

## Ministerie van Financiën

> Return address PO Box 20201 2500 EE The Hague

The Chairman of the Second Chamber of Parliament of the States General  
P.O. Box 20018  
2500 EA THE HAGUE

### Financial Markets Directorate

Korte Voorhout 7  
2511 CW Den Haag  
Postbus 20201  
2500 EE Den Haag  
[www.rijksoverheid.nl](http://www.rijksoverheid.nl)

### Our reference

FM/2013/211M

### Annexes

1. Simplified organisation chart of SNS REAAL
2. The structure of SNS REAAL before and after expropriation
3. Expropriation Decree

Date February, 1 2013  
Re. Nationalisation of SNS REAAL

Dear Chair,

I am writing to inform you of the nationalisation of SNS REAAL, which I enforced today under the Intervention Act (Interventiewet). The decision to do so was taken in agreement with the Prime Minister and in close consultation with De Nederlandsche Bank (DNB).

In arriving at this decision, I closely examined all private and public-private options to solve the problems of SNS Bank's real estate arm. In the summer of 2012, a possible solution involving the large banks emerged. Subsequently, in October 2012, a private equity fund announced its willingness to negotiate. Both my predecessor and I, mindful of the recommendations by the Financial Crisis Inquiry Commission, had several confidential meetings with the Parliamentary Finance spokesmen to talk and inform them about the situation at SNS REAAL. The Cabinet was also updated several times during the process.

The continuing problems at SNS Property Finance forced DNB to conclude that SNS Bank required twice as much core capital as was available, the capital deficit. DNB had imposed a deadline of 31 January, 18:00 hrs, on SNS Bank to come up with a solution to remedy the funding deficit. Yesterday evening, DNB informed me that this deadline had passed without a solution having been found and that further measures would, in fact imply a bankruptcy. I subsequently had to conclude to my regret that the available alternatives were unacceptable; each of these alternatives laid the largest risks at the doorstep of the State, while conferring few powers. Therefore, in order to safeguard financial stability, I had no option but to nationalise, because SNS Bank would otherwise have gone bankrupt. The activation of the deposit guarantee scheme would have meant an enormous cost burden for the other banks.

By nationalising the bank, I have safeguarded the money in 1.6 million savings accounts and one million current accounts. In addition, customers of SNS REAAL can continue to use the bank's services without interruption. Following the nationalisation, direct support is needed to bail out SNS REAAL. In doing so, I wish to tackle the root of the problems. The institution will be

recapitalised and the source of the problems, the real estate branch, will be isolated financially and operationally from the institution.

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In contrast to earlier support given in 2008, I will see that private parties that have knowingly chosen to finance SNS REAAL and SNS Bank will contribute to the maximum extent that DNB considers safe with a view to financial stability. I have expropriated not only the shareholders but also subordinated creditors. They will thus contribute €1 billion to the recapitalisation.

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DNB has devised measures to stabilise SNS Bank, which translate into €3.7 billion direct costs to the State. These costs break down as follows:

- €2.2 billion in new capital injections;
- €0.8 billion to be written off earlier aid; and
- €0.7 billion to isolate the real estate portfolio.

In addition, the State will provide €1.1 billion in loans and €5 billion in guarantees. This package of measures will negatively affect the 2013 EMU balance by 0.6% and increase EMU debt by 1.6%.

For the benefit of the Treasury, I will levy a non-recurrent resolution tax of €1 billion on Dutch banks in 2014. I think this is justified since the Dutch banks will suffer grave consequences should SNS Bank go bankrupt.

Simultaneously with the nationalisation of SNS REAAL I have decided to put the management of the institutions into different hands. CEO Mr Latenstein and CFRO Mr Lamp have today handed in their resignations. Mr Van Olphen and Mr Oostendorp are prepared to take the helm. I intend to appoint them at the shareholders' meeting, which I will convene for this coming Monday. They will be earning less than their predecessors. The Chair of the Supervisory Board has also resigned. His duties will be taken over temporarily by the current deputy chairman of the Supervisory Board.

SNS REAAL directors have not received variable remuneration since 2008. This said, I think that a policy of wage moderation should be pursued throughout the organisation. I have asked the prospective CEO to speak to the unions about the level and sustainability of the remuneration of Collective labour Agreement personnel and to see which additional measures are needed for senior management.

Furthermore, the prospective SNS REAAL management has been ordered to return parts of the company into private hands as soon as possible after the institutions has been stabilised and the market allows it, for instance through divestment. I plan to place the management of the shares with Stichting NL Financial Instruments, as in the case of ABN Amro, ASR and RFS. Major (strategic) decisions regarding the future of SNS REAAL remain for me to take.

I will to day file a request for preliminary approval regarding the State support with the European Commission and enter into negotiation with the EC about possible restructuring measures.

I have every understanding for the many who revolt at the thought that public assets are once more required to solve problems at a financial institution. The need for fresh state intervention, after earlier moves in 2008, marks a setback in

the effort to restore the Dutch financial sector to robust health and socially responsible independence.

The necessity of such massive and costly interventions must be prevented in the future. Not enough has, apparently, been done to ensure this. Considerable steps have still to be taken to make the financial system safer and to protect the taxpayer.

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In future, I want banks to be made far easier to break up, so that instead of entire firms only the publicly relevant parts have to be salvaged. The recommendations of the Commission on the Structure of Dutch Banks, led by Mr Wijffels, expected this summer, is therefore of great importance.

In order to preserve vital functions of an institution, to reduce risks to the taxpayer and to reduce contagion effects, 'living wills' will have to be drawn up sooner rather than later. These documents will prescribe in advance what measures a financial institution, DNB and I may take should the institution find itself in irreversible problems.

Also, I want all private parties, senior bond holders included, to be made liable to foot as much of the bill as possible: the Netherlands will press this case in the negotiations on the harmonisation of resolution frameworks in Europe.

Finally, I intend to achieve that in future, if the contribution of private creditors proves insufficient to resolve an institution's problems, the banking industry itself is first in line to pay the costs of an institution's resolution. I will therefore aim for the creation of a resolution fund that may be combined with the deposit guarantee scheme. Given the scale of some financial institutions in proportion to the Dutch economy, any robust solution will be a European one. This confirms once more the great importance of having a European resolution mechanism. The utmost must be done to avoid a repetition of what we have been compelled to do today.

In this letter I will examine further the following topics:

1. SNS REAAL
2. Need for intervention
3. Nature of the intervention
  - 3.1. Expropriation of shares issued by SNS REAAL, subordinated creditors of SNS Bank and SNS REAAL and the Core Tier 1 capital securities of the Stichting Beheer SNS REAAL.
  - 3.2. Recapitalisation of SNS REAAL and SNS Bank
  - 3.3. Isolation of SNS Property Finance in a real estate management organisation and a guarantee for the funding of this management organisation
  - 3.4. Bridging loan from central government to SNS REAAL
  - 3.5. Non-recurrent tax on the Dutch banks
4. Studied alternatives
5. Consequences for the customers, the personnel and the management of SNS REAAL
6. Consequences for lending operations
7. Consequences for the budget, the EMU balance and the EMU debt

8. The future of SNS REAAL
9. Aspects of government aid
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### **1. SNS REAAL**

SNS REAAL is a Dutch financial conglomerate.<sup>1</sup> The group includes subsidiaries SNS Bank and the insurance subgroup REAAL. SNS Bank is, including subsidiaries such as ASN Bank and Regiobank, the fourth largest bank in the Netherlands with approximately 1.6 million savings accounts and about one million payment accounts<sup>2</sup>, together totalling about €36.4 billion. REAAL is the third largest life insurance company and the fifth largest non-life insurance company in the Netherlands, SRLEV N.V. as subsidiary (including the Zwitterleven brand). SNS REAAL has approximately 6,700 employees and focuses primarily on the private individual market and SMEs.

SNS REAAL was listed on Euronext in Amsterdam in 2006. At the time of the initial public offering, Stichting Beheer SNS (hereafter: Stichting SNS REAAL) retained more than 50% of the shares to be able to monitor the continuity of SNS REAAL.

During the credit crisis in 2008, SNS REAAL was forced to file a request with the government for €750 million in capital aid.<sup>3</sup> This aid was provided so that SNS REAAL could withstand the increase in stock exchanges fluctuations and any further turmoil in the markets, which put the buffers at the insurance business under pressure. However, SNS REAAL has to date, in 2013, not been able to redeem most of the aid package.<sup>4</sup> This is because the problems at SNS REAAL worsened from 2009 onwards.

My predecessor and I have been kept informed of the situation at SNS REAAL by SNS REAAL itself and by DNB since 2008. In addition, between 2008 and late 2011, DNB strongly intensified its supervisory efforts to reinforce the financial position of SNS Bank. Since 2009, DNB has worked on the premise that no core capital may leave the bank as long as the risk exposure in the commercial real estate portfolios has not (noticeably) reduced. Also, DNB – in order to speed up the phasing-out effort initiated by SNS Bank – requested the firm to draw up exit plans for the international real estate portfolio showing how, when and at what loss this portfolio could be phased out. In mid-2011, DNB repeated its request, this time regarding the phasing-out of the entire real estate portfolio. In 2011, DNB also asked SNS REAAL to formulate an action plan regarding the planned

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<sup>1</sup> See Annex 1 for a simplified organisation chart.

<sup>2</sup> data as at the end of August 2012

<sup>3</sup> Parliamentary Papers II, 2008-2009, 31 371, no. 48. At that time, Stichting SNS REAAL also injected €500 million to the capital of SNS REAAL.

At the time of the credit crisis, SNS Bank used about €5.5 billion worth of the €200 billion guarantee fund established at that time for bank financing. This was in addition to the capital aid. There are currently about €2.75 billion worth of outstanding guarantees, which will expire in 2014 (<http://www.dsta.nl/Onderwerpen/Garantieregeling>). The expropriation has not resulted in any changes with respect to the outstanding guarantees.

<sup>4</sup> €565 million of this €750 million still remains, following a repayment of €185 million in late 2009. SNS paid a penalty rate of 50% upon repayment. This would put the total amount to be repaid to the State at €848 million. The time path agreed with the EC anticipated that this amount would be repaid before the end of 2013.

repayment of the government aid and the vulnerabilities identified. When this proved inadequate, DNB requested an additional action plan.

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In December 2011, when it became plausible that the problems could not be fully resolved through private means, DNB and the Ministry of Finance set up a joint project group to analyse the possible scenarios and options (private, private-public and public) with regard to SNS REAAL and to set up an emergency safety net should the problems escalate and acute intervention would be required.

Below, I will first cover the most significant cause of the negative developments: the rising losses at SNS Property Finance. I will then consider the "double leverage" at SNS REAAL, which impeded the search for solutions.

### *SNS Property Finance*

In the summer of 2006, SNS REAAL took over Bouwfonds Property Finance from ABN AMRO and renamed it to SNS Property Finance. The outstanding book value of SNS Property Finance's real estate portfolio amounts to €8.55 billion, not counting provisions (balance sheet as at the end of June 2012). The bulk (77%) of this portfolio relates to properties in the Netherlands. The remainder concerns financing of properties in North America and Europe. The real estate portfolio is relatively large in terms of SNS Bank's € 82.3 billion balance sheet total, especially if compared to the relative size of other Dutch and foreign banks' property lending portfolios.<sup>5</sup> Moreover, the real estate portfolio of SNS Bank also has a higher risk profile than those of other banks, owing to a higher share of non-performing loans.

Commercial real estate is traditionally sensitive to economic ups and downs. Currently, the commercial property market in the Netherlands and many other countries is rapidly deteriorating, partly owing to the enduring crisis. As a result, SNS Bank faces high losses on its Property Finance real estate portfolio. Consequently, the solvency of SNS Bank has come under pressure at a time when the capital requirements for financial undertakings world-wide are undergoing substantial tightening owing to the credit crisis. The profits of SNS REAAL have been far from able to both absorb the real estate losses and strengthen its capital buffers.

Heavier losses on the real estate portfolio are likely to occur. The SNS REAAL share has depreciated strongly in the recent past, from its introduction price of €17 to just about 5% of that amount today. Also, SNS REAAL's problems have caused it to be shut out of the capital markets.

### *Double leverage*

In addition to the difficulties at real estate subsidiary Property Finance, SNS Bank faces another problem that has hampered the search for a solution. This problem

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<sup>5</sup> According to the latest Overview of Financial Stability published by DNB (autumn 2012), the entire Dutch banking industry holds some €80 billion in domestic commercial real estate exposures. It also holds some €20 billion's worth of foreign exposures. On a balance sheet total of about €2,200 billion, this adds up to an average exposure of some 4.5% of total assets for the Dutch banking sector. For the other systemic banks, the exposure is, in fact, slightly lower owing to the large size of SNS's position.

resides in the holding structure of SNS REAAL, which has led to strong financial intertwinement between the insurance and banking arms (technically known as 'double leverage').<sup>6</sup> In concrete terms, this means that the 'own funds' of the subsidiaries have been partly financed from funds borrowed by the parent, the Holding SNS REAAL. At SNS REAAL total double leverage amounts to €909 million (end-2012).<sup>7</sup> This means that if parts of the insurer are sold off, for instance, not all of the released funds may be used to solve the bank's problems, because a part has to be used to redeem loans taken out by the holding.

## **2. Need for intervention**

Below, I will first go into the question why bankruptcy of SNS Bank and SNS REAAL had to be avoided on behalf of financial stability; next, I will discuss my immediate reasons to intervene at this point in time.

### *Systemic importance of SNS Bank and SNS REAAL*

DNB regards SNS Bank as a systemically important institution.<sup>8</sup> A systemically important, or 'systemic', institution is one whose failure would have unacceptably heavy and undesirable consequences for financial stability, the Dutch economy and the Dutch taxpayer. DNB points out, in this context, that SNS Bank, being the fourth largest bank in the Netherlands, holds a substantial amount of deposits, so that if it should fail, this would trigger immediate and massive recourse to the Deposit Guarantee Scheme (DGS). This in turn would heavily tax the other banks, potentially taxing their capital buffers.<sup>9</sup> In addition, the financial markets are as yet far from being normalised, so that the potential bankruptcy of an institution such as SNS Bank would deal a substantial blow to confidence in the Dutch financial system. This might lead to a downgrading of other Dutch banks and of the Dutch government, and a consequent sharp increase of these institutions' funding costs. Given the grave dangers this would pose and the concomitant very high costs to the taxpayer, bankruptcy of SNS Bank would be totally undesirable – as also indicated by DNB. Moreover, recourse to the DGS would imply that over 1 million account holders would temporarily be prevented from using their payment accounts, which might put them in financial difficulty, possibly causing social unrest.

<sup>6</sup> Such double leverage structures are often found in bank-insurance conglomerates. The underlying idea is that banks and insurers have strongly different risk profiles, so that pooling and sharing of risks at the holding level can reduce the overall risk level of the bank/insurer conglomerate. However, if both the bank and the insurer run into problems, as in 2008, when hard times hit both banks and insurers, the holding will have a double problem to contend with. Since the 2008 crisis, therefore, supervisors and investors have looked askance at double leverage, which they regard as risky and like to see phased out.

<sup>7</sup> Source: Informative letter from DNB to the Minister of Finance, 24 January 2013.

<sup>8</sup> See Annex 3 to the Autumn Memorandum 2011 (Parliamentary Papers II, 2011-12, 33 090, No. 1), explaining the policy regarding systemically important institutions and denoting four national institutions as such, including SNS Bank. This national policy is in line with international policy concerning systemically important institutions, as explained by the Financial Stability Board, the IMF and the BIS.

<sup>9</sup> If SNS Bank failed, the DGS would be activated. SNS Bank holds some €35.2 billion in retail deposits covered by the DGS. Assuming a distribution rate of some 85%, the overall costs to the Dutch banks will amount to approximately €5 billion. In earlier bank failures in the Netherlands, with very few exceptions, distribution rates (i.e. repayment from the bankruptcy assets) came out at between 80% and 90%. See Section 4.

DNB has also concluded that a bankruptcy of SNS REAAL (the holding company) would pose an unacceptably high risk to financial stability. SNS REAAL is so closely intertwined with SNS Bank that the latter would be unable to function properly without the former. In the case of SNS REAAL, group functions of crucial importance to the continuity of SNS Bank (including risk management, treasury, IT and personnel) have been fulfilled by the holding company. Moreover, according to DNB, failure of SNS REAAL might cause a shock effect that would cause confidence in other Dutch institutions to be compromised. Market parties might, for instance, come to consider lending to other institutions with a similar group structure as riskier than before, which could lead to substantial adverse effects on the funding options of such institutions. Insolvency of SNS REAAL might, moreover, trigger unpredictable market responses. According to DNB, it is very hard to predict whether such risks would actually materialize, but it is nevertheless clear that the effects of insolvency on the part of holding company SNS REAAL could prove so serious that it would be imprudent to take the risk.

The expropriation of the shares in the holding company has served to prevent such an adverse effect on financial stability. However, the expropriation of the shares issued by SNS REAAL automatically implies that the State is also acquiring 100% ownership of all subsidiaries of SNS REAAL, not only of SNS Bank, but also of the entire insurance arm, REAAL.

*Immediate reason for the intervention: possible application for emergency regulations by DNB*

DNB carries out regular capital adequacy reviews at all banks, including SNS Bank. This 'Supervisory Review and Evaluation Process' (SREP) serves to determine whether banks are holding sufficient capital. Given the developments at SNS Bank in recent months, DNB concluded from the SREP that measures needed to be taken. DNB concluded from the SREP that SNS Bank faced a capital deficit of at least €1.84 billion.<sup>10</sup> In other words, the expected losses on the real estate portfolio create a need for twice the amount of core capital that is currently present. Finally, on 27 January 2013 – following earlier supervisory efforts – DNB sent a SREP letter to SNS Bank imposing a deadline, 31 January 2013 at 18.00 hours, by which SNS REAAL must meet all capital requirements, in other words, to come up with a solution to remedy the said capital deficit. The failure to meet this remedy would mean that DNB would have had to apply for emergency regulations to be declared, which would inevitably have led to the bank's failure.

Following frequent past consultations, DNB formally notified me, by letter of information dated 24 January 2013, of the very fragile conditions that had arisen at SNS Bank. Moreover, in the absence of a convincing and final solution, it would appear impossible for SNS Bank to publish provisional annual accounts on a going-concern basis on 14 February. Delayed publication of annual accounts while no overall solution for SNS REAAL had been announced would have led to further impairment of public confidence in SNS REAAL – the more so where an overall solution had come to be expected.

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<sup>10</sup> Source: SREP letter to SNS Bank of 27 January 2013.

The project team that had been working in parallel on public-private options reported to me that none of the options considered had proved viable (see section 4). Because the failure of SNS Bank and SNS REAAL had to be avoided, given their systemic status and since, in view of the deadlines referred to above, there was no viable alternative available, there arose a serious and immediate danger to financial stability. I therefore found myself compelled to decide on the intervention which I have today carried out.

On 1 February 2013, after consultation with DNB, I informed SNS REAAL of my intention to nationalise the firm. Subsequently, on 1 February 2013, I informed the AFM of my intended decision. The intervention is discussed in more detail below.

### **3. Nature of the intervention**

To my mind, several principles would have to govern any intervention involving the State. I will begin by outlining these principles, proceed to discuss the details of the intervention and conclude by explaining how the intervention conformed to these principles.

Both my predecessor and I have, mindful of the recommendations by the Financial Crisis Inquiry Commission, which justly sets great store by timely involvement of the Second Chamber in possible moves to support financial institutions, shared these principles with your Chamber in confidential consultations, in which the Parliamentary Finance Spokesmen were informed and in which they were given the opportunity to ask technical questions. Confidential consultations on the issue of SNS REAAL, in which the Parliamentary Finance Spokesmen of the parties represented in the Second Chamber at the time were present, took place on 14 June 2012, 22 November 2012 and 25 January 2013. In the second week of January 2013, the individual spokesmen were informed by telephone about the current state of affairs. The spokesmen were able to only inform their Parliamentary party leaders. I also updated the Cabinet several times during the process.

An intervention such as the one under discussion has to meet the following general principles:

- The intervention must safeguard financial stability;
- The guarantee must offer a structural solution;
- The burden of the intervention must be borne as much as possible by the private sector;
- Losses must be borne as much as possible by the current financiers;
- Financial consequences of the intervention to the State must be kept to a minimum;
- The intervention must be proportionate.

I referred to these principles in considering the alternatives to the intervention in hand and the manner of intervening. Alternatives were explored with a view to maximum adherence to the principles. It turned out that there was no viable private or public-private solution that did sufficient justice to these principles.

The intervention I carried out today consists of five elements: 3.1) Expropriation of the shares of SNS REAAL and of subordinated debts of SNS Bank and SNS REAAL

and the Core Tier 1 capital securities of the Stichting SNS REAAL, 3.2) Recapitalisation of SNS REAAL and SNS Bank, 3.3) Isolation of SNS Property Finance in a real estate management organisation and a guarantee regarding the funding of that management organization, 3.4) a bridging loan by the State to SNS REAAL, and 3.5) Imposition of a one-off levy on Dutch banks.

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### *3.1 Expropriation of shares issued by SNS REAAL, subordinated creditors of SNS Bank and SNS REAAL and the Core Tier 1 capital securities of the Stichting SNS REAAL*

Effective today, I have, using the powers conferred on me under the Intervention Act pursuant to the Financial Supervision Act (*Wft*), with the agreement of the Prime Minister and having consulted DNB, expropriated the shares of SNS REAAL and subordinated creditors of SNS Bank and SNS REAAL. These include shares issued by SNS REAAL, subordinated debts of SNS Bank and SNS REAAL and the Core Tier 1 capital securities (hereafter: CT1 securities) of the Stichting SNS REAAL. The expropriation Decree (see Annex 3) presents the exact details of the expropriated securities and other assets. The expropriation has also caused the AFM to suspend the trade in the shares involved on the stock exchange. As a result of the nationalization, the listing of the SNS REAAL stock will be withdrawn. Outstanding derivatives will be dealt with in line with standing regulations of the relevant trading platforms.

It has been decided to expropriate the securities and other assets not only of SNS Bank but also of SNS REAAL (the holding company). Expropriation of only the SNS Bank assets would have made the failure of SNS REAAL unavoidable. If that happened, DNB would have been compelled to ring-fence the authorised insurers from the holding company. That would leave the holding company without income with which to service its liabilities, so that left without external funding sources, it would have become insolvent (see also the item 'double leverage' in section 1). As already stated in section 2, DNB regards the holding company's becoming insolvent as too risky to financial stability.

#### *Expropriation of shares and subordinated creditors*

Furthermore, the expropriation extends to both shares and *subordinated creditors*. This is in line with recent cases of State support in Europe, where subordinated creditors bore their share of the loss. The holders of such debt instruments receive relatively high remuneration, with the downside of running added risk. This is reflected in the ratings and market prices of such instruments. The contribution of the subordinated creditors reduces the institution's deficit by circa €1 billion. This constitutes a clear departure from 2008, when private parties contributed far less. This way, parties that have knowingly opted to lend money with higher risk to SNS REAAL and SNS Bank foot their share of the bill.

Theoretically, even more creditors of SNS REAAL and SNS Bank might have been expropriated, that is, creditors on an equal footing with depositors: the ordinary creditors. This includes uncovered bank bonds, also known as 'senior bonds'. This option was dropped, however, because of expected adverse effects on financial stability.

Nowhere in Europe have unsecured creditors of a systemic bank been made to help salvage it. If the Netherlands departed from this practice, other banks in the Netherlands might suddenly find themselves facing strongly increased funding costs. There is then a chance that the funding of other banks will dry up<sup>11</sup>. To demand payment from senior creditors towards solving the problems of a single systemically important institution might therefore cause greater damage than it solved, leaving the taxpayer to foot an even higher bill. For this reason, the selected option (that is, expropriation of shareholders and subordinated creditors) is, I think, the one that comes with least financial implications for the taxpayer, particularly if the one-off resolution levy on the banking sector is taken into consideration as well (see section 3.5).

As a final remark, I might add that there are European plans to introduce a mechanism by which, in the future, senior creditors will be involved in salvaging a bank.<sup>12</sup> Under this mechanism, part of creditors' positions will be converted into shares if the contributions of shareholders and subordinated creditors of a systemic bank should still leave a capital deficit. However, according to the schedules of the European Commission, this mechanism will not be rolled out across Europe until 2018, while several policy options have not been decided on as yet. Whereas the Netherlands is in favour of such a mechanism, it is reluctant to anticipate its introduction on a national scale, with a view to financial stability.<sup>13</sup>

#### *Consequences for those expropriated and for compensation*

Parties suffering expropriation are entitled to compensation under part 6:3 of the Financial Supervision Act [*Wft*]. The principle applying in this respect is that losses suffered must be a direct and necessary consequence of the expropriation and that the actual value of the expropriated shares and assets is compensated. The calculation of the fair value of the expropriated securities and assets is based on what the outlook for SNS REAAL would have been if the expropriation had not taken place. Account is taken of the price that would have applied, at the time of the expropriation and given the said prospects, in a free market transaction between the expropriated party as a reasonable seller and the expropriating party as a reasonable buyer. Account also has to be taken of state support previously provided and not yet repaid.

In my opinion, SNS REAAL would have become insolvent if the Dutch State had not intervened. Based on my advisers' analysis and given expected losses and state support still to be repaid, I believe that the value of the expropriated securities and assets of SNS REAAL and SNS Bank would be negative in the event of bankruptcy. In view of the above, and given that SNS REAAL requires a significant injection of

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<sup>11</sup> The outstanding unsecured liabilities of Dutch banks are estimated at over €400 billion or almost half the total amount of banks' market funding, and 20% of the aggregated bank balance sheets. The large size of this amount is associated with the 'deposit funding gap' (the difference between bank lending and bank deposits), which in the Netherlands is considerably larger than in other countries.

<sup>12</sup> This is an element in the proposal for a Directive of the European Parliament and the Council regarding the establishment of a framework for the recovery and resolution of credit institutions and investment firms and amending Directives 77/91/EEC, 82/891/EC, 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC AND 2011/35/EU and Regulation (EU) no. 1093/2010 (recovery and resolution Regulation).

<sup>13</sup> Parliamentary Papers II, 2011-2012, 22 112, no. 1446.

capital by the State, I believe that the compensation should amount to €0 per expropriated share and €0 per expropriated loan.

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I will make an official offer of compensation to the expropriated parties as soon as possible. I will then instruct the Enterprise Division of the Amsterdam Court of Appeal to set the compensation in accordance with this offer. Expropriated parties who object to the offer of compensation may seek recourse to the Enterprise Division of the Court of Appeal.

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#### *Privately placed subordinated loans*

As indicated above, all subordinated creditors of SNS REAAL and SNS Bank will be expropriated. The *Wft* permits expropriation of securities and regulatory capital components. Most of the subordinated debt qualifies as securities and so can be expropriated in the same way as the shares. Some of these subordinated debts, however, comprise privately placed loans. These loans do not qualify as securities, but instead as equity components. The expropriation of the regulatory capital assets will be effected in a different manner. Legally, in this case, it is not the provider of the capital who is expropriated. Instead, SNS REAAL, as the holder of the regulatory capital instrument, is expropriated. These regulatory capital instruments will be expropriated by a separate foundation (*stichting*), which will be responsible for the further resolution (probably via bankruptcy). SNS REAAL will be appointed the sole director of this foundation. In this way, this group of subordinated creditors will contribute to rescuing SNS REAAL in the same way as the other subordinated creditors. Formally, the intention to establish the foundation should have been put to the States General pursuant to Section 34(1) of the 2001 Government Accounting Act. Due to the confidential and urgent character of the expropriation of which this foundation forms an inseparable part, it was not possible to follow this procedure in full. Insofar as possible, I did inform the Cabinet and – during a confidential meeting – the Parliamentary Finance Spokesmen of the parties, in the spirit of Section 34(1) of the 2001 Government Accounting Act, on 25 January of this year that should expropriation have to be decided upon, a foundation would be established with a view to expropriating the privately placed subordinated loans.

#### *Participation certificates*

The expropriated subordinated liabilities of SNS Bank include the third series of participation certificates, with a total outstanding nominal value of €57 million.<sup>14</sup> Although these certificates are perpetual, they include a clause allowing SNS Bank to redeem them ten years after the issue date (in other words, on or after 23 June 2013). In contrast to the other subordinated liabilities, these participation certificates are held primarily by retail clients of SNS Bank. The creditor position of the holders of these participation certificates, however, in no way differs from that of the other subordinated creditors. It was therefore inevitable that these participation certificates were also expropriated. I am aware of the news reports that in the past an improper way of acting may have occurred in offering these

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<sup>14</sup> Source: SNS Bank N.V. Annual Report 2011

certificates and advising on them. I have therefore asked the new management shortly to investigate the facts at the time and, if necessary, to come up with a proposal for compensation of the aggrieved parties. I have asked the AFM to monitor the investigation to be conducted by SNS REAAL and to supervise the compensation process to guarantee an adequate settlement. However, this is separate from the expropriation of those certificates.

### *3.2 Recapitalisation of SNS REAAL and SNS Bank*

Following the nationalisation, SNS REAAL will be fully recapitalised. Expropriation of subordinated creditors will produce capital of over €1 billion. A capital injection by the State of €2.2 billion in total will then be needed. This amount will comprise €1.9 billion for SNS Bank, once Property Finance has been transferred to a separate real estate management organisation (with a haircut of €2.8 billion compared to the balance sheet at the end of June 2012), and €300 million for the holding company SNS REAAL.

### *3.3 Isolation of SNS Property Finance in a real estate management organisation and a guarantee for the funding of this management organisation*

The problem of Property Finance has to be clearly separated from the rest of SNS REAAL if confidence in SNS REAAL and SNS Bank is to be restored. This is in line with the principle that the intervention must represent a structural solution.

In order to isolate this problem and ensure a break with the past, I will transfer SNS Bank's real estate portfolio (after the write-down of the losses as forecast by Cushman & Wakefield<sup>15</sup>) to a separate real estate management organisation. The aim of this real estate management organisation is, in the medium term, to wind down the real estate portfolio as cost-effectively and profitably as possible. If this solution is to be credible, the real estate management organisation must be able to operate fully independently of SNS REAAL, both from a financial and an operational perspective. DNB estimates that setting up this real estate management organisation will require shareholders' equity of €0.5 billion. This will be injected by the State. This will fund the operating start-up costs and serve as buffer capital for unexpected developments. The part of the portfolio consisting of directly held real estate (approximately €0.2 billion) based on European rules will be charged to the EMU balance. This will bring the total sum charged to the EMU balance to € 0.7 billion.

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<sup>15</sup> In October 2012, the Ministry of Finance engaged Cushman & Wakefield, a specialised firm of consultants, to determine the real economic value of the real estate loan portfolio of SNS Property Finance. In addition, they were asked to give an indication of the real economic value of the real estate on the balance sheet of SNS Property Finance. The consultants initially based their valuation on the available figures for reporting date June 2012. The valuation was subsequently updated, when figures as at the end of 2012 became available. The value of the real estate and real estate loan portfolios depend on various factors, for which estimations have been made; the ultimate value (or rather the forecast loss) may differ, therefore, from the value calculated at present. The real economic value can best be compared with the intrinsic value of the SNS Property Finance portfolio, starting from the assumption that there is sufficient liquidity in the current market and not taking into account the current risk aversion. It should also be noted that the EC will want to look into the manner in which the real economic value has been determined. This may lead to an adjustment.

The State will also have to guarantee the funding of the real estate management organisation. This will require a guarantee of around € 5 billion. The funding of the real estate management organisation is initially provided by SNS Bank. Consequently, the bank still runs a risk on the portfolio; when losses rise further, the risk is that the real estate management organisation will be unable to repay this funding. The state guarantee covers this risk.

A real estate management organisation is a common solution for dealing with banks with 'toxic' assets, and one that has previously been successfully applied in countries such as Germany, Spain, Ireland and Belgium. This was a reason for me to pay particular attention to a solution along these lines, also given the conclusions reached by the De Wit Commission (Financial Crisis Inquiry Commission) on asset-based solutions to banking sector problems.<sup>16</sup> Without a real estate management organisation as envisaged, confidence in SNS Bank would be likely to remain impaired, while the uncertainty surrounding potential losses on the real estate portfolio at a later date could cause investors to avoid exposure to SNS Bank in both the short and medium term. This in turn could exacerbate SNS Bank's problems and make an exit by the State more difficult. Transferring the real estate portfolio to a separate vehicle will, however, remove this fear for investors wishing to invest in SNS Bank. At the same time, the real estate management organisation can take the time to recover the real estate portfolio as effectively as possible and maximise the returns that can be achieved. Based on the knowledge we have to date, I believe that the current haircut on the real estate portfolio represents a substantial write-down and that the likelihood of additional provisions being required is limited.

#### *3.4 Bridging loan from central government to SNS REAAL*

The expropriation of SNS REAAL securities and regulatory capital components will mean, in DNB's opinion, that it will initially be difficult for SNS REAAL to attract funding in the period following nationalisation. In order to meet the liquidity needs of the holding company, the State will provide the holding company with a bridging loan of €1.1 billion. This credit will be used to redeem senior debt and internal loans. This loan will be repaid after the insurer has been sold or any time sooner should SNS REAAL have been able to provide the funding itself.

#### *3.5 Imposition of non-recurrent levy on banks participating in the Dutch Deposit Guarantee Scheme*

One of the most important principles, for me, in the event of an intervention has always been the need to try, as far as possible, to limit the financial impact of the intervention on the State. During the previous rescue operations in 2008, the State and thus taxpayers bore the vast majority of the costs and risks of the rescue packages. On this occasion, therefore, in order to limit the costs and risks for taxpayers as far as possible, it has been decided to require a contribution from the banking sector in the form of a non-recurrent resolution levy of €1 billion, in addition to the above expropriation of shareholders and subordinated creditors. The proceeds of the levy will form part of general tax revenues, and so the tax authorities will be responsible for collecting it. The levy will be imposed in 2014 on

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<sup>16</sup> De Wit Committee report "Lost Credit II – Taking Stock", Parliamentary Papers II, 2011-2012, 31 980, No. 61 (p. 31).

all banks participating in the Dutch DGS. The levy, set as a specific percentage, will be charged on each bank's deposit base (i.e. the total of its guaranteed deposits). The reference date for determining the deposit base will be the date on which SNS REAAL is nationalised (i.e. 1 February 2013). The levy will not be deductible from corporation tax. In order to avoid a disproportionate burden on banks as well as an adverse effect on bank lending, the *ex-ante* DGS contributions scheduled for 1 July this year will be deferred for two years (total annual contribution by the sector: approximately €350 million).

In addition to the need for this support operation to spare taxpayers as much as possible, there is another reason in principle for imposing this non-recurrent contribution on the banks. This is related to the DGS. Without the State's intervention, SNS REAAL would have become insolvent in a disorderly manner within the very near future. That in turn would have rapidly resulted in the DGS having to be activated in order to repay SNS Bank clients' savings deposits covered by the DGS. This would have required the banks jointly to contribute an amount of approximately €35 billion. In that scenario, the banks would then be competing creditors in the bankruptcy settlement. In all likelihood, this would mean very high losses in absolute terms for the banking sector as a whole, and specifically for the three largest Dutch banks. Assuming a distribution rate of some 85%, the overall costs to the Dutch banks would amount to approximately €5 billion.<sup>17</sup>

This would all have a major impact on the other Dutch banks, particularly given the time needed to liquidate the assets and also the substantial uncertainty surrounding the ultimate proceeds. A situation in which other Dutch banks are owed substantial amounts from the SNS Bank bankruptcy settlement – including a total of some €30 billion in the case of the largest three banks – and where the extent to which these amounts will be recovered is highly uncertain will in itself serve to undermine the health of, and therefore confidence in, these banks.

It is in order to avoid their having to deal with this greater and more uncertain cost that this fixed, non-recurrent levy is being imposed on the banks. The decision to use the guaranteed deposits as the base for calculating this levy reflects the fact that this base is also used for calculating *ex post* DGS contributions; this means that the charge for the resolution levy will be spread across the sector in a way similar to the method that would apply if SNS Bank were to be declared insolvent and a pay-out under the DGS were to be required. I will submit a Bill on the imposition of the resolution levy to the Second Chamber of Parliament as soon as possible.

This levy should explicitly be seen as a one-off solution for the unique case of SNS REAAL. As stated above, negotiations are currently underway at a European level on the Recovery and Resolution Directive. This Directive includes provision for setting up a fund to provide finance for financial institutions in the event of resolution. The resources required for this fund will be raised by imposing levies on banks. In future, therefore, other institutions will bear the costs of resolution once

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<sup>17</sup> Liquidating the assets of a systemically important institution would also involve particularly high losses. This applies all such assets, but especially to the real estate portfolio. This is because bankruptcy would result in a very large portfolio of illiquid assets coming onto the market and triggering a substantial additional fall in prices ('fire sale'), certainly in the current market.

shareholders' and creditors' resources are exhausted. In this way, the non-recurrent levy to be imposed on banks as part of the SNS REAAL support operation will indeed be a one-off event. The system proposed by the European Commission, together with an expected proposal for a European resolution mechanism, will establish a permanent source of finance so that a levy of this nature will in future be unnecessary.

#### **4. Abandoned alternatives**

As I described in section 1, my predecessor and DNB at the end of 2011 went in search of various alternatives to address the problems at SNS in order to avert a bankruptcy. In the first place, it is of course a private issue of SNS REAAL to have its financial affairs in order and guarantee the continuation of the firm. When the regular supervision shows that this is insufficiently the case and the situation does not improve, the supervisor will use the instruments at its disposal to ensure that the situation stabilises. Only if this also proves inadequate, it is my turn to take action. In December 2011, when it became likely that the problems would possibly not be solved in a fully private manner, DNB and the Ministry of Finance set up a joint working group to analyse various scenarios for SNS REAAL.

The options considered ranged from fully private to public-private and fully public ones. None of the alternatives for the public option of nationalisation seemed to be viable. The option of bankruptcy and its aftermath has also been explored, but in view of the drawbacks mentioned in section 2, this option was abandoned.

##### *Private options*

In the area of private options, a share issue or the sale of parts of the bank can be thought of. Fully private options, however, proved to be infeasible, especially when the situation deteriorated. This is partly attributable to two problems: a) the double leverage and b) unit-linked insurance policies. Due to these two problems, the separate parts of SNS REAAL would not yield sufficient proceeds to strengthen SNS Bank's or REAAL's financial position. As a consequence of the double leverage, a part of the proceeds of the sale would have to be used to pay off loans entered into by the Holding. In addition, the insurance activities were being faced with problems surrounding unit-linked insurance policies, which affected the sales price negatively. When the situation at Property Finance deteriorated, a private share issue was also off the cards: SNS REAAL's share price, and with it its market value, was under such pressure that a share issue would not have been realistic.<sup>18</sup> Following fully private options, public-private options were considered, two of which at greater length.

##### *Two public-private options*

As said, two public-private options were considered in detail. The potential advantages of options of this kind are that risks can be shared with the private sector, its expertise can be used to the full, and the institution would not be completely withdrawn from the market, as would be the case in a nationalisation, which would probably make exit from public support easier.

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<sup>18</sup> For more information, I refer you to the enclosed Expropriation Decree in Annex 3.

The first public-private option that was considered was one where SNS REAAL would be stabilised with the help of the three large banks. This option was looked from many different angles. The core of this option is that SNS REAAL would be split up into a healthy company and a real estate management organisation. The three largest Dutch banks together would contribute a total sum of €1 billion. This would make them co-owners of parts of the real estate organisation and the healthy company. And the Dutch State would cover the remaining deficit. In addition to this, the banks wanted the State to guarantee funding/additional losses at the real estate management organisation.

The banks were very cooperative in thinking through this option. My predecessor and I have been in consultation with them since mid-2012, in order to think about a possible option where the banks would play a role. Together with its consultants and the big banks, a number of structures were worked out; however, these turned out to be infeasible, in particular because of the related implementation risks. Additionally, Cushman & Wakefield's assessment of the expected losses (see section 3.3) led to an increase in the capital deficit to be bridged, which presented an obstacle for reaching agreement about a transaction. The European Commission was also unable to provide sufficient certainty that this option would be in conformity with the earlier agreements made about State support. The European Commission's objections were primarily made out of competition considerations: i.e. the emergence of cross shareholdings in the financial sector. In addition, the *acquisition ban* to which two banks are subject posed an obstacle to a public-private option with active participation by the banks. And finally, participation of the three banks could prevent a future exit as this could harm their strategic interests. In this scenario only a limited degree of burden sharing was possible.

In October 2012, a second public-private option presented itself. A private equity fund was prepared to invest capital in SNS REAAL, provided that certain conditions were met. Key elements in the proposal were the inclusion of ASR in the deal by the State and a guarantee from the State on bearing any losses in the real estate loans portfolio beyond a certain amount. The three largest Dutch banks also were to contribute in this proposal. The private equity party intended a merger between SNS REAAL and ASR, which could lead to additional value creation. In return for its contribution, the State would acquire a minority interest in the merged entity. Given my desire to reach a private solution, I negotiated with this party intensively right up to the end.

In the negotiations I was guided by various principles. For instance, the write-downs on the loans portfolio had to be sufficient to split off the real estate assets against fair value and the subsequent capital injection large enough to set up a sufficiently capitalised whole. It was essential that the injection would offer a sustainable and sound solution for the whole of the holding, bank, insurer and new real estate vehicle. In addition, approval from the European Commission for the transaction was essential. Naturally, my considerations also took into account whether there was a pro rata spread of the risks and burdens between the State and the private equity fund.

In the course of the negotiations, the private equity party adjusted its proposal, partly based on the input from the European Commission and estimates about the scope of the losses to be expected. Partly as a result of the higher than expected

necessary write-downs on the real estate loans portfolio, it turned out that the private equity party was not capable of supplying sufficient capital. The State would have to help out with considerable contributions. At the same time, the private equity party would be rewarded with a disproportionately large interest in the bank for its contribution, while the State would receive a disproportionately small interest. The State was also asked to contribute capital and issue a loan guarantee to the real estate management organisation. The State ultimately had to give additional guarantees. I finally concluded that this would not be a true public-private solution, as the State was to provide a disproportionately large contribution. The contribution and the majority interest that the private equity party stood to gain, was in no relation to the contribution and guarantees that the State was supposed to provide in return for just a minority interest. Last but not least, this was a complex transaction, for which feasibility and funding on several important elements could not be guaranteed. Based in part on my advisor's analyses, it was therefore not possible to reach a responsible agreement with the private equity party. Nonetheless, I would not exclude that, following nationalisation, a transaction with a private equity party with respect to SNS REAAL or parts of the company may take place.

#### **5. Consequences for customers, staff and management of SNS REAAL**

As a result of the expropriation decree, the continuity of SNS REAAL (including its subsidiaries) has been ensured. The holders of some 1.6 million savings accounts and 1 million current accounts will not have to fear their bank balances being threatened by a possible bankruptcy. SNS REAAL's policy holders, customers who have taken out loans or other SNS REAAL products can also continue to use SNS REAAL's services without interruption.

The problems with which SNS REAAL has been confronted derive from the current financial climate. The problematic situation is, however, also attributable to the choices made by its management. That is why I believe that the positions of the CEO, who in his previous capacity was involved in the takeover of Property Finance, and that of the CFRO, who in his present capacity is responsible for the management of Property Finance, have become untenable. They share my view and have indicated that they will step down. I intend to appoint Messrs Van Olphen and Oostendorp as the new CEO and CFRO, respectively. These powers have been granted to me on the basis of a provision under the expropriation Decree. In addition, the chairman of the Supervisory Board, Mr Zwartendijk, has relinquished his position. His duties will temporarily be taken over by the deputy chairman of the Supervisory Board, Mr Overmars.

When SNS REAAL received a capital injection from the State in 2008, the condition was made that a new sustainable remuneration policy for the Board of Management would be developed, and that the members of the Board would not receive variable remuneration for the 2008 financial year. The new sustainable remuneration policy for SNS REAAL's Board of Management was introduced on 3 December 2009. This new remuneration policy complies with the Banking Code, which for instance means that the total maximum remuneration of the current CEO is (just) below the median of a peer group of financial and non-financial institutions. The policy also includes a 'no-profit, no bonus' clause. The members of the Board of Management have also been subject to the 'State-aid, no bonus' Act

since October 2011<sup>19</sup>. As a consequence of the above measures, the members of SNS REAAL's Board of Management have not received variable remuneration since 2008.

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Upon his appointment in 2009, the total maximum remuneration of the current CEO was reduced by 30% relative to that of his predecessor. This reduction was primarily achieved by setting the variable remuneration at a maximum of 100% (previously 160%), in accordance with the Banking Code. Moderation of the fixed salary was approximately 9%. Later on, the 'State-aid, no bonus' Act came into effect. This meant, in fact, an additional moderation of 50% of the total maximum remuneration, as the variable remuneration with a maximum of 100% for SNS REAAL directors was hereby prohibited by law. It should further be noted that SNS did not make use of the transitional arrangement as part of that Act to increase fixed salaries due to the abolition of the variable component. For the remuneration of the prospective directors, I am of the opinion that it should be in line with remuneration in the sector relevant to SNS REAAL and the applicable codes and norms that have been developed since the start of the financial crisis in that respect, such as the Banking Code. It is evident that, considering the situation, the remuneration policy at SNS REAAL will be restrained. That is why I shared my intention with the prospective CEO that I intended to appoint him and to award him a fixed remuneration of €550,000. This implies an additional reduction of 5% relative to the previously moderated fixed remuneration of the current CEO. I deem this moderation to be sufficient as it comes on top of the earlier achieved moderation.

I believe that for an institution needing State intervention for a second time, all staff should be asked to contribute towards a quick recovery of the institution. This means that possible measures with respect to staff remuneration, including wage moderation, should be discussed. I will therefore ask the prospective CEO to investigate which additional measures would be necessary for the senior management. The remuneration policy for senior management has actually been reviewed before as a condition to the loan that State extended to SNS REAAL. In addition to this, I will ask the prospective CEO to enter into talks with the trade unions about the level and sustainability of the wages paid to staff falling under the collective labour agreement. This is in light of the situation that SNS REAAL is now in.

## **6. Consequences for lending operations**

SNS REAAL is major player in the Dutch financial landscape. Despite its modest size in comparison with the three largest banks in the Netherlands, SNB Bank is also a player of consequence in the lending market in the Netherlands. This means that the future of SNS Bank has a significant effect on the shape of the Dutch lending market. Nationalisation prevents bankruptcy and SNB Bank will continue to exist.

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<sup>19</sup> Bulletin of Acts, Orders and Decrees 2012 265, Act of 7 June 2012 amending the Financial Supervision Act and the BES Financial Supervision Act in connection with the implementation of a limited liability for supervisors of the financial markets and the inclusion of rules on remuneration of the day-to-day policymakers of financial undertakings receiving state support (Act on the limitation of liability of DNB and AFM and introducing a ban on bonuses for firms receiving state support).

At present I cannot provide clarity on the demands that the European Commission will make and which impact these demands will have on the competitive conditions in the lending market. It is clear, however, that bankruptcy would have definitely had a much more negative impact on the lending market. As in that case SNS REAAL would have completely eliminated as a market player. In addition, SNS REAAL's bankruptcy would have endangered the other banks' lending operations. As described in paragraph 2, the activation of the deposit guarantee scheme would have meant an enormous cost burden for the other banks. This would have brought on big risks to the stability of the Dutch financial system and severely reduced the other banks' lending capacity.

Finally, I want to note that the resolution levy signifies a substantial extra burden for the banks. Deferral of the DGS levy offers some compensation to limit the effects lending. According to DNB's most recent figures, dating from November 2012, lending by Dutch banks to Dutch businesses at macro level is still growing by 3.5% year-on-year. I will, however, continue to monitor lending closely, as I have let your Chamber know before.

### **7. Consequences for the budget, the EMU balance and the EMU debt**

In this section, I will outline the budget implications of the intervention, in line with the breakdown used in section 3 (description of the intervention). The budgetary representation of the complete transaction will shortly be included in Chapter IX of the central government budget, in the form of a non-recurrent supplementary budget which I will send to you soon. The transaction elements still to be determined at the moment will be integrated at the next budgetary opportunity, which is probably the Spring Memorandum.

#### *Cost estimate*

The budgetary implications are as follows. Under Budgetary Rule No. 24, all costs and proceeds of interventions in the financial sector with the aim of protecting the stability of the financial system are irrelevant as far as the framework is concerned. Every act will of course continue to require Parliament's endorsement. For that purpose, I will submit a non-recurrent supplementary budget for approval to your Chamber.

#### *EMU balance*

The effect on the 2013 EMU balance is expected to be about 0.6% of GDP in the negative. A total of €3.7 billion will be charged to the EMU balance. This comprises the following:

- €2.2 billion capital injection for SNS Bank (€1.9 billion) and SNS REAAL (€0.3 billion).
- €0.7 billion for capitalisation of the real estate management organisation (€0.5 billion) and the allocation for real estate losses (€0.2 billion).
- €0.8 billion as the write-down on SNS REAAL's CT1 securities.

Incidentally, Statistics Netherlands (CBS) and Eurostat are responsible for the ultimate allocation of the package to the EMU balance and EMU debt (see the previous heading).

The recapitalisation of SNS REAAL and SNS Bank (see section 3.2) requires €2.2 billion. The State will, possibly, not receive dividend on the new capital provided so that the amount of the new injection comes out lower. Whether or not dividend will eventually be paid out, partly depends on how the institution will perform. If, however, the capital position remains robust, the State will receive an amount upon sale of the participation. If circumstances deteriorate significantly, the State may make a loss on the capital, while a need for further capital support can, unfortunately, never be categorically ruled out. The calculation of the recapitalisation required has been based on an in-depth analysis by DNB. The amount of €2.2 billion includes the €1 billion to be contributed by subordinated creditors to the recapitalisation.

The capitalisation of the real estate management organisation amounts to € 0.5 billion in capital. In addition, € 0.2 billion is charged to EMU balance for the (physical) parts of the real estate portfolio.

As indicated, the State is also owed an additional amount of approximately €565 million by SNS REAAL in respect of the current CT1 securities. With the intervention, these securities, including the 50% penalty interest due (€0.3 billion), which the State would otherwise have received upon redemption, will be written down. This is done as the claim in economic terms does not represent any value. In addition to the new capital support, therefore, there will also be the write-down of the claim amounting to €0.8 billion.

#### *EMU debt*

The impact on the EMU debt will amount to around 1.6% of GDP. The impact on EMU debt levels is considerably higher than the impact on the EMU balance. This is because the €1,1 billion loan does not count towards the balance, but does towards debt (after all, the money for the loan the State provides has to be lent, thereby increasing the debt; according to the European rules, loans do not count towards the balance). The State also has to consolidate the real estate management organisation, which means that the debts of this organisation<sup>20</sup> will also be included in calculating the EMU debt. A total of approximately €9.8 billion will be attributed to the EMU debt; this comprises the following:

- €3.7 billion from the EMU balance as indicated above.
- €5 billion consolidation of the real estate management organisation in the government.
- €1.1 billion for the bridging loan to be provided to SNS REAAL.

#### *Overview*

	<b>Effects on EMU balance</b>	<b>Effects on EMU debt</b>
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<sup>20</sup> In special accounting rules for the financial crisis, Eurostat has laid down that SPVs for the settlement of for instance real estate portfolios must be attributed to the government if the State bears the majority of the risk. For this reason, the debt of the real estate management organisation has to be added to the EMU debt.

Recapitalisation of SNS Bank and SNS Holding by the State	€2.2 billion	€3.7 billion
Real estate management organisation	€0.7 billion	
Write-down of CT1 securities	€0.8 billion	
Bridging loan provided by the State to SNS REAAL Holding		€1.1 billion
Consolidation of the real estate management organisation in the government		€5 billion
<b>Total</b>	€3.7 billion	€9.8 billion

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For the bridging loan, the State will receive interest, which will be determined on the date of issue. This compensation will at any rate be competitive and be higher than the interest rate at which the State itself borrows. The real estate management organisation will probably not pay out any dividend. In return for its guarantee on the funding of the real estate management organisation, the State will receive guarantee commission. The exact level of this fee has still to be determined, but it will in any event also be a market rate.

#### *Income from the levy*

The levy on the financial sector (section 3.5) will produce approximately €1 billion for the State. Some of this amount will come from ABN Amro and SNS Bank, which are wholly owned by the State; consequently, the amount accruing to the Treasury from this levy will in fact be lower.<sup>21</sup> The exact amounts to be contributed by ABN Amro and SNS Bank are not yet known as their deposit bases on the reference date (i.e. the date of the nationalisation) and the exact rate at which the levy will be charged are not yet known. Initial indications point to a forecast order of magnitude in the case of ABN Amro of €200 million and €70 million for SNS Bank.

The special levy will be imposed on the banks in 2014 and will have a positive effect on the EMU balance (net effect in 2014: approx. +0.2% positive).

#### *Uncertainties*

The expropriation of subordinated creditors (section 3.1) will contribute €1 billion to the recapitalisation of SNS REAAL and SNS Bank. The expropriation will not cost the State anything, given that the subordinated creditors will receive compensation of €0. The expropriated parties can appeal to the Enterprise Chamber of the Court of Appeal, which means there is a risk of the amount of €0 being revised upwards. Based on the analyses by my advisers, I see absolutely no reason at this stage to assume that the Enterprise Chamber will revise the compensation upwards. In the

<sup>21</sup> Just like the other banks, SNS Bank will contribute because it will continue to compete in the Dutch market. In order to avoid unnecessarily distorting competition in the market, it would seem appropriate to require a contribution from this organisation. Furthermore, SNS Bank will also benefit from the deferral of the *ex-ante* DGS contributions.

event of a bankruptcy, the expropriated parties would also have lost their investment.

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Also with respect to the real estate management organisation the possibility cannot be ruled out that the State may be confronted with an additional loss as a result of worsening market conditions.

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The recapitalisation and bridging loan mean the State will have to raise additional finance in the market in 2013. The costs associated with this once again are not relevant for the frameworks, but are of relevance to the balance. For the time being, these costs will not be offset by dividends paid by SNS REAAL to the State, but will be (partly) offset to some extent by interest payments on the bridging facility. The ultimate proceeds for the State will depend on future dividends that may be received and on the proceeds from the sale of all or parts of SNS REAAL.

As a previous emergency intervention showed, the possibility of additional losses or a possible need for additional capital at some point in the future cannot be excluded. I have, however, done my utmost, in consultation with DNB, to avoid such eventualities by, for example, subjecting the Property Finance portfolio to in-depth examination. I will obviously inform the Second Chamber as soon as possible in the event of any unexpected developments in this respect. Lastly I should like to point out that the purpose of the expropriation is to safeguard the stability of the Dutch financial system. Failure to intervene would have had far greater adverse consequences for the country and would have cost taxpayers in the Netherlands far more.

### **8. The future of SNS REAAL**

Due to the expropriation of the shares issued by SNS REAAL, the Dutch State has become its sole shareholder. The shareholding in SNS REAAL resulting from the expropriation has a temporary nature. The intention is to float SNS REAAL again in due time. The administration of the shareholding (for the purpose of the eventual exit) will be transferred as soon as possible – and to all expectations within several months – to *Stichting Administratiekantoor Beheer Financiële Instellingen (NLFI)*, taking account of competition considerations.

It is my intention to maintain diversity within the Dutch banking landscape for the future, and to strengthen it where possible. This intervention and future choices to be made should be seen in this light. This takes time and effort, however. That is why I have already mentioned above my intention to appoint a new CEO and CFRO. As said, I want to isolate Property Finance from the bank and the insurer as soon as possible. I will therefore ask the new management to scrutinise the current governance and management of Property Finance in order to enhance the resolution of the portfolio.

If the insurer is sold separately from the bank, the holding company, bank and insurer will have to be disentangled. I foresee an exit from the bank in the medium term. The form this will take depends on the best perspective for a stable SNS Bank at that particular moment. I do not exclude a sale to a foreign or domestic party, nor a stock market flotation. For the time being all my efforts are directed towards restoring the bank's health.

**9. Aspects of government aid**

With respect to the expropriation decision, we have been in contact with the European Commission about the form and character of the decision. I will today file a request for temporary approval of the government aid with the European Commission. The Netherlands will remain in close contact with the European Commission and supply as soon as possible the information that the European Commission requires to form its opinion. It is then up to the European Commission to issue an opinion on the aid. The possibility cannot be precluded that the European Commission's decision will lead to restructuring demands with respect to the institution, which will consequently affect the strategic choices to be made. Should this be the case, I will of course notify your Chamber.

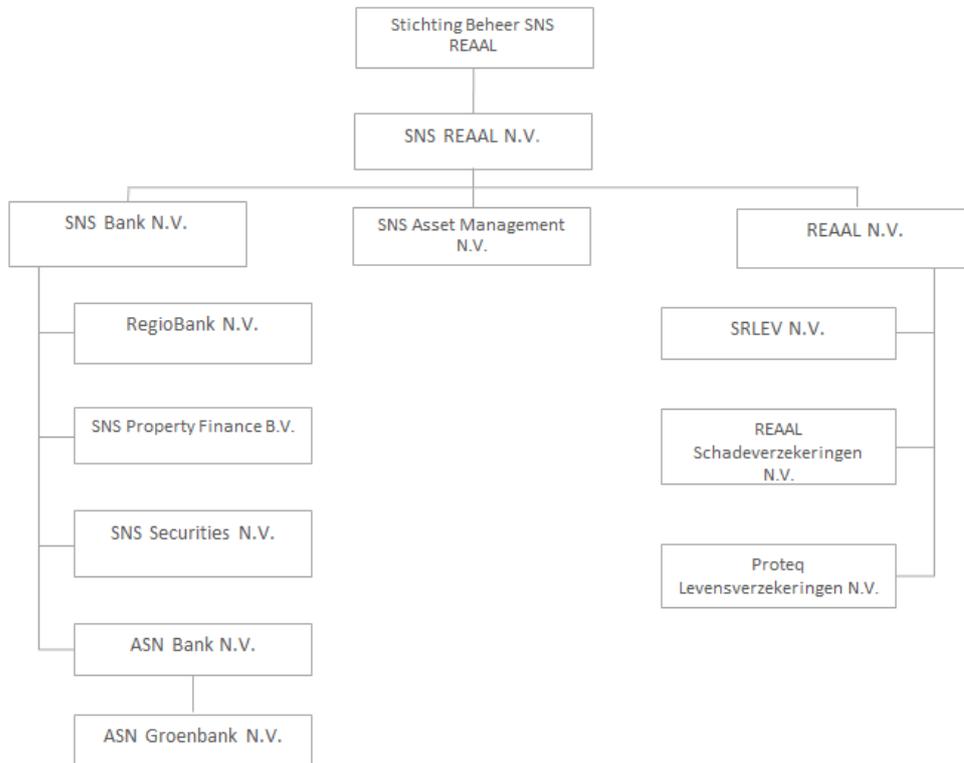
Yours sincerely,

The Minister of Finance,  
J.V.R.A. Dijsselbloem

Annex 1: simplified organisation chart of SNS REAAL

Financial Markets Directorate

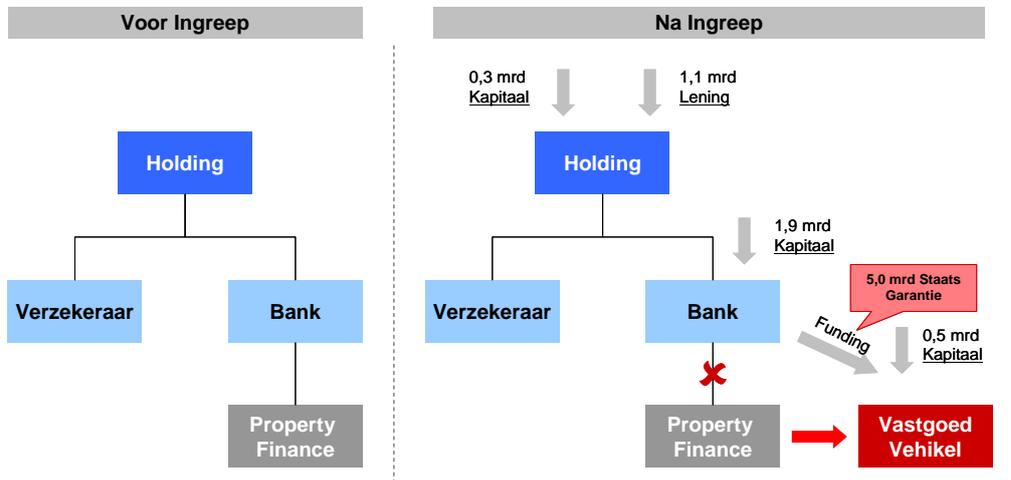
Our reference  
FM/2013/211 M



Annex 2: Structure of SNS REAAL before and after expropriation

Financial Markets Directorate

Our reference  
FM/2013/211 M



Totaal benodigde injectie: EUR 2,7 miljard kapitaal en EUR 1,1 miljard lening