SNS REAAL

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Onze referentie
Uw referentie
Onderwerp Mogelijke combinatie ASR en SNS REAAL met kapitaalinjectie door CVC consortium

Datum 1 november 2012

Geachte mevrouw Salden, heer Raab, beste Gita en Wouter,

Al geruime tijd vindt er regelmatig tripartiet overleg plaats tussen MinFin, DNB en SNS REAAL over verschillende scenario's om de kapitaalsbasis van SNS REAAL te versterken. SNS REAAL streeft daarbij naar een oplossing die op een evenwichtige wijze rekening houdt met de belangen van al haar stakeholders. Zoals eerder aangegeven, waarderen wij deze gesprekken als Raad van Bestuur van SNS REAAL (RvB) zeer.

Tijdens de gesprekken is een breed scala aan mogelijke scenario's besproken, waarbij de volgende drie scenario's het meest recent zijn besproken.

- Een scenario waarin een APS voor de Property Finance portefeuille van SNS REAAL door de Nederlandse Staat wordt gecombineerd met een kapitaalinjectie door de grootbanken (Rabobank, ING Bank en ABN AMRO Bank), aangevuld met een verkoop van de verzekeringsactiviteiten op termijn.
- Een scenario waarin een APS voor de Property Finance portefeuille van SNS REAAL door de Nederlandse Staat wordt gecombineerd met een kapitaalinjectie van circa €750 miljoen door CVC en enkele internationale, private mede-investeerders, zodat de kapitaalsbasis van SNS REAAL wordt versterkt. Een uitwerking van dit scenario hebben wij jullie uitgereikt en toegelicht tijdens ons overleg van 23 oktober jl.
- Een scenario waarin SNS REAAL fuseert met ASR. Het overtollig kapitaal van ASR van [redacted] zal hierbij gebruikt worden om de verliezen van de Property Finance portefeuille van SNS REAAL op te vangen, waardoor een APS mogelijkerwijs niet noodzakelijk is. Een uitwerking van dit scenario, opgesteld in overleg met NLFI, hebben wij jullie toegestuurd op 11 oktober jl.

Elk van de bovenstaande scenario's gaat uit van een conversie van de CT1 securities van de Nederlandse Staat en van een conversie van de CT1 securities en B aandelen van Stichting Beheer SNS REAAL (Stichting Beheer). De conversie van de CT1 securities en B aandelen van Stichting Beheer gaat gepaard met een zeer significante burden sharing.

SNS REAAL

In gesprekken tussen de RvB en het senior management van CVC is gebleken dat CVC en haar mede-investeerders, zijnde [redacted] (zie bijlage voor nadere informatie) (samen het CVC Consortium), ook mogelijkheden zien om een constructieve rol te spelen in een mogelijke combinatie van genoemde scenario's.

In bijgevoegd document doet het CVC Consortium een eerste voorstel waarin het concreet aangeeft hoe een dergelijke transactie vormgegeven kan worden. Het voorstel omvat verschillende elementen die onderwerp van onderhandeling zullen zijn tussen de Nederlandse Staat, Stichting Beheer en het CVC Consortium. Dit geldt onder andere voor de behandeling van de CT1 securities van de Nederlandse Staat, de conversie van de CT1 securities en B aandelen van Stichting Beheer, de waarderingen van ASR en SNS REAAL en het aangrijppunt van de APS. Het voorstel gaat ook uit van een bijdrage van de grootbanken aan de kapitaalinjectie. In het voorstel geeft het CVC Consortium zijn visie op deze elementen in een mogelijke transactie.

Op hoofdlijnen bevat het voorstel van het CVC Consortium de volgende onderdelen:
- Het CVC Consortium zal een kapitaalinjectie doen van circa €0.9 miljard door middel van het underwriten van een discounted claimemissie. Aangenomen wordt dat daarnaast de grootbanken op dezelfde wijze een aanvullende kapitaalinjectie zullen doen van circa €300m, zodat de kapitaalsbasis van SNS REAAL met circa €1,2 miljard privaat kapitaal wordt versterkt.
- In het kader van burden sharing, verwacht het CVC Consortium dat de Stichting Beheer instemt met een volledige afschrijving van haar CT1 securities en B aandelen. Daarnaast verwacht het CVC consortium om burden sharing toe te passen op de hybride Tier 1 instrumenten.
- De Nederlandse Staat ontvangt €565m in contanten als terugbetaling voor de CT1 securities, conform de voorwaarden van deze effecten.
- Het CVC Consortium beschouwt een APS voor de Property Finance portefeuille van SNS REAAL door de Nederlandse Staat als voorwaarde voor een kapitaalinjectie. Het CVC Consortium is van mening dat het staartrisico van deze portefeuille niet door een private partij dient te worden gedragen. Het CVC consortium stelt daarom de volgende structuur voor. De verliezen van PF worden gegarandeerd boven een niveau van €1,265m, waarbij overwogen kan worden of een gedeelte van het resterende staartrisico door de grootbanken gegarandeerd kan worden. De Nederlandse Staat wordt gevraagd het resterende staartrisico te garanderen tegen een passende fee.
- De Nederlandse Staat ontvangt €610m aan dividend vanuit ASR via NLFI.
- SNS REAAL en ASR fuseren. Na bovengenoemde private kapitaalsinjectie in SNS REAAL van €1.2 miljard, de afschrijving van de Stichting CT1 securities en B aandelen, en de dividenduitkering door ASR aan de Nederlandse Staat van € 610m voorziet het CVC Consortium een ruilverhouding van 64% voor SNS REAAL en 36% voor ASR gebaseerd op hun relatieve waarderingen.

SNS REAAL

De RvB is van mening dat dit voorstel net als de drie eerder genoemde scenario's overwogen zou moeten worden. Het voorstel van het CVC Consortium voorziet in een kapitaalinjectie waarvan €900 miljoen afkomstig is van partijen buiten de Nederlandse (financiële) sector. Hiermee wordt SNS REAAL gestabiliseerd en het risico van de Property Finance portefeuille van SNS REAAL grotendeels afgedekt. Het voorstel voorziet hiernaast in de eerste stappen om ASR weer naar privaat eigendom te brengen. Het CVC Consortium is samengesteld uit gerenommeerde partijen, die in eerdere transacties hebben aangetoond op een constructieve wijze met nationale staten samen te werken.

Aangezien het CVC Consortium twee concreet uitgewerkte voorstellen heeft neergelegd en gelet op de gewenste snelheid die onder de huidige omstandigheden gewenst is, is de RvB van mening dat het CVC Consortium de gelegenheid dient te krijgen een eerste boekenonderzoek op hoofdlijnen uit te voeren. Om die reden heeft CVC sinds 1 november toegang tot de dataroom van SNS REAAL.

Graag plannen wij op korte termijn een bespreking om het voorstel van CVC en de verhouding tussen de verschillende scenario's nader toe te lichten en om gezamenlijke vervolgstappen te bespreken. CVC heeft daarbij aangeboden om samen met haar mede investeerders, indien MinFin dit wenst, ook zelf dit voorstel toe te lichten.

We achten het in het belang van SNS REAAL en al haar stakeholders dat er op korte termijn een beslissing genomen wordt over een eindoplossing voor SNS REAAL.

Met vriendelijke groet,

Ronald Latenstein

C.c. Jan Sijbrand en Petri Hofste, De Nederlandsche Bank

NON-BINDING AND SUBJECT TO CONTRACT

STRICTLY PRIVATE & CONFIDENTIAL

Draft Terms Sheet for an investment in SNS REAAL Group N.V. ("SNS") and the potential combination with Assurantie der Stad Rotterdam ("ASR") for discussion with the Dutch State

We welcome the opportunity to submit this proposed Term Sheet regarding an investment by funds ("CVC Funds") advised by CVC Capital Partners Limited and its affiliates ("CVC"), together with [redacted] (the "SWFs" and together with CVC "the Consortium"), into SNS and the potential strategic combination with ASR.

Since we started discussing this potential investment with SNS in the summer we have conducted substantial due diligence on the company and the market and we continue to be very interested in the possibility of investing in SNS. We believe we can offer an attractive alternative to the other solutions, which would require substantial investments from the Dutch State and the involvement of the three largest Dutch banks. While our proposal requires the current stakeholders to share the burden of historic losses, we believe our proposed transaction structure is balanced and provides the best possible outcome for each of the key constituents given the current critical situation.

One of the conclusions of our recent due diligence was that in order to properly provision for property finance losses in all likely scenarios a larger rights issue than originally envisaged would be required. As such, we have updated our proposal to include a larger capital injection from the Consortium in combination with a minority investment from ING, Rabobank and ABN Amro (the "Banks") who we believe will be supportive. Furthermore, we believe the direct involvement of the sovereign wealth funds demonstrates confidence in the Dutch economy by long term investors.

In summary, we believe that our proposed transaction will allow SNS to leave behind the issues related to Property Finance and to become a well capitalised institution. It will also allow the State to receive total proceeds of €1,175m at closing as well as providing the State with a clear route to exit its ASR investment, whilst retaining significant upside from synergies and future value creation resulting from the combination of SNS and ASR.

Subject to timely progress of these discussions, we have a high degree of confidence that we could complete our due diligence on SNS and ASR quickly and that the Consortium could be in a position to sign and announce a transaction with all the key stakeholders by the end of the year.

A potential investment in the combination of SNS and ASR is a top priority for CVC and we have received strong support from our Investment Committee.

We would welcome the opportunity to discuss this proposal with the State or any of its advisers.

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This proposed Term Sheet is made on the basis thot the State, SNS and its officers and advisers will keep the information contoined herein confidential and will not disclose or publish such information to any other person (other than as is necessory in connection with the contemploted transoction) without our prior written consent.

Nothing in this proposed Term Sheet shall give rise to or be copoble of giving rise to any legal obligations whatsoever on the part of CVC or the CVC Funds, but the preceding parograph is intended to be binding on the State, SNS, its officers and odvisers, and any other porty to whom the information set out herein is disclosed.

1.	**Discounted Rights Issue by SNS**	
1.1.	Pricing	€0.75 per share.
1.2.	Quantum	€1,205m in total.
1.3.	Foundation pre-emption rights	Foundation agrees not to exercise its pre-emption rights.
1.4.	Free float pre-emption rights	Free float holders provided with capped pre-emption rights that would allow them to invest (as a group) up to 50% of their ratable share in the rights issue (i.e. up to c.€300m).
1.5.	Investment by the Consortium	Subscribe for €905m of the rights issue, with CVC Funds as single largest subscriber. CVC Funds and the SWFs would each invest into SNS through one or more special purpose vehicles incorporated for the purpose of the transaction.
1.6.	Investment by other key investors	The Banks underwrite €300m of the rights issue. If there is insufficient demand from free float holders then the Banks would be allowed to place the shares (on terms to be agreed with the Consortium) with other investors if there is sufficient demand.
1.7.	Underwriting and transaction fees	CVC may charge an appropriate underwriting or transaction fee and/or ongoing monitoring fees relating to the transaction.
1.8.	Rights issue proceeds used to support Property Finance provision	€975m of the proceeds will be used to create immediate provision of €1,265m on the Core and Non-Core Property Finance portfolios totalling €8.7bn of net outstanding as at H1 2012. This will consist of €1,000m write-down to achieve the current SNS best estimate of the provision required in the Property Finance portfolio, plus a further €265m of second loss relating to the stress scenarios recently completed by Ernst & Young. We believe that this write down should qualify to support the creation of a tax asset at SNS level, subject to agreement with company auditors.
1.9.	Other use of rights issue proceeds	Any excess investment will be kept as excess capital in SNS to finance the repayment of the State Core Tier 1 securities, further boost the day one financial strength of the company and to support repayment of double leverage.
1.10.	Public/ private status	Post transaction, SNS is expected to remain public. There are several benefits of the company remaining public: • A full take private will increase complexity of the transaction (e.g. approval procedure, minority squeeze out, eventual re-listing, etc.) and will result in increased capital exiting the Dutch financial services sector; • No meaningful difference on reporting/ disclosure requirements since the company is regulated and will need to continue to provide regular updates to the market, regulators and rating agencies; • Continued public status helps maintain liquidity of shares and certainty on eventual exit for the State and Consortium; and • Allows individuals and institutions to buy into a large Dutch financial institution.

1.11.	Mechanics	Transaction to be approved by shareholders under SNS existing corporate governance rules. We understand it is likely that as set out above the proposed investment will create the need for a mandatory offer from the Consortium at an equitable value (which we would expect to be the discounted rights issue share price). The Foundation and the Banks (if they hold shares pursuant to the underwriting) will commit not to take up any mandatory offer and the Banks will agree to underwrite the theoretical funding requirement for up to c.€110m related to any shareholders who take up the offer.
1.12.	Burden sharing by Hybrid Tier 1 instrument holders	This refers to the holders of instruments at the SNS and SNS subsidiary level. We believe they should be asked to forego or defer their coupon on their financial instruments as part of the overall deal burden sharing and we understand that the European Commission may regard this is as important positive element in coming to a decision on the proposed transaction. We would ask that the State supports this proposal for burden sharing from holders of these instruments with the European Commission.

2. Treatment of State Core Tier 1 Securities in SNS (at the same time as Step 1 above)

2.1.	Amount	€565 million payable in cash at closing as per contractual position assuming the State decides not to exercise their right to convert at a price of €5.25 / share. The State would have no further claims under the Core Tier 1 Securities following such payment.
2.2.	Form of consideration	The €565 million will be financed with the excess capital generated by (i) the rights issue, (ii) the merger with ASR and (iii) the de-consolidation of the Property Finance risk weighted assets. This would be subject to the DNB approval which we believe will be possible in the context of the proposed transaction.

3. Treatment of Foundation Securities in SNS (at the same time as Step 1&2 above)

We believe it is appropriate and necessary that the Foundation will share a large portion of the burden related to this transaction. The proposed negotiation and agreement with the Foundation will be led by SNS with support as appropriate from CVC.

3.1.	Core Tier 1 securities	20% penalty fully foregone. 100% write off by the Foundation.
3.2.	B shares	100% write off by the Foundation.

4. ASR merger (at the same time as Steps 1, 2 & 3 or shortly after with contractual certainty at the time of signing and announcement)

4.1.	Pre-completion dividends	ASR will distribute a €610m dividend from its excess capital to the NLFI before completion subject to the approval from DNB and the Supervisory Board of ASR (and sufficient reserves being available) which we believe should be possible in the context of the proposed transaction.
4.2.	Transaction structure/ mechanics	Merger of SNS and ASR will be conducted via means of a share swap based on established valuation parameters previously discussed with the State, adjusted for the recapitalisation of SNS and the pre-completion dividend to ASR. The NLFI's ASR shares would be swapped in exchange for 36% of the shares in SNS. The pre-merger shareholders of SNS would continue to hold the remaining 64%.
4.3.	Post-merger ownership	The Consortium 41% Dutch State 36% Foundation/ Free float(1) 10% The Banks 14% (1) This assumes no free float take up under the Rights Issue
4.4.	Public/ private status	The combined entity is expected to remain publicly listed, for the reasons highlighted in Section 1.10. In addition, given the strategic importance and size of the combined business, public market ownership is the most likely long term exit option for the State, the Consortium and the Banks.
4.5.	Integration plan	The management of ASR and SNS will jointly develop and commit to an integration plan (with appropriate support from Works Council) which will be approved by the Consortium and the State before signing of the transaction.
4.6.	Due diligence on ASR	We expect management of SNS together with the support of CVC to complete the due diligence on ASR in a timely fashion. We would ask the NLFI and the State to support our ability to undertake this diligence with access to the necessary members of the management and information required on a timely basis.

5. Management and Governance

Our views on the proposed governance are subject to regulatory and corporate governance considerations and further discussion with the management teams of SNS and ASR.

5.1.	Management of the business	The Consortium, the State and NLFI will agree the composition of the Executive Board. Management continue to manage and operate the combined SNS/ASR entity and its subsidiaries.

5.2.	Combined entity Supervisory Board composition	We would expect the Supervisory Board to reflect the ongoing ownership structure of the combined business, consisting of the following: • 1 independent Chairman, to be jointly appointed by the Consortium and the State; • 4 members appointed by the Consortium; • 2 members appointed by the State / NLFI; and • 2 members appointed by the Works Council. We would also welcome the opportunity to discuss the possibility of other independent non-executive directors with relevant expertise (including current members of SNS or ASR Supervisory Boards) to be jointly appointed by shareholders. We would see this as important in giving comfort to the Free Float that their interests are being adequately safeguarded through sound corporate governance.
5.3.	Board Committees	Maintain SNS' current number of committees (Nomination, Remuneration, Audit, Risk), with the possible addition of an Asset and Liability committee to be discussed. Composition to be agreed with the Consortium to reflect shareholdings, but will include at least one Consortium appointed director and one State appointed director.
5.4.	Quorum and logistics	A Consortium appointed director and a State appointed director must be present (in person or by proxy) at any Supervisory Board meeting for that meeting to be quorate. The Supervisory Board continues to meet at least six times a year.
5.5.	Governance rights of Supervisory Board	Maintain Supervisory Board rights based on current SNS set up, with clear inclusion of monitoring of business performance against budget, approval of major strategic decisions and reserved rights for the Consortium and the State.
5.6.	Deadlock resolution	Agreed arrangements for dispute resolution.
5.7.	Interaction with DNB and other regulators	Daily interactions will continue to be led by management and relevant compliance officers. The Consortium and the State directors expect to be involved in all Supervisory Board level interactions with the regulators.
5.8.	Distribution policy	Subject to discussions with regulator, SNS's operating subsidiaries will distribute shareholder funds in excess of regulatory or other prudent capital requirements by way of dividends to SNS holding. Post transaction it is expected that the retail banking activities will be initially capitalised with a Core Tier 1 capital ratio of at least 12% and the insurance activities with a Solvency Ratio of 215%. Distributable profits available at SNS holding will first be used to reduce double leverage to below 105%, with residual available to shareholders as dividends, subject to approval by the regulator.
5.9.	Publicity	Governance arrangements between SNS, the Consortium, the State and others will need to be documented in (a combination of) the articles of association and contractually. Certain key terms may need to be made public.

6. Special Purpose Vehicle ("SPV") for SNS Property Finance

We believe that the proposed €1,265m of provisions in the Property Finance business reflects both the expected provisions (€1,000m) and a second loss element (€265m) relating to the stress scenario for the portfolio of loans.

6.1.	SPV set up	An SPV will be set up and owned by SNS holding but will be operated at arm's length from other subsidiaries of SNS. We believe that having SNS own the SPV would create alignment of interest with the Dutch State with regards to maximising the value of the portfolio.
6.2.	Scope of asset sale to the SPV	Both Non-Core and Core Property Finance Portfolios, with total net outstanding amount of €8.7bn as of H1 2012. We note that the Property Finance subsidiary of SNS Bank already contains this portfolio and materially no other assets. Therefore, the most likely approach would be for this subsidiary of the SNS Bank to be transferred to a direct subsidiary of the new SPV, which itself will be a subsidiary of SNS.
6.3.	Coverage of losses	Any losses that emerge from the SPV will be initially covered by any accumulated profits within the SPV. Any excess loss will be covered by an insurance arrangement underwritten by the State ("State Guarantee").
6.4.	Impact of the SPV	We believe it will be possible to ensure that the SPV will allow SNS and SNS retail banking operations to apply zero risk weighing on these loans from a capital perspective. Subject to further technical advice, we believe that it will also be possible to ensure that the State will not need to consolidate the loans on its own balance sheet.
6.5.	Compensation for State Guarantee	An annual fee of 50bps of the net outstanding amount of loans at the beginning of that year in the SPV will be payable to the State in return for the State Guarantee. The amount will be payable by SNS.
6.6.	Operations	All the costs and staff relevant to servicing the assets in the SPV will be identified, and they will be either transferred to the SPV or recharged to the SPV at cost.
6.7.	Restrictions on activities of the SPV due to the State Guarantee	The SPV will agree not to distribute dividends to its shareholder unless: a) the net outstanding amount of loans in the SPV is below the level of equity in the SPV, in which case the excess equity will become available for distribution to SNS holding; or b) the level of excess capital in the SPV exceeds a pre-agreed level for a sustained period of time, in which case a proportion of the excess capital will become available for distribution to SNS holding; or c) the State Guarantee is terminated by SNS (at its election).

7. Share Issue and Transfers

Our proposal here is subject to further input from experts in the listing rules and discussions with the listing authorities. These proposals are being made in the interests of the Consortium, the Banks and the State to ensure an orderly re-emergence of SNS as a stable public company in the Netherlands.

7.1.	Investment holding period	Within the first two years after the investment, no sale of shares would be allowed by the Consortium, the Banks or the State unless explicitly agreed amongst by all parties.
7.2.	Share transfers	If the State or the Banks wish to sell any of its shares in SNS (other than by way of customary permitted transfer), such sale would be undertaken in coordination with the Consortium with appropriate rights of first offer.

8. Transaction Process

8.1.	Response from the State	In order to ensure that we can develop momentum in our diligence exercise, we would request that the State provides SNS and the Consortium with an initial response and indication of support within two weeks of submission of this proposal. This would allow the Consortium to complete its due diligence in time to announce a transaction by year end. We believe this is particularly important given the negative watch placed on SNS by S&P and the need to maintain market confidence in SNS.
8.2.	Exclusivity	Once diligence has progressed further, the State and SNS would each agree that the Consortium is granted an appropriate period of exclusivity to complete its diligence and negotiation on the proposed transaction.
8.3.	Time line	We would propose to target signing and announcing of the transaction by year end 2012 subject to timely access to management and information for both SNS and ASR.
8.4.	Communication with the European Commission	Prior to announcement, it will be important for the Consortium to confirm the view of the European Commission to the proposed transaction. We would request and expect the State will wish to lead interactions with the European Commission. The Consortium is wiling to provide support as required.
8.5.	Approvals	The signing and announcement of a transaction will be subject to the final approval of CVC's Investment Committee and the general partner of the relevant CVC Funds and the investment committees of the other SWFs. Closing will be subject to: • The approval of the DNB; and • Approval to the proposed investment without remedies by the European Commission.
8.6.	Rating impact	We would aim to hold discussions with rating agencies (S&P and Moody's) in advance of completion to receive their clear indications on the impact of the transaction on the credit ratings of SNS and the combined group.

9.	**Other Assumptions relating to this proposal**	
9.1.	Representations and warranties	The Consortium will propose appropriate representations and warranties customary to underwriting and acquisition transactions.
9.2.	Deal Costs	Each party shall pay its own costs and expenses in relation to the negotiation, preparation, execution and implementation of this Term Sheet provided, however, if a transaction is consummated, SNS shall reimburse the Consortium for reasonable third-party and out-of-pocket expenses.

Any questions relating to this proposal should be directed to any of the following:

Rolly van Rappard *Managing Partner* [redacted]	Jonathan Feuer *Managing Partner* [redacted]	Peter Rutland *Managing Director* [redacted]	Bas Becks *Managing Director* [redacted]