

We invest in winners. That means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

SRLEV N.V. Bond 2011 (21/41)

The SNS REAAL N.V. is one of the largest financial institutions in the Netherlands with a balance sheet value amounting to 130 billion euros. The group originated in 1997 from the merger of various insurance companies (REAAL) and regional savings banks (SNS). Following the initial public offering in 2006, acquisitions were made both in the Dutch-Belgian insurance market as well as in the banking sector. The acquisition of a mortgage portfolio from the ABN AMRO amounting to a volume of 10 billion euros proved to be a seriously bad investment. Whereas the insurance company remained profitable, the real estate markets in the Netherlands and in Spain suffered a slump in the mortgage business. The portfolio negatively affected the result of the banking division in the years 2009 to 2012 with 2 billion euro. The group, which since 2008 has made use of State aid amounting to 750 million euros, failed to successfully restructure the balance sheet and recover operationally. Instead, there has been a renewed need for value adjustments on the mortgage business by a further 2-3 billion euros at the beginning of the year 2013. Given that shareholders equity only amounted to 3 billion euros, a state of over-indebtedness was threatening. On 1st February, 2013, the Dutch Finance Ministry announced that the company was to be nationalized. The shares and subordinated debt of the holding (SNS REAAL N.V.) and the Banking Division (SNS

Bank N.V.) were expropriated and became worthless (a volume amounting to 1 billion euros). Almost 500 million euros of subordinated capital of the more sound life insurance company SRLEV N.V., which is part of the insurance division of REAAL N.V., remained spared as expected. The interest payments were suspended at the request of the European Commission on 28th March 2013. Following this, Standard & Poor's have reduced their rating from BB+ to D.

We were invested in the subordinated capital (lower tier 2) at an average price of 93% of the nominal value of SRLEV N.V. Up to 15th April 2021 (first call) the bond will pay 9.0% interest p.a., until its maturity date in the year 2041 at the 12M-Euribor plus a margin of 617 basis points. A compulsory additional payment obligation exists for outlandish coupons. Should the Dutch Government sell the insurance business, interest rate payments and the additional payment of outlandish coupons shall be resumed. The Dutch Ministry of Finance announced exactly this intent to sell on 23rd August 2013. On 18th December, 2013, the EU Commission gave the final approval for the nationalization under the condition that the insurance business bundled within REAAL N.V. is to be sold. As a result, the price of our bond rose to 120%. Considering comparable bonds of potential buyers (Achmea, AEGON, Allianz, Delta Lloyd), a 140% increase as well as an attractive one-off and regular interest rate payments can be expected with the completion of the sale.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky