and foreign banks, have until now exhibited little or no realistic interest in acquiring or merging with ABN AMRO. Private investors, such as pension funds, have also exhibited little interest in a private purchase of a portion of the shares in ABN AMRO. However, NLFI is of the opinion that it is plausible that an adequate number of investors will be interested in an issue of shares in ABN AMRO (a stock market flotation). Since 2010, ABN AMRO has regularly held discussions with parties that invest in bonds and the capital market. The majority of these dialogue partners have a favourable opinion of ABN AMRO. Investors have a preference for banks of the nature of ABN AMRO that generate the majority of their income from traditional banking activities such as the extension of loans, and from savings accounts. ABN AMRO is perceived as a bank with a good capital position and low risk profile. The alternative, selling certificates to ABN AMRO's customers (necessary to transform ABN AMRO into a cooperative), would be accompanied by a number of disadvantages. NLFI expects that the bank's customers would exhibit little interest, as they would be requested to take risks in participating in ABN AMRO. This low interest would complicate the achievement of attractive proceeds from this alternative. Based on the experiences during the takeover of ABN AMRO in 2007, two protective constructions will be implemented with the objective of providing assurances for the company’s continuity.

On the basis of the above, I conclude that a stock market flotation is currently the most realistic option for ABN AMRO and, consequently, I intend to request that ABN AMRO makes the necessary preparations. The actions then required may be regarded as no-regrets, i.e. that they will strengthen ABN AMRO. NLFI is of the opinion that ABN AMRO will need a period of at least one year to make the preparations. ABN AMRO shall need to work on a number of sustainable improvements in its profitability and prepare the internal organisation for a stock market flotation. NLFI states that the valuation of ABN AMRO on a stock market

[3] Parliamentary Documents II, 2010-2011, 28 165, no. 117.

flotation may increase to 1 x its core capital[4] as determined by the supervisory authority, approximately 15 billion euros (on 30 June 2013).[5] This is lower than the State's capital expenditure of 21.66 billion euros. This valuation is lower due to the banking sector having undergone a fundamental change since the beginning of the financial crisis. Banks now take fewer risks than at the time of the purchase, and hold more capital for the potential risks they incur. The objective is to increase the stability of the financial sector. As a result, banks and insurance companies now achieve a lower return on invested capital. For the State in its role as shareholder, this will ultimately result in a lower valuation of the ABN AMRO and ASR financial institutions. It should be noted that valuations are always snapshots. An economic upswing and recovery of the European banking sector could have a favourable effect on the valuation of ABN AMRO and ASR. Self-evidently, the converse could also be the case. Nevertheless, a return to the historic high valuations is not always logical. Consequently, it will be necessary to take account of the inability to recover all the capital expenditure. Subsection 8 includes a summary of the total capital expenditure on ABN AMRO, ASR and RFS Holdings B.V. (the latter hereinafter referred to as 'RFS').

NLFI's advice on ASR states that it expects the six major life and non-life insurers to consolidate, ultimately resulting in a smaller number of larger players. Although ASR has demonstrated that it is of sufficient size to continue as an autonomous insurance company, it may also play a role in this expected consolidation trend. A number of parties have informed NLFI of their interest in ASR. NLFI explains that ASR, in analogy with ABN AMRO, will need to achieve a sustainable improvement in its returns if the proceeds from the sale are to be optimised. ASR could possibly be ready to start the specific preparations for its sale within as little as six months. As ASR could either continue as an independent company or merge with another insurance company, my intention is to adopt a dual track strategy. Consequently, ASR shall be requested to prepare for a stock market flotation in the coming six months, whilst NLFI will simultaneously review the options for its consolidation with other insurance companies. This approach retains maximum flexibility in achieving the objective of an optimum sale for the State. A transparent process must then ensure that the interested parties are offered equal chances.

Reviews will be carried out to assess whether ASR and ABN AMRO are actually ready for their sale. These reviews will be carried out in six months and twelve months respectively. As explained above, the financial institutions shall need to spend the coming period focusing on initiation of improvements in their returns and the required restructuring of their internal organisations in preparation of a stock market flotation. A further review of the stability of the financial sector, the market's interest and the readiness of the relevant financial institution will be carried out at the time of the final decision on their sale. This will be necessary to determine whether the specific preparations for the sale can begin. Consequently, it is conceivable that the decision will be taken to postpone the sale for some time due to the financial institution, the market or the sector not yet being ready for the sale. Market developments could also result in the conclusion that another sale option would be preferable. Should it be decided to proceed to the sale, then a further minimum of four to six months will be required to make the specific preparations. I shall inform the House of Representatives of the State-General before any such specific preparations begin. Pursuant to the Van Vliet motion[6], no irreversible steps in the sale of ABN AMRO and ASR will be taken before first notifying the House of Representatives of the States-General. My decision on the initiation of specific preparations for a sale shall also take account of the assessments of the DNB and AFM, respectively.

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[4] Also referred to as Common Equity Tier 1 (CET 1)
[5] The ratio between the market value and book value (the *price-to-book ratio*) is often used to compare the relative valuation of companies. In this case the book value has been replaced by the core capital.
[6] Parliamentary Documents II, 2010-2011, 28 165, no. 125

Contents

1. Decision-making framework and process

Decision-making framework
The Senate of the States-General's *parlementaire onderzoekcommissie privatisering en verzelfstandiging overheidsdiensten* ('Parliamentary Enquiry Committee into the Privatisation and 'Autonomisation' of Government Services') published its *Verbinding verbroken?* ('Connection broken?') report on 30 October 2012.[7] In its response to this report, the Government confirmed that it would adopt the decision-making framework for its future privatisation and 'autonomisation' decision-making and that it would submit adequate information to the States General in good time. This decision-making framework specifies five steps to be taken during the process. A review of the ABN AMRO and ASR sale process as viewed from the perspective of the Committee's decision-making framework reveals that the process is currently in step three of the decision-making framework (the decision).

The first step in this decision-making framework is the intention. The Government expressed its intention to ultimately sell its shares in ABN AMRO and ASR almost immediately after its acquisition of the shares in 2008. The then Minister of Finance informed the House of Representatives of the States-General that the shareholding was a temporary measure which was necessary to provide assurances for the stability of the financial system. A discussion was then conducted regarding the framework for this sale, based on the letter on the exit policy for the acquired financial holdings, submitted to the House of Representatives of the States-General in 2011.[8] The House of Representatives then submitted a number of motions regarding the form of the sale, both after the receipt of the letter and during the debate on SNS REAAL.[9] This letter complies with the content of these motions. As stated earlier in the Government's viewpoint on the Dutch banking sector, the Government is of the opinion that it is preferable to divest financial institutions owned by the State. The State's permanent ownership of the shares would distort competitive relationships in the sector. Assurances for the public interest in a competitive sector are provided by the relevant legislation and regulations, as they ensure that all financial institutions are governed by the same 'rules'. The Government's viewpoint on the Dutch banking sector explains how measures will be implemented to promote the public interest in a sturdy, transparent, honourable and competitive banking sector that is focused on the customer and serves the real economy. The sale of the financial institutions owned by the State can contribute to the creation of an open and diversified banking sector.

The second step in the decision-making framework is the design, or form. In this specific instance, the procedure for this phase differs from the procedure for the privatisation of an existing government service. Pursuant to the decision-making framework, the organisation of an existing government service needs to be restructured prior to privatisation or 'autonomisation'. In addition, it may then be necessary to create a market and implement legislation and regulations to protect the public interest. However, ABN AMRO and ASR were already active in a mature market that was governed by extensive regulations and was subjected to supervision by independent supervisory agencies. For this reason, the sale of ABN AMRO will not, in principle, result in any changes for the bank's personnel and customers. However, in recent years a large number of measures have been implemented which are intended to promote a sturdy, transparent, honourable and competitive banking sector that serves the real economy and is focused on the customer. A summary of all these measures is included in the various financial

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[7] Parliamentary Documents I, 2012–2013, C, A.
[8] Parliamentary Documents II, 2010-2011, 28 165, no. 117.
[9] Parliamentary Documents II, 2010-2011, 28 165, no. 127 and no. 128; Parliamentary Documents II, 2012-2013, 28 165, no. 14 and no. 17.

market policy and legislative letters I submit to the House of Representatives of the States-General each year.[10] I also draw your attention to the Government's viewpoint on the Dutch banking sector that I submitted to you today, on the 23rd of August. In addition, Section 4 of this letter contains a more detailed explanation of the national and European initiatives and measures that are intended to enhance financial stability.

Pursuant to the third step in the decision-making framework, the Government has submitted this letter on its intention and plans to the House of Representatives of the States-General for the requisite decision-making. The question that now needs to be addressed is whether the House of Representatives of the States-General can, in principle, concur with the proposed preparations for the sale of ABN AMRO and ASR. The conditions already formulated in the letter to the House of Representatives of the States-General on the exit policy continue to be applicable. These are as follows:

- the financial sector is stable. There are no longer any doubts about interbank transactions, the quality of the assets held by individual system banks and their solidity;
- the market is ready for the intended transactions. There is adequate absorption 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 sale or divestment. There is a good financial track record, the quality of reporting complies with the demands of the future, 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 is to continue as an independent operation;
- the objective is to recover the total investment in the companies referred to above, plus the costs of capital incurred by the State, as far as possible.

In addition to the aforementioned criteria, a further precondition to be met for the sale is the provision of assurances for the public interest in a sturdy, transparent, honourable and competitive banking sector that is focused on the customer and serves the real economy. The sale of the financial institutions owned by the State can contribute to competition in the banking sector: a further review will be carried out to determine whether the sale contributes to this objective before the State divests its majority shareholding.

The aforementioned conditions are examined in more detail later in this letter. This examination begins with a review of the competition in the banking and insurance sector, followed by an assessment of compliance with the conditions regarding the need for a stable sector. Each financial institution is then reviewed to determine whether the institution and the market are ready for the sale, together with a forecast of the proceeds.

The decision-making framework prescribes that the fourth step (the implementation) shall clearly identify the responsible party or person. The Minister of Finance shall issue NLFI authorisation for the implementation phase of the sale of the shares in ABN AMRO and ASR at the requisite time. This authorisation shall be issued for the preparatory actions. Pursuant to the *Wet stichting administratiekantoor beheer financiële instellingen* ('Trust Office Foundation Management Financial Institutions Act'), the Minister of Finance shall issue a separate authorisation to NLFI for the ultimate disposal of the shares. Consequently, all implementing actions shall be carried out by or on behalf of the Minister of Finance.

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[10] Parliamentary Documents II, 2010-2011, 32 545, no. 1; Parliamentary Documents II, 2011-2012, 32 980, no. 55; and Parliamentary Documents II, 2012-2013, 32 545, no. 10.

The decision-making framework concludes with a fifth step, the follow-up, which emphasises the importance of an evaluation that is discussed with the House of Representatives of the States-General. This evaluation will review whether the objectives specified in advance have been achieved. As explained earlier, the State's permanent ownership of the shares would distort competitive relationships in the sector. An evaluation will be carried out once the State no longer holds the majority of the shares in ABN AMRO and ASR to review the course of the sale process to date and assess its impact on competitive relationships in the sector.

Time line for the process
This letter reviews the options currently regarded as feasible for the sale of the financial institutions. On this basis, ABN AMRO and ASR will be requested to make the necessary preparations. A further review will be carried out prior to initiation of the actual implementation (the sale) to assess whether preference is still given to the prepared option on the basis of the market interest and the stability of the sector at the time. I shall inform the House of Representatives of the States-General prior to initiation of the implementing phase (step four). Pursuant to the Van Vliet motion[11], no irreversible steps will be taken before first notifying the House of Representatives of the States-General.

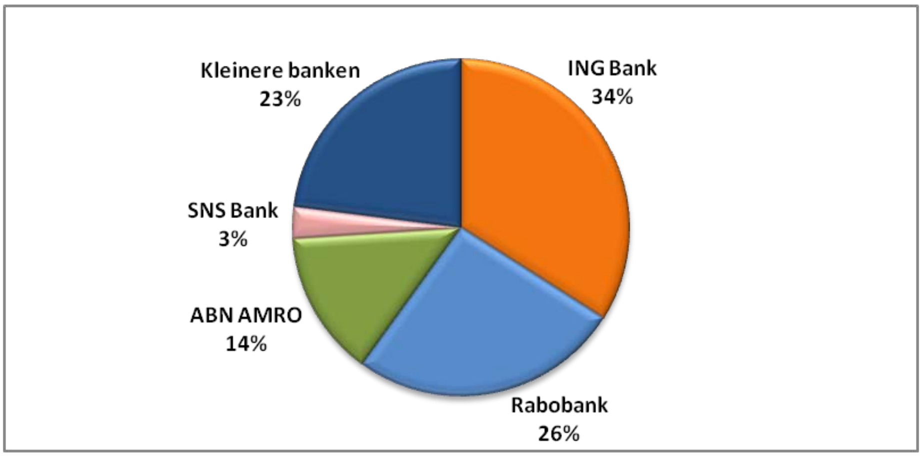
When deciding on the timing of the sale or sales, it is necessary to appreciate that there will be a certain inverse relationship between the proceeds and risks. Waiting for better times in the hope of increasing the proceeds is not without risk. The value of the financial institution may fall during this waiting period; the institution may also pay no dividend or too little dividend to cover the interest charges on the invested capital. Moreover, although the current economic conditions are poor when viewed from a historical perspective, there is no guarantee of an upswing in the economy in the short term. As the State is not an investor and, consequently, does not make high-risk investments when this is not in the public interest, it would be undesirable to speculate on higher proceeds from the sale by waiting years until the economy recovers. Conversely, it is not necessary to sell at the worst conceivable time simply because the State must dispose of the shares. The optimum balance of proceeds and risks must therefore be sought in this inverse relationship. The House of Representatives of the States-General will be informed when the ABN AMRO or ASR financial institutions are ready for sale, when the House will also receive an explanation of the significance of said inverse relationship for the timing of the sale. It should be noted that the stock market flotation of a financial institution of the size of ABN AMRO will involve sales in tranches since it will not be possible to sell all shares in a single tranche. The sale of all shares may therefore take several years to complete.

2. The Dutch banking sector

General
The Dutch banking sector is dominated by four large banks (ABN AMRO, ING, Rabobank and SNS Bank), rendering this sector more concentrated than the banking sectors of many other European states. Figure 1 reveals that these four largest Dutch banks held almost 80% of the total Dutch banking assets in 2011. A further description of the structure of the Dutch banking sector is enclosed in the letter on the Government's viewpoint on the Dutch banking sector recently submitted to the House of Representatives of the States-General.

Figure 1. Market share (in %) of the 4 largest banks (at year-end 2011)

[11] Parliamentary Documents II, 2010-2011, 28 165, no. 125.



Source: DNB Annual Report and the individual annual accounts of ING Bank, Rabobank, ABN AMRO and SNS Bank

The Dutch banking sector has become more concentrated since the financial crisis of 2008/2009, and the breadth of the competition has decreased. This is in part due to the further consolidation in the banking sector, including the integration of Fortis Nederland and ABN AMRO and the takeover of Friesland Bank by the Rabobank. In addition, a trend is becoming apparent whereby foreign banks are withdrawing to their home market. Banks throughout Europe, including the Netherlands, are downsizing their activities, in particular by reducing their investments in foreign markets. This development is due to the banks' increased focus on their core business, and their resultant divestment of non-core business to release capital, a move also taken in response to the uncertainties in foreign markets. The price leadership bans imposed by the European Commission on ING and ABN AMRO also have (had) an influence on the competition. Pursuant to these bans, ABN AMRO's hands are tied in the Dutch retail market and ING's hands are tied in the European retail market. Following amendment of the restructuring decree approving state aid, ING is no longer governed by a price leadership ban on the Dutch market, as of November 2012.

Conclusion
When viewed against this background, it is desirable that the sale of ABN AMRO does not result in a further concentration of the Dutch banking sector. As indicated above, the Dutch banking sector is already dominated by a limited number of large players. As also indicated above, there is as yet no reason to presume that a sale of ABN AMRO would result in a reduction in the number of market players. Should this situation nevertheless arise, then ACM will address the issue. The competition in the Dutch banking sector is in part dependent on the entry of foreign parties. Although the margin in some segments of the market (in particular, the mortgage loan segment) would appear to be greater than before the crisis, the degree to which this attracts foreign providers is open to discussion. These larger margins are in part due to the increased risks, and many banks are currently risk averse. Moreover, many banks have withdrawn to their home markets since the crisis: renewed expansion is not to be expected until the European banks have improved their capital position.

As already indicated above, the recent letter on the Government's viewpoint on the Dutch banking sector submitted to the House of Representatives of the States-General contains a more detailed review of the competition in the Dutch banking sector. This letter then implements part of the Koolmees/Harbers motion[12], which calls on the Government to provide insight into the plans for the financial

[12] Parliamentary Documents II, 2012-2013, 33 532, no. 14.

institutions and to submit proposals for the enhancement of competition in the Dutch banking sector.

3. The Dutch insurance sector

General

The insurance market can be classified into the life insurance, funeral service insurance and non-life insurance segments. The non-life insurance segment can be subdivided into the healthcare insurance and other non-life insurance segments. As the funeral service insurance market is very small, this market is not taken into consideration in the following review.

Situation in the insurance market

Figure 2 shows the market share of the ten largest insurance groups as based on the gross premium revenue recorded in 2010.[13] It is striking to note that the 3 largest insurance companies are not listed companies. These insurance companies are mutual insurance companies. Following the introduction of basic healthcare insurance in 2006 (more than half of the total premium revenue), the majority of the premium revenue is generated by the healthcare insurance market and the insurance groups active in this market are the largest groups. Of the 10 largest insurance groups, only ING, Aegon, SNS REAAL and Allianz are not active in this market.

Figure 2. Market share (in %) of the 10 largest insurance groups (2011)

Source: *Insurance Magazine Yearbook 2012*

Life insurance

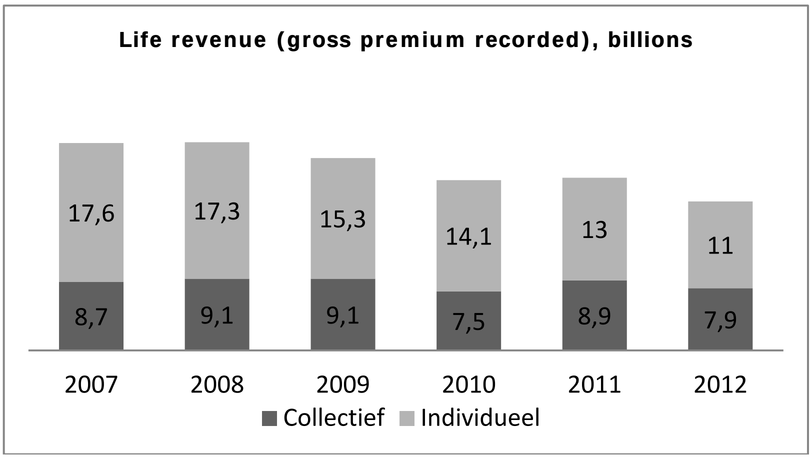
The Netherlands has a large life insurance sector. The invested capital amounted to 382 billion euros in 2012, and 42 life insurance entities fall under DNB's supervision.[14] In this life insurance market, a distinction can be made between individual policies and group policies. The insurance companies administer

[13] On 1 January 2012, UVIT was split into two separate companies, Coöperatie VGZ UA (healthcare insurance) and Coöperatie Univé UA (non-life insurance). The Cooperatie VGZ UA is of comparable size to CZ, which ranks number 3.

[14] See: http://www.statistics.dnb.nl/index.cgi?lang=nl&todo=Verzekeraars1 & see: http://www.statistics.dnb.nl/index.cgi?lang=nl&todo=VerzReg.

approximately 20% of the premium for the second pension pillar via the group policies. Pension administrators administer the remaining approximately 80% of the total pension premium. This market's revenue has declined in recent years, as is shown in Figure 3.

Figure 3. Revenue of the life insurance sector



Source: Dutch Association of Insurers, Financial Annual Report 2012

Revenue in the individual policy insurance market is clearly under pressure: premium revenue has fallen by one billion euros or more in each year since 2008. This is due to reduced consumer confidence in the sector caused by past sales of investment insurance products, the emergence of bank saving and the lower demand for saving mortgages and investment mortgages following the developments in the housing market and changes in the tax regime. Economic developments also play a role, as life insurance is one of the first products to be affected by consumer economies ('luxury goods'). Moreover, as the risk-free long-term interest rate is very low, offering interest rate guarantees has become very expensive. As a result, traditional life insurance products have lost some of their appeal.

Profitability is under pressure due to the decline in revenue and the low risk-free long-term interest rate with the associated low and volatile investment returns. Due to their declining revenues, the life insurance companies are now engaged in the continual downsizing of their organisations. However, the sharpest declines in revenues will probably cease after 2014. A number of insurance companies have now completely terminated their sales of new investment insurance products and some life insurance companies have also terminated their sales of traditional life insurance products, both of which have become what is referred to as "*closed book*" business. These portfolios will be run off slowly in the coming years.

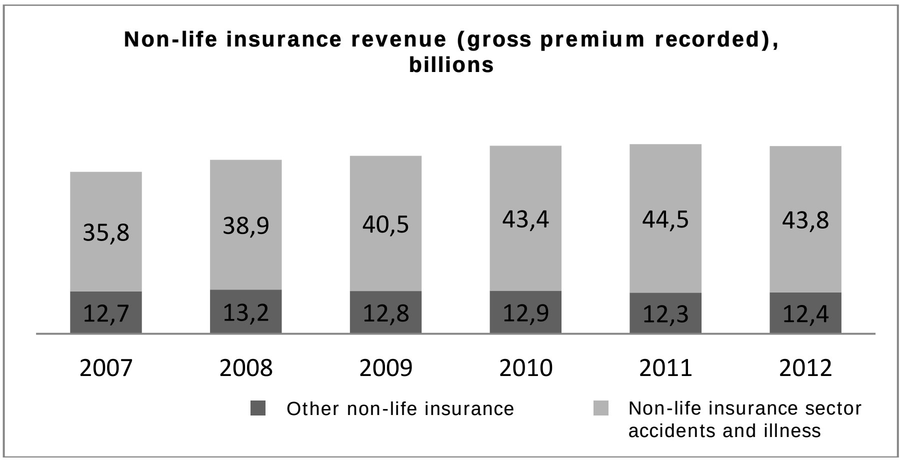
Non-life insurance

In the non-life insurance segment, a distinction must be made between healthcare insurance and other non-life insurance products. Nine insurance concerns incorporating a total of 26 healthcare insurance companies are active in the Dutch healthcare insurance market.[15] The market for other non-life insurance products is served by approximately 130 insurance companies with a total investment portfolio of almost 40 billion euros in 2012.[16] Basic healthcare insurance, a mandatory form of insurance, is a major healthcare insurance product. The basic healthcare insurance market is a relatively large market.

[15] See: Dutch Healthcare Authority (NZa), Health Insurance Market Scan 2013 http://www.nza.nl/104107/105773/742312/Marktscan_en_beleidsbrief_Zorgverzekeringsmarkt_2013.pdf

[16] See: http://www.statistics.dnb.nl/financieele-instellingen/verzekeraars/register/index.jsp and see: http://www.statistics.dnb.nl/index.cgi?lang=nl&todo=Verzekeraars1.

Figure 4. Revenue of the non-life insurance sector



Source: DNB, macroeconomic statistics insurers

Revenue in the non-life insurance market is stable. Forecasts indicate that the revenue in this market will decline in 2013, both due to the increase in insurance premium tax on non-life insurance on 1 January 2013 and due to increased consumer spending reticence. As many non-life insurance products, such as motor insurance, fire insurance and liability insurance, are not luxury goods they will still be sold in less prosperous times. The revenue will therefore not fall below a certain minimum: however, experience has revealed that claims increase during poor economic conditions, the very conditions in which insurance companies are confronted with disappointing investment returns.

Conclusion
A large number of insurance companies are active in the insurance market. As these insurance companies are often members of groups, developments in the life and non-life insurance markets are strongly interwoven on the provider side. As the life insurance sector is confronted with disappointing revenue and profitability, and insurance groups that are active in the life insurance market are also active in the non-life insurance market, the unfavourable developments in the life insurance market are detrimental to the profitability of these insurance groups. The contraction in the life insurance sector is therefore expected to result in consolidation throughout the insurance market. However, insurance groups that are able to control their costs will retain their autonomous raison d'être even in a market confronted with declining life insurance revenues. When viewed from the perspective of the current situation in the insurance sector, this would indicate that the sales options for ASR include either consolidation or a stock market flotation.

4. Stability of the financial sector

Sections 2 and 3 outlined the Dutch banking and insurance sectors and the degree of competition in these sectors. The conditions observed in these sectors influence the preferred options for the sale of ABN AMRO and ASR. In addition to these conditions, the four preconditions reviewed in Section 1 also apply. The first of these four preconditions stipulates that the stability of the financial sector must be sufficient for the privatisation of the financial institutions. Any doubts about the interbank market, the quality of the assets held by individual system banks and their solidity must be alleviated before the financial institutions can be privatised.

DNB states that the market stress in Europe has declined since last year.[17] As a result, the acute threat of a systemic crisis has abated and the liquidity tensions in the interbank market have been greatly reduced in the period since the acquisition of the shares in ABN AMRO Bank and ASR Verzekeringen in 2008. This decline began at the end of 2011, when the long-term refinancing operations by the European Central Bank (ECB) relieved the acute refinancing risk facing banks. The announcement of the Outright Monetary Transactions (OMT) programme also helped break the destructive spiral of rising government bond yields and capital flight from the weak euro area Member States. This programme opens the way to the support purchases of government bonds by the ECB, subject to the stringent condition that the countries supported adhere to a macroeconomic adaptation programme. Interest rates in peripheral states have also fallen sharply in anticipation of this option, in the period since the announcement of the OMT programme. The European Ministers of Finance have also taken a number of policy decisions, including the decision to establish a banking union, which have contributed to the further stabilisation of the financial markets.

NLFI's exit advice states that the prices of credit default swaps – the transfer of credit risks – have fallen sharply, which indicates that the risks have decreased. The reduction in the credit risks of sovereign states results in greater stability in the euro area and hence reduced credit risk exposures of individual banks in this area. Euro area bank are parking less money with the ECB, the so-called overnight deposits, in line with the decrease in credit risks. This is an indication that banks have greater confidence in each other and that interbank transactions are increasing.

Work on measures designed to increase financial stability is also in progress at both national and European level. These include the final approval of the amended capital requirements directive (CRD IV/CRR) and the political agreement on the Bank Recovery and Resolution Directive, measures which take the first steps towards a single rule book, a uniform set of prudential rules harmonised at European level. These directives and this regulation prescribe important provisions designed to ensure that banks do not get into difficulties (due to increased capital requirements) and, should such provisions prove ineffective, to ensure that any difficulties faced by banks are resolved in an orderly manner (resolution framework).

Further work on the incremental establishment of a banking union will also be carried out in the coming years. This banking union will ultimately need to make a substantial contribution to a structural enhancement of the stability of the financial sector and increased market confidence in European banks. During the further establishment of the banking union, it will be self-evident that the uncertainty about the quality of the European banks' balance sheets will need to be alleviated before the ECB begins to exercise its direct supervision of the banks. The ECB shall therefore conduct balance sheet assessments (BSAs) of the banks that are to fall under its direct supervision. The ECB will carry out these assessments by reviewing the book value of the assets (asset quality reviews) and then conducting stress tests in cooperation with the European Banking Authority (EBA). These BSAs are of essential importance to the recovery of the health of and confidence in the European banks and to the appropriate initiation of the ECB's supervision. However, the uncertainty about the outcome of these BSAs and about any capital reinforcements the banks may require, will influence market sentiments and the absorption capacity of the share issue market in 2014 and, consequently, on the timing of any sale of all or part of the shares in ABN AMRO.

[17] DNB, Overview Financial Stability, Spring 2013, no. 17.

In the insurance market, the implementation of Solvency II in 2016 or later will result in the European harmonisation of the capital requirements imposed on insurance companies and, as a result, will increase general confidence in the insurance sector. However, the delay in the implementation of Solvency II currently results in some uncertainty, especially since fundamental discussions are still being held about the detailing of the new compliance risk management approach to supervision. DNB also states that the market for new life insurance products has come to a virtual standstill and that the historically low interest rates undermine the viability of insurance companies. In addition, DNB states that the life insurance and non-life insurance markets are saturated markets.

The experience gained during the financial crisis and the subsequently initiated reforms have imparted a major impetus for further enhancement of supervision. Alongside the traditional form of supervision, which is primarily focused on quantitative criteria, increased attention is now being devoted to the strategic and qualitative elements of supervision. The latter primarily relate to the business model, strategy, behaviour and culture of the institutions under supervision. In addition, DNB is increasingly adopting a supra-institutional approach in which it also reviews the relationships between financial institutions and the real economy. This approach has in part been adopted as a result of the experience gained in the ABN AMRO case.

Conclusion
The above reveals that work is underway on further enhancement of the stability of the financial sector at both national and European level. It is clear that the acute market stress has been alleviated and that measures have been implemented in the period since the acquisition of the shares in ABN AMRO Bank and ASR Verzekeringen in 2008 that will help prevent the recurrence of a threat of this nature. Nevertheless, there is still uncertainty in the market and the achievement of a stable financial sector, a condition attached to the privatisation of ABN AMRO has yet to be met.

DNB notes that a renewed escalation of the European debt crisis remains a major risk and that this can have consequences for Dutch financial stability. A downward adjustment of the European growth prospects, the postponement of structural reforms or unexpected losses in the banking sector could all result in a rapid reversal of market sentiment. The uncertainty about the quality of the European bank balance sheets also plays a role, and will need to be alleviated by the BSAs. Moreover, this impact on market sentiment and the uncertainty about the supervision of the insurance market also play a role. It is necessary to appreciate the importance of these uncertainties, implement measures including those reviewed above to alleviate these uncertainties and continue the work on the enhancement of the stability of the financial sector. It will also be necessary to review developments in the markets for bank shares, bank bonds and interbank loans, all of which determine the financing conditions for ABN AMRO. Nevertheless, these uncertainties and developments do not preclude a request to ABN AMRO to begin the necessary internal preparations required prior to a stock market flotation. When, a review is carried out to assess whether the specific preparations for the sale can begin, around 12 months from now, a review will also be carried out to examine the situation in the market and the stability of the financial sector at that time. The results from this latter review will be assessed in cooperation with DNB to determine whether the stability is adequate for the sale.

5. ABN AMRO

Sale options

In accordance with the Groot-Bashir motion[18] and the Van Hijum-Nijboer motion[19], NLFI has reviewed options other than full stock market flotation. ABN AMRO could be sold privately to a party that is interested in the bank for strategic reasons, for example another Dutch or foreign bank or a private investor. Private investors such as pension funds or private equity parties might be interested in the bank for financial reasons. NLFI's advice states that strategic parties and private investors have as yet exhibited little or no realistic interest in ABN AMRO. Private investors such as pension funds, have also shown scant interest in, for example, a private purchase of a portion of the ABN AMRO shares. Institutional investors, in particular, prefer liquid, freely-negotiable shares. Although the number of takeovers in the financial sector of the euro area has increased recently, all have been of a relatively small scale. As an alternative to a private sale, ABN AMRO could be converted into a cooperative bank, which could then sell member certificates to its customers. These customers thus provide the banking capital and become risk-bearing participants in the banking operations. NLFI does not expect the bank's customers to show great interest in the certificates, partly in view of the risks they incurred in such capital contributions. As there will presumably be little customer interest, the proceeds are expected to be low. Moreover, experience has revealed that the issue of member certificates takes decades to complete. In addition, ABN AMRO will have difficulty issuing further certificates to raise additional capital in an emergency or for a takeover: customers will certainly be disinclined to buy additional certificates to reinforce the bank's contingent capital. Finally, ABN AMRO has traditionally been managed from a central location. Conversion into a cooperative bank would require implementation of a decentralised structure, a move that would result in a fundamental change in the ABN AMRO culture.

However, NLFI believes it plausible that an adequate number of investors will be interested in an issue of shares in ABN AMRO (a stock market flotation). Since 2010, ABN AMRO has regularly held discussions with parties who invest in bonds and the capital market. The majority of these dialogue partners have a favourable opinion of ABN AMRO. Investors have a preference for banks of the nature of ABN AMRO, that generate the majority of their income from traditional banking activities, the extension of loans and operation of savings accounts. ABN AMRO is perceived as a bank with a good capital position and low risk profile.

On the basis of the above, I conclude that a stock market flotation is currently the sole realistic option for ABN AMRO and, consequently, I intend to request that ABN AMRO prepares the company for this step. NLFI is of the opinion that ABN AMRO will need a period of at least one year to make the necessary provisions. During this period, ABN AMRO shall need to work on a number of sustainable improvements to profitability and to prepare the internal organisation for a stock market flotation. The required actions may be regarded as no-regrets that will strengthen ABN AMRO. Although I have selected the current option of preparing for a stock market flotation, I shall still give serious consideration to any strategic buyers or private investors with an interest in acquiring the bank.

In the event of a stock market flotation, the State will remain a majority and subsequently a minority shareholder for several years, as it is not feasible to float all the shares in an organisation of the size of ABN AMRO in one tranche. The initial float on the stock exchange is usually restricted to the listing of a relatively small portion (between 10 and 30%) of the shares on the market. Nevertheless, I wish

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[18] Parliamentary Documents II, 2010-2011, 28 165, no. 127.
[19] Parliamentary Documents II, 2013-2013, 33 532, no. 17.

to emphasise that the State's ultimate objective is to sell all its shares. ABN AMRO operates in perfect competition with other commercial banks. The public interest in this competitive market is protected by legislation and regulations. The shareholding therefore cannot provide any additional value without distorting competitive relationships. The Government viewpoint on the Dutch banking sector explains how measures will be implemented to promote the public interest in a sturdy, transparent, honourable and competitive banking sector which is focused on the customer and which serves the real economy. The sale of the financial institutions owned by the State can contribute to the fulfilment of the aforementioned public interests, within the demarcations of the Government policy viewpoint on the Dutch banking sector.

Readiness of the financial institution and interest from the market
NLFI has reviewed the extent to which ABN AMRO is ready for sale and the scope of market interest in the bank. Over the past period, ABN AMRO has demonstrated an ability to achieve its financial and operational targets. Investors are of the opinion that the recently presented more stringent financial targets are both sufficiently ambitious and credible. ABN AMRO shall need to achieve these profitability targets, in particular in the SME, major corporations and private banking divisions. The reduction of cost ratios through the application of wage restraint will then also play a role. It will not be possible to achieve all these targets within the space of just one year: what is necessary is to ensure that ABN AMRO's performance is sufficient to instil confidence among investors regarding achievement of the targets. ABN AMRO shall also need to prepare the internal organisation for a stock market flotation.

The market would appear to be interested in bank shares. The amount of capital that was attracted by issuing shares or offering shares for sale increased during 2012. In the spring of 2013, the number of stock market flotations increased again and this upward trend is expected to continue during the rest of the year. Reduced volatility and the persistently low interest rate for bonds is resulting in investors returning to the stock markets. Investment banks state that the investments in shares made by institutional investors increased sharply during the past twelve months. Banks in the financial sector, including Deutsche Bank and KBC, have successfully issued new shares.

As ABN AMRO's shares are not free floating shares, it is not possible to determine the exact level of interest investors will have in ABN AMRO shares. It is expected that the level of interest among investors for ABN AMRO shares will be similar to their interest in comparable banks. The shares in a bank of the nature of ABN AMRO shall need to be high-yield shares that are comparable to corporate bonds, rather than growth shares: i.e. shareholders will buy the shares for the dividend they yield, not because they expect the price to increase. Shares with a high and sustained dividend yield are of interest to long-term investors such as institutional investors (institutional funds). ABN AMRO will of course only actually be able to pay dividends once the bank's accrual of capital reserves is on schedule. This would appear to be feasible for ABN AMRO, on the basis of the current insights.

Forecast sale proceeds
NLFI states that when ABN AMRO is able to achieve a sustained improvement in profitability and the economic conditions improve, then the bank's value may increase to 1 x its core capital[20]. The ratio between the market value and book value of equity (the *price-to-book ratio*) is often used to compare the relative valuation of companies. This specific case reviews ABN AMRO's core capital as determined by the supervisory authority.

[20] Also referred to as Common Equity Tier 1 (CET 1)

1 x the core capital is a somewhat higher valuation than the average valuation of European banks, but lower than the State's capital expenditure of 21.66 billion euros. ABN AMRO's core capital amounted to approximately 15 billion euros on 30 June 2013. Section 8 contains a full list of all expenditure broken down by expenditure on ABN AMRO, ASR and RFS. Section 9 explains the consequences for the national budget.

Although valuations are snapshots that are influenced by any changes in investor sentiment and the valuation of banks in general, the market has undergone a fundamental change since the beginning of the financial crisis. Banks take fewer risks than at the time of the acquisition of ABN AMRO, and need to hold more capital for the potential risks they incur. This increases stability but reduces returns, a reduction which in turn results in lower valuations. It is not currently possible to give any certainty about the percentage of State expenditure that will be recovered. The State will of course endeavour to recover as much of its expenditure as possible, taking into account the changed circumstances. However, in view of the aforementioned structural changes in the banking sector, a return to the historically high valuation levels would not appear to be logical. Nevertheless, it should be noted that the market parties would – currently – appear to have factored in the lack of confidence in their pricing. It is therefore not inconceivable that a recovery in confidence following a revival of the economy and the enhancement of the European banking sector could ultimately result in a higher valuation. Of course, the converse could also be the case, hence the importance of timing of the share issues. The sale of all the shares could, in part depending market developments, take many years to complete. It is not possible to give any advance certainty about the proceeds from the sale. Only when all the shares have been sold, will it be possible to determine how much of the expenditure has been recovered. However, in view of the current estimates of the value, it is necessary to take account of the inability to recover the total capital expenditure.

Governance and protective constructions
The Van Hijum-Nijboer motion[21] and Blanksma-Van den Heuvel motion[22] requested the Government to review the most appropriate governance structure after the exit. The motions contained proposals for alternatives to a stock market flotation that were not so much alternatives for a sale as protective constructions. NLFI recommends that in the event of a stock market flotation, the State's remaining financial interest in the company should be protected by including an article in the Articles of Association, to stipulate that a qualified majority of two-thirds of the votes is required for the approval of resolutions on material changes in the identity or nature of the company. A material change in the identity relates, for example, to a takeover. Prescribing a two-thirds majority of the votes for the approval of resolutions of this nature in effect grants NLFI a de facto veto during the period in which it holds at least one-third of the votes.

Partly based on the experiences with the takeover of ABN AMRO by the Fortis, Santander and RBS banking trio, NLFI recommends that a so-called 'continuity foundation' be formed to provide assurances for the continuity of the company. This foundation shall be formed prior to the sale and shall be activated as soon as NLFI holds less than one-third of the shares. This is not a shareholder protective structure but rather a corporate protective structure. The object of the foundation is to provide assurances for the company's continuity, autonomy and identity. The foundation can invoke rights attached to preference shares in the event of a hostile takeover jeopardising the continuation of the company. The foundation's board shall, in accordance with the corporate governance principles, operate independently from ABN AMRO's executive board. A construction of this nature

[21] Parliamentary Documents II, 2013-2013, 33 532, no. 17.
[22] Parliamentary Documents II, 2010-2011, 28 165, no. 128.

based on a continuity foundation is not unusual: this protective construction has, for example, also been adopted by ING.

In my opinion, the aforementioned measures provide adequate protection for the State's financial interests, while offering ABN AMRO future protection from undesirable owners without having a detrimental effect on the value of the company. NLFI's advice states that protective constructions of a broader scope would have a detrimental effect on the value of the company, especially if the state were to attach more extensive controlling rights to a very limited percentage of the shares or to what is referred to as a 'golden share'. Moreover, the proposed constructions fall within the boundaries prescribed by Dutch company law and the European regulations relating to the free movement of capital. Pursuant to the above, the State may only establish or retain rights that are acceptable within a normal company law relationship.

The Groot-Bashir motion[23] and Van Hijum- Nijboer motion[24] request the Government to review whether a majority interest, controlling minority interest, golden share or loyalty dividend could be deployed to protect the company. There are a number of arguments in favour of the protective constructions referred to above rather than these alternatives. Firstly, as explained earlier, the State's permanent ownership of the shares would limit competitive relationships in the sector. The sale of all the State's shares is therefore desirable. Secondly, attaching more extensive controlling rights to a very limited percentage of the shares (a golden share) would have a detrimental effect on the value of the company and, consequently, on the sale proceeds accruing to the State. Thirdly, 'golden shares' jurisprudence of the European Union's Court of Justice reveals that the introduction of a golden share for ABN AMRO and ASR to protect the general public interest is in conflict with European law due to the absence of a *compelling* reason of public interest. It should be noted that the general public interest, such as the financial stability of the banking sector, is already protected by the relevant legislation and regulations. Section 4 of this letter and the Government's viewpoint on the Dutch banking sector of today, the 23rd of August, have already reviewed the measures being implemented in the legislation and regulations designed to protect the public interest. In addition, NLFI has reviewed whether the introduction of loyalty shares could offer a guarantee for the attraction of long-term investors. In view of the disadvantages attached to a loyalty dividend, NLFI has advised the Government not to adopt this approach, due to the introduction of loyalty shares leading to a conscious distinction between the legal positions of the various shareholders. This could create an impediment for the attraction of a broad investor base.[25] In addition, Eumedion[26] draws attention to the fact that long-term investors are not necessarily more involved shareholders.[27] Eumedion is also of the opinion that, following the introduction of a loyalty share, investment decisions would no longer be taken solely on the basis of an assessment of the company's value and strategy: this could in turn distort the operation of the capital market.

European Commission

ABN AMRO is the sole state-aided Dutch institution that is still governed by a price leadership ban imposed by the European Commission with respect to its operations

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[23] Parliamentary Documents II, 2010-2011, 28 165, no. 127.
[24] Parliamentary Documents II, 2013-2013, 33 532, no. 17.
[25] In the past, DSM gave consideration to the introduction of a loyalty dividend so that loyal shareholders could be rewarded with an extra dividend. However, in 2008 DSM decided not to continue with these plans because investors showed little interest in loyalty shares and shareholders feared that the holders of loyalty shares would receive a bonus at the expense of shareholders holding regular shares.
[26] Eumedion represents the interests of its member institutional investors in the field of corporate governance and related sustainability performance.
[27] See: http://www.eumedion.nl/en/public/knowledgenetwork/consultations/2013-06_response_ec_green_paper_long_term_financing.pdf.

in the Dutch market. This ban expires on 5 April 2014, precisely three years after the European Commission's decision to authorise the aid provided to ABN AMRO. ABN AMRO has also received an acquisition prohibition that runs to at least 5 April 2014. This prohibition applies in the period in which the State holds more than 50% of the shares, but shall in any case expire on 5 April 2016. The acquisition prohibition will also expire should the State's sale of shares result in its shareholding falling below 50% in the period between 5 April 2014 and 5 April 2016. ABN AMRO has decided to lodge an appeal against the scope and duration of the acquisition prohibition. It is possible that the Court's ruling could result in an adjustment of the duration and/or scope of the acquisition prohibition, although this is uncertain.

Consequently, following the expiry of ING's price leadership ban for the Dutch market on 16 November 2012, ABN AMRO is now the sole Dutch bank governed by a price leadership ban. Should ABN AMRO's price leadership ban expire on 5 April 2014, then all Dutch banks will be able to decide on their pricing without limitations. Discussions are currently underway with the European Commission on any measures, where applicable, that may be imposed on SNS REAAL.

In addition to the aforementioned ban and prohibition, ABN AMRO is also required to submit quarterly reports on the manner in which it complies with the estimates included in the restructuring plan of December 2009 (last updated in November 2010). ABN AMRO may request the Commission to approve adjusted estimates modified in connection with external developments. This reporting obligation also expires on 5 April 2014. In addition, ABN AMRO is not permitted to advertise the fact that it is State-owned in its communications with its customers and investors until 5 April 2014 or until the date on which the Netherlands' stake falls below 50 % of the shares in ABN AMRO Group, whichever is later. This prohibition also expires no later than 5 April 2016, irrespective of whether ABN AMRO is still State-owned on that date. It will obviously also be undesirable for ABN AMRO to advertise its status after this date. In conclusion, ABN AMRO is not permitted to pay any coupon on Tier-1 and Tier-2 capital instruments issued before 5 April 2011 or exercise any call option rights in relation to such capital instruments until 10 March 2013 inclusive, unless there is a legal obligation to do so. ABN AMRO was also governed by a limitation on the payment of dividend on its ordinary shares until 10 March 2013.

It should be noted that the European Commission will also review the sale of ABN AMRO to assess whether state aid is an issue at the time of the sale. Should the State sell the shares below the market price, then the European Commission could come to the conclusion that this constitutes state aid, which will then be assessed on its merits.

6. ASR

Sale options

A range of options are available for the sale of ASR: a stock market flotation, sale to a financial or strategic party or sale to its customers (which would transform ASR into a cooperative). As explained earlier for ABN AMRO, converting ASR into a cooperative would be accompanied by a number of disadvantages, as its customers would provide the company's capital and would become risk-bearing participants in its operations. As there would probably be little interest, it is expected that the proceeds would be low. Moreover, the issue of member certificates could, in contrast to a stock market flotation or private sale, take decades to complete. The State would therefore continue to bear the risks associated with its remaining shareholding for a long period of time. In addition, it is expected that the proceeds from a stock market flotation or private sale will be higher. There is sufficient market interest in either a stock market flotation or a private sale. Consequently, ASR shall be requested to prepare for a stock market flotation in the coming six months, whilst NLFI will simultaneously review the options for its consolidation with other insurance companies. This approach retains maximum flexibility in achieving the objective of an optimum sale for the State. A transparent process must then ensure that the interested parties are offered equal chances.

Readiness of the financial institution and interest from the market
ASR has demonstrated its ability to operate as an autonomous, solid and profitable insurance company and the company pays an annual dividend, in spite of the economic conditions and the fact that it has not received a capital injection from the State. NLFI's advice states that ASR will not be able to present a sufficiently appealing proposition to investors until it has tackled a number of challenges confronting the company: it needs to achieve sustained improvements in its profitability and to offer stable and high (dividend) returns to investors. This will require measures including the reduction of cost ratios by the application of wage restraint.

Insurance companies, analysts and investors expect a consolidation of the six major life and non-life insurers in the Dutch insurance sector to form a smaller number of larger players. Although the timing and form of this consolidation is uncertain, the shrinking market and the synergy benefits and economies of scale offered by consolidation could well result in this process taking place within the foreseeable future. Although ASR has demonstrated that it is of sufficient size to continue as an independent insurance company, it is not inconceivable that ASR may play a role in this consolidation trend. A number of parties have informed NLFI and ASR that they are interested in the company. Various Dutch insurance companies perceive ASR as an interesting candidate for a merger. Private investors would also appear to be interested in purchasing shares in the sector. An acquisition by a party that is not currently active in the Dutch market is not a realistic option at present. The Dutch market is saturated, and foreign parties are primarily interested in growth potential.

Forecast sale proceeds
ASR was recently involved in one of the alternative scenarios examined in the months prior to the nationalisation of SNS REAAL. Reference has been made in public documents to a stand-alone mid-point valuation of between 2.15 billion and 2.3 billion euros in January 2013. This is lower than the State's capital investment of 3.65 billion euros. Once again, this valuation of ASR is a snapshot, and it will not be possible to determine whether the capital expenditure has been recovered until the sale has been completed. Section 8 lists the capital expenditure. This list contains a breakdown of the 3.65 billion euros.

Governance and protective constructions
NLFI proposes, in analogy with ABN AMRO, that ASR's Articles of Association should prescribe that a qualified majority of two-thirds of the votes is required for the approval of resolutions on material changes in the identity or nature of the company. NLFI will then have a de facto veto on resolutions on material changes during the period in which it holds at least one-third of the votes. In contrast to its advice on ABN AMRO, NLFI does not recommend the formation of a continuity foundation: in view of the forecast consolidation in the insurance sector, it will not be necessary to provide assurances for ASR's continuation as an autonomous entity. It is quite conceivable that ASR will merge with another insurance company.

7. SNS REAAL

SNS REAAL was nationalised on 1 February of this year, and the State is now the sole owner of the bank-insurance company.[28] The European Commission has granted its provisional authorisation for the rescue aid involved in the nationalisation. SNS REAAL shall need to implement measures to provide assurances for its long-term viability and to mitigate the effects of its state aid on competitive relationships. To this end, the State submitted a restructuring plan for SNS REAAL to the European Commission on 19 August 2013. The European Commission is giving consideration to this plan.

The plan submitted to the European Commission proposes the split of the banking and insurance operations. The insurance company and bank can then ultimately be sold separately. Like ASR, REAAL would then play a role in the forecast consolidation in the insurance market. The plan submitted to the European Commission proposes that SNS Bank be allowed to continue as an autonomous bank to ensure that a sufficient number of players remain active in the Dutch market. Within this context, the European Commission's attention has been drawn to the competition problems in the Dutch market caused by the price leadership bans. SNS REAAL's property branch (Property Finance) will be transferred to a separate State-owned entity with the object of settling the loans. It will certainly take a number of years to settle all the loans. The shareholding in SNS REAAL and the separated property branch will be transferred to NLFI once it has become clear how the transfer can be carried out without contravening the competition regulations.

SNS REAAL is not yet ready for a return to private hands, as the European Commission has yet to grant its approval of the restructuring plan that was submitted on 19 August. I shall of course keep the House of Representatives of the States-General informed about any further SNS REAAL developments.

8. Capital expenditure

The following table lists the capital expenditure on ABN AMRO, ASR and RFS[29].

Figure 5. Table of capital expenditure

Beschrijving	Datum	ABN AMRO	ASR	RFS	Totaal
Nationalisatie	okt-2008	€ 12.800 mln	€ 4.000 mln		€ 16.800 mln
Herkapitalisatie ABN AMRO	dec-2008	€ 4.320 mln		€ 2.220 mln	€ 6.540 mln
Verkoop Fortis Corporate Insurance	jul-2009		€ (350) mln		€ (350) mln
Mandatory Convertible Note (MCN) I	jul-2009	€ 800 mln			€ 800 mln
MCN II en omzetting leningen in EV	dec-2009	€ 3.150 mln			€ 3.150 mln
Verrekening en kapitalisatie RFS	mrt-2010			€ 438 mln	€ 438 mln
Niet ontvangen couponbetaling MCN	apr-2010	€ 103 mln			€ 103 mln
Resterende kapitalisatie ABN AMRO	jun-2010	€ 490 mln			€ 490 mln
Repatriatie deel RFS kapitaal	dec-2011			€ (16) mln	€ (16) mln
Totaal uitgaven		**€ 21.663 mln**	**€ 3.650 mln**	**€ 2.642 mln**	**€ 27.955 mln**

** The figures in this table do not include the interest charges paid and dividend received over the years.*

[28] Parliamentary documents II, 33 532, 2012-2013, no. 1

[29] In 2008, the State reached agreement with Fortis on the sale of the Dutch parts of Fortis and ABN AMRO for a price of 16.8 billion euros. This price was the total amount for all parts purchased by the State. The *Parlementaire Enquêtecommissie Financieel Stelsel* ('Parliamentary Enquiry Commission for the Financial System') concluded that calculation of the amount was partly influenced by the amount the Belgian authorities indicated they required for the parts that were not purchased by the State of the Netherlands. The Parliamentary Enquiry Commission also concluded that the protection of financial stability also played a role in the determination of this amount. For this reason a retrospective breakdown of the amount of 16.8 billion euros by value of the individual parts is not readily feasible. Nevertheless, in its advisory memorandum, NLFI decided to include an apportionment of the purchase price to the individual parts. This was necessary to compare these with the recent insights into the value of these parts. NLFI's advice and this letter are therefore based on a capital expenditure of 4 billion euros for the insurance entities. The remaining amount of 12.8 billion euros is then apportioned to the banking parts. These amounts are derived from *Parlementaire Enquêtecommissie Financieel Stelsel*'s report (see box 4.14 on page 156 of the report).

As the House of Representatives of the States-General was informed in 2009,[30] the State purchased all Dutch parts of the Fortis concern (Fortis Bank NL, Fortis Verzekeringen and FCI) and the Dutch parts of ABN AMRO at the end of 2008. The Fortis concern did not hold a direct interest in ABN AMRO: it held its interest via the RFS consortium of which RBS and Santander were also members. Each member of the consortium held one-third of the shares. The State purchased Fortis' share in RFS. As a result, the Dutch State did not hold shares in ABN AMRO, but in the RFS consortium. The part of ABN AMRO accruing to the State was then separated from the consortium and merged with Fortis Bank Nederland. Santander also separated its assets from RFS. However, shared assets (also referred to as the 'z-share) remained in RFS that could not be allocated to any one of the consortium parties. These shared assets remained in RFS.

RBS did not separate 'its' assets from RFS, as a result of which RFS now holds RBS' assets and the shared assets of the State of the Netherlands, Santander and RBS. One-third of the shared assets accrue to the State of the Netherlands, equivalent to a 1.25% interest in RFS. Agreement has been reached with RBS and Santander on the settlement of the shared assets in RFS, as a result of which the assets will be sold or liquidated. The rapid sale of these assets has proven difficult and the full settlement may take several years to complete.

The value of the interest in RFS is considerably lower than the State's capital expenditure of 2.6 billion euros, as the losses RFS had incurred at the time of the takeover had resulted in negative equity of 2.2 billion euros. The capitalisation of 438 million euros was necessary to cover the separation costs and contractual obligations. The book value of equity was 181 million euros at 31 December 2012.

9. Consequences for the national budget

A sale of the shares in ABN AMRO and ASR is a financial transaction and, consequently, has two financial effects. The sale proceeds will reduce the national debt and in turn reduce the interest charges. Conversely, the sale will result in the loss of future dividend on the shares that have been sold. The sales proceeds will reduce the EMU debt. The sale will have two effects on the EMU balance: firstly, the EMU balance will increase slightly as the interest charges on the national debt will fall, and secondly – and conversely – the lost dividend will be at the expense of the EMU balance. It is not possible to indicate in advance whether the combination of these effects will have a negative or positive total effect. Dividend revenue of 394 million euros from ABN AMRO and ASR is estimated for 2013. The revenue in 2014 is estimated to amount to 400 million. The interest charges on the capital expenditure on ABN AMRO, ASR and RFS are calculated at one billion euros per annum. It should be noted that all crisis measures fall under budgetary rule 24 and, consequently, are not of relevance to the expenditure framework.

I am pleased to take this opportunity to honour the House of Representatives of the State-General's request for a further explanation of my letter of 3 January 2013 regarding the dividend from ABN AMRO and its effect on the national budget.[31] ABN AMRO was the sole large Dutch bank to pay a dividend in 2011. The dividend amounted to 250 million euros (the total of the interim and final dividend). The State received the interim dividend of 200 million euros in 2011, and the final dividend of 50 million euros in 2012. ABN AMRO was of the opinion that it would be prudent to refrain from paying an interim dividend for 2012, in view of the economic climate and the preparations for the implementation of Basel III. ABN AMRO published its annual accounts for 2012 on 1 March 2013. These

[30] Parliamentary Documents II, 2008-2009, 31 789, no. 12; and Parliamentary Documents II, 2009-2010, 31 789, no. 23b
[31] Parliamentary Documents II, 2012-2013, 33 480, no. 13.

revealed that the bank would be able to pay a final dividend of 250 million euros for 2012, which the State received in 2013. ABN AMRO will also be able to pay an interim dividend in 2013, provided that the circumstances so permit. ASR paid a final dividend of 88 million euros for 2012.

The estimate for 2013 is in part based on the European Banking Authority (EBA) stress test figures for ABN AMRO. For ASR it has been assumed that no dividend will be paid. As the estimate of 394 million euros can be achieved if ABN AMRO pays an interim dividend of 56 million euros, the estimate has not been adjusted. It is not possible to base the estimate for the dividend revenue for 2014 on public information such as the EBA stress test figures, as these figures cover the period to 2012 inclusive. Nevertheless, the Government is required to include as precise as possible an estimate in the national budget. A technical provisions item of 400 million euros has therefore been included for the years after 2013, to account for the revenue that cannot readily be estimated (dividend revenue from ABN AMRO and ASR).

Future budget memoranda will include the current figures for the crisis measures in what is referred to as the *Budgettair overzicht interventies t.b.v. de financiële sector* ('Budget summary of interventions for the financial sector'). For the purpose of transparency, this summary will be divided into a section relating to the (national) financial sector and a section relating to the European debt crisis, as from the National Financial Annual Report 2012.

I can also inform you that, as requested,[32] the Court of Audit has now received a subsequent costing of the ABN AMRO recapitalisation package that the House of Representatives of the States-General approved in 2009. This was comprised of capital measures with an effect of 6.88 billion euros. The guarantee arrangement (CRI) of 1.70 billion euros expired in October 2010. It was not necessary to call on an amount of 0.30 billion euros intended for the settlement between the consortium parties. As a result, the recapitalisation amounts to a total of 4.88 billion euros, 1.35 billion euros of which were not paid but were injected by the conversion of earlier loans. Looking back on the operation, it is possible to conclude from the Core Tier 1 (CT1) ratios for the past years and the cost-income ratios. that the recapitalisation was of an adequate amount: there were no capital surpluses and no capital deficits. At 31 December 2012, the CT1 ratio was 12.1%, comparable to that of other banks.

10. In conclusion

The State is not a self-explanatory owner of the ABN AMRO and ASR financial institutions. The State nationalised the financial institutions to protect the public interest in a stable financial sector. In announcing these plans, we are taking a step towards normalisation of the Dutch financial sector. ABN AMRO, ASR and SNS REAAL shall be returned to the market in a responsible manner, each when they are ready and when the conditions offer scope for their return.

The State has the duty to provide for the prudent and responsible allocation of public funds. The sale is designed to recover as much of the capital expenditure as possible, whereby it will be necessary to seek an optimum in the inverse relationship between proceeds and risks. The State is not an investor and, consequently, does not make high-risk investments when this is not in the public interest. Waiting for years in the hope of achieving higher proceeds is therefore undesirable. Conversely, it is not necessary to sell at the worst conceivable time.

[32] Parliamentary Documents II, 2010-2011, 29 165, no. 130.

My letter submits the draft for the sale to the House of Representatives of the States-General, for the requisite decision-making, in accordance with the privatisation decision-making framework. This will enable ABN AMRO and ASR to begin internal preparations for the sale. I shall inform the House of Representatives of the States-General before commencement of the specific preparations and initiation of the sale.

Yours faithfully,
The Minister of Finance,

J.R.V.A. Dijsselbloem