SNS Bank

Annual Report 2010
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SNS Bank in brief

1 Profile

SNS Bank, part of SNS REAAL, is a financial services provider engaged in banking, with a particular focus on the Dutch retail market, including small and medium sized enterprises. The product range consists of two core product groups: mortgages and property finance, and savings and investments.

SNS Bank has a balance sheet total of approximately € 79 billion and 2,600 employees (FTEs), which makes it a major player in the Dutch market. SNS Bank has its head office in Utrecht.

1.1 CARE FOR CUSTOMERS AND SOCIETY

SNS Bank has a long history of commitment to Dutch society. SNS Bank's roots date back 200 years to the establishment of regional savings banks with a public utility function. SNS Bank wants to be close to its customers and society. Through customer panels we listen to what drives their needs. Our employees treat customers as they themselves wish to be treated as a customer. We offer them accessible and transparent products: Simplicity in finance. More than ever, we are aware that we must never take our customers' trust for granted. We want to be the best at winning, helping and retaining clients. We want to deserve customers. We aim for sustainable relationships, not only with customers, but also with other stakeholders in society.

1.2 DARE TO CHOOSE

SNS Bank makes transparent, clear choices. We focus on the Dutch market with strong brands and market positions. We especially target private individuals and small and medium-sized enterprises. We deliberately opt for specific products and services, customers and investments. We have chosen a moderate risk profile and, therefore, exclude certain products and services such as trade finance and proprietary trading.

SNS Bank provides a broad range of financial services by direct sale to private individuals. SNS Bank is the consumer brand for banking products. In addition, there are two brands for specific product/market combinations. ASN Bank focuses on sustainability and is the market leader in sustainable savings and investments. Property Finance is SNS Bank's property financing company, which mainly focuses on the Dutch market.

Key figures

TABLE 1: KEY FIGURES

In € millions	2010	2009	2008	2007	2006
Total assets	**78,918**	**80,251**	**76,695**	**70,584**	**64,382**
Loans and advances to customers	65,013	67,479	65,794	60,236	56,248
Of which mortgage loans	50,767	50,878	48,684	46,172	44,930
Loans and advances to banks	1,681	2,715	2,783	1,092	3,607
Amounts due to customers	37,880	34,270	32,043	27,025	20,697
Of which savings	27,398	24,435	21,859	19,179	13,678
Amounts due to banks	3,096	7,119	6,491	5,066	7,299
Debt certificates	29,523	30,739	30,282	32,182	30,841
Shareholders' equity	1,580	2,165	2,134	2,209	2,097
Capital base	3,694	3,590	3,495	3,521	3,190
Net interest income	871	672	773	783	567
Other income	114	426	183	155	201
Of which net commission and management fees	92	99	116	129	120
Net result	**(431)**	**(99)**	**144**	**272**	**214**
Net result SNS Retail Bank	**162**	**120**	**116**	**186**	**208**
Net result Property Finance	**(593)**	**(219)**	**28**	**86**	**6**
Ratios					
Return on shareholders' equity	(27.3%)	(4.6%)	6.7%	12.6%	14.1%
Efficiency ratio	58.5%	56.6%	62.8%	60.3%	62.6%
BIS ratio [1]	16.7%	13.9%	14.0%	11.5%	11.2%
Tier 1 ratio [1]	10.7%	10.7%	10.5%	8.4%	8.2%
Number of branches SNS Bank	143	133	140	146	167
Number of agencies RegioBank	537	602	672	727	438
Number of cash dispensers	490	516	571	513	308
Number of employees (FTE's, average)	2,639	3,270	3,212	3,223	3,197

1) As from 2008, figures are calculated based on Basel II, taking into account the 80% floor of Basel I.

3 Mission, Strategy and Objectives

Conditions in the financial markets have changed dramatically over the past few years. Many consumers are disappointed by the effects of the credit crisis. Restoring and retaining confidence in our products and services are therefore vital elements of our mission and strategy.

The overall mission, strategy and objectives of SNS Bank as described in this chapter are derived from those of SNS REAAL.

3.1 MISSION: SIMPLICITY IN FINANCE

'Confidence' starts with 'understanding'. SNS Bank's mission is Simplicity in Finance. We want to contribute to the financial independence of our customers. We do so by providing accessible and transparent standardised products and by offering assistance to make the right choices.

SNS Bank focuses primarily – and, in the future, solely – on the Dutch markets for mortgages, property finance, savings and investments. Our key customer groups are private individuals and small and medium-sized enterprises (SME). We want to stand out with:

- distinctive retail brands that provide optimal service to their target groups;
- our customer focus when developing and offering products and providing assistance, advice and service;
- strong market positions based on standardised products with an attractive pricing and quality;
- a simple and cost-efficient organisation with shared IT systems and service centres to achieve economies of scale.

3.2 STRENGTHS AND WEAKNESSES

Our strategic pillars and objectives are partially based on an analysis of the relative strengths and weaknesses of the organisation and a vision on the opportunities and threats in the market.

3.2.1 Strengths

- Focus on the Netherlands, customer groups and core products.
  This means bundling resources, management focus and expertise in developing, selling and distributing financial products in the Netherlands. SNS Bank is one of the big players in the Dutch markets for retail mortgages, savings and property finance.
- Efficient organisation.
  This refers to our short time-to-market and our relatively low cost base.
- Corporate responsibility.
  We are committed to responsible products, service and operations. ASN Bank is a leading provider of sustainable financial products in the Netherlands.
- Distinctive brands.
  Our broad range of distinctive brands allows us to optimise our services to customers with different customer needs and thus increasing our customer coverage.
- Innovation.
  Our efficient organisation, specialisation in the retail and SME markets and a stimulating business culture frequently lead to distinctive and innovative products and services. Examples include SNS Bank's Plafondrente Hypotheek ('Capped Rate Mortgage'), bank savings products and ASN Bank's interest-bearing current account.

3.2.2 Weaknesses

- International property finance.
  The property markets conditions are particularly difficult in a number of countries, resulting in considerable impairments on property loans.
- Capital support.
  In 2008, our parent company SNS REAAL issued core tier 1 capital securities to the Dutch State and Stichting Beheer SNS REAAL (the 'Foundation') in order to increase its core capital. A part of these core tier 1 capital securities was transferred to SNS Bank. Repayment of this capital support has high priority, resulting in reduced strategic flexibility until the moment the capital securities are repurchased in full.

- Dependence on mortgages.
  The strong market position in this product group means that a disappointing performance could have a relatively strong adverse effect on the overall results.
- Brand recognition.
  Compared to the brands of the major players market, some of SNS Bank's brands are lesser-known.

3.3 OPPORTUNITIES AND THREATS

3.3.1 Opportunities

- Personal responsibility for wealth creation for the future.
  As a result of cutbacks in group benefits, private individuals and entrepreneurs will increasingly have to build up capital themselves. SNS Bank can capitalise on this development, for example by offering bank savings products.
- SME market.
  The SME market is a steadily growing market with often attractive margins on account of the specific services provided. SNS Bank can build on its leading position in SME property finance.
- Sustainability.
  ASN Bank, the largest sustainable bank in the Netherlands, can respond well to the growing demand for sustainable products.
- Risk spreading and customer diversification.
  Growing numbers of customers purchase their financial products from different providers and brands. They do not always stick to the same brand and/or distribution channel. Our strategy of various brands and distribution channels allows us to capitalise on this aspect.
- Distribution of third-party products.
  The sale of third-party banking and insurance products in some product groups is unique in the Dutch market. This enhances our total product range and profitable growth and does not make any additional demands on capital.

3.3.2 Threats

- Lack of confidence in financial institutions.
  Many consumers have lost faith in financial institutions. If we do not succeed in restoring trust, the demand for financial products will decline even further.
- Development of the economy and property markets.
  The recovery of the economy and the financial markets is fragile, whilst property markets are still predominantly weak.
- Vulnerability in the event of unfavourable capital market developments.
  Banks are dependent on the developments in the money and capital markets and are exposed to changes in interest rates, risk surcharges and share prices. These markets could be severely disrupted by declining confidence in the euro due to the high debts of the Southern European euro countries and Ireland.
- Capital requirements.
  Regulations of regulatory authorities and developments in the financial markets are expected to lead to stricter requirements with regard to the amount and the quality of the required capital. This will lead to higher capital costs, increasing funding requirements and lower returns.
- Increasingly legislative and regulatory requirements.
  Legislative and regulatory requirements in the financial sector have been tightened significantly over the past few years and no change is expected in the short term. The increased amount of laws and regulations puts material pressure on the financial sector, including SNS Bank. In this respect think for instance of regular adjustments to products and product terms and conditions, data management, the risk management framework and reports and further education and training of employees. This leads to increased staff and IT costs and could have an adverse affect on the financial results of SNS Bank. The increasing regulatory pressure and the current climate in which the financial sector now finds itself, has resulted in a more (pro)active approach of the regulators (national and international) in question. This too, has consequences for the financial sector and thus for SNS Bank. Think for instance of an increased number of (stress) tests and questions from and contact moments with regulators. This could come at the expense of SNS Bank's productivity and hence put its financial results under pressure. Moreover, the risk of legal claims is increasing.
- Products sold in the past are evaluated on current standards.
  In the past, financial institutions sold a number of products that, if judged by today's standards, one could deem to be non-transparent, too expensive and/or ill-suited.

3.4 STRATEGIC PILLARS

SNS Bank determined its strategy in part on the basis of the strength/weakness analysis and the opportunities and threats. One of the main guiding principles in executing our mission – Simplicity in Finance – and our strategy is restoring our customers' trust. The strategy has four pillars:

- Deserve Customers;
- Dare to Choose;
- Come out Stronger;
- Decisive on Result.

3.4.2.1 Strategic pillar: Deserve Customers

SNS Bank is seeking to increase customer satisfaction for all brands. Above all, we want to deserve customers by:

- Listening attentively to our customers.
  We collect and analyse our customers' needs, wishes, opinions and ideas. We use this information to improve our products.
- Improving customer contact and service levels.
  We develop methods to improve contact with individual customers and our level of service.
- Providing transparent and relevant products advice.
  We develop working methods resulting in accessible and transparent products. Customers can easily determine if a product suits their needs either by themselves or with the help of a financial advisor.

3.4.2.2 Strategic pillar: Dare to Choose

SNS Bank seeks to make the most effective use of its limited resources and management focus. We, therefore, choose to focus on:

- The Dutch market;
- Private individuals and small and medium-sized enterprises;
- Strong, distinctive retail brands;
- Simple products.

3.4.2.3 Strategic pillar: Come out Stronger

SNS Bank is aiming to retain and reinforce its market positions. Its market share targets are the following:

TABLE 2: MARKET SHARE TARGETS

Product group	Expected market development	2010	Target
Savings	Modest growth	9.5%	10%
Bank savings [1]	Growth	15.0%	15%
Mortgages (new inflow)	Small growth	6.3%	8-10%

1) Market share bank savings is SNS Bank's own estimate.

We aim to achieve these targets by:

- Attracting new customers.
  This requires clear brand positioning and targeted marketing and sales efforts.
- Retaining customers and offering them a wider range of products and services.
  This requires a high level of service, knowledge of individual customer conduct and timely notification of (potentially) relevant products.
- Simple, successful new products.
  Transparent product features and rates are crucial and are achieved by listening attentively to our customers and involving them in the product development process. Before launching new products, we make a careful estimate of customer value, return and risks.
- More cross-selling.
  We aim to provide our customers with the most suitable products through their preferred distribution channels and brands. Multiple brands and channels create high returns on our sales and marketing efforts and ensure maximum coverage of our entire target group. In this process, we use IT resources and production and service centres shared within SNS REAAL.

3.4.2.4 Strategic pillar: Decisive on Result

To improve our results we must first and foremost have a simple and result-oriented organisation in which mutual cooperation, synergy and sharing knowledge and capacity is encouraged. SNS REAAL's Management Committee (MC) plays a guiding and central role in this process. As of 1 January 2011, the MC comprises the Executive Board, the chairmen of the Management Boards of the business units, the Chief Information Officer and the director of Human Resources.

The centralised staff departments, including IT & Change, support both SNS REAAL Group and the individual business units. The business units focus on marketing, sales and distribution. Production, pricing and mid-office activities are organised per product group and managed by the most relevant business unit.

3.5 CORE VALUE: CARE!

Every pillar has a quantitative objective and qualitative objectives attached to it. The foundation supporting these pillars is a tight-knit and effective organisation, filled with committed and ambitious employees who share the same core value: CARE! Care about customers, care about each other, care about the result and care about society. We put a great deal of effort into embedding this core value CARE! in our corporate culture for a better execution of our mission and strategy. CARE! is also our guiding principle in corporate responsibility – which has been in our genes since the formation of the first savings banks and insurance companies almost 200 years ago. For more information, please refer to the Annual Report on Corporate Responsibility of SNS REAAL.

3.6 OBJECTIVES

SNS Bank has the following objectives:

- Strong risk and capital management;
- Solid, independent capital position;
- Aiming for measurable results.

Strong risk and capital management

SNS Bank pursues a moderate risk profile and efficient capital management to stimulate a stable development of returns. Its current capital management priorities are:

- Phasing out the activities of Property Finance;
- Repayment of the capital support to the State and Foundation (via SNS REAAL);
- Meeting the Basel III requirements by the end of 2015.

Solid, independent capital position

We aim at gradually reducing our dependence on capital support from the Dutch State and the Foundation (via SNS REAAL) in a responsible manner and as quickly as possible. This will put pressure on our profitability in the short term, but will increase our profit potential in the long term as a result of lower interest charges and improved strategic flexibility.

Aiming for measurable results

SNS Bank wants to adequately safeguard and monitor its progress in achieving its targets. The business units primarily focus on financial, commercial, HR, operational, compliance and strategic targets. Besides the net profit and capital ratios, the key performance indicators are: the efficiency ratio, operating expenses and FTEs, market shares, customer satisfaction, employee satisfaction and absenteeism.

Supervisory and Management Board

Supervisory Board

R. Zwartendijk (chairman)
H.M. van de Kar (vice-chairman)
P. Overmars
R.J. van de Kraats
J.E. Lagerweij
H. Muller
H.W.P.M.A. Verhagen
J.A. Nijhuis
C.M. Insinger
L.J. Wijngaarden

Management Board

M.W.J. Hinssen
H.K. Kroeze
F.K.V. Lamp
D.J. Okhuijsen

Report of the Management Board

4 Strategy update

SNS Bank is continuously working on the implementation of its strategy. In 2009 we developed a new strategy and mission, which officially came into force 2010. This chapter gives an overview of the progress made and initiatives taken in 2010.

4.1 DESERVE CUSTOMERS, THE APPROACH IN 2010

It is our ambition to increase customer satisfaction for all retail brands. Customer satisfaction is indicative of our ability to deserve customers. Moreover, these initiatives further enhance our core value to put our customers interests first, which is in line with the recommendations of the Banking Code. Our main methods to deserve customers are:

4.1.1 Listening attentively to our customers

- SNS Bank organised customer contact programmes to bring more employees into contact with our customers. Thus, employees who, due to the nature of their jobs, do not have daily contact with customers visited shops or listened in on conversations of customer contact centre employees.
- Products under development were tested on appreciation and understandability more frequently and more intensely through customer panels.
- SNS Bank restructured its website and customer contact centre to better survey service levels and collect and analyse customer opinions. In addition to its Customer Advisory Board set up in 2009, SNS Bank introduced SNS Community, an on-line platform allowing customers to voice their opinion, comments and queries. SNS Bank can use this information to adapt its products and services.
- ASN Bank investigated its customers' theme preferences to donate part of its net interest income to charity. The four themes are: sustainable energy, the fight against child labour, the fight against arms, and fair trade. As from January 2011, customers can indicate to which charities ASN Bank should donate part of the net interest income earned on their savings.

4.1.2 Improving customer contact and service levels

- SNS Bank improved the turnaround times for processing questions and complaints and the response times at its customer contact centre and the administration directly related to it. IT improvements have made it even easier and less time-consuming to apply for current and savings accounts on www.snsbank.nl.
- Our new mortgages production is now the responsibility of a single central management team. After standardisation and process optimisation, this will improve service levels.

4.1.3 Providing transparent, relevant products and appropriate advice

- SNS Bank and ASN Bank have thoroughly simplified and improved their range of savings products. SNS Bank reduced the number of savings products from several dozens to six and informed its customers who still had outdated products that they could switch to savings products with more favourable terms and conditions. For 90% of these customers this meant an improvement of the terms and conditions, for the other customers nothing changed at all. ASN Bank reduced its five regular savings accounts to a single simple and transparent product without restrictive conditions. At ASN Bank, too, most customers received better conditions and no one was worse off. For more information on these changes, see the chapter on Developments SNS Retail Bank/Savings.
- SNS Bank, RegioBank and BLG Hypotheken cancelled the different rates for existing and new customers for their mortgages. When renewing their mortgage, existing customers can benefit from the same (special offer) rates as new customers.
- In 2010, SNS Bank, RegioBank and BLG Hypotheken discontinued the sale of unit linked mortgages. It is often difficult for customers to gain a comprehensive view of the properties of this hybrid product and the possible consequences of developments on the financial markets. A separate mortgage and separate investments give our customers more clarity, flexibility and lower costs.

4.2 SNS BANK DARES TO CHOOSE

We seek to make the most effective use of our limited resources and management focus. We, therefore, choose to focus on:

4.2.1 The Dutch market

We concentrate our activities on the Dutch market. Property Finance continued to phase out its international property finance portfolio. The total international outstanding loans, net of provisions, declined from € 3.6 billion at year-end 2009 to € 2.5 billion (–31%).

4.2.2 Phasing out Property Finance

At the end of 2010, we decided to split Property Finance in two separate units as of 1 January 2011. The 'run-off' segment containing the international loan portfolio and part of the Dutch loan portfolio of Property Finance will be phased out over the next two to four years. The remaining part of Property Finance's Dutch portfolio will be combined with the existing SME activities of SNS Retail Bank, in the new unit SNS SME. This unit is targeting growth in selected areas of savings and deposits, payment services and insurance.

4.2.3 Strong and distinctive retail brands

We reinforced our retail brands' distinctive positions with the following initiatives in particular:

– SNS Bank started renewing and expanding its range of insurance products, thereby strengthening its position as a consumer brand for banking and individual insurance products. Its 'SNS Bank of .....' advertising campaign highlights SNS Bank's accessibility and human touch.
– SNS Regio Bank was renamed RegioBank effective January 2011, which improves its ability to present itself as a distinctive banking formula. Local marketing, local customer loyalty and personal advice are key in this respect, as RegioBank has a particularly strong presence in small municipalities outside the Randstad conurbation. The RegioBank brand is carried by intermediaries that purchase payment and savings products from SNS Bank and can also purchase other products from third parties.
– BLG Hypotheken expanded its mortgage range, living up even more to its position of a committed mortgage specialist for intermediaries.
– ASN Bank introduced the ASN Credit Card and attracted 46,000 new customers, strengthening its position as the largest sustainable bank in the Netherlands.

4.2.4 A simple product range

SNS Bank introduced harmonisations, eliminations and simplifications in all core product groups. This improved the price-quality ratio, service and transparency to customers and contributed to cost-efficient production and distribution. This also further enhanced our core value to put customers interests first, which is in line with the recommendations of the Banking Code. The improvements comprised in particular:

– A significant reduction of the number of SNS Bank savings products;
– Simpler SNS Bank non-life insurance products and improved adjustment to on-line selling;
– Strict criteria for simplicity and transparency in all new products introduced in 2010. These originated from the product approval process adjusted in 2009 and the SNS REAAL Group-wide reference process for product development.

4.2.5 Strategic property finance adjustment

Allocating the property finance activities to two separate parts will give customers, employees and investors clarity about the future of property finance at SNS Bank and will intensify management focus.

As at 1 January 2011, Property Finance comprises the international loan portfolio, supplemented with part of the Dutch loan portfolio (exposure including property projects and assets held for sale € 6.3 billion). This unit will be phased out over the next two to four years. The remaining part of Property Finance's Dutch portfolio (exposure including property projects and assets held for sale € 5.6 billion) is combined with the existing SME activities of SNS Retail Bank in the new unit SNS SME.

4.3 COME OUT STRONGER

SNS Bank is aiming to retain and reinforce its market positions by:

4.3.1 Attracting new customers

The total number of customers of SNS Bank, RegioBank and ASN Bank rose. These brands were particularly successful in attracting customers for payment and savings products, boosting their total deposited savings from € 24.4 billion to € 27.4 billion (+12.1%). This increase was largely driven by the further improvement of the websites' quality and on-line marketing. Each brand developed its own commercial initiatives tailored to the customers' needs in order to achieve maximum coverage. In the mortgage market, SNS Bank preferred margins and risk control over growth. As a result, its market share in new mortgages dropped from 7.9% to 6.1%.

4.3.2 Retaining customers and offering them a wider range of products and services

It is easier to retain satisfied customers than unsatisfied customers. The retail bank brands put much effort into measuring and analysing customer satisfaction, improving and preserving brand reputations and increasing service levels. SNS Bank further fine-tuned the individual approach to customers through its personal website environment *Mijn SNS Bank*, improving the proper timing and relevance of product offers. These initiatives contributed to a growth of total savings.

4.3.3 Successful new products

All new products were launched on the basis of the SNS REAAL Group-wide reference process, also called product approval process, established in 2009 in line with the Dutch Banking Code, which focuses on customer value and a good risk/return ratio for SNS REAAL. Strategic considerations for the long term are also important when selecting new products. SNS Bank takes particular account of the cost structure, the knowledge available and distribution opportunities within the organisation. Successful introductions in 2010 included additional bank savings products, offered through SNS Bank and RegioBank, the ASN Current Account and the ASN Credit Card.

4.3.4 More cross-selling

In 2010 the ties between SNS REAAL's business units to sell each other's products were tightened, especially between SNS Bank, RegioBank and REAAL. Sometimes it is necessary to modify product aspects or their presentation if they are to fit in well with the specific distribution channel and brand. Especially sales of bank savings products and mortgages through one or several distribution channels of non-producing business units saw a sharp increase.

4.4 DECISIVE ON RESULT

In November 2010, we aligned our financial long-term ambitions with changing market conditions and the repositioning of Property Finance. Major factors in achieving our ambitions are:

4.4.1 Strong risk and capital management

SNS Bank is making progress in achieving its priorities as follows:

- Reduction of the negative impact of Property Finance.
  The phase-out of the international portfolio is on schedule. The total amount of commitments (gross loans including undrawn commitments) was reduced from € 14.6 billion to € 12.6 billion (–14%) and the risk-weighted assets declined sharply.
- Basel III requirements.
  SNS Bank is of the opinion that it currently meets the new Basel III standards leading to stricter capital and solvency requirements.

SNS Bank reinforced its risk management in line with the Banking Code recommendations. The main indicators are:

- The low credit risk of the Dutch residential mortgage portfolio, with low impairments despite weak economic conditions.
- Property Finance's credit risk management was reinforced. This was achieved by significantly reinforcing the Risk & Restructuring department, which improves management of complex finance loans and resulting losses are limited.
- The solid solvency of SNS Bank: Core Tier 1 ratio at 8.1% and Tier 1 ratio at 10.7%.

4.4.2 Solid, independent capital position

SNS Bank aims to improve its profitability within the framework of a solid – and eventually independent – capital position. It is our goal to repurchase the capital support received from the Dutch State and the Foundation (via SNS REAAL).

4.4.3 Aiming for measurable results

SNS Retail Bank's efficiency ratio sharply improved from 67.5% to 61.7%. In 2010 SNS Bank aimed for positive customer satisfaction ratings more than ever.

4.5 AMBITIONS

It is our goal that the Core Tier 1 ratio is at least 8%.

SNS Bank is one of the most efficient financial services provider in the Netherlands and it strives for further fine-tuning of its processes.

5 Outlook 2011

Expectations are that the global economic recovery will continue. The Netherlands and most other European countries will experience a relatively low economic growth, largely driven by cuts in government spending and low consumer spending. Going forward, SNS Bank is particularly committed to restoring its profitability and improving its capital position and risk profile, which it aims to achieve with the continued phase-out of property finance, savings growth, simple accessible products and excellent service, lower costs and higher yields on sales and marketing efforts.

5.1 FINANCIAL MARKETS IN 2011

5.1.1 Stock markets encouraging

There are fundamental reasons to be optimistic about the stock markets in 2011. Many companies' profits are continuing their upward trend, which will be reflected in the share prices. This growth is likely to slow down during the year: as the economic rebound progresses, it will become increasingly difficult to improve profit margins, partly because the largest cost reductions have already been achieved. However, the forecast increase in sales looks promising. The growth rates of American and European companies with sales in emerging markets will exceed the growth rates of their local economies by far. This development also is expected to be reflected in the share prices.

5.1.2 Interest rates remain relatively low

The European and US central banks will keep interest rates at a low level to stimulate the economy. The risk of inflation is still relatively small in view of the fragile economic recovery, but it is very difficult to predict the interest rates on the capital market. In 2010 uncertainties about the weak euro countries fuelled great volatility, and such sudden crisis situations may strongly affect the interest rates on the capital market in 2011 as well.

5.2 PRODUCT MARKETS IN 2011

SNS Bank anticipates growth particularly in the savings and bank savings markets. The investment, mortgage and property finance markets are not likely to experience any increase.

5.2.1 Mortgages relatively stable

We believe that the mortgage market will stabilise in 2011. Residential property prices will likely decrease slightly and the number of transactions will stay at a low level. How the market will develop depends in addition to economic developments partly on the government's decisions regarding mortgage interest tax relief and maximum-value mortgages.

SNS Bank has a high-quality mortgage portfolio with a risk profile in line with the Dutch market. Profitability may develop positively as a result of cost base improvement and containment of credit losses. Higher interest rate levels and a slightly larger difference between short-term and long-term interest rates may likewise have a positive impact on profitability. We mainly aim to increase profitability and growth by:

- More direct sales through SNS Bank;
- More collaboration with REAAL by cross-selling mortgages and term insurance policies;
- Increased focus on SME mortgages by pooling the knowledge of Property Finance and SNS Bank in the new business unit SNS SME.

5.2.2 Strong growth in bank savings

The recovery of the Dutch economy is still fragile and consumer spending remains low. We therefore expect the savings market to continue its growth in 2011. The bank savings products are a tax-friendly, simple and low-risk solution for long-term wealth creation. Investment appetite among private investors will probably not show any strong increase, despite favourable equity prospects, as the 2008/2009 financial crisis still leads to risk aversion.

We mainly aim to increase profitability and growth in savings, bank savings and investments by:

- Positioning SNS Bank, RegioBank and ASN Bank more clearly as distinctive brands and tailoring their marketing more accurately to their target groups;

– Improving the advisory strengths of SNS Bank and RegioBank in the area of bank savings;
– SNS Bank, RegioBank and BLG Hypotheken teaming up to further improve the production and distribution of bank savings products;
– Collaborating with BinckBank for more insight, overview and ease for investors.

5.2.3 No revival business property projects

In 2011 we anticipate continuously challenging circumstances in most property markets in which Property Finance operates.

In January 2011 part of Property Finance's Dutch loan portfolio, totalling € 5.6 billion, was transferred to the new business unit SNS SME. All remaining Dutch and foreign loans will be phased out in two to four years.

5.3 SIMPLICITY IN FINANCE

Mindful of our mission 'Simplicity in Finance' – by which we want to contribute to our customers independence – our efforts to provide transparent products, better service, appropriate advice, compliance with integrity standards and customer satisfaction continue unabated.

In 2010 we mainly simplified our range of savings products. In 2011 we will particularly focus on increased simplicity in payment and mortgage products and investment services.

We will adjust a number of aspects of product development to warrant the transparency of products even more. Customer interests and target group definition will be our starting points of the product approval process. We will intensify the periodic maintenance of products, which will also allow us to better verify the value for money and customer interest of older products. Customers will always have a say in the development of products through consumer panels, such as SNS Community.

With a view to creating even more simplicity, we test the simplicity of product information in various ways among consumers, SME clients and consultants. We have drawn up quality standards for product information on the basis of best practices. We aim for maximum simplicity and understandability without compromising accuracy and completeness. These initiatives also give meaning to putting clients' interests first, in line with the Dutch Banking Code recommendations.

5.3.1 Improvement customer contact management

We continue working towards improved customer contact management and we will enhance the monitoring of compliance with integrity standards for products and customers.

Our aim is to further improve customer satisfaction levels. We will strengthen the link between SNS advisors' compensation and customers' interests in the long run. We will ask even more customers to give their views on our services on a permanent basis. We are working on specific targets and a harmonisation of methods for measuring customer satisfaction.

The initiatives mentioned above also give meaning to putting clients' interests first, in line with the Dutch Banking Code recommendations.

6 Developments SNS Retail Bank

SNS Retail Bank's net profit increased considerably to €162 million (+35%). Strong growth in net interest income, improving the quality of income. Margin improved in both mortgages and savings. Lower operating expenses due to the implementation of new distribution strategy: efficiency ratio improved to 61.7%. Upward trend in savings market share.

6.1 BRAND STRATEGY OF SNS RETAIL BANK

SNS Retail Bank comprises the brands SNS Bank, RegioBank, ASN Bank and BLG Hypotheken. Its customers are private individuals in the Netherlands and its core product groups are mortgages, savings and investments. SNS Retail Bank aims to simplify finance for its customers by offering them accessible, transparent products and good service. Its shared IT infrastructure serves to achieve efficiency and economies of scale in management and administration.

6.1.1 Distinctive customer values

The SNS Retail Bank brands are developing their own independent positions and distinctive customer values in order to best meet the needs of their target groups.

- SNS Bank is the broad and accessible consumer brand for banking and insurance products with an emphasis on sales and information over the internet and telephone. It provides additional information and advice through its own shops, franchisers' shops and location-independent advisors. SNS Bank also sells its mortgages through third-party websites and retail chains.
- ASN Bank is the brand for sustainable savings, investment and payments and sells its products solely over the internet.
- RegioBank is the bank formula for intermediaries in provinces, focusing on local and personal service.
- BLG Hypotheken is the specialist intermediary brand for mortgages.

SNS Retail Bank seeks to reinforce its distribution capabilities. Its key objectives are to further develop on-line sales, collaboration within SNS REAAL in the areas of distribution and production, a nationwide network of compact SNS Shops and RegioBank intermediaries, a complete range based on its own standardised products as well as third-party products, and continued growth of ASN Bank.

6.1.2 SNS SME

As from 1 January 2011, small and medium-sized enterprise (SME) customers are transferred to the new business unit SNS SME, which combines the former SME activities of SNS Retail Bank and part of Property Finance's Dutch investment finance loan portfolio. All of Property Finance's other activities are being phased out.

SNS SME aims to use its size, network and knowledge of the Dutch property and SME markets to achieve profitable growth. It has a moderate risk profile and focuses on corporate loans secured by property collateral and based on limited contracts. SNS SME is also engaged in payments, savings and insurance in the SME segment. In view of the considerable growth of the SME savings market, SNS SME eventually aims to finance its own lending activities.

6.2 FINANCIAL DEVELOPMENTS AT SNS RETAIL BANK

TABLE 3: SNS RETAIL BANK

In € millions	2010	2009	Change
Result			
Net interest income	634	391	62%
Net fee and commission income	92	99	(7%)
Investment income	47	161	(71%)
Result on financial instruments	9	181	(95%)
Other operating income	1	--	--
Total income	783	832	(6%)
Impairment charges to loans and advances	79	86	(8%)
Other impairment charges	4	12	(67%)
Total operating expenses	483	562	(14%)
Total expenses	566	660	(14%)
Result before tax	217	172	26%
Taxation	55	51	8%
Minority interests	--	1	--
Net result for the period	162	120	35%
One-off items	--	(40)	--
Adjusted net result for the period	162	160	1%
Efficiency ratio	61.7%	67.5%	
Impairment charges to loans and advances as a % of gross outstanding loans to customers	0.15%	0.16%	
Risk-weighted assets Basel I (100%)	16,216	18,690	(13%)
Savings	27,398	24,435	12%
Loans and advances to customers	53,635	54,283	(1%)

6.2.1 Results 2010 compared to 2009

SNS Retail Bank's net profit increased by € 42 million to € 162 million (+35%), mainly due to the absence of one-off items that had reduced the 2009 net result. Adjusted for one-off items, net profit was up slightly but the quality of earnings improved considerably. The improvement in the quality of earnings was driven by sharply higher net interest income, lower operating expenses and lower impairments. This more than compensated for the lower gains on investments and financial instruments following the exceptionally high levels in 2009.

6.3 INCOME SLIGHTLY DOWN

SNS Retail Bank's total income declined by 6% as strongly higher net interest income did not fully compensate for the absence of exceptionally high levels of investment income and result on financial instruments that had supported income in 2009 (gains on fixed income investments and from the buy-back of own funding paper were much lower in 2010).

Interest income increased sharply to € 634 million, driven by improved margins on both mortgages and savings.

6.3.1 Interest income up

Interest income on savings was up in 2010, as the last 12-month term deposits offered in 2009 with high interest rates matured in the first quarter of 2010. Many of these deposits were retained at lower interest rates.

In mid-September, SNS Bank successfully launched a new corporate marketing campaign using a variety of different advertising channels. This campaign shows how SNS Bank interacts with customers in their daily activities and how SNS Bank focuses on client's needs and wishes. As part of the overall marketing campaign, SNS Bank introduced a savings campaign in the fourth quarter of 2010, which includes alerting customers about new SNS Bank savings products with higher interest rates compared to those on SNS Bank products already held by the customer. This, as well as SNS Bank's competitive interest rates and the excellent performance of savings products at ASN Bank, contributed to a steady inflow of savings and led to an increase of the savings portfolio by € 3.0 billion. This included the continued growth of bank savings balances by € 449 million to € 703 million at year-end 2010. SNS Retail Bank's market share in savings increased to 9.5% (2009: 8.7%).

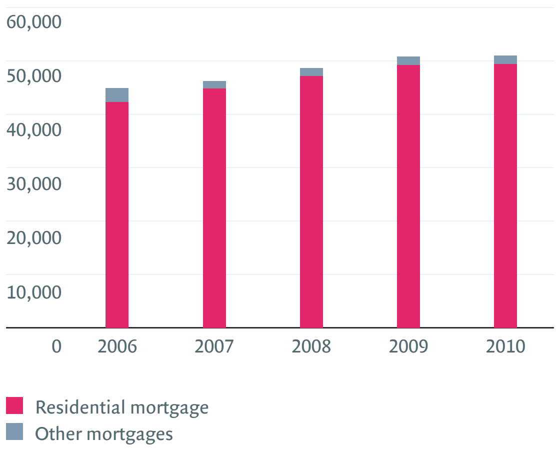
6.3.2 Mortage portfolio stable

SNS Retail Bank's market share in new mortgages of 6.1% was lower than year end 2009 (7.9%). In 2010, the amount of total mortgages in the Dutch housing market declined by 3%. The Plafondrente Hypotheek ('capped rate mortgage') is still successful and was highlighted in the SNS Bank corporate campaign. Despite the sale of € 0.9 billion retail mortgages to the Insurance activities of SNS REAAL, SNS Retail Bank's residential mortgage portfolio remained stable at € 49.3 billion.

In 2010, the proportion of new mortgages covered by the Nationale Hypotheek Garantie-scheme (NHG) continued to be high at 48%. Since 2009, SNS Bank has sold mortgages and insurance products from third parties and sales in this category showed a steady increase in 2010.

GRAPH 1: RESIDENTIAL MORTGAGES SNS RETAIL BANK

(In € millions)



6.3.3 Commission income improved

Net fee and commission income remained stable, as fees for payments and insurance products were lower and commission income was higher. In 2010, stock markets picked up again and ASN and SNS funds increased by € 526 million in total, driven by good net inflows and improved market values. Also, SNS Fundcoach performed well, recording a 26% increase in assets under management.

Compared to 2009, total investment income decreased sharply. In 2009, volatile interest rates enabled exceptionally high realised gains on the fixed income portfolio and improved trading results on fixed income investments. In 2010, these gains fell to lower, more normalised levels.

The result on financial instruments decreased sharply by € 172 million, largely driven by lower buy-back results on own funding paper and the absence of positive results on hybrid tier 1 exchange offers (in total € 26 million in 2010 compared to € 152 million in 2009). In addition, in 2009 the result on financial instruments had been impacted by volatile and decreased short-term interest rates resulting in gains related to value movements in derivatives held for hedging purposes.

6.4 SIGNIFICANT DECLINE IN EXPENSES

SNS Retail Bank's operating expenses decreased significantly by € 79 million, due to the benefits of the implementation of the new distribution strategy, stringent cost control and the absence of € 53 million one-off and restructuring costs in 2009. The one-off costs in 2009 had consisted of the provisioning for the savings guarantee scheme related to DSB Bank (€ 38 million), and the additional expense relating to SNS Retail Bank's share in the Icesave claim (€ 5 million), with restructuring charges amounting to € 10 million. Adjusted for these costs, total operating expenses decreased by € 26 million (–5.1%).

The implementation of the new distribution strategy resulted in lower operating expenses and a reduction in FTEs. As a result, the efficiency ratio improved from 67.5% in 2009 to 61.7% in 2010.

Impairment charges to loans and advances declined markedly to € 79 million. The impairment charges to loans and advances as a percentage of outstanding gross loans in 2010 were 15 basis points, a decrease of 1 basis point compared to 2009. The other impairment charges decreased by € 8 million due to lower impairments of furniture and fixtures.

6.5 APPROACHABLE, SIMPLE AND A HUMAN TOUCH

On-line banking has become even easier and simpler for our customers. The personal Mijn SNS banking environment was fine-tuned based on products as well as each customer's browsing behaviour.

The number of applications and changes that are processed automatically was further enhanced. Applications became available for mobile banking and locating the nearest SNS Shop and SNS cash dispenser by mobile phone. Last year, the average number of unique visitors per month rose over one and a half million, which is considerably higher than in 2009 (approximately 1 million unique visitors per month). SNS Bank received various awards for its personal, innovative and customer-friendly communications on the website and for its commercially successful on-line marketing: the CRM Innovator Award and a Dutch Interactive Award, respectively. SNS Bank also received an SIDN Internet Award for no-threshold banking. SNS Bank considers it important for the physically and mentally impaired and the elderly to feel confident about using on-line banking as well. The website layout, the tools available on the website and the internet assistance provided at the SNS Shops contribute to achieving this. SNS Bank is the only bank in the Netherlands to have received the title 'Drempelvrij' by Stichting Waarmerk Drempelvrij, which testifies to the accessibility of its website. In this manner we also give meaning to putting clients' interests first, in line with the Dutch Banking Code recommendations.

6.5.1 March of SNS shops

In 2010 the number of old SNS offices was further reduced to 54 and the number of modern SNS Shops rose to 89, compared to 57 at year-end 2009. 47 of those shops were managed by franchisees. SNS Bank's target is to have 200 shops at the end of 2011. The shops provide information, internet workstations plus assistance and have longer opening hours. Customers can obtain advice from advisors, either by telephone or at their own homes, at one of the SNS Shops or elsewhere.

6.5.2 Simplified product range

SNS Bank's and ASN Bank's range of savings products was much simplified. SNS Bank renewed and enhanced its range of direct insurance products for private individuals. The terms and conditions were better geared to the needs of internet-focused consumers. Taking out policies has become easier and prices are now more competitive. Sales were up approximately 20%. Expiring policies formerly taken out at SNS offices translated, on balance, into a decline of SNS Bank's insurance portfolio, which could not yet be set off by the growth of on-line sales.

6.5.3 Own identity RegioBank

The branches of the 538 intermediaries operating under the RegioBank bank formula are a valuable addition to the network of SNS Shops. RegioBank (known as SNS Regio Bank prior to 1 January 2011) focuses on consumers in small municipalities who prefer local and personal contacts and a traditional way of banking. With a new corporate identity, RegioBank will be positioning itself more explicitly as a distinctive and unique brand as from 2011. As many other banks are leaving the smaller municipalities, RegioBank meets a growing need for local bank branches that provide service, including teller services. RegioBank has a flexible and low cost structure, in part because of its good alignment with SNS Retail Bank's central systems.

6.5.4 ASN Bank leading provider in sustainability

ASN Bank again reinforced its leading position in the sustainable-banking market. Its total number of customers rose by 46 thousand (+10%). ASN Bank connects people who wish to help build a sustainable society and offers products that contribute to just such a society. Years of consistency in product policy, customer service and marketing have created a strong brand reputation. ASN Bank introduced the ASN Credit Card. Part of each transaction sum is donated to a sustainable project. ASN Bank also introduced sustainable investment management for high-net-worth customers and institutions.

6.6 SERVICE LEVEL: DECREASE IN COMPLAINTS

The accessibility and service levels of the SNS customer services saw considerable improvement. The number of telephone contacts increased by approximately 8% from 2009, partly as a result of proactive personal messages addressed to customers on the website, which prevented much uncertainty. The number of complaints fell by approximately 24%. There is a widely accepted increase on various parts in customer satisfaction: customer contact, telephony, e-mail processsing, internet and advice. SNS Bank intensified measuring customer satisfaction and now permanently monitors all types of contact. Points for improvement are the accuracy of processes performed for non-automated customer applications and administrative alignment with the REAAL systems when it comes to cross-selling.

6.6.1 High customer satisfaction ASN Bank

According to a consumer survey conducted by research agency MarketResponse, ASN Bank was the most customer-friendly bank in the Netherlands in 2010. Surveys conducted by the Dutch Consumers' Association and the website Independer also awarded ASN Bank high scores.

6.6.2 More efficient and effective

SNS Bank largely completed its reorganisation. The key objective in this process is to enhance the efficiency and effectiveness of the direct channel (internet, telephone, SNS shops and franchise shops).

6.6.3 Centralisation service centers

Standardising IT systems enables the retail banks to develop and distribute their products at the lowest possible cost. In 2010 SNS Retail Bank centralised the mortgage production and service centres. The processes of the service centers for mortgages and payments are optimised and where possible STP made. BLG Hypotheken and SNS Retail Bank have already made extensive standardization in the IT landscape mortgages. Next year further steps will made with RegioBank. Furthermore, in 2011 all brands will move on to the new Internet chassis already in use at SNS Bank.

6.6.4 Communications with nationwide campaigns

SNS Bank launched a new nationwide campaign themed 'SNS Bank of...'. The long-running campaign presents SNS Bank from the customers' perspective. Commercials highlight SNS Bank's approachability and its property of being a people's bank.

Listening attentively to its customers is important to SNS Bank to maintain its approachability, simplicity and human touch. That is why SNS Bank introduced SNS Community, an on-line platform whose members are SNS Bank customers. Our board members and marketing experts regularly join the on-line chats to gain more insight into what moves our customers. In this way we also give meaning to putting clients' interests first, in line with the recommendations of the Dutch Banking Code.

ASN Bank invested in an informative brand campaign aimed at the target group in which customers explained why they opt for ASN Bank. In 2010 ASN Bank celebrated its 50th anniversary and organised a party also attended by a large number of customers. They engaged in conversation with each other and enjoyed presentations and entertainment on the subject of sustainability.

6.7 MORTGAGES MARKET CONTRACTING

Volumes in the Dutch new mortgages market remained practically stable compared to 2009 and mutated from € 66 billion to € 67 billion. The number of transactions decreased slightly (around 3%) but the average price increased slightly. The number of defaults increased slightly, but remained below 2009 and write-offs on these defaults remained stable. SNS Bank's risk profile showed slight improvement as a result of the high rate of new mortgages covered by the National Mortgage Guarantee Scheme (NHG).

6.7.1 Sound foundations

The foundations of the Dutch mortgage market continue to be sound due to the structural housing shortage, the mortgage interest tax relief and government regulation. The lower and middle segments of the residential property market, in which SNS Bank is well represented, have limited exposure to price drops. The average amount of register new mortgage loans extended by SNS Bank in 2010 was € 223,000 compared to a nationwide average of € 261,000.

SNS Bank aims to provide simple mortgage products that are subject to clear and fair terms and conditions. It is for this reason that SNS Bank has stopped using different rates for new and existing customers. Since early 2010, customers renewing their mortgages have been able to benefit from the same rates as new customers. In this way we also give meaning to putting clients' interests first, in line with the Dutch Banking Code recommendations.

6.7.2 Capped rate mortgage favourite

The SNS Plafondrente Hypotheek ('capped rate mortgage') positively capitalises on customers' current need for a limitation of risks. Customers taking out this mortgage benefit from interest rate drops, but are also assured that interest rates will never exceed the agreed interest rate cap. Approximately half of new mortgages concerned this type of mortgage. SNS Bank further enhanced its range of third-party mortgages and currently is the only bank to sell mortgages developed by other companies. The volume share of third-party mortgages rose to approximately 6% of total sales through the SNS Bank distribution channel.

6.7.3 Most mortgages through RegioBank and BLG Hypotheken

The indirect channel was responsible for the majority of sales, approximately 83%, 23% of which were achieved by RegioBank intermediaries and 77% by intermediaries carrying our intermediary brand BLG Hypotheken. Certification centralisation slowed BLG Hypotheken sales in early 2010, leading in practice to a tightening of acceptance conditions. A surge in sales was reported in the course of 2010, particularly driven by the success of the BLG Plafondrente Hypotheek ('capped rate mortgage'). BLG Hypotheken is unique for the flexibility it offers, allowing intermediaries to develop optimum products for their customers even for specific situations or residential property, such as holiday homes. In 2010 the product range was reinforced by REAAL term insurance products.

6.8 MARKET SHARE SAVINGS HIGHER

The total Dutch savings market grew from € 285 billion to € 291 billion (+2.2%).

The steady growth of the past few years continued, raising SNS Retail Bank's market share from 8.7% to 9.5%. Year-end 2010 total savings (including SME) amounted to € 31.1 billion, representing an organic growth of approximately 50% in three years. In 2007 total savings were still € 19.2 billion. The retail finance rate rose to 70% as a result, further limiting the capital market's dependence on financing provided by the bank. SNS Retail bank succeeded to gain a considerably part of the new net savings inflow market, demonstrating that the joint growth of SNS Bank, ASN Bank and RegioBank is considerably larger than the average growth of other banks. Simple and transparent products and good pricing take centre stage at all three brands. Each brand also developed its own initiatives to reach its target group efficiently and effectively.

SNS Bank rigorously simplified its range of savings products, reducing its range to five internet savings accounts. Four of those accounts have variable interest rates: one basic savings account without conditions and three savings accounts that are subject to varying conditions. The other two have fixed interest rates. In this way we also give meaning to the principle of putting clients' interests first, in line with the recommendations of the Dutch Banking Code.

6.8.1 Savings advisor SNS Bank

SNS Bank aims to be a simple, approachable bank, a people's bank, and a bank that helps its customers choose the products that best suit their individual circumstances. In the last six months of 2010, some hundreds of thousands of customers with out-of-date products were offered savings accounts with better terms and conditions. All customers with out-of-date products received at least equal interest rates and, in 90% of cases, higher interest rates than they received before the offer. SNS Bank is the first bank in the Netherlands to actively approach its customers with more attractive savings products. In the future as well, SNS Bank will continue to suggest to its customers how they can get the most out of their savings. For example, if a customer reaches a particular balance limit, he will be informed of another product that may offer him higher interest rates. In this way we also give meaning to the principle of putting clients' interests first, in line with the Dutch Banking Code recommendations.

SNS Bank introduced new improvements to its website. Increased automation has made it still easier for customers to apply for savings accounts. Additional improvements to on-line marketing contributed to higher retention rates and a sharp increase of the number of new visitors to the savings website.

6.8.2 Customer retention high at RegioBank

RegioBank contributed approximately 28% to the net savings growth at SNS Retail Bank. Customer retention was very high once again, partly as a result of its local and personal service.

6.8.3 Again strong growth ASN Bank

ASN Bank contributed approximately 51% to the net savings growth, mainly driven by yet another strong increase in the number of customers (approximately 46,000) and high customer loyalty. ASN Bank mainly focuses on the retail market. In addition, ASN Bank also accepts social organisations and companies as customers if they do not conduct business conflicting with the business principles of ASN Bank. Sustainable investment objectives and conditions of savings accounts and attractive interest rates are not the only reasons why customers opt for ASN Bank: ASN Bank's sustainable nature as a financial institution is also a key motivator.

As from 1 January 2011, ASN Bank reduced its five regular savings accounts to a single simple and transparent product that is not subject to restrictive conditions: ASN Ideaalsparen. All customers who did not yet have an ASN Ideaalsparen account consequently received an account subject to better terms and conditions. In addition to this standard savings account, ASN Bank maintained its special young people savings account, its account for combined savings and investment, fixed-term deposit account and its life-course and salary savings account. ASN Bank furthermore maintained the 1% interest rate on its current account. ASN Bank is the only bank in the Netherlands to pay interest on current accounts. In this way we also give meaning to the principle of putting clients' interests first, in line with the recommendations of the Dutch Banking Code.

As from January 2011, customers can indicate to which charities ASN Bank should donate part of its net interest income earned on their savings. The four themes are: renewable energy, the fight against child labour, the fight against arms, and fair trade. As for customers who do not select a particular theme, ASN Bank divides its contribution equally among the four themes.

6.9 BANK SAVINGS INCREASINGLY POPULAR

Bank savings is a fast-growing wealth creation product in the Netherlands. Bank savings products are simple, transparent products with low risks and low costs enabling our customers to benefit from tax exemption to the greatest possible extent. This explains their growing popularity, which was a reason for SNS Bank to further expand its product range and marketing efforts. Sales of pension related products and severance pay were up approximately 177%. SNS Bank develops and produces its bank savings products centrally and in close collaboration with REAAL and RegioBank, which sell these products under their own brand names.

6.9.1 Three products

Bank savings products can be divided into three categories:
- Capital growth for owner-occupied homes;
- Capital growth for top-up pension;
- Capital distribution for top-up pension.

The SNS Spaarrekening Hypotheek is used to (partly) redeem mortgages. This product is a simple and cost-efficient alternative to savings mortgages. In contrast to savings mortgages, the SNS Spaarrekening Hypotheek does not include term insurance. SNS Lijfrente Sparen (for capital build-up) and SNS Lijfrentenieren (for benefits based on previously accrued capital) likewise showed healthy growth. These products provide our customers with a tax-friendly supplement to their pensions.

6.9.2 New annuity and severance pay

In October SNS Bank, together with REAAL and RegioBank, introduced a new wealth creation product for top-up pensions: SNS Uitgesteld Lijfrentenieren. It is the first product on the Dutch market that allows customers to continue to further build up accrued life annuity capital before receiving monthly benefits as from a personally selected date. The interest rate for the entire term, however, is fixed beforehand. Accordingly, this product combines certainty with convenience and flexibility. Under the tax rules, customers can personally change the commencement date and therefore the amount of the monthly benefits up to two months prior to the first payment.

6.9.3 Own situation

In March SNS Bank, together with REAAL and RegioBank, introduced a Golden Handshake account (Gouden Handdruk-rekening) for severance pay. Using this product, customers can easily capitalise on their own situation. The severance pay can first be tied up for a longer period of time to build up additional returns, but customers can also commence regular benefits immediately. This product takes advantage of a legislative amendment of December 2009 and offers various benefits over severance pay insurance.

6.10 APPETITE FOR INVESTMENT STABLE

Our customers' appetite for investment remained stable. Saving continued to be the preferred choice in view of uncertain economic conditions. On balance, commission and management fees, which are related to volumes, fell a shade below the level of 2009. SNS Bank customers can invest independently through SNS Fundcoach or SNS Effectenrekening. Fundcoach offers a selection of more than 250 major international and more specialist investment fund providers. The Effectenlijn gives customers the opportunity to invest in shares, bonds, options and a limited number of investment funds. The option of advice-based investing is offered by SNS and ASN investment funds and by the Effectenlijn.

6.10.1 SNS Fundcoach and SNS Effectenlijn

SNS Fundcoach's total assets under management rose from € 607 million to € 763 million (+26%). The number of customers increased. The number of transactions effected over the SNS Effectenlijn fell slightly. SNS Bank aims to provide simple and accessible products in the area of investing as well. For that reason, investment management and advice-based investing were transferred to SNS Securities, the specialist SNS Bank unit for investments, loans and transactions. SNS Bank decided to terminate investments in non-registered funds on account of the associated risks, a decision that was taken partly in view of the summonses served on SNS Bank in 2010.

6.10.2 Cooperation with BinckBank

In September 2010, SNS Bank entered into a cooperation agreement with BinckBank. The securities processing procedures will be outsourced to BinckBank as from mid 2011. In 2011 investors will receive more information and more options for building their portfolios on the investment site, which will include a single securities account for securities and investment funds that will provide the extensive selection and analysis tools with which the Fundcoach customers are already familiar. The collaboration will also result in better cost prices for SNS Bank on account of joint purchasing from third parties such as brokers and custodians.

6.10.3 Nederlands Aandelenfonds popular

SNS Nederlands Aandelenfonds has been one of the most popular SNS investment funds for many years. In 2010 its volume grew to € 428 million, compared to € 397 million in 2009. SNS Nederlands Aandelenfonds' fund manager is Corné van Zeijl, who won a Gouden Stier ('Golden Bull') award in the category 'Best Investment Expert' of Belegger.nl. SNS Wereld Aandelenfonds and SNS Duurzaam Aandelenfonds were nominated for this award.

6.10.4 ASN Bank for a sustainable society

When investing for investment funds and savings accounts, ASN Bank selects only companies, organisations and governments that meet the investment criteria for a sustainable society. The bank uses unequivocal admission and exclusion criteria that can be found at www.asnbank.nl. Topics such as child labour, animal suffering, climate, human rights and genetic engineering play a decisive role in all investments. Obviously, ASN Bank also strives for optimal financial return. The ASN Bank funds again delivered good results. Particularly appreciating the transparency and clarity of the investment fund range, the Belegger.nl panel chose ASN Bank as best fund house of the year. The ASN Milieu & Waterfonds won the Groene Stier ('Green Bull') award – the public award for the best sustainable investment product – for the fourth year in a row. In addition for the second time in a row, the ASN Milieu & Waterfonds also received a Lipper Fund Award in the category Global Small and Midcap (investment funds investing in small and medium-sized business around the globe). Also, three ASN funds finished in the top five of the most profitable sustainable funds.

6.10.5 Expansion ASN Asset Management

ASN Bank added ASN Asset Management to its product range, for which purpose it joined forces with NBC Duurzaam Vermogensbeheer, a company that has dozens of years of experience in the area of sustainable investment management. ASN Asset Management composes portfolios on the basis of ASN Bank's special investment criteria, so that customers can rest assured that their capital is only invested in companies, countries and projects that take people and the environment into account. ASN Asset Management was created in particular for private individuals, foundations, associations and social institutions with investable assets of € 250,000 or more.

6.10.6 Profit contribution SNS Securities

SNS Securities decreased its contribution to profits, because of standardisation of income in the corporate bond trade compared to 2009 when profits were extremely high because of volatile interest rates. In October 2010 SNS Securities acquired SNS Bank's investment management and investment advice services. SNS Securities provides securities services (shares, bonds and derivatives) to national and international professional investors. In addition, it supports companies in private and public capital market transactions and gives advice to high-net-worth private investors in the fields of investment management and securities. The securities research conducted by SNS Securities mainly focuses on Dutch small-cap and mid-cap funds. The macroeconomic research is also used for SNS Bank's risk management.

7 Developments Property Finance

Net loss of € 593 million mainly due to exceptionally high impairments on loans and goodwill.
Total commitments declined by € 2.0 billion to € 12.6 billion (–14%) compared to year-end 2009.
Repositioning of Property Finance; run-off portfolio defined and to be managed separately.

7.1 FINANCIAL DEVELOPMENTS AT PROPERTY FINANCE

TABLE 4: PROPERTY FINANCE

In € millions	2010	2009	Change
Result			
Net interest income	237	281	(16%)
Result on financial instruments	(29)	(12)	(142%)
Other operating income	(6)	(3)	(100%)
Total income	202	266	
Total operating expenses	93	64	45%
Result before impairment charges and tax	109	202	(46%)
Impairment charges	790	418	89%
Impairment charges goodwill	68	55	24%
Result before tax	(749)	(271)	(176%)
Taxation	(156)	(52)	(200%)
Net result for the period	(593)	(219)	(171%)
One-off items	(68)	(55)	(24%)
Adjusted net result for the period	(525)	(164)	(220%)
Efficiency ratio	46.0%	24.1%	
Impairment charges as a % of gross outstandings to customers	6.21%	2.97%	
Risk-weighted assets Basel I (100%)	11,448	13,666	(16%)
Loans and advances	11,388	13,196	(14%)
Property projects	467	599	(22%)
Held for sale	121	––	––

7.2 RESULTS 2010 COMPARED TO 2009

Property Finance posted a net loss of € 593 million compared to a net loss of € 219 million in 2009. Adjusted for one-off items, consisting both in 2009 and 2010 of goodwill impairments, the net loss increased from € 164 million to € 525 million.

In the international operations, excluding a € 68 million goodwill impairment, a net loss of € 495 million was recorded compared to a net loss of € 256 million in 2009. This was mainly the consequence of the strengthening of the coverage ratio leading to higher loan impairments, though lower net interest income, a lower result on financial instruments and higher operating expenses also had a negative impact.

In contrast to 2009, the Dutch portfolio posted a net loss of € 30 million. This net loss was wholly due to the strengthening of the coverage ratio, leading to higher impairments on Dutch project finance loans in the fourth quarter.

In November was announced to split Property Finance into two separate units with effect from 1 January 2011. Property Finance retains the international loan portfolio and part of its Dutch loan portfolio, consisting of project finance loans and other Dutch loans not compatible with SNS SME. This unit will be phased out over the next two to four years and consequently provisioning levels for non-performing loans have been strengthened in order to facilitate the run-off.

The remaining part of Property Finance's Dutch portfolio has been combined with the existing small and medium-sized enterprise (SME) activities of SNS Retail Bank in the new unit SNS SME as of 1 January 2011. This part of the portfolio posted a pro forma net profit of € 50 million in 2010 (excluding SNS Retail Bank's SME portfolio).

TABLE 5: **OVERVIEW DUTCH AND INTERNATIONAL ACTIVITIES**

In € millions	2010	2009
Overview Dutch Portfolio		
Total income	179	179
Operating expenses	39	38
Impairment charges	180	22
Adjusted net result for the period	(30)	92
Overview International Portfolio		
Total income	23	87
Operating expenses	55	29
Impairment charges	610	396
Adjusted net result for the period	(495)	(256)

7.3 INCOME DECLINED

Total net interest income declined by 16% compared to 2009, due to higher funding costs and a lower loan portfolio, which also led to lower interest-related fee and commission income. The negative result on financial instruments was due to the sale of non-provisioned loans at a discount. Other operating income was lower due to lower results on participations.

7.4 EXPENSES

Total operating expenses increased by € 29 million to € 93 million, due to € 40 million advisory and restructuring costs in relation to winding down the portfolio in 2010 compared to € 6 million in 2009. In 2010, this included a redundancy provision of € 6 million.

Adjusted for expenses related to reducing the international loan portfolio of Property Finance, operating expenses declined by 9% due to a decrease in FTEs related to the reduction in the portfolio.

Total impairment charges increased by € 372 million to € 790 million for the year 2010, in particular due to exceptionally high impairment charges of € 413 million in the fourth quarter. This consisted of € 628 million of impairments on loans, € 117 million of impairments on property projects and € 45 million of impairments on participations. Impairments on property projects and participations were necessary as continued pressure on real estate markets adversely impacted the net realisable value.

The € 628 million of impairments on loans led to a strengthening of provisioning levels, while € 150 million of the provision was used for the run down of the loan portfolio during the year. As a result, the coverage ratio (provisions as a percentage of non-performing loans) improved from 14.9% at year end 2009 to 41.7%.

As a consequence of the exceptionally high level of impairments, impairment charges as a percentage of total gross loans outstanding increased from 297 basis points in 2009 to 621 basis points in 2010.

In the international portfolio, impairment charges increased by € 214 million to € 610 million, including realised losses related to the sale of provisioned loans. This increase related mainly to international projects in the USA and to a lesser extent to a number of loans in other countries.

Impairment charges on loans in the Dutch portfolio increased by € 158 million to € 180 million, mainly due to higher impairments in project financing in the fourth quarter.

7.5 PORTFOLIO DEVELOPMENT

TABLE 6: OVERVIEW PORTFOLIO PROPERTY FINANCE

In € millions	December 2010	December 2009
Total portfolio		
Commitments	12,554	14,567
Undrawn commitments	426	1,133
Outstanding loan portfolio (gross)	12,128	13,434
Loan provision	739	238
Outstanding loan portfolio	11,389	13,196
Property projects	467	599
Held for sale	121	––
Total exposure	11,977	13,795
Non performing loans	1,773	1,598
Non performing loans as % of loans outstanding	14.6%	11.9%
Coverage ratio	41.7%	14.9%
Average loan-to-value (LtV)	82.7%	77.7%
Dutch portfolio		
Commitments	9,477	10,202
Undrawn commitments	314	543
Outstanding loan portfolio (gross)	9,163	9,659
Loan provision	233	58
Outstanding loan portfolio	8,930	9,601
Property projects	11	13
Held for sale	28	––
Total exposure	8,969	9,614
Non performing loans	800	623
Non performing loans as % of loans outstanding	8.7%	6.4%
Coverage ratio	29.2%	9.3%
Average loan-to-value (LtV)	78.7%	74.3%

OVERVIEW PORTFOLIO PROPERTY FINANCE (CONTINUED)

In € millions	December 2010	December 2009
International portfolio		
Commitments	3,077	4,365
Undrawn commitments	112	590
Outstanding loan portfolio (gross)	2,965	3,775
Loan provision	506	180
Outstanding loan portfolio	2,459	3,595
Property projects	456	586
Held for sale	94	––
Total exposure	3,009	4,181
Non performing loans	973	975
Non performing loans as % of loans outstanding	32.8%	25.8%
Coverage ratio	52.0%	18.5%
Average loan-to-value (LtV)	97.6%	86.6%

7.6 TOTAL PORTFOLIO REDUCED

Total commitments (gross loans including undrawn commitments) declined from € 14.6 billion to € 12.6 billion (–14%). Total outstanding loans, net of provisions, declined from € 13.2 billion at year-end 2009 to € 11.4 billion (also –14%). The absolute decline in total commitments was higher than the decline in loans outstanding due to draw-downs on existing commitments. Since mid-2009, when the plans to phase out the international portfolio were announced, total commitments have declined by 21% and net loans by 18%. In 2011, a further decline of commitments of approximately € 2 billion is expected.

7.6.1 Property projects decreased

Compared to year-end 2009, property projects (real estate projects where Property Finance has taken control) decreased by € 132 million to € 467 million mainly due to € 117 million impairments and the reclassification of two projects to held for sale for an amount of € 79 million, partly offset by necessary investments and a € 44 million new inflow.

Together with € 42 million reclassifications from gross loans, the held for sale portfolio amounted to € 121 million as at year-end 2010, consisting of projects expected to be sold in 2011. These properties are stated at the lower of cost and net realisable value, which is the estimated selling price less applicable variable selling expenses.

Due to a lower portfolio and to a lesser extent an increase of non-performing loans, total non-performing loans as a percentage of gross loans outstanding increased from 11.9% at year-end 2009 to 14.6%. The net increase in non-performing loans was related to both the Dutch portfolio and the international portfolio.

7.6.2 International portfolio reduced by 31%

Total international outstanding loans, net of provisions, declined from € 3.6 billion at year-end 2009 to € 2.5 billion (–31%). As well as repayments of loans, the international exposure was also reduced through the sale of a number of loans, most notably in the USA. This was partly compensated by movements in foreign exchange rates, which had an impact of € 124 million. Since mid 2009, when the plans to phase out the international portfolio were announced, commitments of the international portfolio have declined by 41% and net loans by 37%.

Due to an increase of non-performing loans and a lower portfolio, total non-performing loans as a percentage of gross loans outstanding increased from 25.8% at year-end 2009 to 32.8%. Non-performing loans were stable in 2010 despite the sale of non-performing loans. This was mostly due to new inflows of non-performing loans, mainly related to the USA and Spain.

7.7 REPOSITIONING

As announced in November 2010, Property Finance will be split into two separate units as from 1 January 2011. Property Finance will retain its international loan portfolio and part of its Dutch loan portfolio. This 'run-off' unit will be phased out over the next two to four years. The remaining part of Property Finance's Dutch portfolio will be combined with the existing small and medium-sized enterprise (SME) activities of SNS Retail Bank in the new unit SNS Zakelijk (SNS SME).

TABLE 7: PRO FORMA BREAKDOWN PORTFOLIOS NEW REPORTING SEGMENTS AS PER 1 JANUARY 2011

In € millions	PF run-off	PF SME	SNS Retail Bank SME	SNS SME
Commitments	6,840	5,714	1,440	7,154
Undrawn commitments	329	97	--	97
Outstanding loan portfolio (gross)	6,511	5,617	1,440	7,057
Loan provision	728	11	68	79
Outstanding loan portfolio	5,783	5,606	1,372	6,978
Property projects	456	11	--	11
Held for sale	94	27	--	27
Total exposure	6,333	5,644	1,372	7,016
Non performing loans	1,761	12	205	217
Non performing loans as % of loans outstanding	27.0%	0.2%	14.2%	3.1%
Coverage ratio	41.3%	91.7%	33.2%	36.4%

The pro forma gross loan portfolio of Property Finance's run-off activities as per 1 January 2011 amounted to € 6.5 billion, predominantly consisting of international and Dutch project finance loans. The pro forma gross loan portfolio of the new reporting segment SNS SME as per 1 January 2011 amounted to € 7.1 billion, predominantly consisting of Dutch investment finance loans and SME mortgage loans.

7.8 CREDIT RISK

Real estate values remain under pressure, reflecting the current difficult market circumstances and increased risks especially in the international real estate markets where Property Finance is active. The unfavourable environment and outlook translate into lower rental income for real estate investors and challenging conditions for project developers to sell projects. These trends, increased risk and uncertainty, are reflected in high impairments on loans and a higher percentage of non-performing loans. As of the fourth quarter of 2010, this development impacted the Dutch portfolio as well, mainly relating to Dutch project finance loans, which are now part of the run-off portfolio.

7.8.1 Underlying assets

Impairments reflect the changes in the expected cash flow profile of the underlying assets. Expected cash flows are driven by projections, based on defined exit plans, of rental income, price per square metre, construction costs, interest costs and exit values as reflected in reports provided by professional appraisers. Market circumstances have led to a reduction of recent and comparable transactions, with recent transactions sometimes reflecting sellers in financial difficulties. Accordingly, although recent valuations reflect careful interpretations of comparable transactions, valuation ranges have become significantly wider with increased uncertainty.

During 2010 many re-appraisals were conducted, which on average resulted in lower collateral values and hence a higher average loan-to-value (LtV). The average LtV of the total portfolio increased from 77.7% at year-end 2009 to 82.7%. The increased LtV, in combination with sharply higher impairment charges, illustrates the increased credit risk Property Finance is exposed to. However, the coverage ratio (loan provisions as a percentage of non-performing loans) of the total portfolio increased from 14.9% at the end of 2009 to 41.7%.

8 Risk and capital management

Risk levels rose sharply in 2010, reflected in the increase of credit risk provisions of Property Finance as the uncertainties became apparent. Other major causes were uncertainties in Europe – particularly regarding the euro – and falling interest rates.

8.1 KEY RISKS FOR SNS BANK

- Quality of Property Finance's loan portfolio.
  Property Finance's credit losses prevailed this year. Credit risk reflected overall macroeconomic developments. At the same time, the results on individual items set the tone.
- Regulatory risks.
  Regulators became more stringent after the crisis, setting additional requirements for capital positions and liquidity levels, in anticipation of the new rules that take effect in coming years. In addition, the regulators apply the existing rules more strictly. Regulatory rules and their implementation by regulators are a source of growing uncertainty.
- Risks concerning SNS Bank's capital-generating capacity.
  The losses at Property Finance have an adverse effect on SNS Bank's capital-generating capacity, resulting in a capital position as at year-end 2010 that was weaker than expected. It is still unclear to what extent this factor will reduce SNS Bank's capital-generating capacity in the years ahead.

8.2 2010: RISK MANAGEMENT IN A COMPLEX MARKET SITUATION

Lately, numerous external developments have affected the choice for more or less risk tolerance:

- As from the end of 2009, risk in the investment portfolio of government bonds increased substantially as from the end of 2009, because bankruptcies of sovereign European States are no longer considered impossible. Some market parties also question the viability of the euro in its present form. As a consequence these portfolios required additional risk indicators and limits, which have been implemented, meaning a decreased risk appetite for this type of risk.
- Being one of the main themes of SNS Bank's strategy, Property Finance's outstanding exposure was considerably reduced. This, in itself, is a reflection of a lower risk appetite, although the loan to value deteriorated due to decreasing collateral prices. This external component caused the risk increase.
- As is known, Property Finance's main objective for 2010 was to reduce the loan portfolio. As a result, hardly any new business was acquired and the policy and authorisation powers remained unchanged in 2010.
- The method for calculating the Earnings-at-Risk, the volatility in results of SNS Bank, was adjusted. This did not have any material impact on the risk appetite.
- The liquidity limits were not adjusted. Focus was on improving the ratio of assets (mortgages and loans) and liabilities (savings and current accounts) at SNS Retail Bank.

8.3 CHANGES TO THE RISK MANAGEMENT ORGANISATION

The governance structure introduced in 2009 was further developed in 2010. The basic principles of the governance structure remained unaltered:

- Management of SNS Bank is divided into two business units: SNS Retail Bank and Property Finance.
- A system of risk committees operates under the responsibility of SNS REAAL's Management Committee.
- Operating under SNS REAAL's Executive Board's authority, these risk committees establish risk-control frameworks.
- Within the frameworks for risk policy, the business unit management boards achieve the corporate objectives by choosing the best possible products, services, product/market combinations, labelling and distribution channels.
- Asset & Liability Management is managed by SNS REAAL Group.

Changes within the organisation affecting the structure of the risk management organisation are:

- Property Finance was reorganised. The portion of the portfolio to be retained was transferred to SNS SME on 1 January 2011 as a result. Property Finance's risk management organisation now focuses on phasing out the international and Dutch project financing portfolios and, to a lesser extent, on the phase out of the Dutch investment portfolio.

- More activities were centralised in 2010.
  - All local internal control and internal audit departments were incorporated in SNS REAAL.
  - All local staff departments for operational risk management and compliance were centralised and transferred to SNS REAAL.

8.4 DEVELOPMENTS IN CAPITAL AND SOLVENCY

SNS Bank's solvency ratios remained above internal standards (10% for the Tier 1 ratio and 8% for the Core Tier 1 ratio). The Tier 1 ratio was stable at 10.7% as at year-end 2010. The limited growth of SNS Retail Bank's loan portfolios and the phasing out at Property Finance played a role in this process. Within the context of SNS Bank's active de-risking policy, risk exposure was also reduced by selling the highest-risk tranches of Hermes 14 through 17 and by selling a sub-portfolio of mortgages in the amount of € 0.9 billion. The Core Tier 1 and Tier 1 ratios were 8.1% and 10.7%, respectively, as at year-end 2010. The BIS ratio amounted to 16.7%.

SNS Bank's intention is to expeditiously continue the phase-out of Property Finance's loan portfolio in 2011 and subsequent years, for which purpose a radical restructuring process has already been initiated. As a result, a constant further improvement of SNS Bank's solvency ratios is expected. For reasons of prudence, it is assumed that the regulators will maintain the Basel II transition floor as currently applicable.

8.5 CAPITAL ADEQUACY: ICAAP 2010

SNS Bank periodically assesses its capital adequacy by applying the Internal Capital Adequacy Assessment Process (ICAAP).

In the ICAAP, the required amount of capital is determined by the statutory directors of SNS Bank and the SNS REAAL Executive Board. Points of departure are the balance sheet, strategy, risk appetite and existing risks. The assessment includes the questions of how risks are dealt with and whether the capitalisation of SNS Bank in current and possibly future circumstances is sufficiently robust to absorb the risks. Risks are identified using the business strategy and are tested against risk tolerance levels within the risk appetite framework defined. This also enables the integration of risk management according to the recommendations of the Dutch Banking Code.

The robustness of capital levels is tried by performing stress tests. SNS Bank performed an internal stress test in 2010. For this stress test a thorough analysis of the risks involved was performed. SNS Bank composed her own specific economic scenarios. The Economic Capital and Regulatory Capital (Basel II, pillar 1) are part of the ICAAP as well and the capital management process is reviewed. In 2010, SNS Bank improved its ICAAP process. The results of this ICAAP show that SNS Bank remains above internal standards in a stressed scenario. With reference to the Supervisory Review and Evaluation Process (SREP) SNS Bank is in dialogue with the Dutch Central Bank on the ICAAP results.

8.6 SNS BANK FUNDING

In 2010, SNS Bank was able to successfully attract funding on both the financial markets and the retail market. In the financial markets, this involved primarily public EMTN funding, covered bonds and securitisations, with an emphasis on longer maturities (5, 7 and 10 years). SNS Bank also placed a public subordinated transaction with a 10-year maturity on the market. In the retail market, SNS Bank was funded through savings and loans. The total liquidity of SNS Bank remained at a high level. For more details, please refer to the chapter on Funding and credit ratings.

8.7 DEVELOPMENTS IN MARKET RISK

8.7.1 Duration

The yield curve dropped during the first half of 2010, followed by a sharp increase in the last few months of 2010. The duration of equity was lowered to a value between 2 and 3 as of mid-2010, lowering the interest rate sensitivity of the fair value of shareholders' equity as a result of increases in interest rates. At year-end 2010 the duration of equity was 2.3.

8.7.2 Earnings-at-Risk

The calculation method for the Earnings-at-Risk (EaR) was improved in March 2010. The volatility of interest rate scenarios in the old method no longer proved to be representative of current market volatility. The new method comprises a limited number of intelligible interest rate scenarios of major interest rate shocks, thus providing better insight into interest rate risks and possible actions that can be taken to limit such risks. At the same time, the EaR limit was adjusted to € 56 million as the old € 25 million limit was too conservative in proportion to the absolute level of net interest income. In 2010, the EaR averaged € 15 million. At its highest point in June 2010 the EaR was € 29 million according to the new method. The increase of the limit corresponds to a decrease of the risk of exceeding the limit from 5% to 1%.

8.7.3 PIIGS

Driven by increased credit risks, spreads on the PIIGS countries (Portugal, Ireland, Italy, Greece, Spain) widened in 2010. These developments sparked a further reduction of the exposure to these countries in the course of 2010. The position and spread development are evaluated on a highly frequent basis.

8.7.4 Trading risk

SNS Bank has a small trading portfolio in line with its risk profile. In accordance with this profile, the total limit in terms of VaR (99% confidence on day-to-day basis) was set at € 2.4 million. The permitted limit was used to only a moderate extent in 2010.

8.8 DEVELOPMENTS IN CREDIT RISK

SNS Bank's total loan portfolio amounted to € 65.0 billion at year-end 2010. Most of the loan portfolio (79%) consists of residential mortgages provided in the Netherlands. Property Finance's loan portfolio decreased further from € 13.2 billion to € 11.4 billion as at year-end 2010. The international portfolio decreased from € 3.6 billion at year-end 2009 to € 2.5 billion at year-end 2010.

The main developments in the field of credit risk in 2010 were the slightly falling house prices and the stagnating market for both existing and new owner-occupied homes in the Netherlands. The market for national and international property projects continued to deteriorate as well.

8.8.1 SNS Retail Bank

SNS Retail Bank's loan portfolio amounted to € 53.6 billion at year-end 2010, € 49.4 billion of which comprised residential mortgages. 13.3% of these residential mortgages is covered by the National Mortgage Guarantee.

The market for owner-occupied residential property is experiencing a downturn, just as in 2009, with the number of housing transactions remaining at a historic low and house prices falling for the second consecutive year. However, in 2010 the drop in house prices was more gradual than in 2009. The falling house prices and stagnating residential property market led to longer foreclosure periods and larger losses on foreclosure.

8.8.2 Property Finance

The national and international property markets went through another difficult year in 2010 with continued pressure on property values, which adversely affected the cash flow – and thus the repayment capacity – of property developers. Increasing vacancy rates and falling market rents, with the exception of property at category-A locations, also accounted for a decline in property investors' rental income. These developments led Property Finance clients (property investors and developers) to default on payments, which translated into an increase of loans in default and of provisions.

The strategy adapted in 2009 was continued in 2010. In 2009 the strategy of Property Finance was attuned to the changing circumstances and credit management was tightened. In this respect, the four R's were introduced: repricing, repayment, revision and restructuring. As a result the reduction of outstandings, the reduction of Risk Weighted Assets ('RWA'), increased margins and intensified revisions and restructurings. The Early Warning System was reinforced and the phasing-out of the international portfolio was intensified further. The portfolio (commitments) decreased in 2010 from € 14.6 billion (€ 4.4 billion of which related to international activities) to € 12.6 billion (€ 3.6 billion of which related to international activities).

8.9 DEVELOPMENTS OF BASEL III

In 2010 the Basel Committee announced additional capital and liquidity requirements that will apply across the globe. This tightening of requirements is also referred to Basel III. The main changes are:

- The minimum levels for the Core Tier 1 and Tier 1 ratios have been raised to 4.5% and 6%, respectively.
- There is a 2.5% Capital Conservation Buffer that imposes restrictions on the extent to which dividend and bonuses can be distributed.
- There is a maximum Countercyclical Buffer of 2.5% that can be used by national regulators in times of excessive credit growth. The Dutch Central Bank did not express any views on this.
- There is an extensive grandfathering arrangement.
- There is a long transition period (until 1 January 2019), which will commence on 1 January 2013.
- Introduction of a Tier 1 leverage ratio of 3% on 1 January 2018, which may be recalibrated. On this, the Dutch Central Bank also did not express any views.

- The Liquidity Coverage Ratio (LCR) will be implemented effective 1 January 2015 and the Net Stable Funding Ratio (NSFR) effective 1 January 2018. The observation period will commence in 2011.
- Systemically important financial institutions (SIFIs) should have a higher loss absorption capacity than other banks. The Basel Committee and the Financial Stability Board are as yet to prepare rules for SIFIs.

At the end of 2010, SNS Bank met the minimum Tier 1 capital requirements (including the Capital Conservation Buffer), the leverage ratio and the liquidity requirements. The Countercyclical Buffer and the additional requirements for systemic banks have not yet been established.

8.10 MANAGEMENT OF NON-FINANCIAL RISKS

The importance of managing non-financial risks is stressed once again by the current market conditions. The crisis of public confidence with regard to the financial sector yielded numerous initiatives, ranging from new legislation and regulations and reviews of business models to roll-outs of cultural programmes both at supervised institutions and at the regulator. In 2010 the non-financial risks advisory and oversight roles were combined at Group level to form the staff department Compliance, Security and Operational Risk Management ('CS&O'). This centralisation of disciplines within a central staff department enables SNS REAAL to better perform Group-wide analyses to manage non-financial risks preventively.

8.10.1 Existing factors

The main existing factors for management of non-financial risks are:

- A clear governance structure, including a transparent assignment of duties and responsibilities and escalation procedures. For this purpose SNS REAAL implemented the 'Three Lines of Defence' model, making line management primarily responsible for recognising and managing risks and taking decisions in that respect. Along with several other Group staff departments, CS&O has an important role to play in the second Line of Defence. Its responsibilities are partly determined by means of a compliance monitoring programme to be established and implemented each year, the results of which are included in CS&O's quarterly report to the Executive Board, the Risk Committee and the Supervisory Board. The third Line of Defence is formed by Group Audit, which tests the set-up and operation of the system as a whole.
- Within the governance structure, the Group Governance, Operational Risk and Compliance Committee (GORCC) was established for the whole Group. This Committee is chaired by the chairman of the Executive Board and its members comprise the Chief Financial Risk Officer, Chief Executive officers of the business units, CS&O Director, Corporate Responsibility Director, Group Audit Director and Legal Affairs Director. CS&O is responsible for managing the agenda of the Committee, which meets on a monthly basis. In addition to adopting policies, the meeting discusses specific risks and how they will be mitigated.

8.10.2 New developments

Major new developments for management of non-financial risks are:

- As from mid-2010, the Executive and Supervisory Boards receive integrated non-financial risks quarterly reports containing overviews of the main action items and providing insight into their follow-up status.
- The basic principles for integrity are included in a Group-wide, fully rolled-out standards framework that underlies the development of new products and services and the formation of joint ventures, but that also imposes clear requirements on the organisational structure in terms of business process integrity and the integrity requirements applicable to employees.
- In 2010 SNS Bank conducted a study of the integrity environment at the Company supported by KPMG. The study was based on eight organisational qualities (clarity, exemplary conduct, ability to impose sanctions, visibility, commitment, openness for discussion, approachability, feasibility) that are guiding in creating an integrity-based company culture. The overall conclusion is that, on average, SNS Bank performs slightly better than similar financials in the benchmark. Based on the results of the study, several action items were formulated with regard to awareness of integrity issues in order to recognise relevant issues in good time, make them the subject of discussion and follow up on them. CS&O monitors the progress achieved with the action items as formulated and reports to the Executive and Supervisory Boards and the Risk Committee on their status every three months. The integrity assessment will be repeated every year.
- Following from the above, CS&O annually prepares and executes an awareness programme, consisting of a set of courses, workshops, e-learning programs and means of communication aimed at influencing conduct and culture, taking the know-how of specific groups of employees to the required level and maintaining that level. CS&O draws for the contents of this programme on the roll-out of the CARE! core value within the Group.
- The product development process was fine-tuned in 2010, particularly on the basis of current social insights. SNS Bank also performed a product analysis, testing all selling and non-selling products against the product standard framework.
- By means of semi-annual in-control statements (ICSs), senior management reports about the extent to which operational, integrity and financial reporting risks are managed. The management statement is partly based on this ICS.
- GORCC monitors whether action items ensuing from audits by Group Audit, the external auditor and regulators are followed up.
- A social development that has consequences for SNS Bank is the growing threat of cyber crime. Appropriate measures are taken to avert this threat.
- Cutbacks, restructuring and the economic environment put pressure on the entire risk management organisation.

9 Funding and credit ratings

Access to the money and capital markets improved. SNS Bank secured its funding until the end of 2011, provided that market conditions are normal, and improved the redemption profile for its debts. With SNS Bank's high-quality SME and residential mortgage portfolio as collateral, we were able to issue large and long-term bonds.

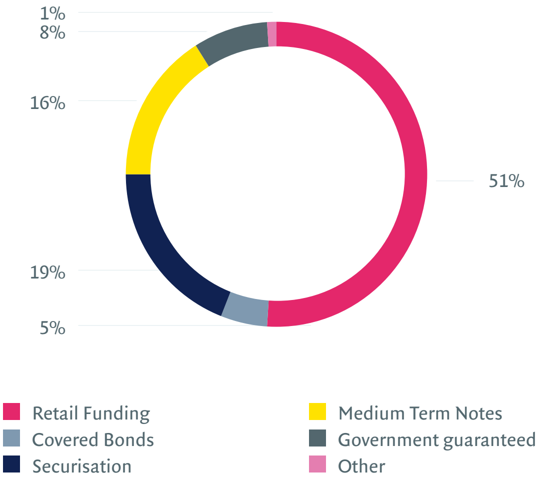
Our public funding strategy is aimed at funding the activities of SNS Bank at a competitive level, i.e. at minimal cost while limiting risks. This strategy is based on two pillars. The first pillar is to secure adequate and timely liquidity, thus avoiding the risk that at a late stage funding must be obtained at unfavourable terms. The second pillar is diversification in terms of funding instruments, type of investor and geographic area. SNS Bank can thus opt for the most suitable instrument in various market conditions and depending on its funding requirements and the qualifications required by the Dutch Central Bank. Our customers' savings play an increasingly important role in the total funding, which limits our dependence on the public money and capital markets.

9.1 FUNDING 2011 SECURED

SNS Bank secured its funding until the end of 2011, provided that market conditions are normal. In 2010, a larger part of the funding was obtained through savings compared to 2009, which reduces SNS Bank's dependence on the capital market conditions. During the financial crisis SNS Bank was forced to contract relatively more short-term loans, thereby weakening the redemption profile. Several sizeable long-term loans contirbuted to a considerable improvement of the redemption profile in 2010. Our refinancing focus is now mainly on 2012 and 2014. In those years the loans under the guarantee scheme of the Ministry of Finance will mature. The Basel III regulations, which will take effect in stages from 2013 to 2018, imply that the banks' capital buffers must be of higher and better quality. In anticipation of Basel III, SNS Bank adjusted its issue policy in 2010. SNS Bank raised €500 million with a lower Tier 2 loan under the new Basel III conditions, with no step-up or call option included in the terms.

SNS Bank kept the liquidity position at a high level throughout the year. The liquidity position at year-end 2010 amounted to € 14.5 billion compared to € 13.8 billion at year-end 2009. The cash position also remained high.

GRAPH 2: FUNDING INSTRUMENTS AS AT YEAR-END 2010



9.2 RISK SURCHARGES DOWN

At the end of 2009 the risk surcharges for most funding instruments were already down considerably from the levels attained during the financial crisis and mostly remained stable in 2010. In 2010, not a single Dutch bank was forced to issue bonds that were guaranteed by the Ministry of Finance. The surcharges paid by SNS Bank ranged from 70 to 90 basis points (depending on the maturity), or 0.7 to 0.9%, on the issue of covered bonds in September, to 140 basis points, or 1.4%, on the issue of unsecured bonds in January. Although lower than during the crisis, these levels are still well above the levels achieved before the financial crisis, reflecting increased caution among investors and a lower number of market parties, such as the SPV's used by banks before the financial crisis. Market transparency has increased as a result, which will eventually contribute to improved performance of the international money and capital markets.

9.2.1 Successful issue bonds

In early 2010, SNS Bank benefited from positive market conditions with the issue of € 600 million in unsecured bonds with a 3.5-year maturity. In February SNS Bank restructured an existing securitisation dating from September 2007 that was previously included on the balance sheet, placing an amount of € 1.4 billion in Senior Mortgage-Backed Floating Rate Notes with institutional investors. This successful issue of bonds with residential mortgages as collateral signalled increased confidence. At the time of issue, SNS Bank was the second party to succeed in issuing securitised bonds since the financial crisis erupted. On top of this, this loan was the largest of its kind since the financial crisis.

March saw the issue of a € 1.0 billion covered bond with a seven-year maturity. The double coverage associated with this type of bond provides investors with additional security and facilitates a low risk surcharge and a long term to maturity. The double coverage consists of the bank's own creditworthiness and the mortgage collateral, which is at least equal to the value of the issued loan.

9.2.2 Mortgages with and without guarantee

Following this issue, the investment climate changed due to concerns about the high debts of peripheral euro countries, resulting in a rush out of these countries' sovereign bonds. This development as well as low interest rates in the US suppressed interest rates on sovereign bonds issued by the safe European countries and created the option of issuing the securitised bonds SNS Bank placed in June and July at relatively low interest rates. The increased uncertainty in the market was nevertheless reflected in higher risk surcharges, amounting to 130 basis points (1.3%) for the June 2010 bond loan on the basis of ordinary mortgages and 90 basis points (0.9%) for the July loan on the basis of NHG mortgages. The first bond loan amounted to € 1.5 billion and had a five-year maturity. The second – € 0.6 billion – bond had a five-year maturity as well, but, as required by SNS Bank's Pearl programme, only contained NHG-guaranteed residential mortgages. In September SNS Bank issued another covered bond, this time in the amount of € 1.0 billion, a ten-year maturity and a risk surcharge of 85 basis points (0.85%). In October SNS Bank issued a lower Tier 2 bond loan in the amount of € 500 million, with a term to maturity of 10 years and a risk surcharge of 360 basis points (3.6%). Especially the issues of the covered bond loans and subordinated loan resulted in a significant increase, thereby improving, the maturity profile of SNS Bank.

TABLE 8: **BENCHMARK BONDS OUTSTANDING AT YEAR-END 2010**

	Date
€ 0.6 billion 3.625% unsecured	July 2013
€ 1.4 billion RMBS	February 2039
€ 1.0 billion 3.625% covered bond	March 2017
€ 1.5 billion RMBS	June 2015
€ 0.6 billion RMBS Pearl	July 2015
€ 1.0 billion 3.50% covered bond	September 2020
€ 0.5 billion 6.25% subordinated debt	October 2020

9.3 FEW PRIVATE PLACEMENTS

There were only a few direct, private placements with a limited number of institutional investors. Particularly the EMTN (Euro Medium Term Note) programme – which constitutes a framework within which individual bonds are issued – hardly resulted in any placements. Bonds with a value of approximately € 310 million and extremely long terms to maturity were placed under the covered bond programme.

SNS Bank has two commercial paper programmes in place – one European and one French programme – each with a maximum volume of € 4 billion. Commercial paper has a maturity of one to twelve months. As SNS Bank does not want to be dependent on short-term money programmes, it again used these programmes only to a very limited extent in 2010. The amount outstanding on the European programme was approximately € 200 million at year-end 2010, whereas funding through the French programme amounted to some € 600 million.

All of SNS Bank's issues in 2010 were benchmark bonds. Issues of liquid benchmark bonds, which can be actively traded on the European exchanges, contribute to a broadening of the investor base. Liquid bonds also make it more attractive for institutional investors to invest in SNS Bank bonds.

9.4 CREDIT RATINGS

On 23 February 2010, credit rating agency Moody's downgraded the rating for SNS Bank by one notch to A3 and maintained its 'negative outlook'.

Believing that SNS Bank's capital structure and profit capacity were sufficient to absorb the problems at Property Finance, Fitch lifted the rating 'watch negative' and replaced it by a 'negative outlook' on 12 April.

On 28 May, Standard & Poor's lowered the credit rating of SNS Bank from 'stable outlook' to 'negative outlook', as the agency was of the opinion that high credit losses at Property Finance might more than offset any improved operational performance of SNS Retail Bank.

The most recent reports by Standard & Poor's, Moody's and Fitch can be viewed and downloaded at the Investors section of www.snsreaal.nl.

TABLE 9: **CREDIT RATINGS**

	S&P	Moody's	Fitch
Long term	A- (negative)	A3 (negative)	A- (negative)
Short term	A2	P-2	F2

Report of the Supervisory Board

Report of the Supervisory Board

The year 2010 was characterised by the first signs of economic recovery as well as by low interest rates, considerable focus on pensions, euro concerns, changing legislation and regulations and a changing political and regulatory climate. In 2010 the Supervisory Board regularly discussed the way in which SNS Bank was forced to adjust to these ever-changing circumstances. The Supervisory Board is convinced that the choices made in 2010 and the course chosen have geared up SNS Bank to face the challenges it will encounter and to achieve its strategy. SNS Bank is on the right track to regain the trust of customers, investors, employees and other stakeholders, which will continue to be a key issue in 2011.

10.1 THEMES

Major themes discussed by the Supervisory Board in 2010 are risk management and risk appetite, investment policy, Property Finance's strategic position, SNS REAAL's capital position, including redemption of the support received from the State and Stichting Beheer SNS REAAL, and the implementation of the Banking Code (customer focus, remuneration policy, permanent education).

10.1.1 Collaboration between Committees and the Supervisory Board

Given the materiality and complexity of these topics, proper preparations by the various committees before they could commence discussions with the plenary Supervisory Board were especially important. This combined effort undertaken by the Supervisory Board and its Committees was further developed en optimised during the year. In line with this approach, during the year the Supervisory Board also repeatedly discussed its own performance and that of the Committees in particular. In doing so, the overlap of topics discussed in the different Committees and/or the Supervisory Board and the Committees' composition were examined as well. Based on these evaluations, it was decided to make the Committees smaller.

10.1.2 Collaboration between the Supervisory Board and management

Collaboration between the Board and the management was also smooth. In order to obtain internal information, the Supervisory Board benefits from the relationship of trust built with the Executive Board and the management boards of the business units and staff departments. Open and critical debate is not avoided in the pleasant and efficient talks between management and the Supervisory Board. Furthermore, the Supervisory Board is aware that additional information from external experts is indispensable to the proper performance of its supervisory duties. Apart from the regular contact that the Supervisory Board, and particularly the Audit and Risk Committees, maintained with the external auditor and actuary, the Board also talked to external advisors who are engaged in the drafting of the phase-out plans for Property Finance.

10.1.3 Personnel

2010 was not an easy year for many SNS Bank employees, including those employed in the activities that have performed well. The incessantly difficult financial market conditions, cost savings, changes in regulations and increasingly active regulators are all factors that considerably impacted work and performance pressure. Unfortunately, this year, too, many had to find another position, either inside or outside the company. Despite these circumstances, the open and direct culture within SNS Bank remained intact and the employees achieved good results. The Supervisory Board is aware that the good relationship it has with the works councils and trade unions are of the essence, and supports SNS REAAL's Executive Board in this relationship wherever possible and also keeps in touch with the Central Works Council on its own behalf. This year, too, the Supervisory Board or the appropriate committee regularly assessed HR policy, including Management Development. The Supervisory Board therefore trusts that the SNS Bank employees will continue to build on the execution of SNS Bank's mission, strategy and core values.

10.1.4 Financial climate

The credit crunch and the ensuing developments highly impacted the world in which financial institutions operate. Clients, investors, legislators, regulators and other stakeholders all set requirements with regard to the way in which financial institutions perform their activities. European governmental bodies impose many additional rules, such as Basel III. In the Netherlands, this tendency is expressed in the Banking Code. Following up on the measures initiated in late 2009 and early 2010 in respect of governance and remuneration policy, the Supervisory Board continued in 2010 to implement these recommendations and closely monitor SNS REAAL's Executive Board's activities in this area. This resulted in the first common training session for members of the Supervisory Board and top management, detailed discussions of customers and customer interests, remuneration policy and risk management, and the further expansion of expertise within the Supervisory Board.

10.1.5 Performance of the Supervisory Board

The last item was part of the extensive evaluation performed by the Supervisory Board under expert, external supervision in 2010. Further reinforcement of banking and insurance knowledge resulted in the appointment of Piero Overmars in 2010. The effects of the addition to the Supervisory Board and the collaboration between the Board and its committees were also topics of discussion, resulting in a more efficient agenda and smaller committees with improved performance. Finally, within the context of its evaluation the Supervisory Board expressed its preference for ending the situation in which two members of the Supervisory Board are on the board of Stichting Beheer SNS REAAL, the majority shareholder in SNS REAAL. In that light, Bas Kortmann's retirement on 7 October 2010 was a first step. At the Annual General Meeting of Shareholders of SNS REAAL in April 2011, Henk Muller will retire as well. All members of the Supervisory Board will then be independent within the meaning of the Dutch Corporate Governance Code. An internal assessment of the performance of the Supervisory Board and its committees was commenced at the end of 2010. This evaluation reveals that the members of the Supervisory Board are satisfied with the changes to the composition and procedures of the committees made in 2010, but that the Board size continues to be an issue. The open and critical discussions are appreciated, just like the openness with which the Executive Board provides information.

10.2 COMPOSITION OF THE SUPERVISORY BOARD

In October 2010 an Extraordinary General Meeting of Shareholders was held in connection with the retirement of Bas Kortmann as Supervisory Board member and the appointment of Piero Overmars. With the appointment of Piero Overmars, the knowledge and experience in the areas of banking and financial services were further expanded on the Supervisory Board. At the AGM of April 2011, Hans van der Kar and Henk Muller will retire.

10.3 MEETINGS OF THE SUPERVISORY BOARD

In 2010 the Supervisory Board convened 9 times: in January, February, March, April, May, August, September, November and December. None of the Supervisory Board members were frequently absent in 2010.

10.3.1 Presence of the Executive Board

In principle, the Supervisory Board meets in the presence of the members of SNS REAAL's Executive Board. In 2010 the Supervisory Board convened twice – in January and March – without the members of the Executive Board. The performance of the Executive Board and its individual members and the performance of the Supervisory Board (evaluation 2009) were discussed at these meetings. The CEO of SNS REAAL attended part of the Supervisory Board meetings in August and December. On those occasions, too, the performance of the Executive Board and its individual members and the performance of the Supervisory Board (evaluation 2010) were discussed.

10.3.2 Presence of the external auditor

The external auditor was represented when the management letter, the annual report and the results were discussed at the meetings in January, February, March and August.

10.3.3 Main agenda items per month

The main topics discussed at the various meetings are listed below.

January

- Feedback on the previous meetings held by the different Supervisory Board committees, being the Remuneration Committee, the Audit Committee, the Risk Committee and the Nomination Committee
- KPMG's management letter 2009
- Performance of the different Supervisory Board committees, also in relation to the Supervisory Board itself
- Summary of reports by investments analysts about SNS REAAL
- Group Risk Management's quarterly report
- Performance of SNS REAAL's Executive Board and its individual members

February

- Feedback on the previous meetings held by the different Supervisory Board committees, being the Remuneration Committee, the Audit Committee and the Risk Committee
- Credit ratings by rating agencies
- Annual results, internal management report, audit report, litigation statement and annual report

- Progress in the execution of the mission Simplicity in Finance
- Permanent education of Supervisory Board members within the context of the Banking Code
- Performance of the Supervisory Board

March

- Feedback on the previous meetings held by the Remuneration Committee
- Feedback on roadshow for annual results
- Status per business unit

April

- Feedback on the previous Annual General Meeting of Shareholders of SNS REAAL
- Variable remuneration of SNS REAAL's Executive Board

May

- Feedback on the previous meetings held by the different Supervisory Board committees, being the Audit Committee and the Risk Committee
- Status Property Finance
- Regulations of the Supervisory Board and its committees
- Q1 figures and internal management report
- Developments within IT and Human Resources
- Presentation by SNS Bank Management Board
- Performance of the Supervisory Board

August

- Feedback on the previous meetings held by the different Supervisory Board committees, being the Remuneration Committee, the Audit Committee and the Risk Committee
- Developments in financial markets, including low interest rates, stress tests, activities by the Banking Code Monitoring Committee and the parliamentary inquiry into financial market developments (De Wit Committee)
- Status per business unit
- Half-year results, internal management report, audit report, interim dividend and litigation statement
- Focus on customer interests
- Performance of the Supervisory Board and its committees

September (strategy session)

- Various strategic topics, such as capital position, consolidation, strategy strengthening and Property Finance

November

- Feedback on the previous meetings held by the different Supervisory Board committees, being the Remuneration Committee, the Audit Committee, the Risk Committee and the Nomination Committee
- Status per business unit
- Presentation on bank savings
- Q3 figures, internal management report
- Preliminary discussions for Investor Day of SNS REAAL
- Feedback on strategy session

December

- Feedback on the previous meetings held by the different Supervisory Board committees, being the Remuneration Committee, the Audit Committee, the Risk Committee and the Credit Committee
- Status per business unit
- Operational plan for 2011-2013, capitalisation, funding and investment plan for 2011
- Presentation on CAR model (Customer-Agreed Remuneration)
- Management Letter 2010 KPMG
- Performance of SNS REAAL's Executive Board and its individual members
- Performance of the Supervisory Board

10.4 COMMITTEE MEETINGS

The Supervisory Board has five committees: the Audit Committee, Credit Committee, Nomination Committee, Risk Committee and Remuneration Committee.

Below please find a description of the activities of each committee. More detailed information on the composition of the committees and the regulations of each committee can be found on www.snsreaal.nl.

Every committee prepares the decision-making process for the Supervisory Board in respect of the tasks assigned to it and reports to the Supervisory Board.

10.4.1 Audit Committee (AC)

The composition of the Audit Committee did not change in 2010. When evaluating the AC's performance, its relationship with the newly installed Risk Committee received particular attention. The Committee convened seven times in 2010.

The AC mainly discussed and assessed the structure and operation of SNS Bank's financial reporting and the corresponding audits. SNS REAAL's CEO, CFRO, Group Audit director and Group Finance director and the external auditor attended all meetings.

10.4.2 Credit Committee (CC)

Bas Kortmann's departure reduced the CC's size, as he was not replaced in the CC. When the CC was evaluated, it was decided to increase the meeting frequency from two to four times a year, effective 2011. The CC meetings will be attended by the Bank COO of the Executive Board. The committee convened twice in 2010.

The regular CC meetings discuss the loan proposals exceeding € 100 million. Moreover, the CC is consulted about major loans in writing.

10.4.3 Nomination Committee (NC)

The composition of the NC did not change in 2010. This Committee's meetings are attended by the HR director and the CEO. The committee convened three times in 2010.

The NC focuses on the selection and appointment of members of SNS REAAL's Executive Board and the management boards and examines succession planning. It also prepares the nomination of new members of the Supervisory Board. In 2010 the NC was, among other things, engaged in the change in the Management Board of SNS Retail Bank and the selection of Piero Overmars.

10.4.4 Remuneration Committee (RemunCo)

The RemunCo was reduced to three members in 2010. When Bas Kortmann left the company he was not replaced and Henk Muller and Charlotte Insinger retired as members of the RemunCo. The RemunCo meetings are attended by SNS REAAL's HR Director and CEO, and fairly regularly also by the CFRO. The committee convened six times in 2010.

The RemunCo prepares decision-making with regard to the remuneration policy applicable to SNS REAAL's Executive Board members, senior management, and the remuneration policy principles for other employees. In 2010 the RemunCo held several meetings about the remuneration policy applicable to the Company's senior management in connection with new European regulations in this area. The Executive Board's pension scheme was discussed and prepared as well.

10.4.5 Risk Committee (RC)

The RC's composition changed in 2010 as Jos Nijhuis and Ludo Wijngaarden stepped down and Piero Overmars joined the RC. In principle, the RC meetings are attended by SNS REAAL's CEO, CFRO and Group Audit director. The Group Risk Management director and the director of Compliance, Security and Operational Risk Management also regularly attend the RC meetings. The external auditor is in attendance at least once a year for part of the meeting. The committee convened six times in 2010.

The RC is primarily engaged in preparing and monitoring the financial and non-financial risk policies and the operation of the risk management organisation. As stated, the risk management, risk appetite and investment policy required quite some attention from the Supervisory Board – and therefore the RC – in 2010. Consequently, this Committee took a great leap forward right in its first year.

10.5 FINANCIAL STATEMENTS

The Supervisory Board discussed the 2010 financial statements at the meetings of February and March 2011. The annual figures were already published in February 2011 and, prior to their publication, discussed at the meeting of February 2011. KPMG, the external auditor, issued an unqualified opinion on the financial statements. The financial statements will be presented to the shareholders on 20 April 2011.

10.6 CLOSING WORDS

The Supervisory Board explicitly wishes to express its gratitude and appreciation for the work performed by all employees. This has not always been easy in the economic and financial conditions of 2010 and, therefore, the Supervisory Board does not take this commitment for granted. The Supervisory Board is also very satisfied with and grateful for the collaboration with management over the past year. Finally, the Supervisory Board wishes to express its gratitude for the work performed by Bas Kortmann, Hans van der Kar and Henk Muller in their many years of service as Supervisory Board members and for the work performed by Renz de Wit during his years as secretary to the Executive Board and the Supervisory Board of SNS REAAL.

Utrecht, 7 March 2011
On behalf of the Supervisory Board,
Rob Zwartendijk, chairman

Corporate governance

11 Corporate governance

In this chapter, the Banking Code is discussed. For discussion of the Frijns Code (applicable to companies listed on the Dutch stock exchange) and the Insurance Code and information on the Executive Board, Supervisory Board, shareholders, shares and core tier 1 capital securities of SNS REAAL, reference is made to SNS REAAL's Annual Report of 2010. The chapter concludes with the statements required pursuant to the Frijns Code and the law.

11.1 BANKING CODE

11.1.1 Mission, core value and strategy of SNS Bank emphasise Banking Code principles

The mission, core value and strategy of SNS Bank confirm the principles of the Banking Code. Right after publication of the report Restoring Trust – the report drawn up by the Maas Committee, which constitutes the basis for the Banking Code – in April 2009, SNS Bank started implementing the recommendations within its organisation where appropriate.

11.1.2 SNS Bank makes a contribution to restore trust in the financial sector

The Banking Code is aimed towards restoring trust in the financial sector. Naturally this is also the commitment of SNS Bank. In applying this Code and her mission, core value and strategy, SNS Bank makes a contribution to restore trust in the Dutch financial sector and the improvement of its proper functioning

11.1.3 SNS Bank immediately started applying the Banking Code

The Banking Code applies to all of SNS Bank's activities and came into force on 1 January 2010. Prior to this date, SNS Bank started applying the Banking Code. SNS Bank applies the Banking Code to the extent possible, but continues – together with her employees – to improve its application. This is realised every day with the pursuit of Simplicity in Finance and acting in accordance with the core value CARE!

11.1.4 Application of the Banking Code

On the website of SNS REAAL, an up-to-date overview is provided of the manner in which SNS REAAL and its business units implement and apply the recommendations of the Banking Code.

11.1.5 Compliance with the Banking Code

SNS Bank applies the Banking Code. This will be improved during 2011 on the following points:

- Recommendations 2.1.8 and 3.1.3 (recommendations regarding the availability of a permanent education programme for members of the Supervisory Board and the Executive Board): the members of the Supervisory Board and the Executive Board of SNS REAAL and the management boards of the business units are encouraged to keep their expertise up to date and, if necessary, improve it by participating in internal and external training programmes. This recommendation has been largely met. Several members of the Supervisory Board attended the Banker's Course during 2010. A programme as prescribed by the Banking Code was being set up in 2010, and will be optimised during 2011.
- Recommendation 2.1.9 (the assessment of the effectiveness of permanent education is part of the annual evaluation of the Supervisory Board): as the permanent education programme was under construction in 2010, this programme was limited evaluated. In the 2011 evaluation this will be extended.
- Recommendations 6.2.1 and 6.2.2: In 2010 no material retention, exit or welcome packages were granted. The existing policy on such packages will be formalised and included in the amendment of the total remuneration policy.
- Recommendation 6.3.3: In light of the CRD III regulation coming into force and related regulations, SNS REAAL is currently adjusting its remuneration policy.

11.1.6 Clients' interest first

The Banking Code recommendations aimed at the culture of SNS Bank, such as putting the client first and safeguarding the interests of all of SNS Bank's stakeholders concerned (section 3.2 of the Banking Code) are abstract and not specifically worded. Implementation and compliance with these recommendations can – by definition – only be objectively verified to a limited extend.

SNS Bank is convinced that these recommendations are embedded in her culture. One of the pillars of SNS Bank's strategy is putting clients and the interests of clients first, which is rooted in the mission Simplicity in Finance and the core value CARE! The interests of all of SNS Bank's stakeholders are considered with due care. Putting clients first is part of the assessment of employees, the product approval process (for existing and new products) and business units must report on how they put the interests of clients first.

The implementation of these recommendations from the Banking Code is discussed more elaborate in other sections of this annual report.

11.1.7 Permanent education of the Executive Board and management board

Over the past year, members of the Executive Board of SNS REAAL and the management boards of the business units participated in various courses, in-house and externally. SNS REAAL's company secretary and HR together organise a range of in-house training courses, with HR assisting the members in following external courses. HR keeps track of the members' attendance of in-house and external courses. The expertise of the members of the Executive Board and the management boards of the business units is part of the assessment procedure.

11.2 MANAGEMENT STATEMENTS

The member of the Management Board of SNS Bank state the following:

11.2.1 In-control statement

The SNS Bank Management Board states it has reasonable assurance that, structurally, the main risks are recognised and adequately controlled. The basis for this is provided by SNS Bank's risk management organisation, as described in the chapter on Risk management. The operation of essential control measures is assessed on a regular basis. This process of internal in-control statements and the accompanying evaluation by management has led to the following relevant areas of management attention for SNS Bank as a whole:

- In the area of SNS Bank's capitalisation, the (timely) repayment of the support provided by the Dutch State and the Foundation (via SNS REAAL), the phase-out and restructuring of Property Finance, and management of the consequences of the low interest rates are given priority.
- Society is increasingly faced with the threat of cybercrime. SNS Bank is closely monitoring this development and takes the appropriate measures where necessary.
- In 2010 SNS Bank further tightened its product management process compared to 2009 as the integrity of financial products will continue to receive public attention. Progress is visible in the area of the active product portfolio. As a result of advice given in the past, changing legislation and regulations and changing public opinion, the non-active product portfolio will also continue to be a point of focus.

11.2.2 Managing financial reporting

The financial reporting management and control systems are an integral part of SNS Bank's overall risk management and control systems. Its key elements in respect of the control of financial reporting are the following:

- The Financial Committee, which is responsible for setting policy frameworks as well as outlining the organisation of financial and actuarial administrations and processes.
- The business units and staff departments which are responsible for carrying out the work, and thus for an accurate and faithful recording of the transactions and the reporting thereon.
- A system of financial key controls within the financial accounting and reporting departments, in order to monitor the soundness of financial reporting management and control systems.
- The Financial Committee's assessment of financial accountability partly based on the key controls' results. After approval by the Executive Board of SNS REAAL, the findings of the financial reporting process together with the financial accountability is discussed in the Audit Committee.
- The assessment of this system's operation performed by the internal and external auditors. The external auditor reports to this extend as part of his audit of the financial statements. The findings are discussed with the Financial Committee, the Executive Board and the Audit Committee.

11.2.3 Transparency statement

The members of the Management Board state the following: 'SNS Bank prepares the consolidated and company financial statements 2010 of SNS Bank NV in accordance with International Financial Reporting Standards (IFRS), as adopted within the European Union (EU) and with Title 9 Book 2 of the Dutch Civil Code. To the best of our knowledge they give a true and fair view of the assets, liabilities, composition of equity, financial position as per 31 December 2010 and financial result of the entity and its consolidated companies. The annual report gives, to the best of our knowledge, a true and fair view of the position as per the balance sheet date and the development during the financial year. The principal risks SNS Bank NV faces are described in the annual report.'

Utrecht, 7 March 2011
Rien Hinssen
Henk Kroeze
Ference Lamp
Dick Okhuijsen

Financial Statements 2010 SNS Bank

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Consolidated financial statements

TABLE 10: CONSOLIDATED BALANCE SHEET

In € millions	31-12-2010	31-12-2009
Assets		
Cash and cash equivalents 1	3,833	2,554
Loans and advances to banks 2	1,681	2,715
Loans and advances to customers 3	65,013	67,479
Derivatives 4	2,317	1,169
Investments 5	4,249	4,517
Investment properties 6	1	1
Property projects 7	467	599
Investments in associates 8	6	33
Property and equipment 9	110	114
Intangible assets 10	164	243
Deferred tax assets 11	267	297
Corporate income tax 12	102	2
Other assets 13	587	528
Assets held for sale 14	121	––
Total assets	78,918	80,251
Equity and liabilities		
Savings 15	27,398	24,435
Other amounts due to customers 16	10,482	9,835
Amounts due to customers	37,880	34,270
Amounts due to banks 17	3,096	7,119
Debt certificates 18	29,523	30,739
Derivatives 4	2,880	2,247
Deferred tax liabilities 11	323	320
Corporate income tax 12	––	90
Other liabilities 19	1,317	1,420
Provisions 20	41	53
Participation certificates and subordinated debt 21	2,022	1,559
Share capital	381	381
Other reserves	1,630	1,883
Retained earnings	(431)	(99)
Shareholders' equity 22	1,580	2,165
Equity attributable to securityholders 22	256	260
Minority interests	––	9
Total equity	1,836	2,434
Total equity and liabilities	78,918	80,251

The references next to the balance sheet items relate to the notes starting on page 105.

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 12.3.4 of the accounting principles for the consolidated financial statements.

TABLE 11: CONSOLIDATED INCOME STATEMENT

In € millions	2010	2009
Income		
Interest income	2,489	2,773
Interest expense	1,618	2,101
Net interest income 23	871	672
Fee and commission income	138	136
Fee and commission expense	46	37
Net fee and commission income 24	92	99
Share in the result of associates 25	(9)	(4)
Investment income 26	47	161
Result on financial instruments 27	(20)	169
Other operating income 28	4	1
Total income	985	1,098
Expenses		
Staff costs 29	256	342
Depreciation and amortisation of fixed assets 9/10	35	34
Other operating expenses 30	285	250
Impairment charges 31	941	571
Total expenses	1,517	1,197
Result before tax	(532)	(99)
Taxation 32	(101)	(1)
Net result continued operations	(431)	(98)
Net result discontinued operations	––	––
Net result for the period	(431)	(98)
Attribution:		
Net result attributable to shareholders	(410)	(95)
Net result attributable to securityholders	(21)	(4)
Net result attributable to shareholders and securityholders	(431)	(99)
Net result attributable to minority interests	––	1
Net result for the period	(431)	(98)

The references next to the income statement items relate to the notes starting on page 125.

TABLE 12: EARNINGS PER SHARE / SECURITY

In € millions	2010	2009
Earnings per share		
Earnings per share from continued operations	(488.44)	(112.75)
Earnings per share from discontinued operations	––	––
Earnings per share	(488.44)	(112.75)
Earnings per security		
Earnings per security 'State-like' from continued operations	––	––
Earnings per security 'State-like' from discontinued operations	––	––
Earnings per security 'State-like'	––	––
Earnings per security 'Foundation-like' from continued operations	(19.55)	(4.19)
Earnings per security 'Foundation-like' from discontinued operations	––	––
Earnings per security 'Foundation-like'	(19.55)	(4.19)
Diluted earnings per share		
Diluted earnings per share from continued operations	(488.44)	(112.75)
Diluted earnings per share from discontinued operations	––	––
Diluted earnings per share	(488.44)	(112.75)

TABLE 13: CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In € millions	2010	2009
Net result for the period	(431)	(99)
Unrealised revaluations property and equipment	(1)	––
Change in revaluation reserve	(1)	––
Unrealised revaluations from cash flow hedges	3	24
Realised revaluations through income statement	(1)	––
Change in cash flow hedge reserve	2	24
Unrealised revaluations investments available for sale	(143)	23
Realised revaluations through income statement	(14)	(67)
Change in fair value reserve	(157)	(44)
Other changes	(11)	(1)
Other comprehensive income (after tax)	**(167)**	**(21)**
Total comprehensive income	**(598)**	**(120)**
Attribution:		
Total comprehensive income	(598)	(120)
Total comprehensive income to minority interests	(9)	(1)
Total comprehensive income attributable to shareholders and securityholders	**(589)**	**(119)**

TABLE 14: CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

In € millions	Issued share capital ordinary shares	Share premium reserve ordinary	Revaluation reserve	Cash flow hedge reserve	Fair value reserve	Other reserves	Retained earnings	Equity attributable to shareholders	Securities capital	Third party interests	Group equity
2010											
Balance as at 1 January 2010	381	838	3	25	12	1,005	(99)	2,165	260	9	2,434
Transfer of net result 2009	––	––	––	––	––	(95)	99	4	(4)	––	––
	––	––	––	––	––	(95)	99	4	(4)	––	––
Unrealised revaluations	––	––	(1)	3	(143)	––	––	(141)	––	––	(141)
Realised revaluations through income statement	––	––	––	(1)	(14)	––	––	(15)	––	––	(15)
Other changes	––	––	––	––	––	(2)	––	(2)	––	(9)	(11)
Amounts charged directly to total equity	––	––	(1)	2	(157)	(2)	––	(158)	––	(9)	(167)
Net result 2010	––	––	––	––	––	––	(431)	(431)	––	––	(431)
Total result 2010	––	––	(1)	2	(157)	(2)	(431)	(589)	––	(9)	(598)
Total changes in equity 2010	––	––	(1)	2	(157)	(96)	(332)	(585)	(4)	(9)	(598)
Balance as at 31 December 2010	381	838	2	27	(145)	908	(431)	1,580	256	––	1,836
2009											
Balance as at 1 January 2009	381	688	3	1	56	943	62	2,134	260	10	2,404
Transfer of net result 2008	––	––	––	––	––	144	(144)	––	––	––	––
Transfer of securities issued and dividend paid 2008	––	––	––	––	––	(82)	82	––	––	––	––
	––	––	––	––	––	62	(62)	––	––	––	––
Unrealised revaluations	––	––	––	24	23	––	––	47	––	––	47
Realised revaluations through income statement	––	––	––	––	(67)	––	––	(67)	––	––	(67)
Other changes	––	––	––	––	––	––	––	––	––	(1)	(1)
Amounts charged directly to total equity	––	––	––	24	(44)	––	––	(20)	––	(1)	(21)
Net result 2009	––	––	––	––	––	––	(99)	(99)	––	––	(99)
Total result 2009	––	––	––	24	(44)	––	(99)	(119)	––	(1)	(120)
Share premium paid	––	150	––	––	––	––	––	150	––	––	150
Transactions with shareholders and securityholders	––	150	––	––	––	––	––	150	––	––	150
Total changes in equity 2009	0	150	––	24	(44)	62	(161)	31	––	(1)	30
Balance as at 31 December 2009	381	838	3	25	12	1,005	(99)	2,165	260	9	2,434

For more information on the statement of changes in equity please refer to paragraph 12.5.12 of the accounting principles for the consolidated financial statements.

TABLE 15: CONSOLIDATED CASH FLOW STATEMENT

In € millions	2010	2009
Cash flow from operating activities		
Result before taxation	(532)	(99)
Adjustments for:		
Depreciation and amortisation of fixed assets	20	21
Changes in other provisions	21	(12)
Impairment charges / reversals	941	571
Unrealised results on investments through profit and loss	(165)	(91)
Retained share in the result of associates	9	4
Tax paid / received	––	3
Change in operating assets and liabilities		
Change in loans and advances to customers	3,113	(2,034)
Change in loans and advances to banks	(2,989)	696
Change in savings	2,963	2,576
Change in trading portfolio	41	83
Change in other operating activities	(1,113)	36
Net cash flow from operating activities	**2,309**	**1,754**
Cash flow from investing activities		
Proceeds from the sale of intangible assets	16	12
Proceeds from the sale of property and equipment	4	1
Proceeds from the sale of subsidiaries	––	1
Proceeds from the sale and redemption of investments and derivatives	1,618	3,562
Purchase of intangible fixed assets	(9)	(18)
Purchase of property and equipment	(17)	(27)
Purchase of subsidiaries	(10)	(21)
Purchase of investment property	(58)	(519)
Purchase of investments and derivatives	(1,582)	(4,232)
Net cash flow from investing activities	**(38)**	**(1,241)**
Cash flow from financing activities		
Proceeds from issue of shares	––	150
Proceeds from issue of subordinated loans	635	416
Proceeds from issue of debt certificates	6,207	12,424
Redemption of subordinated loans	(205)	(586)
Redemption of debt certificates	(7,634)	(12,055)
Net cash flow from financing activities	**(997)**	**349**
Cash and cash equivalents as at 1 January	2,554	1,692
Effect of exchange rate fluctuations on cash held	5	––
Change in cash and cash equivalents	1,274	862
Cash and cash equivalents as at 31 December	**3,833**	**2,554**
Additional disclosure with regard to cash flows from operating activities		
Interest income received	2,445	2,828
Dividends received	––	––
Interest paid	1,471	1,973

Accounting principles for the consolidated financial statements

12.1 ADOPTION OF THE FINANCIAL STATEMENTS

The consolidated financial statements of SNS Bank NV for the year ended on 31 December 2010 were authorised for publication by the Management Board following their approval by the Supervisory Board on 7 March 2011. The financial statements will be submitted to the General Meeting of Shareholders for adoption on 20 April 2011.

12.2 GENERAL INFORMATION

SNS Bank NV, incorporated and established in the Netherlands, is a public limited liability company incorporated under the laws of the Netherlands. SNS Bank NV's registered office is located at Croeselaan 1, 3521 BJ Utrecht. The consolidated financial statements of SNS Bank comprise the accounts of all the companies controlled by SNS Bank and the interest of SNS Bank in associated companies and entities.

SNS Bank is a 100% subsidiary of SNS REAAL NV.

The main accounting principles used in the preparation of the consolidated financial statements and the company financial statements are set out in this section.

12.3 BASIS OF PREPARATION

12.3.1 Statement of IFRS compliance

SNS Bank prepares the Annual Accounts in accordance with International Financial Reporting Standards (IFRS), as adopted within the European Union. Pursuant to the option offered under Book 2, Title 9 of the Dutch Civil Code, SNS Bank prepares its company financial statements in accordance with the same accounting principles as those used for the consolidated financial statements.

12.3.2 Changes in published Standards and Interpretations effective in 2010

New or amended standards become effective on the date specified in the relevant IFRS, but may allow early adoption. In 2010, the following standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (Interpretations Committee, formerly IFRIC) respectively, became mandatory, and are adopted by the EU. Unless stated otherwise, the changes will have no material effect on the consolidated financial statements of SNS Bank.

- Revision of IFRS 1 First-time Adoption of International Financial Reporting Standards.
- Amendments to IFRS 1 'Additional Exemptions for First-time Adopters'.
- Amendments to IFRS 2 Share-based Payment.
- Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements.
- Improvements to IFRSs' 2008: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – 'Classification of Non-current Assets Held for Sale'.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – 'Eligible Hedged Items'.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRIC 9 Reassessment of Embedded Derivatives.
- Amendments to IFRIC 17 Distribution of Non-cash Assets to Owners.
- Improvements to IFRSs' 2009.

12.3.3 Interpretations of existing standards or amendments to standards, not yet effective in 2010

The following new standards, amendments to existing standards and interpretations, published prior to 1 January 2011 and effective for accounting periods beginning on or after 1 January 2011, were not early adopted by SNS Bank.

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – 'Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters'.
- Revision of IAS 24 Related Party Disclosures.

- Amendments to IAS 32 Financial Instruments: Presentation – ‘Classification of Rights Issues’.
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.
- Improvements to IFRSs’ 2010.

In addition, IFRS 9 Financial Instruments: Classification and Measurement, was published, effective 1 January 2013. This IFRS is phase 1 of a complete revision of IAS 39 Financial Instruments. The new standard has not yet been adopted by the EU. Expectations are that the standard will affect the classification and measurement of financial assets and liabilities. Its full impact will not become clear until the two other phases of this IASB project have been completed and published.

12.3.4 Changes in principles, estimates and presentation

Changes in presentation

The presentation of the following item has been changed. Comparative figures for 2009 have been adjusted accordingly.

SNS Bank has recognised a provision of € 38 million (2009: € 38 million) in relation to its share in the deposit guarantee scheme related to DSB Bank. This amount represents the expected uncollectability on the claim in the assets available for distribution of DSB Bank. In 2009 this amount was presented in the balance sheet item ‘other liabilities’. In 2010 the compensation to customers of DSB Bank has been partially contributed to the Dutch Central Bank. As a result, SNS Bank has offset the provision with its contribution in the assets available for distribution of DSB. The net amount is presented under other assets.

12.3.5 Accounting principles used in the preparation of the financial statements

The accounting principles set out below have been applied consistently to all the periods presented in these consolidated financial statements. The group entities have applied the accounting principles consistently to all periods.

12.3.5.1 Accounting principles applied to balance sheet items

Several accounting methods have been used in the preparation of these annual accounts. Fair value is used for land and buildings in own use, investment property, investments classified at fair value through profit or loss, investments classified as available for sale and derivatives.

All other financial assets (including loans and advances) and liabilities are measured at amortised cost. The book value of assets and liabilities measured at amortised cost that are part of a fair value hedge is restated to reflect the change in fair value that is attributable to the hedged risk. Non-financial assets and liabilities are generally measured at historical cost. Except for the cash flow information, the financial statements have been prepared on an accrual basis.

12.3.5.2 Functional currency and reporting currency

The consolidated financial statements have been prepared in millions of euros (€). The euro is the functional currency of SNS Bank. All financial data presented in euros are rounded off to the nearest thousand, unless stated otherwise.

12.3.6 Main accounting principles: estimates and assumptions

12.3.6.1 The use of estimates and assumptions in the preparation of the financial statements

The preparation of the consolidated financial statements requires SNS Bank to make estimates and assumptions based on complex and subjective opinions and estimates. These estimates have a significant impact on the reported amounts of assets and liabilities and the contingent assets and liabilities at the balance sheet date, and the reported income and expenses for the financial year. This involves assessing the situations on the basis of available financial data and information. Although these estimates are made to the best of the management’s knowledge, actual results may differ from the estimates.

Estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised or in the period of revision and future periods if the revision impacts both the reporting period and future periods.

The main accounting principles involving the use of estimates concern the methods for, determining the provisions for bad debts, determining the net realisable value of property projects, determining the fair value of assets and liabilities and determining impairments.

For detailed information and disclosure of the accounting estimates and assumptions we refer to the next paragraphs and the notes to the financial statements items.

12.3.6.2 Provision for bad debts

As far as the loans and advances with or without mortgage collateral are concerned, a provision for impairment is made if there are objective indications that SNS Bank will not be able to collect all the amounts in accordance with the original contract. For loans and advances that are individually significant, the provision made equals the difference between the book value and the recoverable value. The recoverable value equals the expected future cash flows, including the amounts realised by virtue of guarantees and collateral, discounted at the effective interest rate of the loans and advances.

The criteria for impairment are applied to the entire loan portfolio. Smaller homogenous groups of loans and advances (with corresponding credit risk), such as mortgages and consumer credit, are tested collectively for impairment. The same applies to smaller business loans managed in a portfolio.
The provision with respect to the collective approach is calculated using models, including risk-rating models for homogenous pools of consumer and SME loans. The loss factors developed using these models are based on historical loss data of SNS Bank, and are adjusted according to current information that, in the opinion of the management, can affect the recoverability of the portfolio on the assessment date.

The provision for impairment also covers losses where there are objective indications of losses likely to be incurred in the loan portfolio (IBNR: incurred but not reported). Mortgages and mortgage-backed property finance losses are estimated on the basis of historical loss patterns of loans and advances that carry similar risk characteristics as the loans and advances held in the portfolio. Losses on non-mortgage backed property finance and other loans and advances are estimated on the basis of historic loss patterns and the creditworthiness of the borrowers. Both estimates take into account the current economic climate in which the borrowers operate.

If the amount of the impairment subsequently decreases due to an event occurring after the impairment, the previously recognised impairment loss is reversed in the income statement.
When a loan is uncollectable, it is written off against the relevant provision for impairment. Amounts that are subsequently collected are deducted from the addition to the provision for impairment in the income statement.

12.3.6.3 Net realisable value of property projects

Property projects are valued at the lower of cost or net realisable value. Net realisable value is based on the present value of future cash flows related to the project.

If the expected cash flows underlying the net realisable value of the property projects have a long time horizon (more than 12 months from the acquisition date), these cash flows are discounted. The discount rate for cash flows between 12 and 36 months is the Weighted Average Cost of Capital (WACC) of SNS Bank. Cash flows expected after 36 months are discounted at the market rate.

If other assets and liabilities (such as inventory) are acquired along with the property that are not included in the property valuation, these items are recorded under the relevant balance sheet items.

12.3.6.4 Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is determined on the basis of list prices where available. Such list prices are primarily derived from trade prices for listed instruments. If trade prices are not available, market prices from independent market traders or other experts are used. Financial assets are recognised at their bid prices and financial liabilities at their offer prices.

In some markets where activity has decreased considerably or the market is inactive, the range of the prices from different sources can be large to one and the same investment. Selecting the most appropriate price valuation requires sound judgement. Using a different price may lead to a materially different valuation.

For some financial assets and liabilities, no prices are available. The fair value of these financial assets and liabilities is determined with valuation techniques, which may vary from net present value calculation to valuation models that use accepted economic methods.

12.3.6.5 Impairment charges of intangible fixed assets and financial instruments

An asset is subject to impairment if its book value exceeds the realisable value from continued use or sale of the asset. The realisable value of assets not classified at fair value through profit or loss is estimated if there are indications of impairment of the asset. Exceptions are goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use, which are tested at least once a year. If such intangible assets are initially recognised during the reporting period, they are tested for impairment before the end of the reporting period.

Intangible fixed assets

Goodwill

Goodwill created with the acquisition of subsidiaries, associated companies and joint ventures is allocated to cash-generating units. The book value of the cash-generating unit (CGU) (including goodwill) is compared to the calculated recoverable value, determined on the basis of value-in-use. If the recoverable value is lower than the book value, the difference will be recognised as impairment in the income statement. Assumptions used in these goodwill impairment tests:

– The value-in-use is determined for every CGU individually.
– The value-in-use is based on the business plans of the CGU concerned.
– The discount rate is determined on the capital asset pricing model, in which the beta is calculated on the basis of a group of comparable companies.This group is determined individually per CGU.

Software and other intangible assets

On each reporting date, the capitalised development costs for software, distribution channels and client portfolios are reviewed for indications of possible impairments.

Reversal of impairment losses

Except for goodwill, impairment losses on intangible fixed assets are reversed if there is proof that a change to the estimates of the realisable value occurred after the impairment loss was recognised. The reversal is included under 'impairment charges' in the income statement. The book value after reversal can never exceed the amount before recognition of the impairment loss.

Financial assets

At each reporting date, SNS Bank assesses whether there are objective indications of impairment of investments classified as held to maturity, loans and receivables and available for sale. Impairment losses are recognised directly in the income statement under 'impairment charges'. With investments available for sale, any positive revaluation reserve of shareholders' equity is first deducted.

Investments in debt securities

Investments in debt securities valued at amortised cost are tested for impairment if there are objective indications of financial problems with the counterparty, dwindling markets for the product of the counterparty or other indications. This test comprises both quantitative and fundamental considerations. Debt securities are assessed on aspects including expected credit losses and credit losses already incurred, for example due to default, market data on expected credit losses and credit losses already incurred and other evidence of the issuer's inability to meet its payment commitments.

Equity investments

An investment in equity instruments is considered to have been subject to impairment if its book value exceeds the recoverable value for an extended period, which means that the fair value:

– decreased 25% or more below cost, or
– has been below cost for 9 months or more.

The fair value of investments in the form of unlisted shares is determined according to the following criteria, in order of preference depending on the availability of data:

1. The price of the most recent transaction as an indication.
2. Current fair values of other, similar investments (in entities).
3. Using valuation methods that use market data as much as possible, and in accordance with accepted economic methods.

If, during a subsequent period, the amount of the impairment decreases, and the decrease can objectively be related to an event occurring after the impairment was recognised, the previously recorded impairment loss is reversed in the income statement. This does not apply to investments in shares, where an increase in value is always recognised through shareholders' equity.

12.4 PRINCIPLES OF CONSOLIDATION

12.4.1 Subsidiaries

Subsidiaries, i.e. all companies and other entities (including special purpose entities) in respect of which SNS Bank has the power to determine the financial and operating policies, whether directly or indirectly, are consolidated. This is the case if more than half of the voting rights may be exercised, or if SNS Bank has control in any other manner.

Subsidiaries are fully consolidated from the date on which control is transferred to SNS Bank. They are de-consolidated from the date control ceases. The financial statements of these group companies are fully consolidated, with SNS Bank accounting principles being applied. The interests of third parties are separately included in the consolidated balance sheet and income statement.

12.4.2 Special Purpose Entities (SPEs)

SNS Bank has securitised mortgage receivables in SPEs. With these transactions, the economic ownership of the mortgage loans is transferred to separate entities. SNS Bank does not have any direct or indirect interests in these entities.
SNS Bank fully consolidates these SPEs in its financial statements if, on the basis of the economic reality of the relationship between SNS Bank and the SPE, SNS Bank controls the SPE, or if SNS Bank retains the majority of the risks and rewards.

12.4.3 Associated companies and joint ventures

Investments in associated companies (associates) are entities in which SNS Bank generally has between 20% and 50% of the voting power, or over which SNS Bank can exercise significant influence on the operational and financial policies, but no control. Joint ventures are entities over which SNS Bank has joint control, which control is laid down in an agreement, and strategic decisions on the financial and operational policies are taken unanimously.

The consolidated financial statements include SNS Bank's share in the total results of associates and joint ventures, from the date that SNS Bank acquires significant influence to the date that significant influence ceases. The result is accounted for using the equity method, after adjusting the result to comply with SNS Bank accounting principles.

Upon recognition, associates and joint ventures are initially accounted for at the cost price (including transaction costs) and subsequently according to the equity method. The item also includes goodwill paid upon acquisition less accumulated impairment losses, where applicable.

Under the equity method, the share of SNS Bank in the result of associates and joint ventures is recognised in the income statement under 'share in the result of associates'. The share of SNS Bank in changes in the reserves of associates or joint ventures, after the acquisition, is recognised directly in shareholders' equity (change in share of associates in other comprehensive income).

If the book value of the associate falls to zero, no further losses are accounted for, unless SNS Bank has entered into commitments or made payments on its behalf.

Associates and joint ventures held for sale are classified as 'held for sale'. These associates and joint ventures are measured at the lower of the book value and the sales price less sales costs. The result on the sale of an investment in an associate or joint venture is presented in the income statement as a total amount, consisting of the sales price less the transaction costs and the book value of the associate.

12.4.4 Elimination of group transactions

Intra-group transactions, intra-group balances and unrealised gains arising from intra-group transactions were eliminated in the preparation of the consolidated financial statements.
Unrealised gains on transactions between SNS Bank and its associates and joint ventures are eliminated to the extent of SNS Bank's interest in these investments.
Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

12.4.5 Foreign currencies

Upon initial recognition, transactions in foreign currencies are converted into euros at the exchange rate at the transaction date. Balance sheet items denominated in foreign currencies are translated into euros at the exchange rate applicable on the reporting date. Exchange rate differences from these transactions and from converting monetary balance sheet items expressed in foreign currency are recorded in the income statement under 'investment income' or 'result on financial instruments', depending on the balance sheet item to which they relate.

The exchange rate differences of non-monetary balance sheet items measured at fair value, with changes in the fair value being taken to the income statement, are accounted for as part of these changes in the value of the asset in question. Exchange rate differences of non-monetary balance sheet items measured at fair value, with changes in the fair value being taken to shareholders' equity, are incorporated in shareholders' equity. Non-monetary items measured at historical cost are measured at the exchange rate applicable on the initial transaction date.

12.4.6 Accounting based on transaction date and settlement date

All purchases and sales of financial instruments, which have been settled in accordance with standard market practices, are recognised on the transaction date, in other words, the date on which SNS Bank commits itself to buy or sell the asset or liability. All other purchases or sales are recorded as forward transactions until they are settled.

12.4.7 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported on the balance sheet if there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle the items on a net basis, or to settle the asset and the liability simultaneously. If these conditions are not fulfilled, amounts will not be offset.

12.4.8 Discontinued operations or assets held for sale

Assets and liabilities that are part of operations to be discontinued and assets held for sale, of which it is highly probable that the discontinuation or sale is within 12 months, are recognised at the lower of the book value and fair value less expected sales costs. The property projects of Property Finance held for sale are measured at the lower of cost or net realisable value. Financial instruments held for sale follow the classification and measurement of the instrument.

12.4.9 Information by segment

The two primary business segments of SNS Bank are clearly distinctive organisational components, and carry out activities that generate income and expenses. The Management Committee of SNS REAAL defines the performance targets and authorises and monitors the budgets that have been prepared by these business units. The management of each business unit defines the policy of that business unit, in accordance with the strategy and the performance targets as formulated by the Management Committee. The business segments are:

- SNS Retail Bank
- Property Finance

More information on the different segments can be found in the section Segmented financial statements starting on page 69.

12.5 SPECIFIC BALANCE SHEET PRINCIPLES

12.5.1 Financial assets

SNS Bank classifies its financial assets in one of the following categories: (1) held to maturity, (2) loans and receivables, (3) available for sale and (4) at fair value through profit or loss. The category depends on the purpose for which the financial assets were acquired. The management decides in which category they will be placed.

Upon initial recognition, financial assets are measured at fair value including transaction costs, with the exception of the category 'at fair value through profit or loss', where transaction costs are taken directly to the income statement. The fair value of financial assets is based on listed bid prices or derived from cash flow models.

12.5.1.1 Cash and cash equivalents

Cash and cash equivalents include the non-restricted and restricted demand deposits with the Dutch Central Bank and advances to credit institutions with a remaining maturity of less than one month. Restricted demand deposits that SNS Bank has with other banks are included under loans and advances to banks.

12.5.1.2 Loans and advances to banks

These concern receivables to banks not in the form of interest-bearing securities. These receivables are measured at amortised cost using the effective interest method, if necessary less any impairment losses.

12.5.1.3 Loans and advances to customers

Mortgages and mortgage-backed property finance

These are defined as loans and advances to customers with mortgage collateral. These loans and advances are measured at amortised cost using the effective interest method. Loans and advances can change as a result of renegotiations or other reasons. If the net present value of the cash flows under the new conditions deviates from the net present value of the cash flows under the current terms and conditions, this is considered an indication for an impairment test. Loans and advances adjusted after renegotiations or otherwise adjusted are measured on the basis of the original effective interest rate before the terms and conditions were revised.

Credit guarantees

SNS Bank has concluded a credit guarantee for the credit risk of part of the mortgage portfolio. As a result, impairment losses of the mortgage portfolio in question can be recovered from the guarantor. Impairment of mortgages and the amount receivable under the guarantee are included under 'impairment charges / (reversals)' in the income statement.

Non-mortgage backed property finance and other loans and advances

This comprises loans and advances to business and retail clients without mortgage collateral. Loans and advances are measured at amortised cost on the basis of the effective interest method. If the conditions of loans and advances without mortgage collateral change, the actions follow the same criteria as mortgages and mortgage-backed property finance.

Lease

SNS Bank has entered into a number of financial lease agreements. These are agreements for which SNS Bank has transferred almost all of the risks and benefits of the property to the lessee. The book value of the lease receivable is equal to the present value of the lease instalments, calculated on the basis of the implicit interest rate and, if applicable, any guaranteed residual value. This relates to property finance in the Netherlands provided by Property Finance and SNS Retail Bank.

Provisions for customers

As far as the loans and advances with or without mortgage collateral are concerned, a provision for impairment is made if there are objective indications that SNS Bank will not be able to collect all the amounts due in accordance with the original contract. See also paragraph 12.3.6.2 'Provision for bad debts'.

12.5.1.4 Derivatives

General

Derivatives are derivative financial instruments and are measured at fair value upon entering into the contract. The fair value of publicly traded derivatives is based on listed bid prices for assets held or liabilities to be issued, and listed offer prices for assets to be acquired or liabilities held.
The fair value of non-publicly traded derivatives depends on the type of instrument and is based on a present value model or an option valuation model. SNS Bank recognises derivatives with a positive market value as assets and derivatives with a negative market value as liabilities.

Adjustments in the fair value of derivatives that do not qualify for cash flow hedge accounting are accounted for in the income statement under 'result on financial instruments'.

Embedded derivatives

An embedded derivative is treated as a separate derivative if there is no close relationship between the economic characteristics and risks of the derivative and the host contract, if the host contract is not measured at fair value through profit or loss and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value, while changes in value are recognised in the income statement.

Hedge accounting

SNS Bank uses derivatives as part of asset and liability management and risk management. These instruments are used for hedging interest rate and foreign currency risks, including the risks of future transactions. SNS Bank can designate certain derivatives as either:

1. A hedge of the risk of changes in the fair value of a recognised asset or liability or firm commitment (fair value hedge); or
2. A hedge of the possible variability of future cash flows that can be attributed to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

Hedge accounting is applied for derivatives that are thus designated and are in accordance with IAS 39 Financial Instruments: Recognition and Measurement.
A hedge accounting relationship is considered to be effective if SNS Bank, at the inception of and during the term, can expect that adjustments in the fair value or cash flows of the hedged position will be almost fully offset by adjustments in the fair value or cash flows of the hedging instrument, insofar as they are attributable to the hedged risk, and the actual results remain within a bandwidth of 80% to 125%.

SNS Bank ceases the hedge accounting relationship after a management decision to this end or as soon as it has been established that a derivative is no longer an effective hedging instrument, or when the derivative expires, is sold, terminated or exercised; when the hedged position expires, is sold or redeemed; or when an expected transaction is no longer deemed highly likely to occur.

Fair value hedge accounting

Derivatives designated as a hedge of the fair value of recognised assets or of a firm commitment are stated as fair value hedges. Changes in the fair value of the derivatives that are designated as a hedge are recognised directly in the income statement and reported together with corresponding fair value adjustments to the hedged item attributable to the hedged risk.
If the hedge no longer meets the conditions for hedge accounting, an adjustment in the book value of a hedged financial instrument is amortised and taken to the income statement during the expected residual term of the hedged instrument.

If the hedged instrument is no longer recognised, in other words, if it is sold or redeemed, the non-amortised fair value adjustment is taken directly to the income statement.

Cash flow hedge accounting

Derivatives can be designated as a hedge of the risk of future variability of the cash flows of a recognised asset or liability or highly probable forecast transaction. Adjustments in the fair value of the effective portion of derivatives that are designated as a cash flow hedge and that meet the conditions for cash flow hedge accounting are stated in the cash flow hedge reserve as a separate component of shareholders' equity. The underlying transaction, which is designated as part of a cash flow hedge, does not change as far as the administrative processing is concerned.
If the expected transaction leads to the actual inclusion of an asset or a liability, the accumulated gains and losses that were previously taken to the cash flow hedge reserve are transferred to the income statement and classified as income or expense in the period during which the hedged transaction influences the result.
When determining the portion of the fair value adjustment of the hedging instrument that is included in the cash flow hedge reserve, the portion of the gain or loss on the hedging instrument that is considered an effective hedge of the cash flow risk is included in shareholders' equity, while the ineffective portion is recognised in the income statement.
If the hedging instrument itself expires or is sold, terminated or exercised, or no longer satisfies the conditions for hedge accounting, the accumulated result that was included in the cash flow hedge reserve remains in the cash flow hedge reserve (shareholders' equity) until the expected transaction actually takes place.
If the transaction in question is no longer expected to take place, the accumulated result reported in shareholders' equity is directly taken to the income statement.

12.5.1.5 Investments

Held to maturity

Investments, with the exception of derivatives, with a fixed term whereby the management intends, and is able, to hold the investment to maturity, may be classified as held to maturity. SNS Bank currently holds no investments in this category.

Loans and receivables

The category loans and receivables comprises unlisted investments with a fixed term. These loans and receivables are measured at amortised cost using the effective interest method, less a provision for impairment if necessary.

Available for sale

Investments that do not meet the criteria defined by management for 'held to maturity', 'loans and receivables' or 'fair value through profit or loss' are classified as available for sale.
After initial recognition, investments available for sale are restated at fair value in the balance sheet. Unrealised gains and losses resulting from the fair value adjustments of investments available for sale are recognised in shareholders' equity, taking account of deferred taxes. The fair value of investments in the form of unlisted shares is determined according to the following criteria, in order of preference depending on the availability of data:

1. The price of the most recent transaction as an indication.
2. Current fair values of other, similar investments (in entities).
3. Using valuation methods that use market data as much as possible, and in accordance with accepted economic methods.

When the investments are sold, the related accumulated fair value adjustments are recognised in the income statement as 'investment income'. SNS Bank uses the average cost method to determine the results.

Fair value through profit or loss

An investment is classified at fair value through profit or loss if it is held for trading purposes ('held for trading') or if it was designated as such upon initial recognition ('designated'). Investments are only designated as valued at fair value through profit or loss if:

1. This eliminates or considerably limits an inconsistency in valuation or recognition that would otherwise arise; or
2. SNS Bank manages and assesses the investments on the basis of fair value.

The investments are recognised at fair value. Realised and unrealised gains and losses are recognised directly in the income statement under 'investment income'.
Interest income earned on securities is recognised as interest income under 'interest income'. Dividend received is recorded under investment income.

12.5.2 Investment properties

Investment properties, comprising retail and office properties and land, are held to generate long-term rental income. If property is held partly as investment property and partly for own use, the property is included under tangible fixed assets, unless the part in own use is less than 20% of the total number of square metres.

Investment properties are measured at fair value, including transaction costs, upon initial recognition. Property investments are treated as long-term investments and measured at fair value. The fair value is based on the appraisals performed at least every three years by independent external appraisers with sufficient expertise and experience in property locations and categories. These appraisals are based on recent market transactions. In the time between the three-yearly external appraisal, SNS Bank uses alternative valuation methods based on the total net annual rental income of that property and, where applicable, the associated costs, in the evaluation of the fair value measurement.

12.5.3 Property projects

Property projects comprise completed and not yet completed projects. Property projects comprise commercial and residential property for which there is no specifically negotiated contract. These properties are stated at the lower of cost price and net realisable value (NRV). Net realisable value is the estimated sales price less sales costs. If the realisable value is lower than the book value, an impairment is recognised in the income statement. Reversals of impairments are also recognised in the income statement.

12.5.4 Property and equipment

12.5.4.1 Land and buildings in own use

Property in own use primarily comprises offices (land and buildings) and is measured at fair value (revaluation model) based on appraisals, less depreciation of buildings and any accumulated impairment losses. Once a year, at least one-third of the properties in own use are appraised by external appraisers. If there are indications that the buildings' fair value is considerably different from their book value, additional appraisals may be performed.

Property in own use is valued at market value on an unlet or let basis. If arm's length lease agreements have been concluded between SNS REAAL group companies, the building is recognised at its value as a let property. If there is no lease agreement, the property is recognised as vacant property. In determining the market values, use is made of observable prices of recent transactions.

Increases in the fair value exceeding the cost price are added to the revaluation reserve in shareholders' equity, less deferred taxes. Positive revaluations, insofar as these result in the reversal of earlier write-downs on the same asset, are credited to the income statement. Decreases in the fair value, insofar as these result in the reversal of prior positive revaluations of the same asset, are charged to the revaluation reserve. All other decreases in the fair value are accounted for in the income statement.
Buildings are depreciated over their economic life using the straight-line method, with a maximum of 50 years, taking into account the possible residual value. Land is not depreciated. Regular impairment tests are carried out on land and buildings.
Repairs and maintenance expenses are recognised under 'other operating expenses' when the expense is incurred. Expenses incurred after the acquisition of an asset that increase or extend the future economic benefits of the other tangible fixed assets in relation to their original use are capitalised and then amortised.
Upon the sale of a property, the part of the revaluation reserve related to the sold property is transferred to 'other reserves'.

12.5.4.2 IT equipment and other tangible fixed assets

All other tangible fixed assets included in this item are measured at cost net of accumulated depreciation and, if applicable, accumulated impairment losses.
The cost price comprises the expenses directly attributable to the acquisition of the asset and is depreciated on a straight-line basis over the useful life, taking into account any residual value. The estimated useful life is three to ten years.
Regular impairment tests are performed on the other tangible fixed assets. If the book value of the tangible asset exceeds the realisable value, it is immediately written down to the realisable value.
Repairs and maintenance expenses are recognised under 'other operating expenses' when the expense is incurred. Expenses incurred after the acquisition of an asset that increase or extend the future economic benefits of the other tangible fixed assets in relation to their original use are capitalised and then amortised.
Results on the sale of tangible fixed assets are defined as the balance of the realisable value less transaction costs and the book value. These results are recognised as part of 'other operating income'.

12.5.5 Intangible fixed assets

12.5.5.1 Goodwill

Acquisitions by SNS Bank are accounted for according to the purchase method, with the cost of the acquisitions being allocated to the fair value of the acquired identifiable assets, liabilities and contingent liabilities. Goodwill, being the difference between the cost of the acquisition and SNS Bank's interest in the fair value of the acquired identifiable assets, liabilities and contingent liabilities on the acquisition date, is capitalised as an intangible fixed asset. Any negative goodwill is recognised directly in the income statement.
If the provisionally determined fair value of acquired assets or liabilities is adjusted within a year of the acquisition date, the adjustment is recognised as an adjustment charged to goodwill. Any subsequent adjustments that occur after a period of one year are recognised in the income statement. Adjustments to the purchase price that are contingent on future events, insofar as

not already included in the purchase price, are included in the purchase price of the acquisition at the time when the adjustment is likely and can be measured reliably.
Goodwill is not amortised. Instead, an impairment test is performed annually or more frequently if there are indications of impairment (see paragraph 12.3.6.5).

12.5.5.2 Software

Costs that are directly related to the development of identifiable software products that SNS Bank controls, and that are likely to generate economic benefits that exceed these costs, are capitalised as intangible fixed assets. The direct costs comprise external costs and staff costs directly attributable to software development. All the other costs associated with the development or maintenance of computer software are included as an expense in the period during which they are incurred.
The capitalised development costs for computer software are amortised on a straight-line basis over the useful life, with a maximum of three years. Every reporting date an assessment is carried out for possible impairments.

12.5.5.3 Other intangible fixed assets

The other intangible fixed assets include assets with a definite and an indefinite useful life, such as distribution channels, trade-marks, client portfolios and core deposits stemming from acquisitions. The assets with a definite useful life are either amortised in accordance with the straight-line method over their useful life or on the basis of the profit flows from the underlying portfolios, in general between five and fifteen years. If objective indications so require, an impairment test will be performed. The assets with an indefinite useful life are not amortised. These intangible fixed assets are assessed for impairment at each balance sheet date.

12.5.6 Taxation

12.5.6.1 Deferred tax assets

Deferred tax assets and liabilities are recognised for tax loss carry forwards and for temporary differences between the tax base of assets and liabilities and the book value. This is based on the tax rates applicable as at the balance sheet date and the tax rates that will apply in the period in which the deferred tax assets or tax liabilities are settled. Deferred taxes are measured at nominal value.
Deferred tax assets are only recognised if sufficient tax profits are expected to be realised in the near future to compensate these temporary differences. A provision for deferred taxes is made for temporary differences between the book value and the value for tax purposes of investments in group companies and associates, unless SNS Bank can determine the time at which these temporary differences are realised or settled and if it is likely that these differences will not be realised or settled in the near future. Deferred tax assets are assessed at the balance sheet date and if it is no longer likely that the related tax asset can be realised, the asset is reduced to the recoverable value.

The most significant temporary differences arise from the revaluation of tangible fixed assets, certain financial assets and liabilities, including derivatives contracts and the application of hedge accounting, provisions for pensions and other post-retirement employee plans, technical provisions, deductible losses carried forward and, as far as acquisitions are concerned, from the difference between (a) the fair value balance of the acquired assets and obligations entered into and (b) the book value.

Deferred taxes with respect to the revaluation of the aforementioned assets and liabilities of which value adjustments are recognised directly in shareholders' equity are also charged or credited to shareholders' equity and upon realisation included in the income statement together with the deferred value adjustments.

12.5.6.2 Deferred tax liabilities

Deferred tax liabilities concern tax payable in future periods in connection with taxable temporary differences. See the previous paragraph for more details.

12.5.6.3 Corporate income tax

Corporate income tax relates to payable or recoverable tax on the taxable profit for the period under review, and taxes due from previous periods, if any. Current tax receivables and payables are measured at nominal value according to the tax rate applicable at the reporting date.

12.5.7 Other assets

Other assets consist of receivables from direct insurance policies, other taxes (including VAT, payroll tax), other receivables and accrued assets. The net amount of advances and provisions in relation to the deposit guarantee scheme is accounted for under other receivables. Accrued assets also include the accumulated interest on financial instruments measured at amortised cost, as well as other accruals, which item includes amounts receivable by SNS Bank from clients and the clearing house in respect of option positions.

12.5.8 Financial liabilities

12.5.8.1 Savings, amounts due to customers and amounts due to banks

Savings consists of balances on savings accounts, savings deposits and term deposits of retail clients.

Amounts due to customers represent unsubordinated debts to non-banks, other than in the form of debt certificates. This item mainly comprises demand deposits and cash, in addition to deposits regarding reinsurance contracts, premium deposits and mortgage deposits.

Amounts due to banks comprise unsubordinated debts to credit institutions. Bond loans to banks are recognised under 'debt certificates'. Amounts due to banks include private loans, current accounts and outstanding repos.

Upon initial recognition, savings, amounts due to customers and amounts due to banks are measured at fair value, including transaction costs incurred. Thereafter, they are measured at amortised cost.
Any difference between the income and the redemption value based on the effective interest method is recognised under 'interest expense, Banking activities' in the income statement during the term of these savings and amounts owed.

12.5.8.2 Debt certificates

Outstanding debt certificates are measured at fair value upon initial recognition, in other words, the issue income (the fair value of the received payment) net of the transaction costs incurred. Thereafter, they are measured at amortised cost, using the effective interest method.
When SNS Bank purchases its own debt securities, these debt certificates are removed from the balance sheet.

12.5.8.3 Derivatives

See paragraph 12.5.1.4 of these notes.

12.5.9 Other liabilities

Other liabilities primarily consist of interest accrued on financial instruments that are stated at amortised cost. This item also includes creditors, other taxes and accrued liabilities, which item also includes amounts due by SNS Bank to clients and the clearing house in respect of option positions.

12.5.10 Provisions

General

Provisions are made if there is a legally enforceable or present obligation arising from events in the past, the settlement of which is likely to require an outflow of assets, and a reliable estimate of the size of the obligation can be made. Provisions are measured at the present value of the expected future cash flows. Additions and any subsequent releases are recorded in the income statement.

Restructuring provision

The restructuring provision is a specific provision that consists of anticipated severance payments and other costs that are directly related to restructuring programmes. These costs are accounted for in the period in which a legally enforceable or actual obligation to make the payment arises. No provision is formed for costs or future operating losses stemming from continuing operations. SNS Bank recognises severance payments if SNS Bank has demonstrably committed itself, either through a constructive or legally enforceable obligation, to:

- Termination of the employment contracts of current employees in accordance with a detailed formal plan without the option of the plan being withdrawn; or
- Payment of termination benefits as a result of an offer to encourage voluntary redundancy.

Benefits that are due after more than twelve months after the balance sheet date are discounted.

Legal provisions

SNS Bank makes a provision for legal proceedings at the balance sheet date for the estimated liability with respect to ongoing legal proceedings. The provision comprises an estimate of the legal costs and payments due during the course of the legal proceedings, to the extent that it is more likely than not that an obligation exists at the balance sheet date, and a reliable estimate can be made of the obligation.

12.5.11 Participation certificates and subordinated debt

Participation certificates

SNS Bank issues participation certificates to third parties. The certificates have an open-ended term, with SNS Bank maintaining the right to early redemption in full after 10 years, provided permission is given by the regulator. The amount of the dividend, in the form of a coupon rate, is fixed over a period of 10 years and equal to the CBS (Statistics Netherlands) return on 9-10 year Government bonds plus a mark-up. Participation certificates are initially measured at fair value, in other words, the issue income (the fair value of the received payment) net of the transaction costs incurred. Thereafter, they are measured at amortised cost, using the effective interest method. Benefit payments on participation certificates are recorded under ‘interest expense’.
The participation certificates are classified as debt capital in the financial statements. For SNS Bank’s solvency reports to the Dutch Central Bank, this item is part of the Tier 1 capital.

Subordinated debt

The subordinated (bond) loans issued by SNS Bank are included under the subordinated debt. The Dutch Central Bank includes these loans as capital for the solvency test at SNS Bank. These are initially measured at fair value, in other words, the issue income (the fair value of the received payment) net of the transaction costs incurred. Thereafter, they are measured at amortised cost, using the effective interest method.

12.5.12 Equity

Issued share capital and share premium reserve

The share capital comprises issued and paid-up share capital on ordinary shares. The share premium reserve concerns the paid-in surplus capital in addition to the nominal value of the issued ordinary shares. Costs directly attributable to the issue of equity instruments are deducted net of tax from the share issue income.

Dividend

Dividend for a financial year, which is payable after the balance sheet date, is disclosed in ‘Provisions regarding profit or loss appropriation’ under ‘Other information’.

Revaluation reserve

Revaluations of property in own use (see paragraph 12.5.4.1) are included in the revaluation reserve.

Cash flow hedge reserve

The cash flow hedge reserve consists of the effective part of cumulative changes to the fair value of the derivatives used in the context of the application of cash flow hedge accounting, net of taxes, providing the hedged transaction has not yet taken place (see paragraph 12.5.1.4).

Fair value reserve

Gains and losses as a result of changes in the fair value of assets that are classified as available for sale are taken to the fair value reserve, net of taxes. If the particular asset is sold or redeemed, in other words, the asset is no longer recognised, the corresponding cumulative result will be transferred from the fair value reserve to the income statement (see paragraph 12.5.1.5). In addition, exchange rate differences on non-monetary financial assets that are classified as available for sale are stated in this reserve.

Other reserves

Other reserves mainly comprise SNS Bank’s retained profits.

Securities capital and securities capital share premium reserve

The securities capital comprises the securities capital issued and paid up by SNS REAAL. The securities capital share premium reserve concerns the paid-in surplus capital in addition to the nominal value of the issued securities. Costs directly attributable to the issue of the securities capital are deducted net of tax from the share issue income of the securities.

Securities dividend

The securities dividend amount for a financial year, which is payable after the balance sheet date, is disclosed in ‘Provisions regarding profit or loss appropriation’ under ‘Other information’.

12.6 SPECIFIC INCOME STATEMENT ACCOUNTING PRINCIPLES

Income and expenditure are allocated to the period to which they relate. Costs are recognised in the cost category to which they relate.

A number of SNS REAAL's corporate staff departments are shared. The costs of the corporate staff departments are charged to the segments on the basis of the services provided, and, if more appropriate, proportionally allocated to SNS REAAL's subsidiaries. The costs of the Executive Board and other specific company costs are not allocated to SNS REAAL's subsidiaries.

12.6.1 Income

Income represents the fair value of the services, after elimination of intra-group transactions within SNS Bank. Income is recognised as follows:

12.6.1.1 Interest income

The interest income comprises interest on monetary financial assets attributable to the period. Interest on financial assets is accounted for using the effective interest method based on the actual purchase price.
The effective interest method is based on the estimated future cash flows, taking into account the risk of early redemption of the underlying financial instruments and the direct costs and income, such as the transaction costs charged, brokerage fees and discounts or premiums. If the risk of early redemption cannot be reliably determined, SNS Bank calculates the cash flows over the full contractual term of the financial instruments.
Commitment fees, together with related direct costs, are deferred and recognised as an adjustment of the effective interest on a loan if it is likely that SNS Bank will conclude a particular loan agreement. If the commitment expires without SNS Bank extending the loan, the fee is recognised at the moment the commitment term expires. If it is unlikely that a particular loan agreement will be concluded, the commitment fee is recognised pro rata as a gain during the commitment term.
Interest income on monetary financial assets that have been subject to impairment and written down to the estimated recoverable value or fair value is subsequently recognised on the basis of the interest rate used to determine the recoverable value by discounting the future cash flows.

12.6.1.2 Interest expenses

Interest expenses comprise the interest expenses arising from financial liabilities. Interest on financial liabilities not classified at fair value through profit or loss is recognised using the effective interest method. Interest on financial liabilities that are classified at fair value through profit or loss is accounted for based on the nominal interest rates.

12.6.1.3 Fee and commission income

Fee and commission income include income from securities transactions for clients, asset management, commission from the insurance operations and other related services offered by SNS Bank. These are recognised in the reporting period in which the services are performed. Commission related to transactions in financial instruments for own account are incorporated in the amortised cost of this instrument, unless the instrument is measured at fair value through profit or loss, in which case the commission is included in the revaluation result.

12.6.1.4 Fee and commission expense

Commission and management fees due are included under 'fee and commission expense'. These costs are recognised in the reporting period in which the services are provided.

12.6.1.5 Share in the result of associates

The share of SNS Bank in the results of the associates is here accounted for. If the book value of the associated company falls to zero, no further losses are accounted for, unless SNS Bank has entered into commitments or made payments on its behalf.
Where necessary, the accounting principles applied by the associated companies have been adjusted to ensure consistency with the accounting principles applied by SNS Bank.

12.6.1.6 Investment income

The investment income consists of interest, dividend, rental income and revaluations.

Interest

The item interest comprises the interest income in respect of group activities and the interest income from investments of the Insurance activities.

Dividend

Dividend income is recognised in the income statement as soon as the entity's right to payment is established. In the case of listed securities, this is the date on which the dividend is paid out.

Rental income

Rental income consists of the rental income from investment property and property projects. This rental income is recognised as income on a straight-line basis for the duration of the lease agreement.

Revaluations

This item relates to the realised and unrealised increases and decreases in the value of investments in the category fair value through profit or loss and realised increases and decreases in the value of the investments in the other categories. Realised increases in value concern the difference between the sales price and the amortised cost price. Unrealised increases in value concern the difference between the fair value and the book value over the period.

12.6.1.7 Result on financial instruments

The result on derivatives and other financial instruments is recognised under this item. Derivatives are measured at fair value. Gains and losses from revaluations to fair value are taken directly to the income statement under 'result on financial instruments'. However, if derivatives are eligible for hedge accounting, the recognition of a resulting gain or a resulting loss depends on the nature of the hedged item. The ineffective portion of any gains or losses of a cash flow hedge is recognised directly under 'result on financial instruments'.
In addition, buy-back results on own funding paper and results from the sale of loans are accounted for under this item.

12.6.1.8 Other operating income

Other operating income comprises all the income that cannot be accounted for under other headings.

12.6.2 Expenses

Expenses are recognised in the income statement on the basis of a direct relationship between the costs incurred and the corresponding income. If future economic benefits are expected to be derived across different reporting periods, expenses are recognised in the income statement using a systematic method of allocation. Expenses are directly included in the income statement if they are not expected to generate any future economic benefits.

12.6.2.1 Staff costs

These costs concern all costs that pertain to the personnel. This includes, inter alia, salaries, social security costs, pension costs and rebates granted to employees.

Short-term remunerations for employees

Short-term remunerations for employees include, inter alia, salaries, short paid leave, profit sharing and bonus schemes. These short-term remunerations are accounted for in the income statement over the period in which the services are rendered. In the event that employees have not made use of their entitlements at the end of the period, a liability is formed for the nominal amount.

Pension benefits

SNS Bank has different pension plans, most of which are collective defined contribution plans. A defined contribution plan is a pension plan in which SNS Bank pays fixed contributions to a separate entity, the independent Stichting Pensioenfonds SNS REAAL (the pension fund). SNS Bank has no legally enforceable or actual obligation to pay extra contributions if the fund has insufficient assets to make all the benefit payments.

For the collective defined contribution plans, SNS Bank pays contributions to the pension fund. The regular contributions are considered to be net periodic costs for the year in which they are due, and are recognised as such in the staff costs. Employee contributions are deducted from the net periodic costs.

The pension rights of the employees of Property Finance can be designated as a defined benefit scheme. However, as the net commitments arising from this defined benefit pension plan are transferred to SNS REAAL, no provision for employee benefits is recorded at SNS Bank level. Reference is made to the Annual Accounts of SNS REAAL.

12.6.2.2 Depreciation and amortisation of fixed assets

This item comprises all depreciation and amortisation of tangible and intangible fixed assets. The specific principles for depreciation and amortisation are explained in more detail in section 12.5 under the applicable items.

12.6.2.3 Lease

SNS Bank as lessee

The lease agreements that SNS Bank enters into are operational leases. The total amounts paid under the lease agreements are accounted for according to the straight-line method over the term of the agreement. Future commitments pursuant to operational lease contracts are recognised as contingent liabilities and commitments. This item includes the leased land and buildings in own use and the fleet.

12.6.2.4 Other operating expenses

This includes office, accommodation and other operating costs.

12.6.2.5 Impairment charges / reversals

This item includes downward revaluations of assets for which the book value exceeds the recoverable value. Intangible fixed assets, tangible fixed assets, associated companies, investments, property projects, receivables and other assets may be subject to impairment. As soon as impairment is identified, it is included in the income statement. The specific principles for impairment are explained in more detail in section 12.5 under the applicable items.

12.7 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities are liabilities not recognised in the balance sheet because the existence is contingent on one or more uncertain events that may or may not occur in the future not wholly within the control of SNS Bank. It is not possible to make a reliable estimate of such liabilities.

The maximum potential credit risk arising from pledges and guarantees is stated in the notes. In determining the maximum potential credit risk, it is assumed that all the counterparties will no longer live up to their contractual obligations and that all the existing collateral is without value.

12.8 CASH FLOW STATEMENT

The cash flow statement is prepared according to the indirect method, and distinguishes between cash flows from operational, investment and financing activities. Cash flows in foreign currency are converted at the exchange rate applicable on the transaction date. With regard to cash flow from operations, operating results before taxation are adjusted for gains and losses that did not result in income and payments in the same financial year and for movements in provisions and accrued and deferred items. Investments in (consolidated) subsidiaries and associates are stated under cash flow from investing activities. The cash and cash equivalents available at the acquisition date are deducted from the purchase price.

In the context of the cash flow statement, cash and cash equivalents are equal to the balance sheet item cash and cash equivalents.

13 # Segmented financial statements

INFORMATION BY SEGMENT

SNS Bank is a banking company that focuses mainly on the Dutch retail and SME markets. The product range consists of two core products: mortgages and property finance and savings and investments. The services to private individuals and the SME clients are mostly rendered through several distribution channels.

The activities of SNS Bank are organised in two primary business segments. The Executive Board defines the strategy, the performance targets and authorises and monitors the budgets that have been prepared by these business units. The management board of the business unit determines business unit policy, in accordance with the strategy and performance targets.

For the business segments, the same principles for valuation and determination of the result are used as set out in the accounting principles for the consolidated balance sheet and the income statement of SNS Bank. For the settlement of transactions between business units, the prices are used that would ensue from market conditions (‘at arm’s length’).

13.1 SNS BANK

13.1.1 SNS Retail Bank

This segment offers banking products in the field of mortgages, asset growth and asset protection for both the retail and SME markets. In addition to SNS Bank, this segment also comprises the units ASN Bank, BLG Hypotheken, RegioBank and SNS Securities. As per 1 December 2010 SNS Regio Bank changed its trade name back into RegioBank. With this change SNS REAAL aims to position this distribution channel more distinct from SNS Bank. On 11 October 2010 a legal merger took place between SNS Bank NV and its 100% subsidiary BLG Hypotheekbank NV. With this legal merger BLG Hypotheekbank NV ceased to exist. The activities of BLG Hypotheekbank NV are continued by SNS Bank under the trade name BLG Hypotheken.

13.1.2 Property Finance

This segment carries out banking activities in the field of investment and property finance. Property Finance combines financial expertise with expertise in property investments.

As from 1 January 2011 the business unit Property Finance is split into two separate business units, Property Finance and the renewed SNS SME. SNS SME will incorporate part of the Dutch loan portfolio of Property Finance, added to the already existing SME activities of SNS Retail Bank. Property Finance reserves the international loan portfolio, including the remaining part of the Dutch loan portfolio. Property Finance will be reduced in a responsible manner over the coming years.

Allocation of group costs

A number of group staff departments are shared. The costs of the corporate staff are charged based on the services provided or proportionally allocated to the group’s subsidiaries. The costs of the Executive Board of SNS REAAL and other specific holding company costs are not allocated.

TABLE 16: BALANCE SHEET BY SEGMENT

In € millions	SNS Retail Bank 2010	SNS Retail Bank 2009	Property Finance 2010	Property Finance 2009	Eliminations 2010	Eliminations 2009	Total 2010	Total 2009
Assets								
Cash and cash equivalents	3,813	2,534	977	20	(957)	––	3,833	2,554
Loans and advances to banks	14,050	16,505	10	777	(12,379)	(14,567)	1,681	2,715
Loans and advances to customers	53,635	54,283	11,378	13,196	––	––	65,013	67,479
Derivatives	2,317	1,169	––	––	––	––	2,317	1,169
Investments	4,249	4,517	––	––	––	––	4,249	4,517
Investment properties	1	1	––	––	––	––	1	1
Property projects	––	––	467	599	––	––	467	599
Investments in associates	––	––	6	33	––	––	6	33
Property and equipment	109	112	1	2	––	––	110	114
Intangible assets	116	126	48	117	––	––	164	243
Deferred tax assets	258	281	9	16	––	––	267	297
Corporate income tax	97	2	7	––	(2)	––	102	2
Other assets	530	400	279	202	(222)	(74)	587	528
Assets held for sale	––	––	121	––	––	––	121	––
Total assets	79,175	79,930	13,303	14,962	(13,560)	(14,641)	78,918	80,251
Equity and liabilities								
Savings	27,398	24,435	––	––	––	––	27,398	24,435
Other amounts due to customers	10,292	9,654	190	181	––	––	10,482	9,835
Amounts due to banks	4,049	7,816	12,383	13,870	(13,336)	(14,567)	3,096	7,119
Debt certificates	29,523	30,739	––	––	––	––	29,523	30,739
Derivatives	2,880	2,247	––	––	––	––	2,880	2,247
Deferred tax liabilities	313	307	10	13	––	––	323	320
Corporate income tax	2	90	––	––	(2)	––	––	90
Other liabilities	1,469	1,333	70	161	(222)	(74)	1,317	1,420
Provisions	35	53	6	––	––	––	41	53
Participation certificates and subordinated debt	2,022	1,559	––	––	––	––	2,022	1,559
Equity attributable to shareholders	936	1,428	644	737	––	––	1,580	2,165
Equity attributable to securityholders	256	260	––	––	––	––	256	260
Minority interests	––	9	––	––	––	––	––	9
Total equity	1,192	1,697	644	737	––	––	1,836	2,434
Total equity and liabilities	79,175	79,930	13,303	14,962	(13,560)	(14,641)	78,918	80,251

TABLE 17: **INCOME STATEMENT BY SEGMENT**

In € millions	SNS Retail Bank 2010	SNS Retail Bank 2009	Property Finance 2010	Property Finance 2009	Eliminations 2010	Eliminations 2009	Total 2010	Total 2009
Income								
Interest income	2,279	2,528	478	569	(268)	(324)	2,489	2,773
Interest expense	1,645	2,137	241	288	(268)	(324)	1,618	2,101
Net interest income	634	391	237	281	––	––	871	672
Fee and commission income	138	136	––	––	––	––	138	136
Fee and commission expense	46	37	––	––	––	––	46	37
Net fee and commission income	92	99	––	––	––	––	92	99
Share in result of associates	––	––	(9)	(4)	––	––	(9)	(4)
Investment income	47	161	––	––	––	––	47	161
Result on financial instruments	9	181	(29)	(12)	––	––	(20)	169
Other operating income	1	––	3	1	––	––	4	1
Total income	783	832	202	266	––	––	985	1,098
Expenses								
Impairment charges / (reversals)	83	98	858	473	––	––	941	571
Staff costs	213	304	43	38	––	––	256	342
Depreciation and amortisation of fixed assets	33	32	2	2	––	––	35	34
Other operating expenses	237	226	48	24	––	––	285	250
Total expenses	566	660	951	537	––	––	1,517	1,197
Result before tax	217	172	(749)	(271)	––	––	(532)	(99)
Taxation	55	51	(156)	(52)	––	––	(101)	(1)
Minority interests	––	1	––	––	––	––	––	1
Net result attributable to shareholders and securityholders	162	120	(593)	(219)	––	––	(431)	(99)

14 Risk management

14.1 KEY POINTS RISK PROFILE SNS BANK

14.1.1 Maintaining a moderate risk profile

SNS Bank emphasises its commitment to maintaining a moderate risk profile. This means that the balance sheet risks will be further limited and higher capital levels will be maintained.

SNS Bank's commercial activities, such as offering accessible banking products, involve risks, whereby the exposure to high-risk activities, such as proprietary trading, complex products or foreign currencies, is limited. The mainly Dutch customers and clients are well-diversified within the retail and SME market segments. The international property portfolio will be phased out in a controlled and gradual manner over the next two to four years. It has also been decided that no project loans and loans earmarked for land acquisitions will be issued anymore.

SNS Bank's investment portfolios have relatively limited exposure to government bonds from countries that were severely affected by the eurozone crisis. In 2010 the positions in government bonds from Portugal, Ireland, Italy, Greece and Spain (PIIGS) were substantially reduced. The impact of negative market developments on the investment portfolios is mitigated by various hedging strategies.

The net loan portfolio of SNS Retail Bank amounted to € 53.6 billion at year-end 2010, 91% of which comprised Dutch residential mortgages. 2010 saw a decrease in this portfolio's credit quality and a drop in average house prices. The impairments on residential mortgages amounted to 42 basis points (2009: 31 basis points) of the risk-weighted assets.

Property Finance's net loan portfolio amounted to € 11.4 billion at year-end 2010, 78% of which originated in the Netherlands. The credit risks in the loan portfolio remain high. The difficult market conditions in the commercial property markets are reflected in the lower valuation of the real estate, higher additions to the loan provisions and increasing default rates. By reducing the portfolio and raising provisions, exposure to these risks is partly reduced.

14.1.2 Main developments

The most important developments are:

Capital and solvency

- In 2010, SNS Bank participated in a macro stress test issued by the Dutch Central Bank and in the stress test set up by the Committee of European Banking Supervisors (CEBS). SNS Bank also performed an internal stress test within the context of its Internal Capital Adequacy Assessment Process (ICAAP). Based on the results of these stress tests, SNS Bank believes that it is currently sufficiently able to absorb any further negative developments in the economic conditions and the financial markets.
- At the end of the year, the capital ratios for SNS Bank were strong.
- SNS Retail Bank succeeded in raising funds both in the capital market and in the retail market. SNS Retail Bank has demonstrated that it can access the capital market without requiring a guarantee from the Dutch State.
- Despite the substantial net loss of Property Finance, the solvency ratio of SNS Bank remained stable. The decrease in risk weighted assets had a positive impact on the solvency ratio. This decrease is mainly due to the decline of commitments at Property Finance, the sale of mainly subordinated Hermes notes and the sale of retail mortgages to the Insurance activities of SNS REAAL.

Liquidity

- SNS Retail Bank adapted its liquidity position to the improved conditions on the financial markets. The liquidity position is strong.

Market risk

- As a reaction to the euro zone crisis, the government bond portfolio was positioned more defensively by substantially reducing exposure to government bonds from Portugal, Ireland, Italy, Greece and Spain during 2010.

Credit risk

- SNS Retail Bank's mortgage portfolio shows a limited increase in the loss indicators.
- Most indicators for the credit risk of Property Finance reflect the current market conditions in which the commercial property market risks remain high.

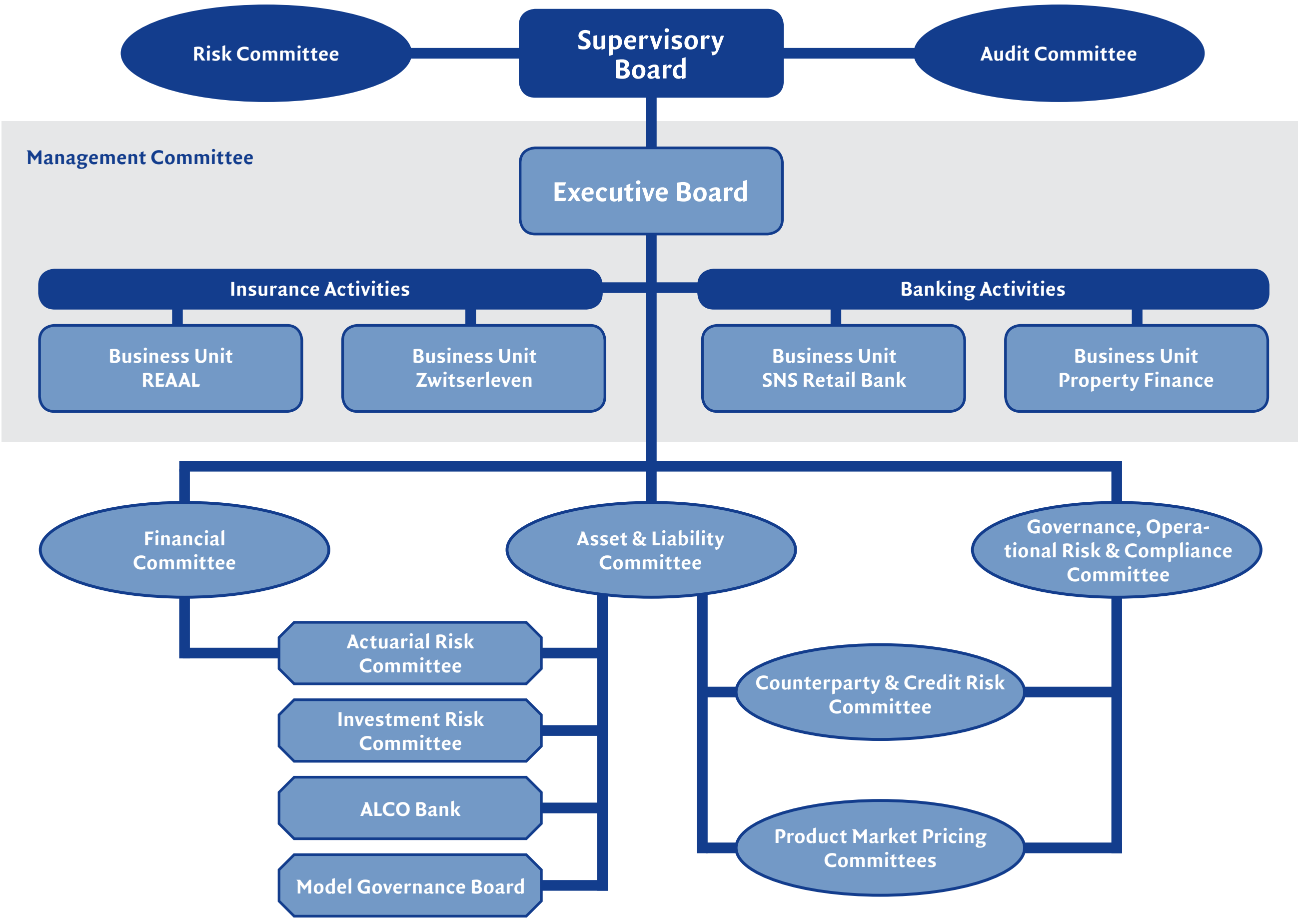
– Property Finance has control over a number of commercial real estate projects to restructure and manage potential losses. These projects are consolidated in the consolidated financial statements of SNS REAAL as at 31 December 2010. The item property projects decreased from € 599 million at year-end 2009 to € 467 million at year-end 2010, partly due to a reclassification of € 79 million to assets held for sale, and consisted almost entirely of international projects.

14.1.3 Risk management organisation

SNS Bank uses the risk management organisation of SNS REAAL. The SNS REAAL Business and Risk Governance is aimed at strengthening Group policy and the frameworks within which risk policy is defined. The key issues are improving quality and achieving efficient risk management.

The activities of the legal entity SNS Bank NV are organised into two Business Units: SNS Retail Bank and Property Finance.

GRAPH 3: SNS REAAL RISK MANAGEMENT ORGANISATION



The Business Units' responsibility is defined using the (risk) policy frameworks which SNS REAAL's Executive Board established on the basis of the recommendations of the committees set up by the Executive Board.

The Business Unit Management Boards are responsible for achieving the commercial, operational and financial objectives by choosing the best possible products, services, product/market combinations, labelling and distribution channels. In this context, the Business Units operate within the established group frameworks for credit risk, insurance risk, integrity risk and operational risk and report to the Executive Board.

SNS REAAL distinguishes three risk management responsibility levels, also referred to as the 'Three Lines of Defence':
– The line organisation, responsible for risk management, which is generally delegated to the risk committees;
– The risk management departments, which advise line management and monitor positions;
– The internal auditor (the Group Audit department), which reviews the planning, the process and the performance of the risk organisation.

The responsibilities within the risk management organisation have been clearly defined; final responsibility for risk management lies with the Executive Board and SNS REAAL's Chief Financial Officer is also the Chief Risk Officer. Risk owners have been appointed within the Executive Board and the Management Boards of the Business Units. These risk owners are responsible for the formulation and execution of the risk policy for their designated areas of attention.

The risk principles used for the risk management structure, which aim at a consistent risk management approach, remain unchanged. These principles aim for an integral risk management geared to maintaining a moderate risk profile and include:
- One shared Group-wide risk type classification;
- A pre-set risk tolerance for each type of risk we have identified;
- Scenario analyses for stress situations and measures for emergency situations with regard to the key risks;
- Testing and validating the models that are used for risk management;
- Allocating risk owners to all identified risks;
- Monitoring and assessment of risks independently of commercial operations.

14.1.4 Risk committees

A more detailed disclosure of the risk committee structure is provided below.

The risk committees work independently of the line organisation. They prepare Group policy and issue recommendations in this respect to the Executive Board. The Executive Board adopts the policy and authorises the committees to implement it. It is up to the committees to steer the development and enforcement of the Group policy.

Risk Committee

The Supervisory Board instructed five of its members to form a Risk Committee, which assesses SNS REAAL's risk profile and management in respect of all risks (financial and non-financial). Special areas of attention include capital allocation, investment policy and liquidity requirement. In addition, the Risk Committee assesses the design and operation of the risk management organisation, including supervision of compliance with the relevant laws and regulations and the operation of codes of conduct, as well as the use of information technology in risk control.

Management Committee

The SNS REAAL Management Committee is the forum in which the chairman of the Executive Board, the managing directors of the Business Units, including SNS Retail Bank and Property Finance, the Chief Information Officer and the HRM director discuss and determine the strategic policy frameworks, in preparation of the Executive Board's final approval.

Group Committees

In addition to the Management Committee, the following Group Committees are in place:
- Group GORCC: Group Governance, Operational Risk & Compliance Committee: to manage non-financial risks.
- Group FinCo: Group Financial Committee: policy frameworks for internal and external financial reporting, the accounting and actuarial infrastructure, structuring financial governance and management information (operational/financial KPIs) and the presentation and disclosure of the results and returns.
- Group ALCO: Group Asset & Liability Committee: to manage financial risks. The Group ALCO has four advisory committees: Actuarial Risk Committee, Investment Risk Committee, ALCO Bank and the Model Governance Board.
- Group CCC: Group Counterparty & Credit Committee: to approve loans and revisions. This committee operates within the frameworks of Group GORCC, Group FinCo and Group ALCO. There are two committees, one for Property Finance and one for SNS Retail Bank.

In addition, each Business Unit has a committee with its own delegated discretionary powers:
- PMPC: Product Market Pricing Committee, for risk control in proposed new products, product management in a broad sense, approval of product launch and steering of the correlation between volume and risk and return.

The number of committees at Business Unit level is now limited and the policy responsibility of the former committees has been combined at Group level. Positioning the policy development at Group level reduces the number of tiers in the decision-making process and increases the coherence within SNS REAAL.
Within the Business Units, there are advisory committees for specific areas of attention that operate within the policy frameworks of the Group committees:
- ALCO Bank: advises the Group ALCO on policy for solvency, capital and liquidity risk management, as well as on market risk policy for the bank.
- Model Governance Board: monitors the quality and uniformity of all financial risk and valuation models used by SNS REAAL.

Decision-making processes

To reach consensus, the three Group committees Group GORCC, Group FinCo and Group ALCO take decisions by a majority of votes. To reach consensus, the Group CCC and the four advisory committees of the Group ALCO take decisions by a unanimity of votes. If there is no agreement and no decisions can be taken, alternatives and arguments are submitted to the higher-level CCC or ALCO.

Every member of the Group committees has an equal vote. Apart from voting right, every member has the right to escalate a decision. The proposal is then presented to the next higher committee. The Management Committee is the next higher committee for the Group committees.

Decisions in the Business Units' Product Market Pricing Committee are taken by a majority of votes. The chairman, the CFRO of the Business Unit, has a right of veto in such decisions. If the CFRO so decides, or at the initiative of a CEO of the Business Unit or Group staff director, the decision-making process may be escalated to GORCC, Group ALCO or FinCo, depending on the subject.

14.1.5 Risk management departments

The risk management departments advise on risk management and report on the risk profile in order to promote efficiency and uniformity. They act as Group service centres for the banking and insurance operations and, with regard to the risks, they are responsible for modelling, measuring, monitoring, reporting and advising. They are not responsible for determining the policy, but have an advisory role. SNS REAAL has the following risk management departments in place:

- Group Risk Management (GRM)
- Compliance, Security & Operational Risk Management (CS&O)
- Legal Affairs (LA)
- Credit Risk Management (CRM)
- Group Audit (GA)

Group Risk Management (GRM)

GRM supports the Executive Board and the Management Boards in:

- Identifying changing market conditions and regulations that are relevant to the strategy and policy;
- Determining the desired risk profile and translating it into internal standards and limits;
- Choosing products and services that correspond with the desired risk profile;
- Valuation of portfolios for steering structural value creation;
- Determining the prices of products and services on the basis of risk-weighted return;
- Structuring and implementing asset & liability management;
- Structuring and implementing the capitalisation and funding policies;
- Portfolio management and modelling credit risk;
- Setting frameworks for drawing up models and techniques used and independent implementation of model validation;
- Coordinating strategic projects related to the management of financial risks, including stress tests and Basel III programme.

Compliance, Security & Operational Risk Management (CS&O)

CS&O advises the Executive Board and the Management Boards of the Business Units on the control of non-financial risks. These are the risks that are related to human behaviour and the structure of the business processes. The main duties of the department are defining policies, providing recommendations for ethical and controlled business conduct, coordinating and promoting operational risk control and integrity risk control and permanently monitoring process execution. SNS REAAL's policy is implemented by specialist staff departments, which support the line management in the execution of that policy.

The control of non-financial risks is managed by means of seven themes: employee, client, business process, product, information, risk management and partnership. These themes serve as guidance for the risk analyses to be performed periodically and provide the structure for supervision and risk reporting.

Legal Affairs (LA)

Legal Affairs prepares policy and supports operational activities for risk management. The main responsibilities of the department in this area are:

- Identifying and advising on present and future legislation and regulations;
- Advising on products and product documentation;
- Handling impending and current legal disputes;
- Advising on cooperation agreements.

Credit Risk Management (CRM)

The CRM department consists of two separate and independent departments for credit risk management (Mid Office and a Special Credits department for loans in arrears and in default). These departments focus on policy preparation and operational support of credit risk management and report to the CFROs of the Business Units SNS Retail Bank and Property Finance. The CRM department plays an important role in the following tasks:

- Advising on the credit risk policy;
- Independent analysis of and advice on credit proposals;

– Performing the secretarial duties for the various credit committees;
– Serving as a voting member on the credit committee.

Mid Office Mortgages and Corporate Credits:

– A separate mid-office has been established for retail mortgages and SME credit facilities within SNS Retail Bank that issues (binding) recommendations for credit facilities that satisfy the standard acceptance criteria.
– The mid-office manages and keeps record of credit facilities and (retail and corporate) collateral.

Special Credits department:

– The Special Credits department manages and settles loans in arrears and loans in default. Within Property Finance, a Restructuring & Recovery (R&R) department was set up in 2009, independent of Risk Management. R&R manages the default portfolio (this includes the management of the collateral and property projects of which SNS Bank has taken effective control). The R&R department prepares the settlement and restructuring plan and presents a proposal for the provision amount, which is to be approved by the Management Board.
– The Special Credits department for loans in arrears and in default also prepares reports on the operational management relating to of credit risk.

Group Audit (GA)

Group Audit reports to the chairman of the Executive Board and also has a reporting line to the Audit Committee of the Supervisory Board. In this way, the department is able to perform its activities independently of the Business Units and the departments of SNS Bank.

Group Audit carries out its audits on behalf of the Executive Board based on a dynamic risk analysis. This risk analysis was discussed with the external auditor and the Dutch Central Bank and is in accordance with the Banking Code. The audits focus on the internal risk management and control system, related processing procedures and (reliability of) management information.

Group Audit is also responsible for carrying out the differentiated internal audit activities on behalf of the Business Unit Management Board and line management. These audits focus on the (permanent) effect of the control measures included in procedures. In addition, various types of audits are performed at the request of the Management Boards, including certification activities for external parties.

14.1.6 Risk classification

TABLE 18: **RISK CLASSIFICATION**

Risk	Description
Financial risks	
Credit risk	The risk that the equity, result or continuity is threatened because a borrower / counterparty does not comply with a financial or other contractual obligation. This also includes the possibility to impose restrictions or impediments on the transfer of credit balances from foreign countries.
Liquidity risk	The risk that there are insufficient liquid assets available in the short term to meet financial obligations, whether under normal circumstances or in times of stress, without this being accompanied by unacceptable costs or losses.
Market risk	The risk that the Company's equity, result or continuity is threatened by movements in the level and/or volatility of market prices.
Non-financial risks	
Strategic risk	The risk that strategic objectives are not achieved due to lack of response or inadequate response to changes in the environment.
Integrity risk	The risk that the codes of conduct emanating from SNS Bank standards, social standards and laws and regulations are insufficiently observed by management or employees.
Operational risk	The risk that (strategic) objectives are not achieved due to unpredictability of performance, unpredictability of information or due to unforeseen losses as a result of fraud, inadequate or failing internal procedures, external events, systems or security.

Capital is maintained for credit risk, market risk, business risk (part of strategic risk) and operational risk. No capital is maintained for the liquidity risk, since the results of scenario analyses are used for internal control instead. The management of these risks is discussed in Chapter 14.2.

14.1.7 Framework for business control

Doing business requires taking risks and demands a consistent and transparent assessment of opportunities and risks, aimed at growth and the continuity of the Company. The Executive Board of SNS REAAL has established frameworks for the Management Boards of the Business Units in order to properly steer such assessments. The most important frameworks are:

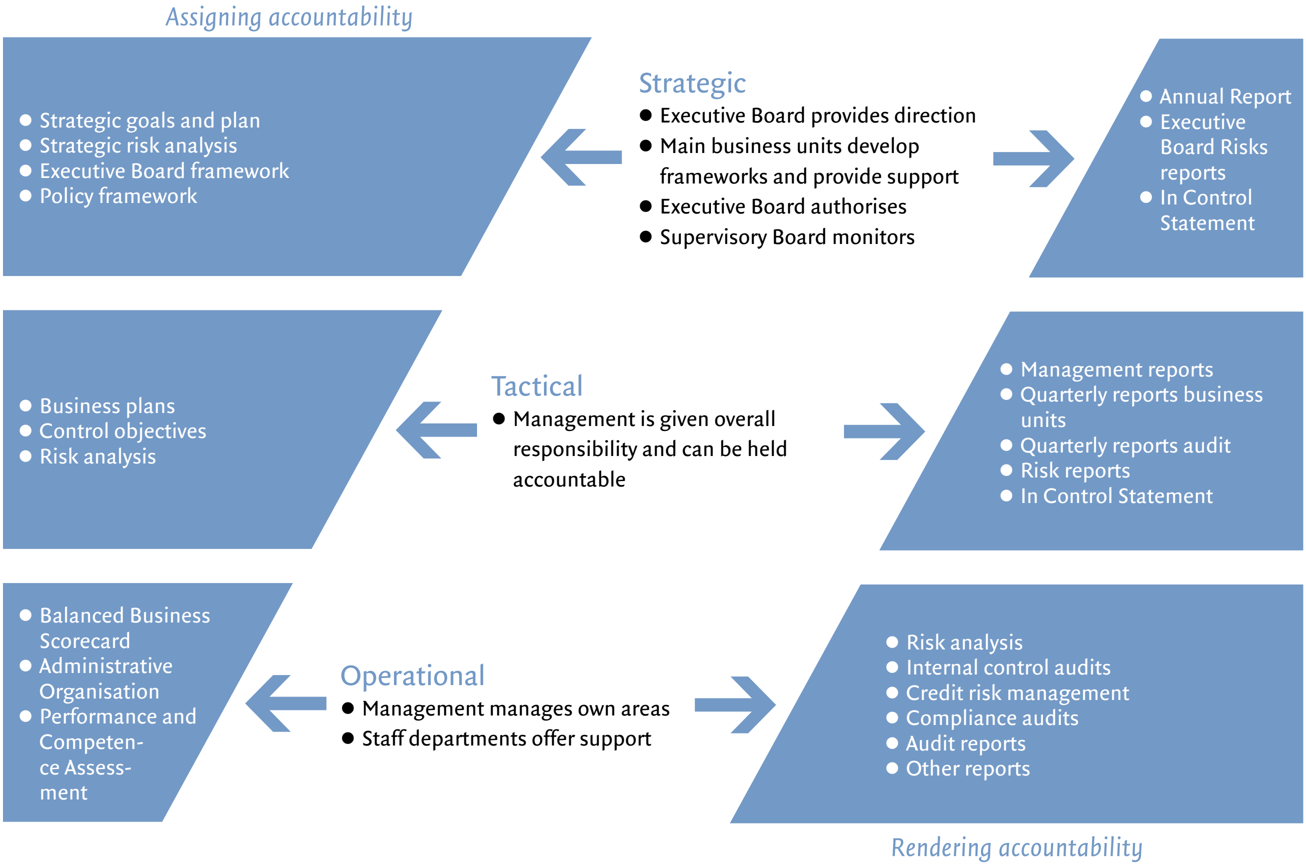
- The strategy (Simplicity in Finance) and strategic risk analyses, to direct the activities of the Business Units and the organisation as a whole;
- The moderate risk profile, which sets limits for taking risks and controlling risks;
- The management structure, which includes the risk committees, to streamline management focus, to allocate duties and responsibilities, and to deal with new or external impulses (e.g. through takeovers and reorganisations);
- Traineeships, talent and management development programmes, to manage staff quality and appointments ('the right person in the right place');
- The remuneration structure, to manage the conduct of our employees in order to achieve goals;
- Requirements for internal processes, to steer predictability of performance, prevent unforeseen losses and ensure the reliability of information.

The Management Boards of the Business Units are responsible for day-to-day operations within these frameworks and each year draw up operational plans that are approved by the Executive Board.
The framework for business control sets out how responsibility is awarded within SNS REAAL and how this must be accounted for. This framework forms the basis for controlling the risk management processes.

The framework for business control thus offers a reasonable, albeit not an absolute guarantee that risks are excluded. It does not guarantee, for instance, that human error, the deliberate circumvention of control procedures by employees and third parties acting in concert, or the evasion of control mechanisms by management will not occur.

SNS REAAL has set up a procedure to determine biannually the extent to which the Management Boards of each Business Unit control essential risks. This particularly concerns the discussions between the layers of management on the risks in the business operations and the measures taken in this respect. Key inputs for this procedure are the regular in-control reports per Business Unit. The outcome of this procedure contributes to the management statement that is included in the SNS REAAL annual report.

GRAPH 4: **FRAMEWORK FOR BUSINESS CONTROL**



In each report the Management Board of each Business Unit states, with due observance of changes to internal and external factors, whether they have identified the main risks and corresponding control measures with a reasonable degree of certainty. Moreover, the Management Board states which improvements have been made to the (risk) management procedures, whether the established control measures function adequately, whether the provision of information is sufficient and which aspects the relevant Business Unit intends to improve further. The Management Boards state whether they expect the risk management system to work adequately during the next one-year period.

The Executive Board assesses the internal statements by the various Business Units and Group staff departments. Together with a strategic risk analysis, these assessments form the basis for the internal statement that every Executive Board member prepares. The statements from the Management Boards translate into the external in-control statement, which is discussed with the Audit Committee and the Risk Committee.

14.2 FINANCIAL RISK MANAGEMENT

14.2.1 Credit risk

SNS Bank recognises various categories of credit risk. The main categories are loans and advances to customers, loans and advances to banks, and investments. More than 92% of the loans and advances to customers are backed by mortgage collateral. The other items, which are not mortgage-backed, are mainly loans and advances to banks and investments (primarily bonds). The investments in connection with the Company's own liquidity management and held for trading are low-risk.

The loan portfolio of SNS Retail Bank focuses on the Dutch market in particular. This also applies to Property Finance after the strategic reorientation in 2009. Currently, Property Finance is focusing primarily on its existing customer base in the commercial property sector in the Netherlands. The international portfolio is being phased out in a controlled and gradual manner over the next two to four years. It has also been decided that no project finance loans and loans earmarked for land acquisitions will be issued anymore. The progress in the existing projects nevertheless gives this portfolio the potential to show some growth.

SNS Bank's overall credit exposure (before collateral and other credit enhancements) breaks down as follows:

TABLE 19: **CREDIT RISK**

	SNS Retail Bank		Property Finance		Total	
In € millions	2010	2009	2010	2009	2010	2009
Investments	4,249	4,517	--	--	4,249	4,517
Derivatives	2,317	1,169	--	--	2,317	1,169
Loans and advances to customers	53,866	54,478	12,117	13,435	65,983	67,913
Loans and advances to banks	1,672	2,640	12	75	1,684	2,715
Other assets, no lending operations	1,094	1,013	835	892	1,929	1,905
Cash and cash equivalents	3,813	2,534	21	20	3,834	2,554
Total	67,011	66,351	12,985	14,422	79,996	80,773
Off-balance sheet commitments						
Liabilities from pledges and guarantees given	42	43	196	238	238	281
Liabilities from irrevocable facilities	856	811	505	1,172	1,361	1,983
Total	67,909	67,205	13,686	15,832	81,595	83,037

The table below gives an indication of the credit risk of SNS Bank, based on the weighting percentages used in regular reporting to the Dutch Central Bank (DNB) under Basel II guidelines. The weighting percentages of items under the standardised method depend on the counterparty's external credit rating. Generally, these percentages are 0% for loans and advances to or guaranteed by OECD governments, 20% for loans and advances to or guaranteed by OECD banks, 35% for loans entirely covered by mortgage collateral (at a Loan to Foreclosure Value (LtFV) equal to or below 75%) and 100% for the other loans and advances.

TABLE 20: CREDIT RISK BASED ON WEIGHTING PERCENTAGES UNDER BASEL II GUIDELINES

In € millions	Risk weighted assets 2010	Risk weighted assets 2009	Regulatory capital 2010	Regulatory capital 2009
Standardised approach				
Central Government and Central Banks	21	225	2	18
Institutions	987	452	79	36
Corporates	12,283	14,238	983	1,139
Retail	1,289	1,312	103	105
Shares	14	38	1	3
Other assets	927	1,145	74	92
Securitisation positions	750	1,038	60	83
Internal rating based approach				
Retail mortgages	3,055	3,360	244	269
	19,326	21,808	1,546	1,745
Market risk	195	130	16	10
Operational risk	1,781	1,651	142	132
Additional transitional capital requirements 1	829	2,296	66	184
Total	22,131	25,885	1,770	2,071

1) The additional transitional capital requirements concern the Basel II 80% floor based on Basel I calculations.

14.2.1.1 Credit risk SNS Retail Bank

Investments

As a reaction to the eurozone crisis, the investments were de-risked by reducing exposure to government bonds from Portugal, Ireland, Italy, Greece and Spain during 2010. As at 31 December 2010, the total exposure to these countries was 24.1% of the total investment portfolio (year-end 2009: 35.1%).

TABLE 21: FIXED INCOME INVESTMENTS SNS RETAIL BANK BY INDUSTRY

	Fair value through profit or loss							
	Held for trading		Designated		Available for sale		Total	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009
Public sector - domestic	3	2	26	34	765	465	794	501
Public sector - foreign	21	19	42	73	2,711	3,108	2,774	3,200
Banks	91	63	19	––	307	457	417	520
Trade, industry and other services	23	13	––	––	55	103	78	116
Other	6	34	5	––	152	129	163	163
Total	144	131	92	107	3,990	4,262	4,226	4,500

TABLE 22: FIXED INCOME INVESTMENTS SNS RETAIL BANK BY RATING

	Fair value through profit or loss							
	Held for trading		Designated		Available for sale		Total	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009
AAA	29	26	73	33	2,446	2,240	2,548	2,299
AA	12	9	5	––	274	691	291	700
A	47	48	––	38	1,012	1,220	1,059	1,306
BBB	13	19	9	36	190	17	212	72
Below BBB	––	––	––	––	51	82	51	82
Unrated	43	29	5	––	17	12	65	41
Total	144	131	92	107	3,990	4,262	4,226	4,500

Loans and advances to banks and derivatives

SNS Financial Markets enters into money and capital market transactions with various financial institutions as part of its treasury and funding activities.

Loans and advances to banks may ensue from lending operations in the form of deposits, as part of ordinary cash management transactions. Cash management also includes transactions qualifying as forward transactions, which are also regarded as derivative transactions. They are carried out only with counterparties with which a 'CSA agreement' (Credit Support Annex) of the ISDA (International Swaps and Derivatives Association) has been concluded. The maximum maturity of these derivatives is 1 year. Based on daily valuations, changes in the present value of all existing transactions are settled with the relevant counterparty. Settlement is only possible if the changed value exceeds a predetermined limit.

Interest rate derivatives are also used by SNS Bank's ALM department to manage and/or limit interest rate risk of SNS Bank. The terms to maturity of these derivatives range from 2 to 30 years. The risk mitigation conditions that apply to such derivatives are the same as those applying to short-term derivatives. A system of counterparty limits applies as well, which reduces the concentration risk. A minor part of the derivatives has been concluded with Property Finance clients.

Loans and advances to customers

A distinction has been made in credit management between retail customers and corporate clients. In addition, there is a distinction between credit management for individual customers and clients and credit management on a portfolio level.

Loans to private customers consisting of mortgage loans or consumer credit (included under other) are approved by the relevant authorised officers on the basis of acceptance standards and policy rules. The standards for acceptance and policy rules are determined in the Product Market Pricing Committee. In special cases, a recommendation is issued to the Management Board of SNS Retail Bank, which then takes the final decision. Mortgage loan acceptance is processed centrally. The standards for acceptance of mortgage loans are the same for all labels of SNS Retail Bank, as this contributes to uniformity and efficiency. Acceptance score models support these processes.

Credit management for current retail customers takes place at customer level by actively monitoring and following up on payments in arrears and other signals. This process is supported by automated systems that categorise and prioritise customers with payments in arrears.

At the portfolio level, mortgage risks are managed by the 'Portfolio Management Procedure'. The procedure consists of three components: rating, monitoring and intervention. Intervention can take place through pricing policy, the acceptance and management policies, specific (marketing) activities, product development and securitisations.

The security provided by the LtFV and the National Mortgage Guarantee (NHG) is an important risk indicator for managing the portfolio. The LtFV shows the level of collateralisation by taking the outstanding loan as a percentage of the foreclosure value of the collateral. A low percentage is considered favourable.

TABLE 23: LOANS AND ADVANCES TO CUSTOMERS SNS RETAIL BANK BY SECURITY TYPE

In € millions	2010	2009
Residential property in the Netherlands		
- Mortgages ≤ 75% of foreclosure value	18,464	23,433
- Mortgages > 75% of foreclosure value	4,173	8,074
- Mortgages with National Mortgage Guarantee	6,562	6,303
Securitised mortgages	19,998	11,454
Residential property outside of the Netherlands	113	183
Non-residential property in the Netherlands		
- Mortgage-backed loans	1,575	1,592
- Issued to government	1,176	1,234
- Unsecured loans	1,698	2,205
Non-residential property outside of the Netherlands:		
- Other collateral and unsecured loans	107	––
Provisions for bad debt		
- Specific provisions	(218)	(181)
- IBNR provision	(13)	(15)
Total	53,635	54,282

In the table above, the securitised mortgage loans whose bonds were issued by securitisation entities and sold to investors have been included in 'Securitised mortgages'. The underlying mortgage loans of securitisation transactions held in own positions for the Company's own account (€ 8.8 billion, 2009: € 12.7 billion) are included in the mortgages item.

The securitised mortgages were sold on the basis of what is known as a deferred purchase price. This means that, for most transactions, SNS Retail Bank has claims against the securitisation entity that will not be settled in full until the transaction is concluded. Some of the notes issued by the securitisation entity are e-notes, which are high-risk bonds. Stress tests have shown that the remaining credit risk for SNS REAAL manifests itself in the deferred purchase price and the e-notes. SNS Retail Bank has now placed all e-notes externally (€ 66 million was placed at the Insurance activities of SNS REAAL). At year-end 2009, the own position in e-notes amounted to € 204 million. The sum of the deferred purchase prices was € 12 million as at year-end 2010 (2009: € 21 million).

TABLE 24: LOANS AND ADVANCES TO CUSTOMERS SNS RETAIL BANK BY INDUSTRY

In € millions	2010	2009
Retail	51,475	52,173
Public sector	1,230	1,234
Service sector companies	471	461
Industry	205	213
Agriculture	64	5
Other commercial	190	196
Total	53,635	54,282

TABLE 25: LOANS AND ADVANCES TO CUSTOMERS SNS RETAIL BANK BY REGION

In € millions	2010	2009
The Netherlands	53,520	54,218
EMU	105	53
United Kingdom	––	1
United States	6	6
Other	4	4
Total	53,635	54,282

Notes to the credit risk profile and credit risk management of SNS Retail Bank

For SNS Retail Bank's mortgage portfolio without National Mortgage Guarantee, the weighted average LtFV at year-end 2010 was 93% (2009: 92%), based on an indexed LtFV of 88% (2009: 88%). The foreclosure value determined at the time of application is indexed with the Land Registry Office's Prijsindex Bestaande Koopwoningen. The Land Registry Office updates this index every month. The Prijsindex Bestaande Koopwoningen is broken down into province and type of residence. Examples of type of residence are apartments, terraced houses or end-of-terrace houses, and semi-detached and detached houses. SNS Retail Bank follows this breakdown. Generally, no new valuation reports are requested for existing residential mortgages.

In addition to the LtFV, the Probability of Default (PD) is another major risk indicator. Here, an estimate is made of the probability that obligations will not be met in the upcoming year.

The table below shows the principal weighted PD risk classification of the outstanding private residential mortgages portfolio.

TABLE 26: PD RISK CLASSIFICATION SNS RETAIL BANK PRIVATE RESIDENTIAL PORTFOLIO

In € millions	2010	2009
1	87.7%	87.0%
2-4	4.8%	5.4%
5-7	0.0%	0.0%
8-10	0.0%	0.0%
11-13	4.2%	4.7%
14-17	0.0%	0.0%
18-99	1.7%	1.6%
100	1.6%	1.3%
Total	100.0%	100.0%

Special Credits department SNS Retail Bank

An essential part of the risk policy is the timely deployment of the Special Credits department. Special Credits distinguishes between loans to private customers and loans to small and medium-sized enterprises (SME).

The Special Credits department focuses on retail customers and SME. It applies a uniform working method that is aimed at identifying items with risk exposure.

The control of retail and SME client payments in arrears has been almost completely automated. It compares the costs involved in arrears monitoring to the combination of the probability of default and the expected credit loss amount. Based on past experience, an estimate is made of the measures required, such as contacting the client by telephone or writing a letter. This estimation is supported by a computer model.

The file is handled by the Special Credits department if the client no longer meets his obligations, but also if it is unlikely that the debtor will be able to continue to meet his obligations.

TABLE 27: **FINANCIAL ASSETS IN ARREARS SNS RETAIL BANK**

In € millions	No arrears	≤ 3 months	> 3 months ≤ 6 months	> 6 months ≤ 1 year	> 1 year	Provision	Total
2010							
Investments	4,249	––	––	––	––	––	4,249
Derivatives	2,317	––	––	––	––	––	2,317
Loans and advances to customers	52,046	1,055	204	224	337	(231)	53,635
Loans and advances to banks	1,672	––	––	––	––	(1)	1,671
Other assets	4,278	––	––	––	––	––	4,278
Total	64,562	1,055	204	224	337	(232)	66,150
2009							
Investments	4,517	––	––	––	––	––	4,517
Derivatives	1,169	––	––	––	––	––	1,169
Loans and advances to customers	52,864	979	199	192	244	(196)	54,282
Loans and advances to banks	2,640	––	––	––	––	––	2,640
Other assets	2,901	––	––	––	––	––	2,901
Total	64,091	979	199	192	244	(196)	65,509

With respect to the loans and advances to customers this information on arrears is a main factor in determining the provision collectively. Every quarter, the Special Credits department proposes a provisions level to SNS Retail Bank's Credit Committee. The CFRO takes the final decision on the amount of the provisions.

TABLE 28: **PROVISIONS ON LOANS AND ADVANCES TO CUSTOMERS SNS RETAIL BANK**

In € millions	2010	2009
Book value non provisioned loans	52,046	52,864
Book value provisioned loans (gross value)	1,820	1,614
Specific provisions	(218)	(181)
IBNR provision	(13)	(15)
Total book value non provisioned and provisioned loans	53,635	54,282
Fair value collateral provisioned loans	1,655	1,774

The credit rating of SNS Retail Bank's mortgage portfolio deteriorated in 2010 compared to the mortgage portfolio in 2009. This was the result of the slow economic growth, a difficult market for owner-occupied houses and falling prices on the housing market in the Netherlands. On the other hand, the quality of new inflow is improving thanks to stricter standards and an increase in mortgages covered by the National Mortgage Guarantee.

In 2010, 110 foreclosure sales were made in respect of residential mortgages, which generated, on average, 61.8% cover for the outstanding loans (2009: 63%). Furthermore, SNS Retail Bank makes use of repayment arrangements for clients unable to meet mortgage payments in the short run.

In determining the amount of the provisions, account is taken of defaults and the experience that credit loss may also be caused by non-defaults (IBNR).

The default rate of residential mortgages rose from 0.85% to 0.92% and the contamination rate of the portfolio increased from 1.08% in 2009 to 1.22% in 2010.

14.2.1.2 Credit risk Property Finance

TABLE 29: **LOANS AND ADVANCES PROPERTY FINANCE BY SECURITY TYPE**

In € millions	2010	2009
Residential property in the Netherlands		
- Mortgages ≤ 75% of foreclosure value	504	629
- Mortgages > 75% of foreclosure value	1,614	1,651
Residential property outside of the Netherlands	1,439	1,502
Non-residential property in the Netherlands		
- Mortgage-backed loans	6,495	6,917
- Other collateral and unsecured loans	535	423
Non-residential property outside of the Netherlands		
- Mortgage-backed loans	1,508	2,292
- Other collateral and unsecured loans	22	22
Provisions for bad debt		
- Specific provisions	(727)	(225)
- IBNR provision	(12)	(14)
Total	**11,378**	**13,197**

GRAPH 5: **CREDIT PORTFOLIO PROPERTY FINANCE FOR LOANS AND ADVANCES TO CUSTOMERS**

%

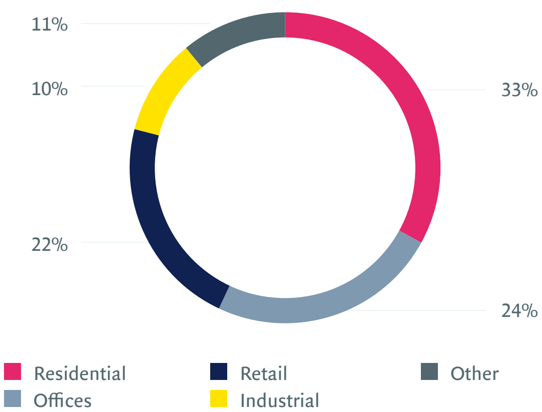


TABLE 30: **LOANS AND ADVANCES PROPERTY FINANCE BY REGION**

In € millions	2010	2009
The Netherlands	8,805	9,639
EMU	1,598	2,060
United States	537	967
Canada	209	189
United Kingdom	100	123
Other	129	219
Total	**11,378**	**13,197**

Notes to the credit risk profile and credit risk management of Property Finance

The indicators for the credit risk of Property Finance reflect the current market conditions while the commercial property market risks remain high. These high risks translate into additions to the provisions at continued high levels and increased default rates.

One of Property Finance's main priorities is phasing out the international portfolio and part of its Dutch portfolio. At the end of 2010, total commitments amounted to € 12.6 billion, 14% lower compared to the end of 2009.

Gross outstanding loans declined by 10% in 2010, resulting in a € 12.1 billion gross loan portfolio as at year-end. The decline in loans outstanding was lower than the decline in commitments due to draw-downs on existing commitments. A substantial increase of the provisions reduced the net loan portfolio by 14% to € 11.4 billion. At year-end 2010, the portfolio consisted for € 7.0 billion of investment finance (–9%) and € 4.4 billion of project finance (–20%).

Property Finance has taken effective control over a number of commercial real estate projects to restructure and manage potential losses. Property Finance has voting rights in these projects which vary from 50% to 100% and, as a consequence, these projects are fully consolidated in SNS Bank's financial accounts. The item property projects decreased from € 599 million as at year-end 2009 to € 467 million as at year-end 2010 and consisted almost entirely of international projects. An amount of € 121 million relating to loans and advances to customers and property projects is classified as held for sale.

Loans outstanding, property projects and assets held for sale combined showed a decrease during 2010, from € 13.8 billion to € 12.0 billion.

The Loan-to-Value (LtV) of the loan portfolio was 82.7% as at year-end 2010, which means that a 100 euro loan is backed by mortgage collateral of, on average (100/82.7) x 100 = 121 euro. Reflecting the difficult market conditions for commercial property, the LtV was up 5.0 percentage points compared to year-end 2009.

TABLE 31: **LOAN-TO-VALUE LOANS AND ADVANCES PROPERTY FINANCE**

	2010	2009
The Netherlands	78.7%	74.3%
International	97.6%	86.6%
Total	**82.7%**	**77.7%**

A valuation of the collateral is carried out at loan origination in order to determine the value of the collateral for the loans provided. In addition, the collateral value is evaluated during periodic loan revisions. A property valuation guideline is part of Property Finance's review policy. Based on the market conditions and the continued absence of a significant recovery in 2010, it was decided to increase the valuation frequency for project loans, participations and international loans from at least once every three years to at least once a year. For the other loans (with a lower limit of € 3 million), the minimum of one appraisal every three years remains in effect. The value of the property serving as security for a loan can be determined by a professional internal appraiser as well as by a professional external appraiser. This assessment is also performed upon interim signals indicating that the value of the collateral has shown a significantly negative development. As a result of market developments, there are currently more requests for new appraisals.

The following may be noted in respect of the Dutch portfolio:

- External appraisers are usually deployed for new credit applications. Internal appraisers are generally used for reviews.
- A list of appraisers (A-list) is used for external appraisals. Appraisers that are on the A-list meet the quality requirements set by Property Finance with regard to market knowledge, valuation methods and qualified personnel.
- The internal appraisers are experts in their field and operate independently from the Sales department.

The following may be noted in respect of the international portfolio:

- Appraisals are performed by reputable firms with international standing or by parties of repute in the countries in question.

When determining the collateral value of the financed property, a distinction can be made between regular appraisals, primarily used for Dutch loans, and valuations that take into account the reduction scenario selected and the expected realisable value.

The average Probability of Default (PD) of Property Finance's non-default portfolio declined in 2010 as reflected in the table below, mainly due to new defaults.

TABLE 32: **AVERAGE PD RATES PROPERTY FINANCE NON-DEFAULT PORTFOLIO**

	2010	2009
The Netherlands	1.78%	2.05%
International	4.26%	5.11%
Total	**2.28%**	**2.91%**

Restructuring & Recovery department Property Finance

At Property Finance, loans are declared in default on the basis of established default indicators. The default indicators used in this context include:

- Payment record;
- Building progress;
- Lease and sale;
- Loan-to-Value;
- Suspension of payment and bankruptcy;
- Financial position;
- Performance of obligations;
- External signals.

The development of the default indicators is continuously monitored and periodic reviews are performed. For loans with an increased risk profile, the Restructuring & Recovery (R&R) department draws up a scenario analysis in which it incorporates an optimistic, a realistic and a pessimistic scenario. Loans are valued on the basis of the realistic scenario. Not only R&R, but also the Project Control (regarding project finance loans), Risk Management and Finance & Control departments are involved in the valuation of loans. R&R's proposals, including comments by Risk Management and Finance & Control, are discussed and approved by Management Board meetings and then submitted to Group CCC, Property Finance committee, for ratification. Once every quarter, the scenarios are reassessed and approved in accordance with the same procedure.

TABLE 33: **CREDIT QUALITY LOANS AND ADVANCES PROPERTY FINANCE**

	Outstanding		Loan to Value	
In € millions	2010	2009	2010	2009
Neither past due nor impaired	8,515	9,157	75.5%	72.2%
Past due but not impaired	1,840	2,680	87.1%	81.0%
Impaired	1,773	1,598	135.7%	120.4%
Total	**12,128**	**13,435**	**82.7%**	**77.7%**

The average LtV of the provisioned loans is 135.7% as at year-end 2010 (2009: 120.4%), which means that an average 100 euro provisioned loan is backed by mortgage collateral of, on average (100/135.7) x 100 = 74 euro. This corresponds to a collateral shortfall of 26% (100-74).

TABLE 34: **AGEING ANALYSIS PAST DUE BUT NOT IMPAIRED LOANS AND ADVANCES PROPERTY FINANCE**

	Outstanding		Loan to Value	
In € millions	2010	2009	2010	2009
≤ 30 days	561	1,056	78.5%	75.5%
30 - 60 days	214	422	83.2%	80.6%
60 - 90 days	165	343	92.3%	81.3%
> 90 days	900	859	93.2%	88.7%
Total	**1,840**	**2,680**	**87.1%**	**81.0%**

If there are payments in arrears, there is a collateral shortfall (the LtV exceeds 100%) or there is a combination of both, a thorough analysis may lead to the decision that a specific provision is not necessary. Reasons for such a decision include:

- the collateral shortfall or arrears is/are mitigated by means of restructuring;
- additional security is available, such as cross-collateral connections with loans with a collateral excess, or additional guarantees are available (limited recourse);
- sufficient cash flow is available, which can be used by Property Finance for interest and redemption to reduce the collateral shortfall.

TABLE 35: **PROVISIONS ON LOANS AND ADVANCES PROPERTY FINANCE**

In € millions	2010	2009
Book value provisioned loans (gross value)	1,773	1,598
Specific provisions	(727)	(225)
IBNR provision	(12)	(14)
Book value provisioned loans (net value)	**1,034**	**1,359**
Coverage ratio	41.7%	14.9%
Fair value collateral for provisioned loans	1,342	1,434

The coverage ratio (provisions as a percentage of provisioned loans) is 41.7%, therefore well above the collateral shortfall rate of the provisioned portfolio. Note that in determining the collateral value only first mortgage-backed loans are taken into account. Additional security, guarantees or other shortfall-mitigating factors are not included in the LtV presented.

The unfavourable environment and outlook translate into lower rental income for real estate investors and challenging conditions for project developers to sell projects. These trends, increased risks and uncertainties are reflected in high impairments on loans and an increase in arrears, especially in the international portfolio.

The impairments on Property Finance's loans reflect the changes in the expectations regarding the cash flow profile of the underlying assets. Expected cash flows are driven by items such as rental income, price per square metre, construction costs, interest costs and recent valuation reports provided by professional appraisers. Scarcity of capital and liquidity has led to a reduction of recent comparable transactions, with most recent transactions reflecting sellers in financial distress. In the valuation of loans, the estimation of future cash flows is primarily derived from market observable and comparable transactions. As a result of the illiquid market, it is not always possible to make a comparison with recent similar transactions. As a result, the estimations Property Finance makes in the valuation of property finance loans are subject to high uncertainties, which results in a wider valuation range.

The impairments mainly related to projects in Spain and parts of the United States of America and to a number of loans in other countries. Impairments on loans in the Dutch portfolio amounted to € 180 million (2009: € 22 million). Impairments as a percentage of the loans outstanding rose from 2.97% in 2009 to 6.21% in 2010.

Property projects

Due to the unfavourable developments on the (international) property market, it was necessary to recover collateral provided to Property Finance under a number of loans. As a result, Property Finance gained effective control over property projects. R&R developed an exit scenario for these property projects. This exit scenario depends on the estimate of market circumstances and the risks associated with the project and is aimed at minimising losses on the loans originally extended. The legal, tax and financial risks associated with the exit scenario are identified and assessed by teams in which all the necessary disciplines are represented. The selected exit scenario is adopted by Property Finance's Management Board and submitted to the Group CCC, Property Finance committee, for its approval.

Property on the balance sheet is valued at the lower of cost or net realisable value. The book value at year-end 2010 is fully based on the net realisable value.

The net realisable value is determined on the basis of the expected present value of the cash flows as estimated under the selected exit scenario. In this respect, estimates are made with regard to completion costs, market rents, selling prices, selling speed and selling costs. The expected cash flows are tested against market data provided by external appraisers and other experts.

The total sum of property projects on the balance sheet of Property Finance amounted to € 467 million as at 31 December 2010 (year-end 2009: € 599 million). Of this amount, € 11 million is related to the Netherlands (2009: € 13 million) and € 456 million is related to Europe excluding the Netherlands (2009: € 504 million). The position in the United States of € 60 million (2009: € 82 million) is classified ad held for sale at year-end 2010.

TABLE 36: PROVISIONS AND IMPAIRMENTS ON LOANS AND ADVANCES, PROPERTY PROJECTS AND ASSETS HELD FOR SALE PROPERTY FINANCE

In € millions	2010	2009
Provisions on loans	739	239
Included in cost price of property projects [1]	196	295
Accumulated impairments on property projects	104	50
Included in held for sale	162	--
Total	**1,201**	**584**

1) In case of foreclosure of property finance, the provision of the loan is included in the cost price of the property project. Then, if necessary, the property projects are revalued to the net realisable value.

14.2.2 Market risk

Interest rate risk is a significant component of SNS Bank's moderate market risk profile. Interest rate risks arise due to the fact that SNS Bank's assets and liabilities have a different interest rate sensitivity. The assets on the bank's balance sheet generally have a longer duration than the liabilities. Given this balance sheet structure, SNS Bank will normally benefit from decreasing interest rates. SNS Bank's market risks, including those of Property Finance, are managed by SNS Bank's ALM Committee. When managing SNS Bank's interest rate position, assessments are made to establish whether the risks fall within pre-set limits. Managing within those limits takes place on the basis of risk/return considerations in conjunction with the short-term and medium-term expectations for interest rate movements.

When managing interest rate risk, rather than considering separate items, SNS Bank look at the total of interest-bearing assets and liabilities, including interest rate swaps. Interest rate swaps are used to lower the sensitivity of the present value of the cash flows of mostly (new) mortgages arising from changes in interest rates. See paragraph 14.5.1 Hedging and 14.5.2 Hedge accounting for more information.

14.2.2.1 Interest rate risk

Interest rate risk

The interest rate risk in SNS Bank's portfolio is measured, monitored and managed using duration, Value-at-Risk (VaR), Earnings-at-Risk (EaR) and gap analyses.

Both VaR and EaR are determined on the basis of scenario analyses. Changes in the fair value of shareholders' equity and changes in the interest margin are determined for many underlying interest rate scenarios. The fair value of shareholders' equity is obtained by discounting the cash flows from the total balance sheet with the cost-of-fund curve of SNS Bank. This curve is also used as a basic yield curve to simulate changes in interest rates. At a confidence level of 99%, the VaR is equal to the 1% worst outcome of changes in the fair value of shareholders' equity. The EaR measures at a predetermined confidence level what the maximum loss in net interest income will be within one year. This net interest income loss occurs when the interest rate gaps are refinanced under different interest rate scenarios. The VaR figures are before taxation and the EaR figures are after taxation.

The duration of shareholders' equity is the primary indicator for interest rate risk. The strategic bandwidth of this indicator is between 0 and 10 for 2010. The Group ALCO sets a new bandwidth each year. The duration of shareholders' equity amounted to 2.3 as at year-end 2010 (year-end 2009: 6.2). In 2010, the duration of shareholders' equity amounted to a maximum of 6.2 (2009: 7.2). The duration was kept between 2.0 and 3.0 in the last months of 2010.

During 2010, the VaR was € 288 million on average, with a maximum of € 422 million at the end of March 2010, and a minimum of € 172 million at the end of November 2010. At year-end 2010, the VaR was € 173 million.

The calculation method for the EaR improved in March 2010. The volatility of interest rate scenarios in the old method no longer proved to be representative of current market volatility. The new method comprises a limited number of comprehensible interest rate scenarios of major interest rate shocks, thus providing better insight into interest rate risks and possible actions that can be taken to limit such risks. At the same time, the EaR limit was adjusted to € 56 million as the old € 25 million limit was too conservative in proportion to the absolute level of net interest income. A limit increase corresponds to a reduction of the chance of it being exceeded from 5% to 1%.

In 2010 the EaR was € 15 million on average. Under the new method, the EaR peaked at € 29 million in June.

In addition to the duration of shareholders' equity, VaR and EaR, the net (assets minus liabilities) position of redeeming nominal amounts per interest rate period is a key objective. These amounts are presented in a gap profile. The table below illustrates the gap profile of SNS Bank on the basis of the expected remaining term to maturity. This includes the estimates for early redemption behaviour in the mortgage and loan portfolios of SNS Retail Bank and Property Finance. An estimate is also made of the outflow of savings and loans at SNS Retail Bank. The gap profile is used to determine which maturities in the gap profile need to be adjusted to the desired level using interest rate swaps. Hence, duration of shareholders' equity and the gap profile are the main tools to manage the interest rate position.

TABLE 37: TERM TO MATURITY GAP PROFILE 2010

In € millions	≤ 1 month	> 1 month ≤ 3 months	> 3 month ≤ 1 year	> 1 year ≤ 5 years	> 5 years	Provision	Total
Assets							
Investments (interest bearing)	194	1,209	262	899	1,662	––	4,226
Derivatives	504	77	372	805	559	––	2,317
Loans and advances to customers	17,540	6,719	9,128	19,103	13,493	(971)	65,012
Loans and advances to banks	1,625	2	56	––	––	––	1,683
Other assets	1,737	46	11	192	3	(142)	1,847
Cash and cash equivalents	3,833	––	––	––	––	––	3,833
	25,433	8,053	9,829	20,999	15,717	(1,113)	78,918
Off-balance sheet products	8,755	19,700	9,464	3,314	9,460	––	50,693
Total assets	34,188	27,753	19,293	24,313	25,177	(1,113)	129,611
Liabilities							
Participation certificates and subordinated debt	740	706	160	344	72	––	2,022
Debt certificates	6,695	20,213	725	1,562	328	––	29,523
Derivatives	604	440	594	676	566	––	2,880
Savings	5,910	591	1,339	12,681	6,877	––	27,398
Other amounts due to customers	4,687	882	509	1,502	2,902	––	10,482
Amounts due to banks	3,036	61	––	––	––	––	3,097
Other liabilities	1,680	––	––	––	––	––	1,680
	23,352	22,893	3,327	16,765	10,745	––	77,082
Off-balance sheet products	4,947	5,553	12,105	17,296	10,792	––	50,693
Total liabilities	28,299	28,446	15,432	34,061	21,537	––	127,775
Interest rate sensitivity gap (assets - liabilities)	5,889	(693)	3,861	(9,748)	3,640	(1,113)	1,836

TABLE 38: **TERM TO MATURITY GAP PROFILE 2009**

In € millions	≤ 1 month	> 1 month ≤ 3 months	> 3 month ≤ 1 year	> 1 year ≤ 5 years	> 5 years	Provision	Total
Assets							
Investments (interest bearing)	188	590	171	940	2,611	--	4,500
Derivatives	177	613	170	65	144	--	1,169
Loans and advances to customers	17,717	5,755	7,670	22,329	14,443	(435)	67,479
Loans and advances to banks	2,220	93	292	110	--	--	2,715
Other assets	1,273	649	--	--	--	(50)	1,872
Cash and cash equivalents	2,554	--	--	--	--	--	2,554
	24,129	7,700	8,303	23,444	17,198	(485)	80,289
Off-balance sheet products	6,809	22,779	6,236	2,413	5,360	--	43,597
Total assets	30,938	30,479	14,539	25,857	22,558	(485)	123,886
Liabilities							
Participation certificates and subordinated debt	138	281	1,140	--	--	--	1,559
Debt certificates	3,029	24,380	1,154	1,504	674	--	30,741
Derivatives	452	453	343	500	499	--	2,247
Savings	1,896	3,795	7,315	7,089	4,340	--	24,435
Other amounts due to customers	4,802	1,263	821	1,329	1,620	--	9,835
Amounts due to banks	3,345	2,849	925	--	--	--	7,119
Other liabilities	1,919	--	--	--	--	--	1,919
	15,581	33,021	11,698	10,422	7,133	--	77,855
Off-balance sheet products	8,847	8,777	6,634	9,680	9,659	--	43,597
Total liabilities	24,428	41,798	18,332	20,102	16,792	--	121,452
Interest rate sensitivity gap (assets - liabilities)	6,510	(11,319)	(3,793)	5,755	5,766	(485)	2,434

Quotation risk

Quotation risk is the risk due to increasing interest rates between the time the quotation is made and the time the loan is extended. Each month a trade-off is made between the hedging costs and the scope of the risk that SNS Bank run as a result of this quotation risk. The quotation risk on fixed-rate mortgages is limited by a VaR limit of € 16 million (2% of the estimated gross interest margin). The average quotation VaR for fixed-rate mortgages was € 6 million in 2010. The quotation VaR remained within the limit throughout 2010.

In 2010, many new capped-rate mortgages were concluded. During the year, the embedded options in these mortgages were structurally hedged with interest rate caps. As at year-end 2010, 71% of these embedded options in both offered and executed mortgages were hedged with interest rate caps.

14.2.2.2 Currency exchange risk

TABLE 39: **EXCHANGE RATE POSITION**

In € millions	Balance debit		Balance credit		Balance		Hedge derivatives	
	2010	2009	2010	2009	2010	2009	2010	2009
US dollar	854	1,325	881	1,011	(27)	314	125	(313)
Japanses yen	93	4	73	78	20	(74)	(26)	74
Pound Sterling	107	153	688	890	(581)	(737)	572	735
Swiss franc	2	3	14	210	(12)	(207)	12	206
Canadian dollar	225	201	11	11	214	190	(205)	(190)
Australian dollar	4	154	339	598	(335)	(444)	336	445
Hongkong dollar	17	3	238	239	(221)	(236)	194	236
Danish krone	110	474	––	1	110	473	(112)	(474)
Other	14	94	1,004	298	(990)	(204)	926	207
Total	1,426	2,411	3,248	3,336	(1,822)	(925)	1,822	926

All of SNS Bank's exchange rate positions are measured monthly and hedged on a structural basis. The maturities of the positions and corresponding hedges on these positions are practically the same.

Sensitivity test for interest rate risks and shares SNS Bank

The interest rate risks of SNS Bank can be illustrated by a sensitivity analysis. This analysis shows the impact of an immediate parallel shift of the yield curve of +1 and –1%, and an immediate shock in stock prices of +10% and –10% on the fair value of shareholders' equity, the result and shareholders' equity.

The column 'Fair value equity' shows the effect that an immediate parallel interest rate shift at year-end 2010 had on the fair value of shareholders' equity, including embedded options. The duration of shareholders' equity at year-end 2010 is lower than at year-end 2009, which is expressed by the decreased market value sensitivity in the +1% scenario. Due to the positive duration, an increase in interest rates negatively affects market value, but this is partly offset by the embedded options in the products. In the –1% scenario, the embedded options have a negative impact on market value. As the duration is low, the positive offsetting effect that ensues from the interest rate position is limited.

The column 'Result' shows the sensitivity of the result to interest rate fluctuations, which is calculated according to the following method: for the first 12-monthly gaps, including the new production expected in 2011, the changes in net interest income are calculated in the event that interest rates immediately rise or fall by 1% (parallel shift). The results are after tax. SNS Bank sharply reduced the number of different types of savings accounts in 2010. A new model for savings accounts has therefore been introduced in which savings are expected to be of a more volatile nature and nearly all interest rate changes are reflected in the customer interest rates. This is a conservative approach that mitigates the effect in the event of a 1% parallel interest rate increase to a considerable extent. Also note that the cash position and cash collateral position of SNS Bank have not been taken into account in the results shown in the table. The cash collateral position has increased considerably compared to 2009. An increase of 1% would have an extra positive effect on the results and a decrease of 1% would have an extra negative effect.

The column 'Shareholders' equity' shows the sensitivity of the available-for-sale investment portfolios to an immediate parallel 1% interest rate increase or decrease.

TABLE 40: **SENSITIVITY INTEREST RATES AND SHARES**

In € millions	Fair value equity		Result		Shareholders' equity	
	2010	2009	2010	2009	2010	2009
Interest rate +1%	(18)	(77)	(8)	84	(233)	(219)
Interest rate - 1%	(66)	(14)	15	9	233	219
Shares +10%	1	––	––	––	1	––
Shares -10%	(1)	––	––	––	(1)	––

Effective interest rates

The table below shows the average effective interest rates of SNS Bank throughout the year with respect to monetary financial instruments not held for trading.

TABLE 41: **EFFECTIVE INTEREST RATES**

In percentages	2010	2009
Assets		
Investments held for sale (interest bearing)	3.6%	3.7%
Mortgages	4.6%	4.6%
Property finance	3.5%	3.8%
Other loans and advances to customers	3.6%	4.2%
Loans and advances to banks	0.4%	1.0%
Liabilities		
Participation certificates and subordinated debt	6.1%	5.4%
Debt certificates	2.3%	2.7%
Savings	2.9%	3.8%
Other amounts due to customers	2.1%	2.7%
Amounts due to banks	0.6%	1.9%

14.2.2.3 Market risk trading portfolio

The market risk of SNS Bank's trading portfolio is measured on a daily basis in terms of VaR (99% reliability) and stress testing, both with a one-day horizon. The following table shows the limits for the different trading portfolios. The total limit in terms of VaR for the trading portfolio amounted to € 2.4 million (2009: € 2.9 million). The main portfolio, the financial institutions credit portfolio, mostly comprises bonds from financial institutions.

The system of limits functioned well in 2010. The VaR methodology consists of (Monte Carlo) scenario analyses. The underlying scenarios for the Monte Carlo method are based on historical data. Stress tests are carried out on a regular basis by all trading desks. These, too, have defined limits.

TABLE 42: **MARKET RISK TRADING PORTFOLIO**

	Limit			
	Value-at-risk (99% on daily basis)		Stress test	
In € thousands	2010	2009	2010	2009
Customer desk	100	100	300	300
Money market desk foreign currency	500	400	1,500	1,200
Money market desk euro	75	--	225	--
Capital market desk	150	75	450	225
Credit book financials	600	1,250	1,800	3,750
Interest rate desk	250	150	750	450
Off-balance desk	100	300	300	900
Equity desk	250	250	750	750
Bond desk	350	350	1,050	1,050
Total	**2,375**	**2,875**	**7,125**	**8,625**

14.2.3 Liquidity risk

SNS Bank pays considerable attention to the management of its exposure to liquidity risk to the extent that it has sufficient reserves at its disposal and always remains able to meet its financial obligations. The liquidity risk management has been organised in such a way that SNS Bank is capable of absorbing the impact of banking-specific stress factors, such as tension in the money and capital markets.

SNS Bank is the largest borrower within SNS REAAL. The bank has a broad investor base, an extensive range of financing instruments and easy access to the international capital market.

In 2010, SNS Bank was able to successfully attract funding on both the financial markets and the retail market. In the financial markets, this involved primarily public EMTN funding, covered bonds and securitisations, with an emphasis on longer periods to maturity (5, 7 and 10 years). SNS Bank also placed a public subordinated transaction with a 10-year maturity on the market. In the retail market, SNS Bank was funded through savings and loans. The total liquidity of SNS Bank remained at a high level. For more details, please refer to the chapter on Funding and credit ratings.

The liquidity risk policy of SNS Bank has four elements:

1. Liquidity management on a going concern basis;
2. Diversification in the funding portfolio;
3. Liquidity of assets;
4. Planning for unforeseen events.

The liquidity risk management of SNS Bank is based on the composition of its funding portfolio as a going concern. The daily cash management activities of the central treasury are in line with the operational requirements of SNS Bank and take place in accordance with the regulatory guidelines in this field. An important indicator of liquidity risk is the surplus in the liquidity test of the Dutch Central Bank (weekly and monthly). A going concern situation is assumed with expiration of existing funding and a certain degree of stress on savings and credits.

SNS Bank strives to diversify the funding portfolio with respect to maturity, instrument, currency and type of investor. SNS Bank also has a large portfolio of highly liquid assets, such as government bonds.

SNS Bank annually carries out bank-wide stress tests in which liquidity risk plays an important role. The liquidity stress test takes into account the drying-up of funding on the money and capital markets as well as a downgrade of SNS Bank by 2 notches by the rating agencies. For a more detailed description of the stress tests, reference is made to capital management in Chapter 14.6.

Management of liquidity risks

The liquidity risks are, amongst others, managed on the basis of the net (assets less liabilities) nominal amounts past due per contractual maturity in a liquidity gap profile. The following table represents the gap profile of SNS Bank at year-end 2009 and 2010 on the basis of the remaining contractual maturity. With regard to the following table, it should be noted that deposits and savings due on demand are presented in the 'less than one month' bucket. In practice, these products have a longer liquidity profile. For mortgages, the contractual maturity is maintained without taking into account prepayments.

TABLE 43: **LIQUIDITY RISK 2010**

In € millions	≤ 1 month	> 1 month ≤ 3 months	> 3 month ≤ 1 year	> 1 year ≤ 5 years	> 5 years	Provision	Total
Assets							
Investments (interest bearing)	113	98	30	1,215	2,770	––	4,226
Derivatives	33	13	144	757	1,370	––	2,317
Loans and advances to customers	3,089	1,102	1,764	3,385	56,643	(971)	65,012
Loans and advances to banks	1,632	8	28	15	––	(1)	1,682
Other assets	4,551	1	118	187	966	(142)	5,681
Total assets	9,418	1,222	2,084	5,559	61,749	(1,114)	78,918
Equity and liabilities							
Shareholders' equity	––	––	––	––	1,836	––	1,836
Participation certificates and subordinated debt	––	––	126	299	1,597	––	2,022
Debt certificates	254	532	1,824	12,308	14,605	––	29,523
Derivatives	35	38	164	970	1,673	––	2,880
Savings	23,704	168	686	2,332	508	––	27,398
Other amounts due to customers	6,908	58	282	405	2,829	––	10,482
Amounts due to banks	458	36	569	1,845	189	––	3,097
Other liabilities	1,678	––	––	––	2	––	1,680
Total equity and liabilities	33,037	832	3,651	18,159	23,239	––	78,918
Net liquidity gap	(23,619)	390	(1,567)	(12,600)	38,510	(1,114)	––

TABLE 44: **LIQUIDITY RISK 2009**

In € millions	≤ 1 month	> 1 month ≤ 3 months	> 3 month ≤ 1 year	> 1 year ≤ 5 years	> 5 years	Provision	Total
Assets							
Investments (interest bearing)	113	188	284	1,160	2,755	––	4,500
Derivatives	55	4	104	479	527	––	1,169
Loans and advances to customers	4,379	1,306	1,954	4,152	56,123	(435)	67,479
Loans and advances to banks	2,695	––	––	20	––	––	2,715
Other assets	3,827	––	––	649	––	(50)	4,426
Total assets	11,069	1,498	2,342	6,460	59,405	(485)	80,289
Equity and liabilities							
Shareholders' equity	––	––	––	––	2,434	––	2,434
Participation certificates and subordinated debt	––	––	––	426	1,133	––	1,559
Debt certificates	525	1,306	4,116	12,479	12,313	––	30,739
Derivatives	20	49	151	1,070	958	––	2,248
Savings	19,294	1,744	835	2,104	458	––	24,435
Other amounts due to customers	5,830	707	247	773	2,278	––	9,835
Amounts due to banks	1,506	151	3,232	1,597	633	––	7,119
Other liabilities	1,920	––	––	––	––	––	1,920
Total equity and liabilities	29,095	3,957	8,581	18,449	20,207	––	80,289
Net liquidity gap	(18,026)	(2,459)	(6,239)	(11,989)	39,198	(485)	––

14.3 NON-FINANCIAL RISK MANAGEMENT

Apart from financial risks, SNS Bank also recognises non-financial risks. These include compliance, fraud, and operational risks. The key components for controlling non-financial risks are:

- A clear governance structure, including a transparent assignment of duties and responsibilities and escalation procedures. For this purpose SNS Bank implemented the 'Three Lines of Defence' model, making line management primarily responsible for recognising and controlling risks and taking decisions in that respect. Along with several other Group staff departments, CS&O has an important role to play in the second Line of Defence. Its responsibilities are partly determined by means of a compliance monitoring programme to be established and implemented each year, the results of which are included in CS&O's quarterly report to the Executive Board and the Supervisory Board. The third Line of Defence is formed by Group Audit, which tests the set-up and operation of the system as a whole.
- As from mid-2010, the Executive and Supervisory Boards receive integrated non financial risk (NFR) quarterly reports containing overviews of the main action items and providing insight into their follow-up status.
- The basic principles for integrity are included in a Group-wide, fully rolled-out standards framework that underlies the development of new products and services and the formation of joint ventures, but that also imposes clear requirements on the organisational structure in terms of business process integrity. Another point of debate is the integrity requirements applicable to employees.
- In 2010 SNS Bank conducted a study of the integrity environment at the Company in collaboration with KPMG. The study was based on eight organisational qualities (clarity, exemplary conduct, ability to impose sanctions, visibility, commitment, openness for discussion, approachability, feasibility) that are guiding in creating an integrity-based company culture. The overall conclusion is that, on average, SNS Bank performs slightly better than similar financials in the benchmark. Based on the results of the study, several action items were formulated with regard to awareness of integrity issues in order to recognise relevant issues in good time, make them the subject of discussion and follow up on them. CS&O monitors the progress achieved with the action items as formulated and reports to the Executive and Supervisory Boards on their status every three months. The integrity assessment will be repeated every year.
- Following from the above, CS&O annually prepares and executes an awareness programme, consisting of a set of courses, workshops, e-learning programs and means of communication aimed at influencing conduct and culture, taking the know-how of specific groups of employees to the required level and maintaining that level. CS&O draws on the contents of the awareness programme in initiatives in the context of the roll-out of the CARE! core value within the Group.
- The product development process was fine-tuned in 2010, particularly on the basis of current social insights.
- By means of semi-annual in-control statements (ICSs), senior management reports about the extent to which operational, integrity and financial reporting risks are controlled. The management statement is partly based on this ICS.
- GORCC monitors whether action items ensuing from audits by Group Audit, the external auditor and regulators are followed up.

To calculate the capital requirement on the basis of operational risk, the standardised approach for SNS Bank is used. This means that an amount for pillar 1 capital is allocated on the basis of a fixed percentage of turnover per business line of the bank. This amount is validated in-house by means of a scenario analysis incorporating the financial risk. The results of these risk analyses are important input for preparing the scenarios.

14.4 DISCLOSURES ON FINANCIAL INSTRUMENTS

14.4.1 Fair value of financial assets and liabilities

The following table shows the fair value of the financial assets and liabilities of SNS Bank. In a number of cases, estimates are used. The balance sheet items not included in this table do not meet the definition of a financial asset or liability. The total of the fair value presented below does not reflect the underlying value of SNS Bank and should therefore not be interpreted as such.

TABLE 45: FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES 2010

In € millions	Fair value	Book value
Financial assets		
Investments		
- Fair value through profit or loss: held for trading	156	156
- Fair value through profit or loss: designated	92	92
- Available for sale	4,000	4,000
Derivatives	2,318	2,318
Loans and advances to customers	66,165	65,012
Loans and advances to banks	1,682	1,682
Other assets	586	586
Cash and cash equivalents	3,834	3,834
Total financial assets	78,833	77,680
Financial liabilities		
Participation certificates and subordinated debt	2,346	2,022
Debt certificates	29,447	29,523
Derivatives	2,880	2,880
Savings	27,266	27,398
Other amounts due to customers	9,893	10,482
Amounts due to banks	3,074	3,097
Other liabilities	1,318	1,318
Total financial liabilities	76,224	76,720

TABLE 46: FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES 2009

In € millions	Fair value	Book value
Financial assets		
Investments		
- Fair value through profit or loss: held for trading	140	140
- Fair value through profit or loss: designated	107	107
- Available for sale	4,270	4,270
Derivatives	1,169	1,169
Loans and advances to customers	69,566	67,479
Loans and advances to banks	2,715	2,715
Other assets	566	566
Cash and cash equivalents	2,554	2,554
Total financial assets	81,087	79,000
Financial liabilities		
Participation certificates and subordinated debt	1,433	1,559
Debt certificates	30,575	30,739
Derivatives	2,247	2,247
Savings	24,259	24,435
Other amounts due to customers	9,244	9,835
Amounts due to banks	7,110	7,119
Other liabilities	1,458	1,458
Total financial liabilities	76,326	77,392

The fair values represent the amounts at which the financial instruments could have been traded between knowledgeable, willing parties in arm's length transactions on the balance sheet date. The fair values of financial assets and liabilities are based on quoted market prices, where observable. If market prices were not observable, various techniques were developed in order to arrive at an approximation of these instruments' fair values. These techniques are subjective and use various assumptions based on the discount rate and the timing and size of expected future cash flows. Changes in these assumptions can significantly influence the estimated fair values. One possible consequence is that the fair values shown may not represent a good approximation of the direct realisable value. For financial assets and liabilities valued at amortised cost, the fair value is shown excluding accrued interest. The accrued interest from these investments is recorded in other assets or other liabilities.

The following methods and assumptions are used to determine the fair value of financial instruments.

Financial assets

Investments

The fair values of equities are based on quoted market prices. The fair values of interest-bearing securities, excluding mortgage loans, are also based on quoted market prices or – in the event that quoted market prices do not provide a reliable fair value – on the present value of expected future cash flows. These present values are based on the prevailing market interest rate, taking into consideration the liquidity, creditworthiness and maturity of the relevant investment.

Derivatives

The fair value of non-publicly traded derivatives depends on the type of instrument and is based on a discounted cash flow model or an option valuation model.

Loans and advances to customers and banks

The fair value of loans and advances to customers has been established by determining the present value of the expected future cash flows. Various surcharges on the yield curve were used for the calculation of the present value. In this respect, a distinction was made by type of loan and advance and by type of client group to which the loan/advance relates. In determining the expected cash flows, the effect of any future early redemptions is taken into account.

The yield curve used to determine the present value of the cash flows of mortgage loans is the swap rate, increased by risk surcharges derived from the development of mortgage rates compared to the swap rate. In calculating the present value of cash flows from property finance, higher risk surcharges are applied.

For other loans and advances to customers and loans and advances to banks, the SNS Bank cost-of-fund curve is applied.

Other assets

Because of the predominantly short-term nature of other assets the book value is considered to be a reasonable approximation of their fair value.

Cash and cash equivalents

The book value of the liquid assets is considered to be a reasonable approximation of their fair value.

Financial liabilities

Participation certificates and subordinated debt

The fair value of the participation certificates and subordinated debts was estimated on the basis of the present value of the cash flows, making use of the prevailing interest rate plus a risk surcharge for similar instruments.

Debt certificates

The fair value of debt certificates was estimated on the basis of the present value of the cash flows, making use of the prevailing interest rate for similar instruments. Subordinated debt surcharges are defined as the coupon rate less the swap rate as at the issue date. The cash flows of the subordinated debts are then discounted at the swap rate, plus the surcharge applicable to the specific loan.

Amounts due to customers and banks

The fair values of demand deposits and deposits without specified maturities were determined by the use of a discount factor, which takes into account the observable lapse and the prevailing interest rates for these instruments. The fair values of deposits with specified maturities were estimated on the basis of the expected present value of future cash flows, using the interest rate currently applicable to deposits with a similar remaining life.

The fair values of amounts due to banks were estimated on the basis of the present value of the future cash flows, using the interest rate currently applicable to amounts due to banks with similar conditions.

Other liabilities

The book value of the other commitments is considered to be a reasonable approximation of their fair value.

Interest rate

The discount rate used in determining fair value is based on market yield curves on the balance sheet date.

14.4.2 Hierarchy in determining the fair value for financial instruments

A major part of the financial instruments is included in the balance sheet at fair value. The table below distributes these instruments among level 1 (the fair value is based on published stock prices in an active market), level 2 (the fair value is based on observable market data) and level 3 (the fair value is not based on observable market data).

TABLE 47: **HIERARCHY FINANCIAL INSTRUMENTS**

	Based on published stock prices in an active market (Level 1)		Based on observable market data (Level 2)		Not based on observable market data (Level 3)		Total	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009
Financial assets								
Investments:								
- Fair value through profit or loss: held for trading	35	9	120	131	--	--	155	140
- Fair value through profit or loss: designated	68	105	24	2	--	--	92	107
- Available for sale	3,478	3,576	508	682	14	12	4,000	4,270
Derivatives	13	1	2,305	1,168	--	--	2,318	1,169
Financial liabilities								
Derivatives	42	--	2,838	2,247	--	--	2,880	2,247

Level 1 – Fair value based on published stock prices in an active market

For all financial instruments in this valuation category, published stock prices are observable from stock exchanges, brokers or pricing institutions. In addition, these financial instruments are traded on an active market, which allows for the stock prices to accurately reflect current and regularly recurring market transactions between independent parties. The investments in this category mainly include listed shares and government bonds.

Level 2 – Fair value based on observable market data

This category includes investments for which market quotes have been issued by brokers, but whose markets are also identified as being inactive. In that event, the available market prices are largely supported and validated using market data including market rates and current risk surcharges related to the various credit ratings and sector distinction. These concern mainly corporate bonds.

The category also comprises financial instruments for which no issued stock prices are available, but whose fair value was determined using models with observable market data as their input variables. These instruments mainly include non-publicly traded interest rate derivatives.

Level 3 – Fair value not based on observable market data

The financial instruments in this category have been individually assessed. The valuation is based on management's best estimate, taking into account the most recently known prices. In many cases analyses prepared by external valuation agencies were used. These analyses used information unavailable to the market, such as assumed default rates belonging to certain ratings.

TABLE 48: **CHANGES IN FINANCIAL INSTRUMENTS LEVEL 3**

In € millions	2010	2009
Balance as at 1 January	12	15
Gains or losses in profit or loss	2	(3)
Balance as at 31 December	14	12

TABLE 49: **BREAKDOWN FINANCIAL INSTRUMENTS LEVEL 3**

In € millions	2010	2009
Bonds issued by financial institutions	14	12

The fair value of financial instruments classified in level 3 is partly based on non-observable market data. The main non-observable market data are the expected development of defaults in the underlying portfolios and the implied discount rate. When assuming a stress scenario, with for instance a higher assumed principal loss, this would result in a significant decrease of the fair value of the instrument.

In 2010, no movements have occurred between level 1, 2 and 3 investments.

SNS Bank recognises impairments on equity instruments if the fair value has declined to 25% or more below cost price, or has declined below cost price for at least 9 months.

SNS Bank recognises impairments on debt instruments if there is a loss event with regard to the debt instrument. To identify this, the debt instruments are periodically assessed on the basis of a number of criteria set by the Group ALCO. Debt instruments meeting one or more of the above criteria are analysed and assessed individually to determine whether there is a loss event.

In 2010, no impairments or reversals on financial instruments at fair value were recorded.

14.4.3 Liquidity maturity calendar for financial liabilities

The table below shows the non-discounted cash flows ensuing from the most important financial liabilities, other than derivatives, broken down according to contractual maturity date.

TABLE 50: **LIQUIDITY CALENDAR FINANCIAL LIABILITIES**

In € millions	≤ 1 month	> 1 month ≤ 3 months	> 3 month ≤ 1 year	> 1 year ≤ 5 years	> 5 years	Total
2010						
Participation certificates and subordinated loans	––	(135)	(465)	(431)	(2,383)	(3,414)
Debt certificates	(412)	(1,159)	(2,953)	(15,700)	(23,309)	(43,533)
Savings	(23,764)	(199)	(806)	(2,775)	(736)	(28,280)
Other amounts due to customers	(6,938)	(88)	(390)	(927)	(4,682)	(13,025)
Amounts due to banks	(468)	(49)	(603)	(2,024)	(213)	(3,357)
Total	(31,582)	(1,630)	(5,217)	(21,857)	(31,323)	(91,609)
2009						
Participation certificates and subordinated loans	––	(9)	(323)	(723)	(1,675)	(2,730)
Debt certificates	(562)	(2,830)	(5,623)	(14,763)	(15,792)	(39,570)
Savings	(19,354)	(1,722)	(1,749)	(1,965)	(538)	(25,328)
Total	(19,916)	(4,561)	(7,695)	(17,451)	(18,005)	(67,628)

The table below shows the non-discounted cash flows ensuing from all derivates contracts, broken down according to maturity date.

TABLE 51: **LIQUIDITY CALENDAR DERIVATIVES**

In € millions	≤ 1 month	> 1 month ≤ 3 months	> 3 month ≤ 1 year	> 1 year ≤ 5 years	> 5 years	Total
2010						
Interest rate derivatives	(40)	(197)	(383)	(1,786)	(506)	(2,912)
Currency contracts	(22)	(7)	(12)	(2)	––	(43)
Total	(62)	(204)	(395)	(1,788)	(506)	(2,955)
2009						
Interest rate derivatives	(17)	(207)	(1,152)	(838)	(319)	(2,533)
Currency contracts	(19)	(3)	(24)	(8)	(3)	(57)
Total	(36)	(210)	(1,176)	(846)	(322)	(2,590)

For a further explanation with regard to the management of the liquidity risk of SNS Bank, reference is made to paragraph 14.2.3.

14.5 HEDGING AND HEDGE ACCOUNTING

SNS Bank uses various strategies to hedge its interest rate, market value and exchange rate risks with regard to its solvency. In 2010, this strategy was further fleshed out, e.g. by acquiring interest rate options. In addition, interest rate swaps and currency swaps were used. Under IFRS, derivatives are valued at fair value in the balance sheet and any changes in the fair value are accounted for in the income statement. In the event that changes in fair value of hedged risks are not recognised through the income statement, an accounting mismatch occurs, making the results more volatile. In these cases, hedge accounting is applied as much as possible to mitigate accounting mismatching and volatility.

The notional amounts of the derivatives for hedging purposes presented in the table below reflect the degree to which SNS Bank is active in the relevant markets. Derivatives held for trading purposes are not included in this overview.

TABLE 52: **OVERVIEW DERIVATIVES FOR HEDGING PURPOSES**

	Notional amounts				Fair value	
In € millions	Total	< 1 year	> 1 year ≤ 5 years	> 5 years	Positive	Negative
2010						
Interest rate contracts						
- Swaps and FRAs	121,608	6,262	81,910	33,436	1,651	(2,567)
- Options	5,712	10	4,227	1,475	226	(23)
Currency contracts						
- Swaps	2,347	448	1,630	269	202	(61)
Total	129,667	6,720	87,767	35,180	2,079	(2,651)

OVERVIEW DERIVATIVES FOR HEDGING PURPOSES (CONTINUED)

In € millions	Notional amounts Total	< 1 year	> 1 year ≤ 5 years	> 5 years	Fair value Positive	Negative
2009						
Interest rate contracts						
- Swaps and FRAs	76,115	6,027	46,736	23,352	789	(1,828)
- Options	2,263	160	1,238	865	62	(12)
Currency contracts						
- Swaps	2,919	628	2,016	274	75	(163)
Total	81,297	6,815	49,990	24,491	926	(2,003)

The notional amounts show the units of account that relate to the derivatives, indicating the relationship with the underlying values of the primary financial instruments. These notional amounts provide no indication of the size of the cash flows or of the market and credit risks attached to the transactions.

14.5.1 Hedging

SNS Bank uses derivatives for the following purposes:

- To manage the interest rate risk of the bank book. The policy is that the duration of the interest-bearing asset ranges between 0 and 10;
- To hedge specific embedded options in mortgages. This relates to mortgages of which the interest rate is capped or where movements in interest rates are not completely passed on to clients;
- To convert fixed-rate funding into floating-rate funding;
- To hedge the risks relating to hybrid savings products;
- To hedge the quotation risk when offering mortgages;
- To hedge exchange rate risks by converting non-euro funding into euro funding;
- To hedge risks in investment portfolios.

14.5.2 Hedge accounting

With regard to the majority of the hedge strategies explained above, SNS Bank applies hedge accounting. In addition to the main distinction between fair value hedges and cash flow hedges, there is also a distinction between micro hedges and macro hedges in hedge accounting. In micro hedges, risks on separate contracts are hedged. In macro hedges, the risk of a portfolio of contracts is hedged. SNS Bank applies the following hedge accounting methods:

Fair value hedges

Hedging the interest rate risk in the bank book (macro hedge)

The portfolio hedged consists of the fixed-rate mortgages of SNS Retail Bank. These are mortgages that have a fixed-rate interest period of more than 6 months. The hedging instruments are interest rate swaps entered into within the framework of the interest rate risk management in the ALM process. The risk hedged is the risk of change in the value of the portfolio as a result of movements in the market interest rates.

Hedging embedded derivatives in mortgages (macro hedge)

SNS Bank sells mortgages with interest rate derivatives embedded in the mortgage. These ‘embedded options’ are hedged by purchasing mirrored interest rate derivatives in the market. The two products to which hedge accounting is applied are the ‘Rentedemperhypotheek’ and the ‘Plafondhypotheek’ mortgages. The hedge to a large extent counters fluctuations in the result caused by volatility.

Hedging the interest rate risk on funding (micro hedge)

SNS Bank uses micro hedges to convert fixed-rate funding with interest rate swaps into floating interest rates. If the funding is in foreign currency, foreign exchange swaps are applied. In addition to converting the foreign currency into euros and the fixed rate into a floating rate, SNS Bank also uses derivatives to swap structured funding to floating-rate funding. In structured funding, the funding charge is related to, for example, developments in an equity index or inflation. Interest rate structures such as floating-rate coupons with a multiplier or a leverage factor also fall under the funding programme. SNS Bank fully hedges the interest rate risk on these structures.

Hedging the interest rate risk on investments (macro hedge)

SNS Bank hedges fixed-income investments (government bonds) by swapping the coupon to a floating rate using interest swaps and by selling interest rate futures. Through these instruments, the interest rate risk is hedged. The country or credit spread which is present in the investments is not part of the hedge. The hedges are protection for the accumulated revaluation reserve of the relevant fixed-income investments.

Cash flow hedges

Hedging the quotation risk of mortgages

SNS Bank hedges the mortgage quotation risk with swaptions and forward starting swaps. The risk that is hedged here is the variability of the interest rate up to the time of financing. The intrinsic market value movements of the derivatives until the moment of payment of the mortgage (up to 3 months) are taken to shareholders' equity. If the hedge is no longer recognised the value accrued during the duration of the funding is amortised to the result. The accrued value in shareholders' equity was € 10 million negative as at 31 December 2010.

Hedging floating interest rate cash flows on funding and mortgages

SNS Bank covers the risks of floating interest rate cash flows on funding and floating interest rate mortgages by entering into interest rate swaps and basis swaps. The accumulated value of the derivatives during the term of the hedge is included in equity. The accumulated value of equity as at 31 December 2010 was € 47 million, of which € 21 million related to the basis swaps entered into.

14.6 CAPITAL MANAGEMENT

SNS Bank's capital management is aimed at obtaining a solid A rating at the rating agencies, as well as on permanent compliance with regulatory requirements. Through active capital management, SNS Bank aims for optimum capital allocation among the Business Units to achieve maximum returns on its activities.

Based on Basel III, new guidelines were published to raise capital levels in the banking sector whilst improving the quality of capital. SNS Bank actively anticipates these developments within the framework of its capital management.

Objectives and standards framework

SNS Bank's capitalisation policy focuses on the optimisation of the capital structure in such a manner that it contributes to the realisation of the Company's strategic objectives. At the same time, SNS Bank also seeks to maintain a healthy balance between the amount of capital and the risks it runs.

The restrictions set by the Dutch Central Bank, European regulations, rating agencies and internal requirements regarding capital adequacy are taken into account in determining the capital structure.

Solvency standards

SNS Bank strives for solvency standards as outlined in the table below.

TABLE 53: **INTERNAL SOLVENCY STANDARDS**

		Realisation	
In € millions	Target	2010	2009
Tier 1 ratio	> 10%	10.7%	10.7%
Core Tier 1 ratio	> 8%	8.1%	8.3%

To calculate its solvency ratios, SNS Bank applies the Basel II regulatory framework, taking into account a transition floor of 80% on Basel I standards. As at year-end 2010, all solvency ratios amply satisfy the internal standards. Application of Basel II without a transition floor results in a Tier 1 ratio of 11.2%. This percentage includes the risk types credit risk, market risk of trading portfolios and operational risk, and applies the Internal Rating Based method for the credit risk for residential mortgages.

Despite the substantial net loss of Property Finance, the solvency ratio of the Banking activities remained stable. The decrease in risk weighted assets had a positive impact on the solvency ratio. This decrease is mainly due to the decline of commitments at Property Finance, the sale of mainly subordinated Hermes notes and the sale of retail mortgages to the Insurance activities of SNS REAAL.

Capital management framework

In assessing capital adequacy, SNS Bank takes into account the economic risks of the underlying activities. These risks are assessed using stress tests, regulatory capital calculations as prescribed in the Basel II regulatory framework, and economic capital calculations. SNS Bank's capitalisation is aimed at holding and maintaining a single A rating. SNS Bank's capital management comprises the following main activities: determining the minimum level of required capital, performing stress tests on the capital adequacy and a qualitative capital adequacy assessment.

Required economic capital

SNS Bank uses economic capital to support the management of the Company and the Business Units in long-term value creation. To this end, the economic capital must first be calculated as precisely as possible, without incorporating a margin of conservatism in the estimate of the economic capital formula components and the economic capital calculations themselves. The economic capital thus calculated provides a basis for value creation and performance management. In assessing capital adequacy, SNS Bank takes into account any uncertainties in the economic capital models. These uncertainties are translated into separate surcharges and added to the unadjusted economic capital.

A confidence level of 99.96% is used in determining the economic capital. This confidence level is calibrated to the default probability of a company with an AA rating. SNS Bank deliberately chooses this higher confidence level over the level related to the rating ambition in order to be more confident that it will achieve the single A rating. In the economic capital calculation, diversification effects between risk categories are taken into account. These diversification effects occur because not all risks manifest themselves simultaneously.

Results of European and Dutch stress tests

DNB stress test

In March/April, SNS Bank performed a macro stress test at the Dutch Central Bank's request. With a view to this stress test, DNB drew up basic and stress scenarios for the years 2010 and 2011. The calculations are based on the situation as at year-end 2009, whilst the stress scenario takes into account a continued deterioration of the economy and the financial markets. For example, this stress scenario includes a considerable value decrease of residential property and offices and rising unemployment rates to 8.6%.

The results show that the stress scenario has limited impact on solvency, only causing a slight solvency reduction. This reduction falls within the internal solvency standards.

CEBS stress test

The heads of government of the European Union decided to disclose the results of the European (CEBS) stress test, with the purpose of restoring confidence in the European financial industry. To this end, the heads of government of the European Union decided together with national regulatory bodies to involve more banks in the CEBS stress test.
On 18 June 2010, the Dutch Central Bank asked SNS Bank to perform a CEBS stress test. The calculations were based on the figures as at 31 March 2010.

With a view to this stress test, CEBS drew up basic and stress scenarios for the years 2010 and 2011, with the stress scenario taking into account continued negative developments in the economy and the financial markets.

The results show that the negative impact on solvency is limited, only causing a slight solvency reduction. This reduction falls within the internal solvency standards.

Internal ICAAP stress tests

In Q3, SNS Bank also performed an internal stress test within the context of its Internal Capital Adequacy Assessment Process (ICAAP). During this stress test, the risks were thoroughly analysed and assessed. SNS Bank developed its own specific economic scenarios for this stress test. The results of this ICAAP show that SNS Bank will remain above the internal standards in the event of a stress scenario.

Going concern capital management

SNS Bank annually prepares operational plans with a three-year horizon. At the same time it prepares the Capitalisation and Funding plan with the same horizon, in which the capital requirements and their fulfilment are set such that SNS Bank can satisfy the internal and external standards. Instruments to lower the risks and to increase the available capital are used for capital management. The capital of SNS Bank is a combination of various types of capital, with the emphasis on shareholders' equity. Different bandwidths are applied per entity for the other classes of capital. SNS Bank capitalises its Business Units and subsidiaries in accordance with the internal and external solvency standards. This allows SNS Bank to efficiently manage any capital surplus.

Each month, a 12-month rolling forecast of capitalisation developments is made. This forecast makes it possible to take additional measures if necessary, such as securitisation and/or issuing new capital instruments. The quantitative assessment of the capital position comprises a comparison of the capital available and the internal standards under the current regulatory framework as well as the economic capital. In addition, the expected capital ratios are confronted with the applicable standards after a stress event. In determining the available capital, the restrictions that supervisory authorities and rating agencies require with regard to the composition of capital are taken into account. In 2010 the requirements set for current and future banking capital were further specified on the basis of Basel III.

SNS REAAL's Group ALCO assesses the results of the economic capital calculations, the requirements of supervisory authorities and rating agencies, the outcomes of stress tests and capital planning. Based on these assessments, it is decided whether additional measures are needed. In terms of the abovementioned standards, SNS Bank is adequately capitalised.

The assessment of capital adequacy comprises the following elements:
– An ICAAP is performed on an annual basis, with close involvement of senior management to determine the capital adequacy;
– As part of the ICAAP, the capital requirements ensuing from stress testing are compared to the existing qualifying capital;
– The results of the stress tests are annually compared with the economic capital required;
– The economic capital is calculated and reported to the Group ALCO on a quarterly basis;
– Every month, sensitivity analyses are performed and forecasts of capital development are made.

Value creation

Long-term value creation requires activities that generate sufficient return in view of the corresponding risk. Therefore, SNS Bank increasingly assesses its activities on the basis of economic results and economic capital, using RAROC indicators (Risk Adjusted Return on Economic Capital), EP indicators (Economic Profit) and EVA indicators (Economic Value Added). The economic capital calculations offer the possibility to determine how much risk a client, portfolio or product group involves. Given the capital structure of SNS Bank and the yield requirements of the providers of capital, SNS Bank determines the required return. These calculations are applied in SNS Bank's pricing policy, portfolio management and performance measurement.

15 Notes to the consolidated financial statements

ASSETS

15.1 CASH AND CASH EQUIVALENTS

TABLE 54: SPECIFICATION CASH AND CASH EQUIVALENTS

In € millions	2010	2009
Non-restricted demand deposits at Dutch Central Bank	1,471	574
Restricted demand deposits at Dutch Central Bank	1,500	1,700
Short term bank balances	802	209
Cash	60	71
Total	3,833	2,554

(Restricted) demand deposits at Dutch Central Bank represent mandatory reserve deposits and are not available for use in SNS Bank's day-to-day operations.

15.2 LOANS AND ADVANCES TO BANKS

This item relates to loans and advances to banks, excluding interest-bearing securities, with a remaining maturity longer than three months.

Part of the loans and advances to banks was provided to third parties as collateral for the negative value derivatives. The book value of the loans and advances to banks provided as collateral is € 1.6 billion (2009: € 1.4 billion).

15.3 LOANS AND ADVANCES TO CUSTOMERS

TABLE 55: SPECIFICATION LOANS AND ADVANCES TO CUSTOMERS

	Loans		Provisions		Net amount	
In € millions	2010	2009	2010	2009	2010	2009
Mortgages	50,888	50,977	(121)	(99)	50,767	50,878
Property finance:						
- Project finance	4,326	5,907	(683)	(211)	3,643	5,696
- Investment finance	7,082	6,899	(55)	(26)	7,027	6,873
Financial lease	608	629	(1)	(2)	607	627
Other	3,079	3,502	(110)	(97)	2,969	3,405
Loans and advances to customers	65,983	67,914	(970)	(435)	65,013	67,479

A part of the loans secured by mortgages of € 18.8 billion (2009: € 18.1 billion) has been provided as collateral to third parties under the securitisation programmes Hermes and Pearl.

The collateral transactions occured under normal market conditions.

The balance of property finance includes mortgage secured loans of € 11.6 billion (2009: € 13.0 billion).

In addition, € 6.2 billion (2009: € 3.5 billion) of mortgages was provided as collateral to third parties upon the bond issue under the SNS Bank Covered Bond programme.

The financial lease assets are included in the balance sheet as advances of which the amount is equal to the net investment in the lease. The financial lease activities relate to the financing of property in the Netherlands.

TABLE 56: OVERVIEW MATURITIES FINANCIAL LEASES

	Gross		Unearned income		Net	
In € millions	2010	2009	2010	2009	2010	2009
Shorter than one year	73	53	(20)	(18)	53	35
From one to five years	240	235	(38)	(39)	202	196
Longer than five years	365	415	(13)	(19)	352	396
Total	**678**	**703**	**(71)**	**(76)**	**607**	**627**

TABLE 57: STATEMENT OF CHANGE IN LOANS AND ADVANCES TO CUSTOMERS (GROSS)

	Mortgages		Property finance		Financial lease		Other		Total	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Balance as at 1 January	50,977	48,751	12,806	12,913	629	768	3,502	3,608	67,914	66,040
Purchases	–	674	–	–	–	–	–	–	–	674
Changes in the composition of group companies	(855)	–	–	–	–	–	14	–	(841)	–
Reclassifications	–	–	(206)	59	–	(59)	204	–	(2)	–
Foreclosures	–	–	–	(528)	–	–				(528)
Advances	3,601	4,425	921	1,829	4	2	129	647	4,655	6,903
Redemptions	(2,841)	(3,130)	(2,196)	(1,463)	(25)	(85)	(612)	(323)	(5,674)	(5,001)
Change in fair value as a result of hedge accounting	26	254	–	–	–	–		–	26	254
Exchange rate differences	–	–	123	(17)	–	–		–	123	(17)
Movement in current accounts	–	–	–	–	–	–	(40)	(487)	(40)	(487)
Other changes	(20)	3	(40)	13	–	3	(118)	57	(178)	76
Balance as at 31 December	**50,888**	**50,977**	**11,408**	**12,806**	**608**	**629**	**3,079**	**3,502**	**65,983**	**67,914**

In 2009, SNS Retail Bank purchased part of the REAAL mortgages held for trading at fair value as then recognised in the REAAL balance sheet. As a result, management changed the intention to hold these mortgages for trading purposes and decided to hold these mortgages for the foreseeable future or until maturity. SNS REAAL used the reclassification option of IAS 39.50d in 2009, reclassifying € 680 million of mortgages from fair value through profit or loss to loans and receivables.

As per 31 December 2010, the portfolio has a value of € 649 million (2009: € 674 million) as a result of sales and redemptions. The fair value adjustment of the portfolio was nil and did not affect results. The effective interest rate on the reclassified mortgages was between 2.87% and 8.19%, with expected recoverable cash flows amounting to € 568 million.

TABLE 58: **STATEMENT OF CHANGE IN PROVISIONS ON LOANS AND ADVANCES TO CUSTOMERS**

	Mortgages		Property finance		Financial lease		Other		
In € millions	Specific	IBNR	Specific	IBNR	Specific	IBNR	Specific	IBNR	Total
2010									
Balance as at 1 January	90	9	223	14	2	––	91	6	435
Usage	(26)	––	(150)	––	––	––	(15)	––	(191)
Additions	63	––	692	1	––	––	40	––	796
Releases	(14)	(1)	(63)	(2)	––	––	(11)	––	(91)
Other changes	––	––	24	––	––	––	––	––	24
Balance as at 31 December	113	8	726	13	2	––	105	6	973
2009									
Balance as at 1 January	60	7	89	7	2	––	75	5	245
Reclassification	––	––	(220)	––	––	––	––	––	(220)
Usage	(27)	––	(3)	––	––	––	(14)	––	(44)
Additions	69	1	354	7	––	––	42	1	474
Releases	(12)	––	(12)	––	––	––	(13)	––	(37)
Other changes	––	1	15	––	––	––	1	––	17
Balance as at 31 December	90	9	223	14	2	––	91	6	435

15.4 DERIVATIVES

Derivatives are financial instruments whose value depends on one or more underlying primary financial instruments. Derivatives contain rights and obligations whereby one or more of the financial risks to which the underlying primary financial instruments are subject, are exchanged between parties. The transactions do not lead to the transfer of the underlying primary financial instrument at the conclusion of the agreement, neither does transfer have to take place when the agreement expires. Most derivatives are held to hedge against undesired market risks. This is explained in paragraph 14.5.1. The derivatives are unlisted.

TABLE 59: **SPECIFICATION DERIVATIVES**

	Positive fair value		Negative fair value		Balance	
In € millions	2010	2009	2010	2009	2010	2009
Derivatives held for cash flow hedge accounting	64	64	––	1	64	63
Derivatives held for fair value hedge accounting	1,301	851	1,905	1,989	(604)	(1,138)
Derivatives held in the context of asset and liability management that do not qualify for hedge accounting	714	10	746	12	(32)	(2)
Derivatives held for trading	238	244	229	245	9	(1)
Total	2,317	1,169	2,880	2,247	(563)	(1,078)

TABLE 60: **STATEMENT OF CHANGE IN DERIVATIVES**

In € millions	2010	2009
Balance as at 1 January	(1,078)	(1,031)
Purchases	(1)	(3)
Disposals	145	––
Revaluations	133	(203)
Exchange rate differences	238	75
Other	––	84
Balance as at 31 December	(563)	(1,078)

15.5 INVESTMENTS

TABLE 61: **OVERVIEW INVESTMENTS**

In € millions	2010	2009
Fair value through profit or loss (held for trading)	156	140
Fair value through profit or loss (designated)	93	107
Available for sale	4,000	4,270
Total	4,249	4,517

Part of the investment is lent or pledged to third parties. The carrying amount of the investments in collateral to the European Central Bank is € 2.7 billion (2009: € 2.6 billion).

TABLE 62: **LISTING INVESTMENTS: FAIR VALUE THROUGH PROFIT OR LOSS**

	Held for trading				Designated					
	Shares and similar investments		Bonds and fixed-income investments		Shares and similar investments		Bonds and fixed-income investments		Total	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Listed	12	9	144	131	––	––	93	107	249	247
Unlisted	––	––	––	––	––	––	––	––	––	––
Total	12	9	144	131	––	––	93	107	249	247

TABLE 63: **STATEMENT OF CHANGE IN INVESTMENTS FAIR VALUE THROUGH PROFIT OR LOSS**

	Held for trading				Designated					
	Shares and similar investments		Bonds and fixed-income investments		Shares and similar investments		Bonds and fixed-income investments		Total	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Balance as at 1 January	9	11	131	156	––	2	107	128	247	297
Reclassifications	––	2	––	––	––	(2)	––	––	––	––
Purchases and advances	––	––	––	––	––	––	158	144	158	144
Disposals and redemptions	––	––	––	––	––	––	(169)	(161)	(169)	(161)
Revaluations	1	4	56	50	––	––	(2)	2	55	56
Change in investments held for trading	2	(8)	(43)	(75)	––	––	––	––	(41)	(83)
Other	––	––	––	––	––	––	(1)	(6)	(1)	(6)
Balance as at 31 December	12	9	144	131	––	––	93	107	249	247

As a consequence of the volatile financial markets SNS Bank decided in October 2008 to reclassify part of the investments worth € 590 million in the category fair value through profit or loss held for trading purposes into the category available for sale. The reclassification was effected as from 1 July 2008. As from 31 December 2010 this portfolio has a value of € 220 million (2009: € 341 million; 2008: € 562 million) as a consequence of disposals and revaluations. The negative change in fair value over the year 2010 amounts to € 1 million (2009: € 5 million negative) and has been added to the fair value reserve. In case reclassification had not taken place, the change in fair value would have been recognised in the income statement.

TABLE 64: **LISTING INVESTMENTS: AVAILABLE FOR SALE**

	Available for sale					
	Shares and similar investments		Bonds and fixed-income investments		Total	
In € millions	2010	2009	2010	2009	2010	2009
Listed	2	3	3,990	4,258	3,992	4,261
Unlisted	8	5	––	4	8	9
Total	10	8	3,990	4,262	4,000	4,270

TABLE 65: **STATEMENT OF CHANGE IN INVESTMENTS AVAILABLE FOR SALE**

	Available for sale					
	Shares and similar investments		Bonds and fixed-income investments		Total	
In € millions	2010	2009	2010	2009	2010	2009
Balance as at 1 January	8	16	4,262	3,629	4,270	3,645
Reclassifications	––	––	(4)	––	(4)	––
Purchases and advances	2	1	1,423	4,090	1,425	4,091
Disposals and redemptions	––	(9)	(1,594)	(3,392)	(1,594)	(3,401)
Revaluations	––	––	(89)	(69)	(89)	(69)
Impairments	––	(1)		––	––	(1)
Amortisation	––	––	(9)	(2)	(9)	(2)
Other	––	1	1	6	1	7
Balance as at 31 December	10	8	3,990	4,262	4,000	4,270

TABLE 66: **VALUATION INVESTMENTS AVAILABLE FOR SALE**

In € millions	Shares and similar investments		Bonds and fixed-income investments		Total	
	2010	2009	2010	2009	2010	2009
(Amortised) cost price	9	7	3,987	4,165	3,996	4,172
Unrealised gains in value	1	1	3	97	4	98
Total	10	8	3,990	4,262	4,000	4,270

15.6 INVESTMENT PROPERTIES

TABLE 67: **SPECIFICATION INVESTMENT IN PROPERTIES**

In € millions	2010	2009
Land and buildings used by third parties	1	1

TABLE 68: **STATEMENT OF CHANGE IN INVESTMENT PROPERTIES**

In € millions	2010	2009
Balance as at 1 January	1	10
Reclassifications	--	(9)
Balance as at 31 December	1	1

15.7 PROPERTY PROJECTS

TABLE 69: **SPECIFICATION PROPERTY UNDER DEVELOPMENT**

In € millions	2010	2009
Property projects	571	649
Cumulative impairments / (reversals)	(104)	(50)
Balance as at 31 December	467	599

The property projects comprise the (mainly international) property projects over wich Property Finance acquired control.

TABLE 70: **STATEMENT OF CHANGE IN PROPERTY PROJECTS**

In € millions	2010	2009
Balance as at 1 January	599	120
Reclassifications	(79)	9
Foreclosure	––	522
Additions	30	––
Disposals	(7)	––
Impairments	(117)	(50)
Exchange rate differences	6	(2)
Other changes	35	––
Balance as at 31 December	467	599

Property projects for the amount of € 79 million are reclassified to assets held for sale.

15.8 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

€ 14 million (2009: € 21 million) of the investments in associates and joint ventures concerns associated companies, € 8 million negative (2009: € 12 million positive) concerns joint ventures.

TABLE 71: **STATEMENT OF CHANGE IN ASSOCIATES AND JOINT VENTURES**

In € millions	2010	2009
Balance as at 1 January	33	47
Purchases and expansions	10	18
Disposals and divestments	––	(1)
Reclassifications	2	4
Share in the result of associated companies	(9)	(4)
Impairments	(45)	(20)
Other movements	15	(11)
Balance as at 31 December	6	33

The impairments recognised in the associates and joint ventures of € 45 million mainly consist of impairments in the United States, Canada and Germany.

TABLE 72: OVERVIEW OF THE MOST SIGNIFICANT INVESTMENTS IN ASSOCIATES

			Shareholders' equity		Share in the results		Assets		Liabilities		Income	
In € millions	Country	Interest	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
ProCom Desarrollos Urbanos SA	ES	20%	––	(2)	––	––	––	––	––	––	––	––
Project 2 Holding NV	BE	17%	––	––	––	––	––	102	––	77	––	––
Tarpon Point Associates LLC	US	10%	––	––	––	(1)	163	155	186	161	5	1
Überseequartier Beteiligung GmbH	DE	45%	4	16	(3)	––	283	13	286	13	28	––
Prospect Village LP	US	30%	3	3	––	––	41	13	30	2	––	––
Other	Various	20-50%	7	4	––	(1)	316	336	300	311	18	14
Total			14	21	(3)	(2)	803	619	802	564	51	15

The interest in Überseequartier Beteiligung GmbH was increased in 2010 from 33% to 45%.

A total of € 401 million (2009: € 488 million) of loans was granted to associates. These have been included under loans and advances to customers. At year end 2010, the associates have no investment commitments (2009: likewise). Participating interests with an interest of less than 20% qualify as an associated company since SNS Bank can exercise significant influence based on a combination of SNS Bank's financial interest, veto rights on important decisions and required unanimity voting in the board of directors, but does not have control.

TABLE 73: OVERVIEW OF THE MOST SIGNIFICANT JOINT VENTURES

In € millions	Country	Interest	Shareholders' equity	share in the results	Current assets	Fixed assets	Current liabilities	Long-term liabilities	Income	Expenses
2010										
Homburg LP	CA	50%	(1)	––	168	––	5	137	5	10
Heyen VG Beleggingen BV	BE	50%	5	––	––	40	––	31	2	1
UDC / SNSPF Retail Development Fund	US	25%	––	1	5	45	––	36	3	2
Océanis SNSPF	FR	35%	––	(4)	––	––	––	––	––	––
Other	Various	15-75%	(12)	(3)	342	275	367	270	24	33
Total			(8)	(6)	515	360	372	474	34	46
2009										
Homburg LP	CA	50%	7	––	144	––	5	116	1	1
Heyen VG Beleggingen BV	BE	50%	5	––	––	42	––	32	––	––
UDC / SNSPF Retail Development Fund	US	25%	5	(1)	11	23	1	31	1	2
ZOM Village View LP	NL	20%	4	––	––	35	3	24	––	––
Océanis SNSPF	FR	35%	4	––	130	––	56	69	––	––
Other	Various	15-75%	(13)	(1)	451	284	277	444	38	44
Total			12	(2)	736	384	342	716	40	47

The joint ventures have been granted a total amount of € 1,145 million (2009: € 1,040 million) of loans and advances. These loans and advances were reported under the loans and advances to customers. At year end 2010, the joint ventures have no investment commitments (2009: likewise). SNS Bank exercises the control of the joint ventures together with the other participants, without any unilateral control by a single participant.

15.9 PROPERTY AND EQUIPMENT

TABLE 74: SPECIFICATION PROPERTY AND EQUIPMENT

In € millions	2010	2009
Land and buildings in own use	73	66
IT equipment	15	26
Other tangible fixed assets	22	22
Total	**110**	**114**

TABLE 75: STATEMENT OF CHANGE IN PROPERTY AND EQUIPMENT

	Land and buildings in own use		IT equipment		Other assets		Total	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009
Accumulated acquisition cost	94	88	46	56	57	71	197	215
Accumulated revaluations	1	1	––	––	––	––	1	1
Accumulated depreciation and impairment	(22)	(23)	(31)	(30)	(35)	(49)	(88)	(102)
Balance as at 31 December	**73**	**66**	**15**	**26**	**22**	**22**	**110**	**114**
Balance as at 1 January	66	70	26	22	22	27	114	119
Acquisition	––	1	––	––	––	––	––	1
Revaluations	1	(2)	––	––	––	––	1	(2)
Investments	11	––	1	18	5	9	17	27
Divestments	(4)	(1)	(1)	––	––	––	(5)	(1)
Depreciation	(1)	(1)	(11)	(12)	(7)	(8)	(19)	(21)
Impairment	––	––	––	––	2	(6)	2	(6)
Other	––	(1)	––	(2)	––	––	––	(3)
Balance as at 31 December	**73**	**66**	**15**	**26**	**22**	**22**	**110**	**114**

The land and buildings in own use are valued by an external surveyor once every three years based on a rotation schedule.

The table below shows the book value of the assessed land and buildings. The final column shows the book value of the assessed land and buildings in the relevant year in relation to the total book value.

TABLE 76: VALUATION OF LAND AND BUILDINGS IN OWN USE

In € millions	Assessed	Book value	In percentages
2010	48	73	66%
2009	57	66	86%
2008	27	70	39%

15.10 INTANGIBLE ASSETS

TABLE 77: SPECIFICATION INTANGIBLE ASSETS

In € millions	2010	2009
Goodwill	114	184
Software	27	31
Other intangible fixed assets	23	28
Total	164	243

TABLE 78: STATEMENT OF CHANGE IN INTANGIBLE ASSETS

	Goodwill		Software		Other intangible fixed assets		Total	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009
Accumulated acquisition costs	239	239	48	47	41	41	328	327
Accumulated amortisation and impairment	(125)	(55)	(21)	(16)	(18)	(13)	(164)	(84)
Balance as at 31 December	114	184	27	31	23	28	164	243
Balance as at 1 January	184	237	31	20	28	34	243	291
Acquisitions	--	2	--	--	--	--	--	2
Investments	--	--	9	18	--	--	9	18
Depreciation	--	--	(11)	(7)	(5)	(5)	(16)	(12)
Impairments	(70)	(55)	(2)	--	--	(1)	(72)	(56)
Balance as at 31 December	114	184	27	31	23	28	164	243

The amortisation of software has been included in the income statement under the item depreciation and amortisation of fixed assets.

Client relations and brand names are recognised in other intangible fixed assets. SNS Bank has capitalised € 1.2 million worth of client relations and brand names. The amortisation of the client relations is recognised in the income statement under depreciation and amortisation of fixed assets.

Recoverable amount of goodwill

Goodwill is not amortised. Instead, an impairment test is performed annually or more frequently if there are indications of impairment. The book value of the related cash flow generating units (including goodwill) is compared to the calculated recoverable amount. The recoverable amount of a cash flow generating entity is determined by value-in-use calculations.

TABLE 79: GOODWILL CASH GENERATING UNITS

In € millions	2010	2009
SNS Retail Bank	67	69
Property Finance	47	115
Total	114	184

As a result of the goodwill impairment test which has been prepared by an independent consultancy firm, the goodwill of the cash generating unit Property Finance was charged with an impairment for the amount of € 68 million (2009: € 55 million). The impairment is the result of the deteriorating situation on the (international) property markets, which has lead to the decision to reduce the international activities in a controlled and gradual manner over the coming two to four years. SNS Retail Bank was charged with other impairments of € 2 million (2009: nil).

TABLE 80: **PRINCIPLES VALUE-IN-USE CALCULATIONS**

In € millions	SNS Retail Bank	Property Finance
Income per year for the budget period	(6,2%)	(7,9%)
Income after the budget period	(0,5%)	1,9%
Available solvency	10,0%	10,0%
Pre-tax discount rate 2010	12,8%	13,4%
Pre-tax discount rate 2009	14,5%	15,0%

The key assumptions used in the goodwill impairment test per cash-generating unit are based on various financial and economic variables, including operational budgets, interest rates, applicable tax rates and inflation forecasts. These variables are determined by management. The results and assumptions have been reviewed by an independent external consultancy firm. Assumptions are made in the models with regard to:

– Interest income, premium income and return on investments.
– Long-term net interest income on property finance loan portfolio.
– Provisions and risk-weighted assets.
– (Operating) expenses.
– Available solvency.
– Discount rate.

The importance of these parameters differs for each cash-generating unit.
The value-in-use calculations have been prepared on the basis of operational plans for the three-year period 2011-2013, a forecast on income after the budget period for the period 2014-2019 and a long term projected income growth of 2% for the period after 2019. The assumptions are based on expected future market developments and past experience.

The goodwill impairment test of Property Finance has been carried out on the cash-generating unit SNS SME, comprising the Property Finance Core business and the SNS Bank SME portfolio, as announced in the press release on 9 November 2010. The remaining goodwill of Property Finance is, based on internal analysis, fully allocated to the Core business.

The negative income development in the budget period reflects the restructuring of the Core portfolio in the coming years (income in the budget period for each year is budgeted at an average of -14% per year).

Management believes that any reasonable possible change in the key assumptions on which the other cash-generating units recoverable amounts are based would not cause the carrying amounts to exceed their recoverable amounts.

15.11 DEFERRED TAX ASSETS AND LIABILITIES

TABLE 81: **SPECIFICATION DEFERRED TAX ASSETS AND LIABILITIES**

In € millions	2010	2009
Composition		
- Deferred tax liabilities	(323)	(320)
- Deferred tax assets	267	297
Total	**(56)**	**(23)**

TABLE 82: **ORIGIN OF DEFERRED TAX ASSETS AND LIABILITIES**

In € millions	1 January 2010	Change through income statement	Change through shareholders' equity	Other movements	31 December 2010
Intangible fixed assets	4	––	––	––	4
Property and equipment	(2)	––	––	––	(2)
Investments	(3)	(30)	53	––	20
Derivatives	240	(47)	––	(4)	189
Loans and advances to customers	(316)	(6)	––	2	(320)
Debt certificates	34	3	––	(1)	36
Provisions	16	(3)	––	––	13
Tax-deductible losses	1	––	––	––	1
Other	3	––	––	––	3
Total	**(23)**	**(83)**	**53**	**(3)**	**(56)**

The deferred tax assets based on tax-deductible losses are determined as follows:

TABLE 83: **OVERVIEW TAX-DEDUCTIBLE LOSSES**

In € millions	2010	2009
Total tax-deductible losses	3	3
Deferred tax assets calculated on tax-deductible losses	1	1
Average tax rate	25.0%	25.5%

15.12 CORPORATE INCOME TAX

This relates to advances and amounts due concerning corporate income tax. The corporate income tax item also includes dividends withholding tax, which is settled through the corporate income tax return.

15.13 OTHER ASSETS

TABLE 84: **SPECIFICATION OTHER ASSETS**

In € millions	2010	2009
Other assets:		
- Other advances	325	218
Accrued assets:		
- Accrued interest	262	310
Total	**587**	**528**

The other advances include the offset of the advanced contribution of SNS Bank to the Dutch Central Bank of € 178 million under the deposit guarantee scheme in relation to its share related to the bankruptcy of DSB Bank minus the recognised provision of € 38 million in 2009.

15.14 ASSETS HELD FOR SALE

TABLE 85: SPECIFICATION ASSETS HELD FOR SALE

In € millions	2010	2009
Property projects	79	--
Property finance	42	--
Total	121	--

This item comprises property finance and property projects that are part of the rundown portfolio of Property Finance. SNS Bank expects to sell these property finance and property projects in 2011.

LIABILITIES AND EQUITY

15.15 SAVINGS

TABLE 86: SPECIFICATION SAVINGS

In € millions	2010	2009
Due on demand	23,293	18,087
Other savings	4,105	6,348
Total	27,398	24,435

The savings item comprises balances of saving accounts, savings deposits and term deposits of retail clients. The interest payable on savings is included under other liabilities.

15.16 OTHER AMOUNTS DUE TO CUSTOMERS

TABLE 87: SPECIFICATION OTHER AMOUNTS DUE TO CUSTOMERS

In € millions	2010	2009
Non-current debt	2,308	2,669
Due on demand	6,834	5,942
Mortgage deposits	216	219
Savings deposits	1,124	1,005
Total	10,482	9,835

15.17 AMOUNTS DUE TO BANKS

TABLE 88: SPECIFICATION AMOUNTS DUE TO BANKS

In € millions	2010	2009
Due on demand	394	1,357
Deposits from central banks	--	3,000
Deposits and certificates	2,702	2,762
Total	3,096	7,119

The amounts due to banks comprise liabilities ensuing from repo agreements and structured transactions. These liabilities are offset by structured investments, mainly including government bonds with the highest rating. These debts will be settled at the same time as the corresponding investments.

15.18 DEBT CERTIFICATES

TABLE 89: SPECIFICATION DEBT CERTIFICATES

In € millions	2010	2009
Medium Term Notes	17,419	19,224
Certificates of deposits	564	1,646
Debt certificates issued under Hermes and Pearl Securitisation programs	11,540	9,869
Total	29,523	30,739

Debt certificates refer to non-subordinated bonds and other debt certificates with a fixed or variable interest rate.

Medium Term Notes

The Medium Term Notes have a maturity of less than five years and comprise both private loans and public loans that are issued under the SNS Bank EMTN programme. The total outstanding volume of debt certificates falling within the scope of the guarantee scheme is € 5.6 billion (2009: € 5.4 billion.).

Debt certificates issued under Hermes and Pearl securitisation programmes

SNS Bank has securitised part of the mortgage loans. With these securitisation transactions, the economic ownership of mortgage loans is transferred to separate companies. These loans are transferred at nominal value plus a deferred selling price. A positive result within the separate companies creates a positive value for the deferred selling price. In this way, SNS Bank retains an economic interest in the companies, and has consolidated these companies in its consolidated financial statements in full.

The securitisation transactions with effect from 2001 have what is called a ‘call + step-up’ structure. This means that after a specific call date, the company will have the right to redeem the bonds prematurely. Additionally, at this specific date, the coupon on the bonds will be subject to a rise in interest rate (step-up). Under normal market conditions, this will create an economic incentive to redeem the bonds early. The securitisations can be specified as follows.

TABLE 90: OVERVIEW DEBT CERTIFICATES ISSUED UNDER HERMES AND PEARL SECURITISATION PROGRAMMES

In € millions	Initial principal	Date of securitisation	Bonds 2010	Bonds 2009	First calloption date	Contractual date of expiry
Hermes II	665	Nov-2000	5	34	n.a.	Apr-2012
Hermes III	915	Jun-2001	--	--	18-Jul-2009	Jun-2033
Hermes IV	813	Nov-2001	--	--	18-Jul-2009	Oct-2033
Hermes V	1,118	Nov-2002	222	242	18-Jan-2011	Oct-2034
Hermes VI	1,252	May-2003	--	--	18-Nov-2009	May-2035
Hermes VII	1,259	Sep-2003	--	529	18-Feb-2010	Feb-2039
Hermes VIII	1,269	May-2004	538	591	18-Nov-2013	May-2038
Hermes IX	1,529	May-2005	959	1,045	18-Feb-2014	Feb-2039
Hermes X	1,528	Sep-2005	1,087	1,208	18-Mar-2015	Sep-2039
Hermes XI	1,528	Feb-2006	1,243	1,361	18-Sep-2015	Sep-2040
Hermes XII	2,241	Oct-2006	1,594	1,699	18-Mar-2016	Dec-2038
Hermes XIII	2,800	Feb-2007	2,044	2,180	18-Aug-2012	Aug-2039
Hermes XIV	2,000	Sep-2007	1,599	1,692	18-Feb-2013	Nov-2039
Hermes XV	4,518	Apr-2008	1,587	2,900	18-Apr-2013	Apr-2045
Hermes XVI	3,000	Sep-2008	3,000	3,000	18-Oct-2013	Oct-2045
Hermes XVII	6,344	May-2009	2,844	3,500	1-Jul-2014	Jul-2046
Pearl I	1,014	Sep-2006	1,014	1,014	18-Sep-2026	Sep-2047
Pearl II	808	May-2007	808	808	18-Jun-2014	Jun-2046
Pearl III	807	Feb-2008	807	807	18-Mar-2013	Mar-2045
Pearl IV	1,000	Jul-2010	1,000		18-Jul-2015	Jul-2047
Total	36,408		20,351	22,610		
Own position in issued Hermes and Pearl bonds			8,811	12,741		
	36,408		11,540	9,869		

SNS Bank has purchased bonds, issued by different Hermes companies, with an amortised cost of € 8.7 billion (2009: € 12.7 billion). SNS Bank has purchased subordinated bonds issued by various Pearl companies with an amortised cost of € 98 million (2009: € 29 million). Hermes XIV, XV, XVI, XVII and Pearl IV were mainly not placed with third parties and qualify as assets eligible at the European Central Bank.

15.19 OTHER LIABILITIES

TABLE 91: SPECIFICATION OTHER LIABILITIES

In € millions	2010	2009
Other taxes	--	3
Other liabilities	201	174
Accrued liabilities:		
- Accrued interest	1,093	1,123
- Other accrued liabilities	23	120
Total	1,317	1,420

15.20 PROVISIONS

TABLE 92: SPECIFICATION PROVISIONS

In € millions	2010	2009
Restructuring provision	30	33
Other provisions	11	20
Total	41	53

TABLE 93: STATEMENT OF CHANGE IN PROVISIONS

	Restructuring provision		Other provisions		Total	
In € millions	2010	2009	2010	2009	2010	2009
Balance as at 1 January	33	25	20	5	53	30
Additions	11	9	––	18	11	27
Usage	(13)	(4)	(7)	(3)	(20)	(7)
Released to results	(2)	(1)	(2)	(1)	(4)	(2)
Other movements	1	4	––	1	1	5
Balance as at 31 December	30	33	11	20	41	53

The restructuring provision mainly relates to the finalisation of additional cost reduction programmes and the restructuring of Property Finance. It is expected that the largest part of the provision of Property Finance will be settled in 2012; a complete settlement will take place in 2014.

The other provisions are mainly of a long-term nature and were made partly with a view to the risk that (legal) claims may not be settled. The timing of expected outflow of means is uncertain.

15.21 PARTICIPATION CERTIFICATES AND SUBORDINATED DEBT

TABLE 94: SPECIFICATION PARTICIPATION CERTIFICATES AND SUBORDINATED DEBTS

In € millions	2010	2009
Participation certificates	298	298
Subordinated debts	1,724	1,261
Total	2,022	1,559

Participation certificates

This item includes participation certificates issued by SNS Bank to third parties. The certificates were issued in 2002 (€ 241 million) and 2003 (€ 57 million). The certificates have an open-ended term, with SNS Bank maintaining the right to early redemption in full after 10 years, provided permission is by the Dutch Central Bank. Dividend in the form of a coupon rate is fixed for a period of 10 years and is equal to the CBS return on 9 to 10-year Government bonds with a surcharge (CBS: Statistics Netherlands).

TABLE 95: **SPECIFICATION SUBORDINATED DEBTS**

In € millions	2010	2009
Bond loans	1,466	1,043
Private loans	258	218
Total	1,724	1,261

Bond loans

The subordinated bonds form part of the regulatory capital used in determining the solvency position of the bank by the Dutch Central Bank. SNS Bank issued a new subordinated bond in 2010.

TABLE 96: **BOND LOANS OVERVIEW**

			2010		2009	
In € millions	Coupon rate	Period	Book value	Nominal value	Book value	Nominal value
SNS Bank	6.75%	2006/2016	153	152	128	125
SNS Bank	Variable	2006/2016	152	152	124	124
SNS Bank	5.13%	1999/2011	122	122	122	120
SNS Bank	4.24%	1999/2019	5	5	5	5
SNS Bank	7.63%	2000/2049	--	--	39	39
SNS Bank	5.75%	2003/2049	11	11	11	11
SNS Bank	Variable	2005/2015	--	--	72	72
SNS Bank	5.50%	2006/2016	36	35	36	34
SNS Bank	6.63%	2008/2018	190	192	194	196
SNS Bank	11.25%	2009/2049	325	320	312	318
SNS Bank	6.25%	2010/2020	472	500	--	--
Total			1,466	1,489	1,043	1,044

Private loans

The private loans have been granted by SNS Bank and form part of the regulatory capital used in determining the solvency position of the bank by the Dutch Central Bank.

15.22 EQUITY ATTRIBUTABLE TO SHAREHOLDERS AND SECURITYHOLDERS

TABLE 97: **SPECIFICATION EQUITY**

In € millions	2010	2009
Equity attributable to shareholders	1,580	2,165
Equity attributable to securityholders	256	260

For further information on shareholders' equity, see the consolidated statement of changes in shareholders' equity.

OFF BALANCE SHEET COMMITMENTS

TABLE 98: **SPECIFICATION CONTINGENT LIABILITIES**

In € millions	2010	2009
Liabilities from pledges and guarantees given	238	281
Liabilities from (ir)revocable facilities	1,361	1,983

To meet customer requirements, SNS Bank offers loan-related products such as pledges and guarantees. The underlying value of these products is not included as assets or liabilities in the balance sheet. The amounts stated above indicate the maximum potential credit risk SNS Bank faces through these products, assuming that all counterparties are no longer able to meet their commitments and all existing securities will have no value.

The guarantees relate to guarantees that do and do not replace the credit amount. Most guarantees are expected to expire without any claim being made and therefore are not expected to give rise to any future cash flows. The irrevocable facilities consist mainly of credit facilities that are pledged to clients, but against which no claim has been made. These facilities are pledged for a set period and at a variable interest rate. Collateral has been obtained for the majority of the irrevocable credit facilities that have not been called.

As of 1 January 2007, the Financial Supervision Act (Wft) came into force. A part of this relates to the deposit guarantee system, the successor to the Collective Guarantee Scheme. Under the deposit guarantee system, account holders' deposits on current and savings accounts are guaranteed. As of 7 October 2008, the maximum guarantee is (temporarily) set at € 100,000 per account holder. Before that date, the maximum guarantee was € 38,000 per account holder.

When the Financial Supervision Act (Wft) came into force, the Investors' Compensation System has been updated. This system provides for a maximum payout of € 20,000 per account holder. If a credit institution is unable to pay and insufficient funds remain to repay the guaranteed amounts (in full) to the account holders of the respective institution, the Dutch Central Bank will pay out the remaining amount to the stated maximum. The total amount is then repaid to the Dutch Central Bank by the banks, including those that are part of SNS Bank, according to an apportionment scheme.

Rental commitments

The future rental commitments linked to operational lease contracts on 31 December were as follows:

TABLE 99: **FUTURE RENTAL COMMITMENTS OPERATIONAL LEASE**

In € millions	2010	2009
Breakdown by remaining maturity:		
≤ 1 year	11	10
> 1 year ≤ 5 years	19	24
> 5 years	1	3
Total future minimum lease commitments based on binding leases	**31**	**37**

LEGAL PROCEEDINGS

SNS Bank is involved in legal proceedings. Although it is impossible to predict the result of pending or threatening legal proceedings, on the basis of information currently available and after consulting legal advisors, the Management Board believes that the outcome of these proceedings is unlikely to have any material adverse effects on the financial position or operating results of SNS Bank.

In April 2010, a foundation acting for a group of execution-only clients initiated legal proceedings against SNS Bank for alleged losses suffered on investments in certain foreign investment funds (including Madoff-feeder funds). Clients will be compensated in a suitable manner for which provisions have been taken. The proceedings are progressing, but are still at the district court.

In 2010, three Madoff-feeder funds have initiated legal proceedings in New York against, amongst others, SNS Global Custody, the custody entity of SNS Bank, and its clients as former beneficial owners of investments in these funds. A simular proceeding has been initiated by one of these funds against SNS Global Custody in the British Virgin Islands (BVI). They claim repayment of payments made by the funds for redemptions of investments by these beneficial owners. The cases in New York and the BVI are in an early stage and SNS will defend itself vigorously. Both cases are complicated and many financial institutions worldwide have been summoned in similar proceedings. In view hereof and considering the early stages of the proceedings, SNS Bank is currently not able to make a reliable estimate for a provision for these cases, if any.

RELATED PARTIES

Identify of related parties

Parties are considered to be related if one party can exert control or significant influence over the other party in deciding financial or operational matters. As part of its ordinary operations, SNS Bank maintains various sorts of ordinary business relations with related companies and parties, particularly in the areas of banking and asset management. Other parties related with SNS Bank are associated companies, non-consolidated associated companies, joint ventures, managers in key positions and close family members of these related parties. Transactions with related parties are conducted at arm's length.

An overview of transactions with related parties is presented below.

TABLE 100: **BALANCES AND TRANSACTIONS BETWEEN SNS BANK NV, SNS REAAL NV, ASSOCIATED COMPANIES AND JOINT VENTURES**

	SNS REAAL NV		Consolidated associated companies		Joint ventures		Non-consolidated associated companies	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009
Loans and advances	422	733	1,317	1,156	1,145	1,040	401	488
Provisions for doubtful debt	––	––	––	––	11	7	––	––
Subordinated debt	240	200	––	––	––	––	––	––
Other liabilities	437	1,146	2,726	2,331	––	––	––	––
Investment commitments	––	––	––	––	––	––	––	––
Income	12	37	––	––	(6)	(2)	(3)	(2)
Expense recognised during the period in respect of bad or doubtful debt due	––	––	––	––	––	––	––	––
Other expenses	177	80	––	3	––	––	––	––

SNS Bank sold € 0.9 billion residential mortgages to the Insurance activities of SNS REAAL. Besides this, SNS Bank also sold € 31 million subordinated e-notes of Hermes XIV and Hermes XVI securitisations to the Insurance activities of SNS REAAL. Until then the subordinated e-notes were held on the balance sheet of SNS Bank. These transactions resulted in a decrease of RWA in the amount of € 1.1 billion at SNS Bank.

REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY DIRECTORS

Transactions with managers in key positions of SNS Bank

Managers in key positions with SNS Bank comprise the members of the Executive Board of SNS REAAL and the directors of SNS Bank. Transactions with these managing directors constitute related-party transactions.

The remuneration of the members of the Management Board of SNS Bank (regular payments, deferred payments and profit-sharing & bonuses) amounted to € 6.2 million in 2010 (2009: € 7.9 million). The Management Board of SNS Bank consists of 12 members (2009: 15).

TABLE 101: SPECIFICATION REMUNERATION MANAGERS IN KEY POSITIONS

	Statutory		Other		Total	
In € thousands	2010	2009	2010	2009	2010	2009
Short-term employee benefits	1,854	1,971	3,123	3,366	4,977	5,337
Post-employment benefits	298	346	254	383	552	729
Other long-term benefits	2	48	12	43	14	91
Termination benefits	--	1,347	634	386	634	1,733
Total	2,154	3,712	4,023	4,178	6,177	7,890

The Supervisory Board is paid by SNS REAAL.

The balance of loans to managers in key positions amounted to € 1.9 million as at year-end 2010 (2009: € 3.7 million).

TABLE 102: LOANS TO MANAGERS IN KEY POSITIONS

	Outstanding as at 31 december		Average interest rate		Redemptions		Advances	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009
Mortgage loans	1,933	3,747	4.0%	4.4%	20	--	682	870

Subsequent events

As from 1 January 2011, the business unit Property Finance is split into two separate business units, Property Finance and the renewed SNS SME. SNS SME will incorporate part of the Dutch loan portfolio of Property Finance, added to the already existing SME activities of SNS Retail Bank. Property Finance reserves the international loan portfolio, including the remaining part of the Dutch loan portfolio. Property Finance will be reduced in a responsible manner over the coming years.

In early 2011, Property Finance settled the sale of two project finance loans amounting to € 40 million.

As per 1 January 2011 DBV Finance BV, part of the Insurance activities of SNS REAAL, has been transferred to SNS Bank, and is from that moment included in the segment SNS Retail Bank. With this transfer the mortgage portfolio of € 380 million held by DBV Finance as well as the consolidated securitisation SPVs (Holland Homes 1, 2 and 3) will be consolidated by SNS Bank NV. The underlying mortgage volume of these SPVs is € 1.9 billion. The increase in RWA of € 81 million is limited, since the Holland Homes securitisations qualify as traditional securitisations, in which all notes issued by the SPVs are placed with third parties, whereby the largest part of the credit risk is transferred.

Notes to the consolidated income statement

INCOME

15.23 NET INTEREST INCOME

TABLE 103: **SPECIFICATION NET INTEREST INCOME**

In € millions	2010	2009
Interest income	2,489	2,773
Interest expense	1,618	2,101
Net interest income	871	672

Interest income

The interest income includes the proceeds derived from lending money and related transactions, as well as related commissions and other interest-related income. The interest income also includes the results from derivative positions that are established with the aim of limiting interest rate risk on hedged financial instruments.

TABLE 104: **SPECIFICATION INTEREST INCOME**

In € millions	2010	2009
Mortgages	1,723	1,853
Property Finance	445	534
Other loans and advances to clients	142	181
Loans and advances to credit institutions	26	58
Investments	153	147
Total	2,489	2,773

The recognised interest income on provisioned loans amounts to € 47 million (2009: € 64 million).

Interest expense

The interest expense includes costs incurred from borrowing and related transactions, as well as other interest-related charges.

TABLE 105: **SPECIFICATION INTEREST EXPENSE**

In € millions	2010	2009
Savings	779	916
Amounts due to clients	219	281
Amounts due to credit institutions	32	108
Debt certificates	488	721
Participation certificates and subordinated debts	100	75
Total	1,618	2,101

15.24 NET FEE AND COMMISSION INCOME

This item includes fees from services provided, insofar as not interest-related.

TABLE 106: SPECIFICATION NET FEE AND COMMISSION INCOME

In € millions	2010	2009
Money transfer and payment charges	38	40
Securities activities	21	21
Insurance agency activities	22	26
Management fees	58	49
Other activities	(1)	––
	138	136
Commission and management fees due	46	37
Total	92	99

15.25 SHARE IN RESULT OF ASSOCIATES

Share in the result of associated companies is included here. The negative result in 2010 relates to the impact of associates (€ 6 million) and joint ventures (€ 3 million).

15.26 INVESTMENT INCOME

TABLE 107: SPECIFICATION INVESTMENT INCOME

In € millions	2010	2009
Fair value through profit or loss	28	71
Available for sale	19	90
Total	47	161

TABLE 108: COMPOSITION OF INVESTMENT INCOME

	Fair value through profit or loss							
	Held for trading		Designated		Available for sale		Total	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009
Realised revaluations	28	71	––	––	19	90	47	161
Unrealised revaluations	––	––	––	––	––	––	––	––
Dividend	––	––	––	––	––	––	––	––
Total	28	71	––	––	19	90	47	161

15.27 RESULT ON FINANCIAL INSTRUMENTS

TABLE 109: SPECIFICATION RESULT ON FINANCIAL INSTRUMENTS

In € millions	2010	2009
Fair value movements in hedging instruments	632	(274)
Fair value movements in the hedged item attributable to the hedged risk	53	305
Fair value movements in the position of derivatives not classified for hedge accounting maintained for ALM	6	(2)
Fair value movements in derivatives held for trading	(6)	--
Fair value movements in other derivatives	(675)	--
Loans sold	(30)	(12)
Repurchase debt instruments	--	152
Total	(20)	169

Property Finance has sold loans to third parties resulting in a loss of € 30 million. (2009: € 12 million)
In 2010, no repurchase transactions were concluded. Repurchase transactions in 2009 on promissory notes issued under the Hermes securitisation programme and on SNS Bank promissory notes have led to repurchase profits of € 46 million and € 55 million respectively.

15.28 OTHER OPERATING INCOME

This item also includes income from securities and foreign exchange results, as well as gains that cannot be accounted for under other items.

EXPENSES

15.29 STAFF COSTS

TABLE 110: SPECIFICATION STAFF COSTS

In € millions	2010	2009
Salaries	163	195
Pension costs	25	39
Social security	19	20
Other staff costs	49	88
Total	256	342

The average number of employees calculated on the basis of full-time equivalents is 2,639 (2009: 3,270). The other staff costs related to lease and sublease commitments of the fleet, amount to € 6 million (2009: € 7 million).

All employees are employed by SNS REAAL. The staff costs are charged to SNS Bank by SNS REAAL. In 2010 IT personnel has been transferred from SNS Bank to SNS REAAL, as a result of the decision to manage the IT activities on SNS REAAL Group level.

15.30 OTHER OPERATION EXPENSES

TABLE 111: SPECIFICATION OTHER OPERATING EXPENSES

In € millions	2010	2009
Housing	46	62
IT systems	107	27
Marketing and Public Relations costs	30	23
External advisors	39	19
Other costs	63	119
Total	285	250

The other operating expenses include costs related to lease and sublease commitments, which amount to € 1 million (2009: € 1 million).

In 2009 other costs included an amount of € 38 million for costs incurred as a result of the contribution to the deposit guarantee system. This contribution was a consequence of the bankruptcy of DSB. Furthermore in 2009 an amount of € 13 million of the other expenses related to a provision made by SNS Retail Bank in connection with an offer to compensate investors for losses incurred on foreign investment funds.

15.31 IMPAIRMENT CHARGES / (REVERSALS)

This item includes value adjustments for bad debts and impairment charges to fixed assets.

TABLE 112: SPECIFICATION IMPAIRMENT CHARGES / (REVERSALS) BY CLASS OF ASSET

	Impairments		Reversals		Total	
In € millions	2010	2009	2010	2009	2010	2009
Loans and advances to customers	797	461	90	24	707	437
Loans and advances to banks	––	––	––	––	––	––
Investments	––	1	––	––	––	1
Property projects	117	50	––	––	117	50
Associated companies	45	20	––	––	45	20
Property and equipment	––	6	––	––	––	6
Intangible assets	72	57	––	––	72	57
Total	1,031	595	90	24	941	571

15.32 TAXATION

TABLE 113: SPECIFICATION TAXATION

In € millions	2010	2009
Corporate income tax due:		
- In financial year	(199)	17
- Prior year adjustments	––	8
Deferred tax:		
- Due to temporary differences	98	(26)
Total	(101)	(1)

TABLE 114: **RECONCILIATION BETWEEN THE STATUTORY AND EFFECTIVE TAX RATE**

In € millions	2010	2009
Reconciliation between statutory and effective tax rate:		
- Result before tax	(532)	(99)
- Statutory corporate income tax rate	25.5%	25.5%
Statutory corporate income tax amount	(136)	(25)
Effect of participation exemption	12	(3)
Non-deductible goodwill impairments	18	14
Prior year adjustments (including release of tax provisions)	--	8
Other	5	5
Total	**(101)**	**(1)**
Effective tax rate	19.0%	1.3%

15.33 NET RESULT PER SHARE / SECURITY

TABLE 115: **ATTRIBUTION NET RESULT PER SHARE / SECURITY**

In € millions	2010	2009
Net result	(431)	(99)
Attributable to shares	(410)	(95)
Attributable to core tier 1 capital securities 'State-like'	--	--
Attributable to core tier 1 capital securities 'Foundation-like'	(21)	(4)

TABLE 116: **SPECIFICATION ISSUED SHARES / SECURITIES**

	Shares		'State-like'		'Foundation-like'	
In numbers	2010	2009	2010	2009	2010	2009
Outstanding as at 1 January	840,008	840,008	29,714,286	29,714,286	1,040,000	1,040,000
Issued in the financial year	--	--	--	--	--	--
Repurchased in the financial year	--	--	--	--	--	--
Outstanding as at 31 December	**840,008**	**840,008**	**29,714,286**	**29,714,286**	**1,040,000**	**1,040,000**

TABLE 117: **SPECIFICATION RESULT PER SHARE / SECURITY**

	Shares		'State-like'		'Foundation-like'	
In €	2010	2009	2010	2009	2010	2009
Net result per weighted average number of shares / capital securities outstanding	(488.44)	(112.75)	0.00	0.00	(19.55)	(4.19)

Utrecht, 7 March 2011

Supervisory Board
R. Zwartendijk (chairman)
H.M. van de Kar (vice-chairman)
P. Overmars
R.J. van de Kraats
J.E. Lagerweij
H. Muller
H.W.P.M.A. Verhagen
J. Nijhuis
C. Insinger
L. Wijngaarden

Management board
M.W.J. Hinssen
H.K. Kroeze
F.K.V. Lamp
D.J. Ockhuijsen

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Company financial statements

TABLE 118: **COMPANY BALANCE SHEET**

In € millions	31-12-2010	31-12-2009
Assets		
Cash and cash equivalents	3,210	2,502
Loans and advances to banks 1	15,803	18,193
Loans and advances to customers 2	33,413	30,177
Loans and advances to group companies 3	1,552	1,236
Derivatives	2,368	1,297
Investments 4	861	1,023
Investment property	1	––
Subsidiaries 5	370	1,648
Property and equipment 6	87	96
Intangible assets 7	141	215
Deferred tax assets	238	288
Corporate income tax	96	––
Other assets	2,129	1,998
Total assets	60,269	58,673

Equity and liabilities		
Savings	13,280	12,565
Other amounts due to customers	8,766	8,145
Amounts due to customers 8	22,046	20,710
Amounts due to banks 9	8,160	9,334
Debt certificates	17,987	20,835
Derivatives	2,114	2,245
Deferred tax liabilities	319	313
Corporate income tax	––	89
Other liabilities	5,747	1,113
Provisions 10	33	47
Participation certificates and subordinated debts	2,027	1,562
Share capital	381	381
Share premium reserves	838	838
Revaluation reserves	6	7
Cash flow hedge reserves	27	25
Fair value reserves	(18)	(6)
Statutory reserves associates	(131)	14
Other statutory reserves	131	––
Other reserves	777	1,005
Retained earnings	(431)	(99)
Equity attributable to shareholders 11	1,580	2,165
Securities capital	256	260
Equity attributable to securityholders 11	256	260
Total equity	1,836	2,425
Total equity and liabilities	**60,269**	**58,673**

TABLE 119: COMPANY INCOME STATEMENT

In € millions	2010	2009
Result on subsidiaries after taxation	(1,034)	21
Other results after taxation	603	(120)
Net result	**(431)**	**(99)**

17 Notes to the company financial statements

GENERAL

Principles for the preparation of the company financial statements

SNS Bank prepares the company financial statements in accordance with the statutory provisions of Book 2, Section 402 of the Dutch Civil Code. Based on this, the result on associated companies after taxation is the only item shown separately in the income statement. Use has been made of the option offered in Book 2, Section 362-8 of the Dutch Civil Code to use the same principles for valuation and the determination of the result that are used in the consolidated financial statements for the company financial statements. Reference is made to the accounting principles on pages 54 to 68.

For additional information on items not explained further in the notes to the company financial statements, reference is made to the notes to the consolidated financial statements on pages 105 to 130.

The overview as referred to in Book 2, Sections 379 and 414 of the Dutch Civil Code has been filed with the Trade Register of the Chamber of Commerce of Utrecht.

Subsidiaries are all companies and other entities in respect of which SNS Bank has the power to govern the financial and operating policies, whether directly or indirectly, and which are controlled by SNS Bank. The subsidiaries are accounted for using the equity method.

Changes in balance sheet values of subsidiaries due to changes in the revaluation, cash flow and fair value reserve of the subsidiaries are reflected in the statutory reserve associates, which forms part of shareholders' equity.

Statutory reserves that have been formed for the capitalised costs of research and development of software of the subsidiaries are also presented in the statutory reserves associates.

Changes in balance sheet values due to the results of these subsidiaries, accounted for in accordance with SNS Bank accounting policies, are included in the profit and loss account. The distributable reserves of subsidiaries are included in other reserves.

Cash and cash equivalents include the non-restricted and restricted demand deposits with the Dutch Central Bank and advances to credit institutions with a remaining maturity of less than one month.

ASSETS

17.1 LOANS AND ADVANCES TO BANKS

TABLE 120: SPECIFICATION LOANS AND ADVANCES TO BANKS

In € millions	2010	2009
Breakdown by remaining maturity:		
Payable on demand	12,375	13,027
Not payable on demand:		
> 1 month ≤ 3 months	1,023	2,373
> 3 months ≤ 1 year	475	1,409
> 1 year ≤ 5 years	1,259	717
> 5 years	671	667
Total	15,803	18,193

17.2 LOANS AND ADVANCES TO CUSTOMERS

TABLE 121: SPECIFICATION LOANS AND ADVANCES TO CUSTOMERS

In € millions	2010	2009
Breakdown by remaining maturity:		
Payable on demand	2,882	2,646
Not payable on demand:		
> 1 month ≤ 3 months	37	534
> 3 months ≤ 1 year	364	157
> 1 year ≤ 5 years	708	755
> 5 years	29,422	26,085
Total	33,413	30,177

Loans and advances to customers include loans and advances included in Hermes XIV, XV, XVI and XVII and Pearl IV, which bonds were not placed with third parties of € 6.9 billion (2009: € 11.1 billion). These bonds are included in the bucket > 5 years.

17.3 LOANS AND ADVANCES TO GROUP COMPANIES

Loans and advances to group companies of € 1.6 billion (2009: € 1.2 billion) concern Hermes and Pearl bonds repurchased by SNS Bank.

17.4 INVESTMENTS

TABLE 122: SPECIFICATION INVESTMENTS

In € millions	2010	2009
Fair value through profit or loss trade	27	40
Available for sale	834	983
Total	861	1,023

TABLE 123: STATEMENT OF CHANGE IN INVESTMENTS

	Fair value through profit or loss		Available for sale		Total	
In € millions	2010	2009	2010	2009	2010	2009
Movement in investments						
Balance as at 1 January	40	36	983	1,064	1,023	1,100
Acquisitions and advances	--	--	587	812	587	812
Disposals and redemptions	--	--	(737)	(889)	(737)	(889)
Revaluations	--	--	--	(5)	--	(5)
Change in investments through profit and loss	(13)	4	1	--	(12)	4
Other	--	--	--	1	--	1
Total	27	40	834	983	861	1,023

17.5 SUBSIDIARIES

TABLE 124: STATEMENT OF CHANGE IN SUBSIDIARIES

In € millions	2010	2009
Balance as at 1 January	1,648	1,826
Acquisitions	1	1
Capital increase	610	––
Changes in the composition of group companies	(507)	––
Disposals and terminations	(127)	––
Revaluations	(161)	(44)
Result	(1,034)	21
Dividend received	(60)	(156)
Total	370	1,648

17.6 PROPERTY AND EQUIPMENT

TABLE 125: SPECIFICATION PROPERTY AND EQUIPMENT

In € millions	2010	2009
Land and buildings in own use	54	52
IT equipment	14	25
Other tangible fixed assets	19	19
Total	87	96

TABLE 126: STATEMENT OF CHANGE IN PROPERTY AND EQUIPMENT

	Land and buildings		IT equipment		Other assets		Total	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009
Accumulated acquisition cost	69	68	43	52	51	65	163	185
Accumulated revaluations	6	5	––	––	––	––	6	5
Accumulated depreciation and impairment	(21)	(21)	(29)	(27)	(32)	(46)	(82)	(94)
Balance as at 31 December	54	52	14	25	19	19	87	96
Balance as at 1 January	52	56	25	21	19	24	96	101
Revaluations	1	(3)	––	––	––	––	1	(3)
Investments	5	1	––	17	4	7	9	25
Divestments	(3)	(1)	––	(2)	––	1	(3)	(2)
Depreciation	(1)	(1)	(11)	(11)	(7)	(7)	(19)	(19)
Impairments	––	––	––	––	3	(6)	3	(6)
Balance as at 31 December	54	52	14	25	19	19	87	96

17.7 INTANGIBLE ASSETS

TABLE 127: SPECIFICATION INTANGIBLE ASSETS

In € millions	2010	2009
Goodwill	114	184
Software	27	31
Total	**141**	**215**

TABLE 128: STATEMENT OF CHANGE IN INTANGIBLE ASSETS

	Goodwill		Software		Total	
In € millions	2010	2009	2010	2009	2010	2009
Accumulated acquisition costs	239	239	41	38	280	277
Accumulated amortisation and impairments	(125)	(55)	(14)	(7)	(139)	(62)
Balance as at 31 December	**114**	**184**	**27**	**31**	**141**	**215**
Balance as at 1 January	184	237	31	19	215	256
Acquisitions	--	2	--	--	--	2
Investments	--	--	3	19	3	19
Amortisation	--	--	(5)	(7)	(5)	(7)
Impairments	(70)	(55)	(2)	--	(72)	(55)
Balance as at 31 December	**114**	**184**	**27**	**31**	**141**	**215**

LIABILITIES AND EQUITY

17.8 AMOUNTS DUE TO CUSTOMERS

TABLE 129: SPECIFICATION AMOUNTS DUE TO CUSTOMERS

In € millions	2010	2009
Savings	13,280	12,565
Other amounts due to customers	8,766	8,145
Total	**22,046**	**20,710**

SPECIFICATION AMOUNTS DUE TO CUSTOMERS (continued)

In € millions	2010	2009
Breakdown by remaining maturity:		
Due on demand	16,818	14,623
Not due on demand:		
> 1 month ≤ 3 months	147	1,497
> 3 months ≤ 1 year	723	780
> 1 year ≤ 5 years	1,737	1,776
> 5 years	2,621	2,034
Total	22.046	20.710

17.9 AMOUNTS DUE TO BANKS

TABLE 130: SPECIFICATION AMOUNTS DUE TO BANKS

In € millions	2010	2009
Breakdown by remaining maturity:		
Due on demand	2,970	2,366
Not due on demand:		
> 1 month ≤ 3 months	36	1,242
> 3 months ≤ 1 year	570	3,223
> 1 year ≤ 5 years	2,615	1,885
> 5 years	1,969	618
Total	8,160	9,334

17.10 OTHER PROVISIONS

TABLE 131: SPECIFICATION OTHER PROVISIONS

In € millions	2010	2009
Reorganisation provision	24	31
Other provisions	9	16
Total	33	47

17.11 EQUITY

TABLE 132: SPECIFICATION EQUITY

In € millions	Issued share capital ordinary shares	Share premium reserve ordinary	Revaluation reserve	Cash flow hedge reserve	Fair value reserve	Statutory reserves associates	Other statutory reserves	Other reserves	Retained earnings	Equity attributable to shareholders	Securities capital
Balance as at 1 January 2010	381	838	7	25	(6)	14	––	1,005	(99)	2,165	260
Transfer of 2009 net profit	––	––	––	––	––	––		(95)	99	4	(4)
Unrealised revaluations	––	––	(1)	3	––	(143)	––	––	––	(141)	––
Realised revaluations through income statement	––	––	––	(1)	(12)	(2)	––	––	––	(15)	––
Suppletion negative revaluation reserves associates	––	––	––	––	––	––	131	(131)	––	––	––
Other changes	––	––	––	––	––	––	––	(2)	––	(2)	––
Amounts charged directly to equity	––	––	(1)	2	(12)	(145)	131	(133)	––	(158)	––
Net result 2010	––	––	––	––	––	––	––	––	(431)	(431)	––
Total result 2010	––	––	(1)	2	(12)	(145)	131	(133)	(431)	(589)	––
Total changes in equity 2010	––	––	(1)	2	(12)	(145)	131	(228)	(332)	(585)	(4)
Balance as at 31 December 2010	381	838	6	27	(18)	(131)	131	777	(431)	1,580	256
Balance as at 1 January 2009	381	688	7	1	(6)	58	8	935	62	2,134	260
Transfer of 2008 net profit	––	––	––	––	––	––	––	144	(144)	––	––
Transfer of 2008 securities issued and dividend paid	––	––	––	––	––	––	––	(82)	82	––	––
Unrealised revaluations	––	––	––	24	17	6	––	––	––	47	––
Realised revaluations through income statement	––	––	––	––	(17)	(50)	––	––	––	(67)	––
Other changes	––	––	––	––	––	––	(8)	8	––	––	––
Amounts charged directly to equity	––	––	––	24	––	(44)	(8)	8	––	(20)	––
Net result 2009	––	––	––	––	––	––	––	––	(99)	(99)	––
Total result 2009	––	––	––	24	––	(44)	(8)	8	(99)	(119)	––
Share premium paid	––	150	––	––	––	––	––	––	––	150	––
Transactions with shareholders and securityholders	––	150	––	––	––	––	––	––	––	150	––
Total changes in equity 2009	––	150	––	24	––	(44)	(8)	70	(161)	31	––
Balance as at 31 December 2009	381	838	7	25	(6)	14	––	1,005	(99)	2,165	260

Issued share capital

The issued share capital comprises ordinary shares. The nominal value of the ordinary shares is € 453.78. The number of issued shares as at 31 December 2010 is 840,008.

Securities capital

The securities are issued to SNS REAAL NV and can be split in ‘State-like’ (29,714,286 securities with a nominal value of € 1.63) and ‘Foundation-like’ securities (1,040,000 securities with a nominal value of € 100)

TABLE 133: SPECIFICATION CAPITAL SECURITIES

In € millions	2010	2009
Securities capital ‘State-like’	156	156
Securities capital ‘Foundation-like’	100	104
Total	256	260

TABLE 134: STATEMENT OF CHANGE IN CAPITAL SECURITIES

	Capital securities ‘State-like’		Capital securities ‘Foundation-like’	
In € millions	2010	2009	2010	2009
Balance as at 1 January	156	156	104	104
Loss absorbtion	––	––	(4)	––
Balance as at 31 December	156	156	100	104

Notes to the company income statement

GUARANTEES

SNS Bank NV has provided guarantees as meant in Book 2, section 403 of the Dutch Civil Code for ASN Bank NV, ASN Groenbank NV, SNS Securities NV, SNS Property Finance BV, RegioBank NV and several other subsidiaries of SNS Bank.

SNS Bank is a direct and 100% subsidiary of SNS REAAL NV. Together with other group companies, they constitute a single tax entity for corporate income tax and VAT purposes. All companies within this single tax entity are jointly and severally liable for corporate income tax debts and VAT debts stemming from the relevant tax entities.

AUDIT FEES

Based on Book 2, Section 382A (3) of the Dutch Civil Code, reference is made to the Financial Statements 2010 of SNS REAAL NV for an overview of the fees charged by the audit firm KPMG Accountants NV and the other KPMG companies in the financial year.

Utrecht, 7 March 2011

Supervisory Board
R. Zwartendijk (chairman)
H.M. van de Kar (vice-chairman)
P. Overmars
R.J. van de Kraats
J.E. Lagerweij
H. Muller
H.W.P.M.A. Verhagen
J. Nijhuis
C. Insinger
L. Wijngaarden

Management board
M.W.J. Hinssen
H.K. Kroeze
F.K.V. Lamp
D.J. Okhuijsen

Overview of principal subsidiaries

An overview is provided below of the main subsidiaries of SNS Bank. Participation in the subsidiaries is 100%.

BANKING ACTIVITIES

TABLE 135: OVERVIEW PRINCIPAL SUBSIDIARIES SNS BANK

	Residence
ASN Bank NV	The Hague
ASN Groenbank NV	The Hague
SNS Securities NV	Amsterdam
Property Finance BV	Leusden
RegioBank NV	Utrecht

OTHER CAPITAL INTERESTS

For information on the most significant other capital interests, reference is made to the notes to the consolidated balance sheet in the section on investments in associates.

The overview as referred to in Book 2, Sections 379 and 414 of the Dutch Civil Code has been filed with the Trade Register of the Chamber of Commerce of Utrecht.

Other information

18 Provision regarding profit or loss appropriation

18.1 PROVISIONS OF THE ARTICLES OF ASSOCIATION REGARDING PROFIT OR LOSS APPROPRIATION FOR SHARES

Article 33

1. The net result shall be at the free disposal of the General Meeting of Shareholders.
2. The company may only make distributions to shareholders and the other persons entitled to the distributable profits to the extent that its equity exceeds the total amount of its issued share capital and the reserves which are to be maintained pursuant to the law.
3. Distribution of profits shall take place following the adoption of the financial statements from which it appears that such distribution is allowed.

Article 34

1. Dividends shall be due and payable fourteen days after having been declared, unless upon the proposal of the general management, the General Meeting of Shareholders determines another date thereof.
2. Dividends that have not been collected within five days after they became due and payable shall revert to the company.
3. If the General Meeting of Shareholders so determines on the proposal of the general management, an interim dividend will be distributed, including an interim dividend from reserves, but only with due observance of what is provided in section 2:105, subsection 4, Civil Code.
4. A loss may only be applied against reserves maintained pursuant to the law to the extent permitted by law.

18.2 PROVISIONS REGARDING PROFIT OR LOSS APPROPRIATION FOR CORE TIER 1 CAPITAL SECURITIES

Loss absorption core tier 1 capital securities ‘Foundation-like’.

If SNS Bank were to incur any losses during the term of the capital securities ‘Foundation-like’. The amount of this reduction constitutes part of the losses, to the extent that these losses exceed the SNS Bank net profit reserves attributable to the period after 1 January 2009.

The part referred to is a fraction comprising the aggregate of the nominal values of the outstanding capital securities ‘Foundation-like’ prior to the application of loss absorption, divided by the sum of (a) the aggregate of the nominal values of the outstanding capital securities ‘Foundation-like’ prior to the application of loss absorption and (b) the aggregate of the nominal values of the outstanding ordinary shares of SNS Bank, increased by the corresponding share premium reserves and the share premium recovery reserves, as well as all other free reserves and reserves required by law and the Articles of Association.

The loss participation of the capital securities ‘Foundation-like’ in the amount of € 21 million reduces the nominal value of the capital securities ‘Foundation-like’.

The core tier 1 capital securities ‘State-like’ are not subject to a loss absorption clause.

18.3 LOSS APPROPRIATION

The loss for the financial year 2010 is debited to the profit reserves of SNS Bank NV and the nominal value of the capital securities ‘Foundation-like’.

Independent auditor's report

To the Annual General Meeting of Shareholders of SNS Bank NV

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2010 of SNS Bank NV in Utrecht as included in pages 47 to 140 of this report. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2010, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2010, the company income statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of SNS Bank NV as at 31 December 2010 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of SNS Bank NV as at 31 December 2010 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 7 March 2011
KPMG ACCOUNTANTS N.V.

P.A.M. de Wit RA

Pillar III

Introduction

This is SNS Bank's report on capital adequacy and risk management in accordance with the legal disclosure requirements in EU's Capital Requirements Directive (CRD) as based upon the Basel II framework. The report, together with the risk paragraph in the Financial Statements of SNS Bank NV, presents the capital position and how the size and composition of the capital base is related to the risks as measured in risk weighted assets (RWA). If the information required for Pillar 3 already is reported in the risk paragraph in the Financial Statements, a cross reference is made. Other, additional information is presented in this Pillar 3 section. The information contained in this section has not been audited by SNS REAAL's external auditors.

The Basel II framework is based on three pillars:
- Pillar 1 defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. This capital demand has to be covered by regulatory own funds.
- Pillar 2 addresses the bank's internal processes for assessing overall capital adequacy in relation to risks (ICAAP). Pillar 2 also introduces the Supervisory Review and Evaluation Process (SREP), which assesses the internal capital adequacy of credit institutions.
- Pillar 3 focuses on minimum disclosure requirements, covering the key pieces of information required to assess the capital adequacy of a credit institution.

Primary purpose of the third pillar of Basel II is to promote greater market discipline by enhancing transparency in information disclosure. It means that more information concerning risks, risk management practices and capital adequacy should be published. SNS Bank has reported on Pillar 3 for the first time in a separate report on the financial year 2008. From 2009 the Pillar 3 report has been incorporated as a section in the Annual Report SNS Bank NV. This allows the reader to form a comprehensive opinion on SNS Banks financial and risk management position as a whole.

This section has been developed with the ambition to meet the increased need for transparency in the financial market. So the Pillar 3 disclosure is aligned with the recently updated (draft) Industry Good Practice Guidelines on pillar 3 disclosure requirements as issued by the end of 2010 by representative European industry players [1].

The comprehensive Pillar 3 disclosure for SNS Bank is made annually. Periodic information is published bi-annually, included in the half year press release of SNS REAAL. The key data on capital adequacy is also presented in the annual report of SNS REAAL.

1) Industry good Practice Guidelines on Pillar 3 disclosure requirements for securitisation, November 2009

21 Risk management SNS Bank

Mainly driven by rising uncertainties about credit losses at Property Finance, risk levels of SNS Bank rose sharply in 2010. Another major cause for the rising risk level was the increasing uncertainties in Europe - particularly regarding the euro. Risk in the investment portfolio of government bonds increased substantially as from the end of 2009, because bankruptcies of sovereign European States are no longer considered impossible.

In 2010, SNS Bank was able to successfully attract funding on both the financial markets and the retail market. In the financial markets this involved primarily public EMTN funding, covered bonds and securitisations. In the retail market, SNS Bank was funded through savings due on demand and credit amounts. The total liquidity of the Banking activities remained at a high level.

The Dutch economy slowly recovered in 2010. The unemployment rate improved in the second half of 2010, and the growth prospect were upward revised.
The developments on the property markets are still fragile and have caused major credit losses in 2010.

SNS Bank emphasises its commitment to maintaining a moderate risk profile. This means that the balance sheet risks will be further limited and higher capital levels will be maintained.
SNS Bank's commercial activities, such as offering accessible banking products, involve low risks, while the exposure to higher risk activities, such as proprietary trading, complex products or foreign currencies, is limited. The mainly Dutch clients are well-diversified within the retail and SME market segments. The international property portfolio of Property Finance is being phased out. In addition to that in 2010 it was decided to extend the phasing out to part of the Dutch portfolio, i.e. property finance loans. The remaining portfolio of Property Finance, mainly the Dutch investment portfolio, will be transferred to SNS Retail Bank SME portfolio.

For more information on the effect on the risk management of SNS Bank with respect to the risk management organisation, the risk committees and the risk management departments, please refer to the chapter on Risk and Capital Management, and the chapter on Risk management in the Financial Statements.

Scope of Basel II applications

The starting point for determining the scope of application of the Basel II approaches is the International Financial Reporting Standards (IFRS) consolidation scope of SNS Bank. As a general principle, all the legal entities entering into the IFRS consolidation scope of SNS Bank are also within the scope of application of the Basel approaches. For further information on the consolidation principles we refer to the chapter on Accounting principles for the consolidated financial statements, paragraph 12.4.

The following tables show the IFRS consolidation scope of only major subsidiaries that are currently active.

Investments in subsidiaries

TABLE 136: GROUP UNDERTAKINGS INCLUDED IN THE CAPITAL BASE

Subsidiary	Voting power	Domicile	Consolidation method
ASN Bank NV [1]	100%	The Hague	Purchase method
ASN Groenbank NV [1]	100%	The Hague	Purchase method
SNS Securities NV [1]	100%	Amsterdam	Purchase method
SNS Property Finance BV [1]	100%	Leusden	Purchase method
RegioBank NV [1]	100%	Utrecht	Purchase method
Hermes I to XVII	100%	Utrecht	Purchase method
Other	100%	Various	Purchase method

1) Exemption from solo supervision

Investments in associated companies

TABLE 137: OVERVIEW OF THE MOST SIGNIFICANT INVESTMENTS IN ASSOCIATED COMPANIES

Subsidiary	Voting power	Domicile	Consolidation method
ProCom Desarrollos Urbanos SA	20%	ES	Purchase method
Project 2 Holding NV	17%	BE	Purchase method
Tarpon Point Associates LLC	10%	US	Purchase method
Überseequartier Beteiligungs GmbH	45%	DE	Purchase method
Prospect Village LP	30%	US	Purchase method
Other	20-50%	Various	Purchase method

Investments in joint ventures

SNS Bank has interests in the following joint ventures which are real estate companies. These companies are included using the proportionate method:

TABLE 138: **OVERVIEW OF THE INVESTMENTS IN JOINT VENTURES**

Subsidiary	Voting power	Domicile	Consolidation method
Homburg LP	50%	CA	Proportionate method
Heyen VG Beleggingen BV	50%	BE	Proportionate method
UDC / SNSPF Retail Development Fund	25%	US	Proportionate method
Océanis SNSPF	35%	FR	Proportionate method
Other	15-75%	Various	Proportionate method

23 Regulatory capital requirements

23.1 GENERAL

This chapter describes the regulatory capital requirements of SNS Bank. The risk types included are based on pillar 1 in the CRD and contain credit, market and operational risk.
In the table below, which is also disclosed in paragraph 14.2.1 of the chapter on Risk Management, an overview of the capital requirements and the risk weighted assets (RWA) as of 31 December 2010 divided on the different risk types is presented. The credit risk comprises 87.3% (2009: 84.2%) of the risk in SNS Bank. Operational risk accounts for 8.0% (2009: 6.4%) of the capital requirements and market risk comprises 0.9% (2009: 0.5%) of the capital requirements. The table also includes information about the approach used for calculation of the capital requirements. Out of the total capital requirements for credit risk, 19.7% (2009: 20.2%) have been calculated with the internal rating based approach (IRB) and 80.3% (2009: 79.8%) with the standardised approach.
The capital requirement for credit, market and operational risk is adjusted with € 66 million (2009: € 184 million) due to the transitional rules (known as the capital floor). In 2010, the capital requirements could not be lower than 80% of the capital requirements calculated under Basel I regulations.

TABLE 139: CAPITAL REQUIREMENTS AND RISK WEIGHTED ASSETS

	Basel II RWA		Capital requirement	
In € millions	2010	2009	2010	2009
Credit risk				
Standardised exposure classes:				
- Central governments and central banks	21	225	2	18
- Institutions	987	452	79	36
- Corporate	12,283	14,238	983	1,139
- Retail	1,289	1,312	103	105
- Equity	14	38	1	3
IRB exposure classes:				
- Retail	3,055	3,360	244	269
- Securitisation	750	1,038	60	83
Other	927	1,145	74	92
	19,326	21,808	1,546	1,745
Market risk				
- Standardised	195	130	16	10
- of which foreign exchange risk	--	--	--	--
- of which commodity risk	--	--	--	--
Operational risk				
- Standardised	1,781	1,651	142	132
Other and transitional Capital requirements	829	2,296	66	184
Total	22,131	25,885	1,770	2,071

23.2 CAPITAL REQUIREMENTS FOR CREDIT RISK

SNS Bank received approval by DNB to use the IRB approach for the retail portfolio secured by residential real estate. SNS Bank aims to gradually implement the IRB approach for other portfolios. The standardised approach will continued to be used for portfolios for which approved internal models are not yet in place. With the approval of DNB the standardised approach will continue to be also used for the portfolios Government, Credit institutions and Equity because the credit risk for these portfolios is limited.

In the IRB and the standardised approaches, the regulatory capital requirements for credit risk are calculated using the following formula:

Capital requirements = RWA x 8%, where RWA = risk weight x EAD

In the table the exposure, exposure at default (EAD), average risk weight percentage, RWA and capital requirement are distributed by exposure class, which serves as the basis for the reporting of capital requirements. In this report the IRB exposure class is presented that SNS Bank has been approved for. For the remaining portfolios the standardised approach exposure classes are used. The exposure value of an on-balance sheet exposure in the IRB approach is measured gross of value adjustments such as provisioning. The exposure at default (EAD) for the on-balance sheet items and derivative contracts is 100% of the original exposure. Off-balance sheet exposures are converted into EAD using credit conversion factors (CCF).
The risk weight is calculated as RWA divided by EAD for IRB exposures. For exposures in the standardised approach, the risk weight is given by DNB.

TABLE 140: CAPITAL REQUIREMENT FOR CREDIT RISK

In € millions	EAD	Average risk weight	RWA	Capital requirement
2010				
Standardised exposure classes				
Central governments and central banks	8,405	0%	21	2
Institutions	2,948	33%	987	79
Corporate	13,033	94%	12,283	983
Retail	1,853	70%	1,289	103
Equity	14	100%	14	1
Total standardised approach	26,253	56%	14,595	1,168
IRB exposure classes				
Retail	20,965	15%	3,055	244
Securitisation	7,649	10%	750	60
Total IRB approach	28,636	13%	3,805	304
Other	930	100%	927	74
Total credit risk	55,797		19,326	1,546

CAPITAL REQUIREMENT FOR CREDIT RISK (continued)

In € millions	EAD	Average risk weight	RWA	Capital requirement
2009				
Standardised exposure classes				
Central governments and central banks	7,939	3%	225	18
Institutions	1,345	34%	452	36
Corporate	15,288	93%	14,238	1,139
Retail	1,905	69%	1,312	105
Equity	38	100%	38	3
Total standardised approach	26,515	61%	16,265	1,301
IRB exposure classes				
Retail	24,235	14%	3,360	269
Securitisation	7,175	14%	1,038	83
Total IRB approach	31,410	14%	4,398	352
Other	1,372	83%	1,145	92
Total credit risk	59,297		21,808	1,745

23.3 CAPITAL REQUIREMENTS FOR MARKET RISK

SNS Bank uses the standardised approach in the CRD to calculate capital requirements for the trading book. The model covers interest rate risk and equity risk and is based on fixed risk weights.

23.4 CAPITAL REQUIREMENTS FOR OPERATIONAL RISK

The capital requirements for operational risk is calculated by SNS Bank according to the standardised approach, in which all of the institution's activities are divided into eight standardised business lines: corporate finance, trading & sales, retail banking, commercial banking, payment & settlement, agency services, asset management and retail brokerage.
The total capital requirement for operational risk is calculated as the sum of the capital requirements for each of the business lines. The risk for each business line is the beta coefficient multiplied by gross income. The beta coefficients differ between business lines and are given by DNB.

24 Credit risk

24.1 GENERAL

In this chapter, the credit risk and its components are described with respect to:

- Exposure classes used in the calculations of RWA and the explanation of the capital requirements;
- Information about exposures from several aspects, split by exposure classes, geography and industry;
- Approaches and methods used in the RWA calculations are presented including information about credit risk mitigation and SNS Bank's internal rating system;
- Information about credit risk management, impaired loans and loan losses is either disclosed or referred to.

24.2 EXPOSURE CLASSES

SNS Bank has a credit portfolio, which can be divided into retail and corporate portfolios. SNS Bank's lending activities are focused on residential mortgages and commercial real estate in the Netherlands. As of 1 January 2008, SNS Bank has obtained approval from DNB, to use the IRB Advanced Method for the calculation of regulatory capital for its retail mortgage portfolio. For its other retail and corporate portfolios, SNS Bank uses the Standardised Approach for the calculation of regulatory capital.

SNS Bank has scheduled a roll-out plan for the transition of portfolios currently using the Standardised Approach towards the use of the IRB Advanced Method. Loans to institutions, governments as well as equities are, and will remain based on the Standardised Approach for the calculation of regulatory capital.

24.2.1 Standardised exposure classes

Central government and Central Banks

Exposures to central governments and central banks are, subject to national discretion, treated with low risk if the counterparty is within European Economic Area (EEA) member states.

Institutions

Exposures to institutions and investment firms are classified as exposures to institutions. In addition, exposures to regional governments, local authorities and multilateral development banks are classified as exposures to institutions if they are not treated as exposures to sovereigns according to regulations issued by the authorities.

Corporates

Exposures in commercial property development and investment mortgages are classified as corporate exposures. The corporate exposure class contains exposures that are rated in accordance to Property Finance internal guidelines. Also the exposures to SME secured by mortgages on residential or commercial real estate of more than € 1 million are classified as corporate exposures.

Retail

The exposures to private individuals other than mortgages are included in the retail exposure class and include consumer loans, revolving consumer loans and credit limits on the account. Also exposures in the business segment that are secured by mortgages on residential or commercial real estate up to € 1 million are classified as retail exposures.

Equity

The exposure to equity comprises the investments in connection with the company's own liquidity management and held for trading.

Other

The exposure to other non credit obligations relates to tangible fixed assets, accruals, other assets and cash and cash equivalents.

Securitisation positions

The securitised mortgages comprise only securitised mortgages of which the notes issued by the SPV have been sold to investors. The notes which have been kept in own books are included in exposure class Retail secured by real estate.

24.2.2 Internal rating based approach

Retail secured by real estate

Exposures to private individuals that are secured by mortgages on residential real estate are classified as retail exposures. SNS Bank's residential mortgage portfolio comprises 72% of the bank's total credit portfolio.

24.3 INFORMATION ABOUT EXPOSURES

Credit risk profile

SNS Bank recognises various categories of credit risk. The main categories are loans and advances to customers, loans and advances to banks, and investments. More than 92% of the loans and advances to customers are backed by mortgage collateral.

Approximately 75% of all loans and advances to customers concern private residential property financing. Private residential property financings are provided throughout the Netherlands. The south and east of the Netherlands comprise a large portion of the portfolio, although the focus now lies on growth in the west (the Randstad urban area). Our geographic spread contributes to the diversification of risks; the regional differences in the housing market and economy will also create differences in the number of defaults and the level of credit loss, or anticipated credit loss, in each region.

Exposure of commercial mortgage loans declined in 2010. These property loans are concentrated at Property Finance. The geographical composition of the loan portfolio of Property Finance (excluding Property projects) is largely focused on the Netherlands. Property Finance has taken effective control of some projects in order to restructure them and reduce potential losses. Property Finance has voting rights in these projects which vary from 50% up to 100% and as a consequence, these projects are fully consolidated in SNS REAAL's financial accounts as at 31 December 2010, under the balance sheet heading 'Property projects'. Property Finance existing portfolio's credit quality remained weak as a result of continued unfavourable market conditions.

The majority of the loans portfolio comprises loans secured by mortgages. The other loans, which are not secured by mortgages, are mainly exposures at banks and investments (mainly bonds). The investments are part of the company's own liquidity management. The interest-bearing investments per 31 December can be classified according to the rating as follows:

TABLE 141: **CAPITAL REQUIREMENTS AND RISK WEIGHTED ASSETS**

In € millions	2010	2009
AAA	2,548	2,299
AA	291	700
A	1,059	1,306
BBB	212	72
Below BBB	51	82
Non-rated	65	41
Total	**4,226**	**4,500**

Information about exposure type by exposure class

In table 142, the exposures are split by exposure classes and exposure types as of 31 December 2009. The table is split between exposure classes subject to the IRB Advanced approach (retail mortgages and securitisation) and exposure classes subject to the Standardised approach. The main part of the exposure is within the exposure classes Retail and Corporate.

TABLE 142: **EXPOSURE CLASSES SPLIT BY EXPOSURE TYPE**

In € millions	On-balance sheets items	Off-balance sheet items	Derivatives	Total exposure
2010				
Standardised exposure classes				
Central governments and central banks	7,760	6	--	7,766
Institutions	2,157	--	2,559	4,716
Corporate	13,879	3,119	297	17,295
Retail	1,901	1,490	--	3,391
Equity	14	--	--	14
Total standardised approach	25,711	4,615	2,856	33,182
IRB exposure classes				
Retail	30,043	652	--	30,695
Securitisation	18,343	784	--	19,127
Total IRB approach	48,386	1,436	--	49,822
Other	930	--	--	930
Total exposure	**75,027**	**6,051**	**2,856**	**83,934**
2009				
Standardised exposure classes				
Central governments and central banks	7,209	7	--	7,216
Institutions	3,367	1	737	4,105
Corporate	15,866	3,865	448	20,179
Retail	1,953	1,587	--	3,540
Equity	38	--	--	38
Total standardised approach	28,433	5,460	1,185	35,078
IRB exposure classes				
Retail	32,024	633	--	32,657
Securitisation	15,138	670	--	15,808
Total IRB approach	47,162	1,303	--	48,465
Other	1,372	--	--	1,372
Total exposure	**76,967**	**6,763**	**1,185**	**84,915**

The large decrease in the off balance exposure is caused by the transfer of settlement accounts related to safe keeping of securities to a third party. As a result of this transfer SNS Bank no longer has commitments to make cash advances with regard to these securities.

In the following table the exposures are presented as an average during the previous time period.

TABLE 143: **EXPOSURE CLASSES SPLIT BY EXPOSURE TYPE, AVERAGE EXPOSURE**

In € millions	On-balance sheets items	Off-balance sheet items	Derivatives	Total exposure
2010				
Standardised exposure classes				
Central governments and central banks	7,689	6	––	7,695
Institutions	2,870	––	1,407	4,277
Corporate	14,515	3,396	326	18,237
Retail	1,920	1,489	––	3,409
Equity	25	––	––	25
Total standardised approach	27,019	4,891	1,733	33,643
IRB exposure classes				
Retail	31,838	626	––	32,464
Securitisation	16,219	633	––	16,852
Total IRB approach	48,057	1,259	––	49,316
Other	1,618	––	––	1,618
Total exposure	76,694	6,150	1,733	84,577
2009				
Standardised exposure classes				
Central governments and central banks	6,983	13	––	6,996
Institutions	3,964	1	627	4,592
Corporate	16,502	7,968	435	24,905
Retail	1,976	3,194	––	5,170
Equity	55	––	––	55
Total standardised approach	29,480	11,176	1,062	41,718
IRB exposure classes				
Retail	30,218	670	––	30,887
Securitisation	15,829	612	––	16,441
Total IRB approach	46,047	1,282	––	47,328
Other	1,151	––	––	1,151
Total exposure	76,678	12,458	1,062	90,197

Information about exposure by geography (per exposure class)

In the table below the on-balance exposures are split by main geographical areas and exposure classes based on where the credit risk is referable. The main market for SNS Bank is The Netherlands.

TABLE 144: ON-BALANCE EXPOSURE SPLIT BY GEOGRAPHY AND EXPOSURE CLASSES

In € millions	Central government and central banks	Institutions	Corporate	Other retail and Equity	IRB Retail	Securitisation	Other	Total exposure
2010								
The Netherlands	5,007	425	10,852	1,915	30,043	18,343	380	66,965
EMU	2,746	410	1,768	--	--	--	456	5,380
Outside EMU	7	1,322	1,259	--	--	--	94	2,682
Total exposure	**7,760**	**2,157**	**13,879**	**1,915**	**30,043**	**18,343**	**930**	**75,027**
2009								
The Netherlands	4,028	676	12,010	1,991	32,024	15,138	1,372	67,239
EMU	3,164	525	2,191	--	--	--	--	5,880
Outside EMU	17	2,166	1,665	--	--	--	--	3,848
Total exposure	**7,209**	**3,367**	**15,866**	**1,991**	**32,024**	**15,138**	**1,372**	**76,967**

Information about exposure by industry

In the following table the on-balance exposures are split by SNS Bank's important industry groups for the exposure classes. The exposures in the IRB Retail relate to Private clients. The main exposures in the corporate portfolio relate to Construction and property, and Service sector companies. The two largest industry groups, Private clients and Construction and property comprise 85.5% (2009: 85.1%) of the total exposure in the portfolio.

TABLE 145: ON-BALANCE EXPOSURE SPLIT BY INDUSTRY AND EXPOSURE CLASSES

In € millions	Central government and central banks	Institutions	Corporate	Other retail and Equity	IRB Retail	Securitisation	Other	Total exposure
2010								
Construction and property	--	--	11,948	6	--	--	588	12,542
Public sector	7,760	--	--	--	--	--	--	7,760
Agriculture, horticulture, forestry and fishery	--	--	64	--	--	--	--	64
Industry	--	--	204	--	--	--	--	204
Service sector companies	--	--	469	--	--	--	--	469
Financial institutions	--	2,157	--	8	--	--	--	2,165
Other commercial	--	--	189	--	--	--	--	189
Private clients/SME	--	--	1,005	1,901	30,043	18,343	342	51,634
Total exposure	**7,760**	**2,157**	**13,879**	**1,915**	**30,043**	**18,343**	**930**	**75,027**
2009								
Construction and property	--	--	13,224	--	--	--	649	13,873
Public sector	7,209	--	1,176	--	--	--	--	8,385
Agriculture, horticulture, forestry and fishery	--	--	5	--	--	--	--	5
Industry	--	--	203	--	--	--	--	203
Service sector companies	--	--	439	--	--	--	--	439
Financial institutions	--	3,367	--	38	--	--	--	3,405
Other commercial	--	--	187	--	--	--	--	187
Private clients/SME	--	--	632	1,953	32,024	15,138	723	50,470
Total exposure	**7,209**	**3,367**	**15,866**	**1,991**	**32,024**	**15,138**	**1,372**	**76,967**

Information about exposure by maturity

In the following table the on-balance exposure is divided by maturity, which is defined as the contractual maturity. The on-balance exposure is divided by the exposure classes.

TABLE 146: **ON-BALANCE EXPOSURE BY MATURITY**

In € millions	≤ 1 Month	> 1 Month ≤ 3 Months	> 3 Months ≤ 1 Year	> 1 Year ≤ 5 Years	> 5 Years	Total exposure
2010						
Standardised exposure classes						
Central governments and central banks	3,131	5	18	1,019	3,587	7,760
Institutions	1,621	8	35	467	26	2,157
Corporate	519	1,127	1,566	2,318	8,349	13,879
Retail	282	23	61	194	1,341	1,901
Equity	14	––	––	––	––	14
Total standardised approach	5,567	1,163	1,680	3,998	13,303	25,711
IRB exposure classes						
Retail	1,481	26	131	716	27,689	30,043
Securitisation	564	––	––	5	17,774	18,343
Total IRB approach	2,046	26	131	720	45,463	48,386
Other	930	––	––	––	––	930
Total	**8,543**	**1,189**	**1,811**	**4,718**	**58,766**	**75,027**
2009						
Standardised exposure classes						
Central governments and central banks	2,563	––	84	958	3,604	7,209
Institutions	2,894	54	87	287	45	3,367
Corporate	1,911	1,361	1,749	3,125	7,720	15,866
Retail	110	21	76	210	1,536	1,953
Equity	38	––	––	––	––	38
Total standardised approach	7,516	1,436	1,996	4,580	12,905	28,433
IRB exposure classes						
Retail	1,181	26	126	670	30,021	32,024
Securitisation	––	––	––	35	15,103	15,138
Total IRB approach	1,181	26	126	705	45,124	47,162
Other	1,372	––	––	––	––	1,372
Total	**10,069**	**1,462**	**2,122**	**5,285**	**58,029**	**76,967**

Information about equity

In the exposure class Equity, SNS Bank's equity holdings outside the trading book are included. In the following table the exposure of SNS Bank's equity holdings outside the trading book are shown in groups based on the intention of SNS Bank.
Book value equals fair value for all the equities shown in the table. The evidence of published price quotations in an active market is the best evidence of fair value and when they exist they are used to measure financial assets and financial liabilities. SNS Bank predominantly uses published quotations to establish fair value for shares.

TABLE 147: **ON-BALANCE EXPOSURE BY MATURITY**

In € millions	Book value	Fair value	Fair value of listed shares	Quoted share value	Unrealised gains/loss	Realised gains/losses period YTD	Capital requirement
2010							
Associates	14	14	--	--	--	(25)	1
Joint ventures	(8)	(8)	--	--	--	(12)	--
Investments available for sale	10	10	--	--	--	--	1
Total	**16**	**16**	**--**	**--**	**--**	**(37)**	**2**
2009							
Associates	21	21	--	--	--	(25)	2
Joint ventures	12	12	--	--	--	(7)	1
Investments available for sale	8	8	--	--	--	--	1
Total	**41**	**41**	**--**	**--**	**--**	**(32)**	**4**

24.4 CALCULATION OF RWA

24.4.1 General

The RWA calculations in SNS Bank differ between the exposure classes. SNS Bank has received approval to calculate the credit risk by using the IRB Advanced approach for the retail mortgages. For the other asset classes the Standardised approach is used in 2010. These other asset classes are in majority part of a roll out plan to be included in the IRB advanced approach. The following section describes the principles for calculating RWA with the Standardised approach and the IRB Advanced approach respectively.

24.4.2 Calculation of RWA with the standardised approach

The standardised approach measures credit risk pursuant to fixed risk weight. The application of risk weight in standardised approach is given by a set of fixed rules and is based on the exposure class to which the exposure is assigned. In calculating RWA with the standardised approach external ratings coming from eligible rating agencies are in some cases a necessary input to calculate the fixed risk weight.

In table 148 and 149 the exposure per risk weight with the associated RWA and capital requirement is presented. An exposure with, for example, a risk weight of 100% will not always lead to a similar RWA, due to guarantees and the use of a credit conversion factor for off balance exposure. Further information about credit conversion factors is included in chapter 27 Disclosure of off-balance items.

The effect of credit risk mitigation is minor. No exposure values are deducted from own funds.

TABLE 148: **EXPOSURE CLASSES SPLIT BY EXPOSURE PER RISK WEIGHT**

In € millions	0%	20%	35%	50%	75%	100%	150%	Total
								Risk Weight
2010 Standardised approach								
Central Government and Central Banks	7,663	103	––	––	––	––	––	7,766
Institutions	––	3,297	––	1,419	––	––	––	4,716
Corporates	––	18	1,743	89	––	14,406	1,039	17,295
Retail	––	––	243	––	3,114	32	2	3,391
Equity	––	––	––	––	––	14	––	14
Total Standardised	7,663	3,418	1,986	1,508	3,114	14,452	1,041	33,182
2009 Standardised approach								
Central Government and Central Banks	6,183	988	––	36	––	9	––	7,216
Institutions	14	2,374	––	1,640	––	77	––	4,105
Corporates	54	47	1,995	350	––	16,888	845	20,179
Retail	––	––	296	––	3,243	1	––	3,540
Equity	––	––	––	––	––	38	––	38
Total Standardised	6,251	3,409	2,291	2,026	3,243	17,013	845	35,078

TABLE 149: **EXPOSURE CLASSES SPLIT BY RISK WEIGHTED ASSETS AND CAPITAL REQUIREMENTS PER RISK WEIGHT**

In € millions	0%	20%	35%	50%	75%	100%	150%	Total
								Risk Weight
2010 Standardised approach								
Central Government and Central Banks								
Risk weighted assets	––	21	––	––	––	––	––	21
Capital requirements	––	2	––	––	––	––	––	2
Institutions								
Risk weighted assets	––	325	––	662	––	––	––	987
Capital requirements	––	26	––	53	––	––	––	79
Corporates								
Risk weighted assets	––	4	610	33	––	10,296	1,340	12,283
Capital requirements	––	––	49	3	––	824	107	983
Retail								
Risk weighted assets	––	––	80	––	1,190	17	3	1,290
Capital requirements	––	––	6	––	96	1	––	103
Equity								
Risk weighted assets	––	––	––	––	––	14	––	14
Capital requirements	––	––	––	––	––	1	––	1
Total risk weighted assets	––	350	690	695	1,190	10,327	1,343	14,595
Total capital requirements	––	28	55	56	96	826	107	1,168

EXPOSURE CLASSES SPLIT BY RISK WEIGHTED ASSETS AND CAPITAL REQUIREMENTS PER RISK WEIGHT (continued)

	Risk Weight							
In € millions	0%	20%	35%	50%	75%	100%	150%	Total
2009 Standardised approach								
Central Government and Central Banks								
Risk weighted assets	––	198	––	18	––	9	––	225
Capital requirements	––	16	––	1	––	1	––	18
Institutions								
Risk weighted assets	––	174	––	201	––	77	––	452
Capital requirements	––	14	––	16	––	6	––	36
Corporates								
Risk weighted assets	––	6	697	101	––	12,322	1,112	14,238
Capital requirements	––	––	56	8	––	986	89	1,139
Retail								
Risk weighted assets	––	––	102	––	1,208	1	1	1,312
Capital requirements	––	––	8	––	97	––	––	105
Equity								
Risk weighted assets	––	––	––	––	––	38	––	38
Capital requirements	––	––	––	––	––	3	––	3
Total risk weighted assets	––	378	799	320	1,208	12,447	1,113	16,265
Total capital requirements	––	30	64	25	97	996	89	1,301

SNS Bank uses for exposures to Central government and Central banks, Institutions and Corporates eligible external ratings from Standard & Poor's, Moody's and Fitch Ratings. The external rating is converted to the credit quality step (the mapping is defined by DNB), which corresponds to a fixed risk weight.

TABLE 150: EXPOSURES TO CENTRAL GOVERNMENTS AND CENTRAL BANKS, 31 DECEMBER 2010

In € millions	Credit quality step	Risk weight	EAD	Basel II RWA
2010				
AAA to AA-	1	0%	2.490	
A+ to A-	2			
- EMU		0%	762	––
- Outside EMU		20%	––	––
BBB+ to BBB-	3			
- EMU		0%	156	––
- Outside EMU		50%	––	––
BB+ to B-	4			
- EMU		0%	47	––
- Outside EMU		100%	––	––

EXPOSURES TO CENTRAL GOVERNMENTS AND CENTRAL BANKS, 31 DECEMBER 2010 (continued)

In € millions	Credit quality step	Risk weight	EAD	Basel II RWA
2009				
AAA to AA-	1	0%	2,193	––
A+ to A-	2	20%	913	183
BBB+ to BBB-	3	50%	36	18
BB+ to B-	4	100%	––	––

TABLE 151: EXPOSURES TO INSTITUTIONS, 31 DECEMBER 2010

In € millions	Credit quality step	Risk weight	EAD	Basel II RWA
2010				
AAA to AA-	1	20%	128	26
A+ to A-	2			
- ≤3 months		20%	14	3
- ≥3 months		50%	185	93
BBB+ to BBB-	3			
- ≤3 months		20%	––	––
- ≥3 months		50%	2	1
BB+ to B-	4			
- ≤3 months		50%	––	––
- ≥3 months		100%	––	––
2009				
AAA to AA-	1	20%	240	48
A+ to A-	2			
- ≤3 months		20%	4	1
- ≥3 months		50%	165	83
BBB+ to BBB-	3			
- ≤3 months		20%	––	––
- ≥3 months		50%	––	––
BB+ to B-	4			
- ≤3 months		50%	––	––
- ≥3 months		100%	77	77

TABLE 152: EXPOSURES TO CORPORATE, 31 DECEMBER 2010

In € millions	Credit quality step	Risk weight	EAD	Basel II RWA
2010				
AAA to AA-	1	20%	13	3
A+ to A-	2	50%	––	––
BBB+ to BBB-	3	100%	––	––
BB+ to B-	4	100%	––	––

EXPOSURES TO CORPORATE, 31 DECEMBER 2010 (continued)

In € millions	Credit quality step	Risk weight	EAD	Basel II RWA
2009				
AAA to AA-	1	20%	31	6
A+ to A-	2	50%	--	--
BBB+ to BBB-	3	100%	1	1
BB+ to B-	4	100%	4	4

24.4.3 Calculation of RWA with the IRB Advanced approach

The IRB Advanced approach measures credit risk using formulas with internal input for the calculation of Probability of Defaults (PD), Loss Given Default (LGD) and Exposure at Default (EAD). In the following paragraphs, these parameters and rating system are described in more detail.

Probability of customer default (PD)

SNS Bank assesses the credit quality of borrowers and other counterparties by assigning an internal risk rating. The rating reflects the statistical probability of a customer in a rating class defaulting within the next 12-month period. PD measures the unconditional probability of a counterparty defaulting over a defined future period, typically the next 12 months.
SNS Bank categorises its current exposures according to an internal default grade rating scale that corresponds to a statistical Long Term Average probability of customers in that rating class defaulting within a 12-month period.

Exposure in the event of default (EAD)

Exposure in the event of default represents the expected level of usage of the credit facility when default occurs. During the course of a loan, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit. However, when SNS Bank evaluates loans, it takes exposure at default into consideration, using its extensive historical experience. This recognises that customers may make heavier than average usage of their facilities as they approach default.

Severity of loss-given default (LGD)

When a customer defaults, some part of the amount outstanding on his/her loans is usually recovered. The part that is not recovered, the actual loss, together with the economic costs associated with the recovery process, combine to produce a figure called the LGD. The severity of the LGD is measured as a percentage of the EAD. Using historical information, SNS Bank can estimate how much is likely to be lost, on average, for various types of loans in the event of default.
SNS Bank categorises its current exposures according to an internal LGD grade rating scale that corresponds to a statistical downturn LGD so estimating the losses that originates from defaults within a 12-month period given a economic downturn. For exposures already in default classes of best estimate LGD is used. Using statistics the loss is estimated of exposure in default.

TABLE 153: EXPOSURE SPLIT BY PROBABILITY OF DEFAULT CLASS

Probability of default class	Exposure weighted average LGD 2010	Exposure weighted average LGD 2009	Exposure weighted average PD 2010	Exposure weighted average PD 2009	EAD (in € millions) 2010	EAD (in € millions) 2009	Risk Weight: Exposure weighted average risk weight (in € millions) 2010	Risk Weight: Exposure weighted average risk weight (in € millions) 2009
1	9.16%	9.02%	0.04%	0.04%	5,964	5,555	67	62
2	9.27%	9.10%	0.14%	0.14%	7,521	7,539	227	223
3	10.48%	10.44%	0.25%	0.25%	6,356	6,697	334	351
4	11.92%	11.45%	0.43%	0.43%	3,601	4,114	319	350
5	14.11%	12.65%	0.93%	0.93%	1,947	2,750	348	440
6	11.99%	10.38%	1.35%	1.04%	1,024	1,137	198	161
7	10.34%	11.10%	1.66%	1.66%	902	1,173	172	240
8	10.28%	10.22%	4.51%	4.51%	1,253	1,478	426	500
9	10.36%	10.21%	12.14%	12.14%	1,116	1,318	599	698
10	10.38%	10.27%	32.25%	32.25%	493	463	316	293
11	12.01%	11.28%	100.00%	100.00%	519	433	49	43
Total					30,696	32,657	3,055	3,361

The credit quality on the retail mortgage portfolio decreases from class 1 to class 11.

24.4.3.1 Advanced internal rating procedure

Retail mortgages

The internal rating process on SNS Bank's Retail mortgages exposures is based on a number of data elements in order to ensure risk is measured correctly.

24.4.3.2 Control Mechanisms for the Internal Rating System

To enhance correct risk model outputs, that also support management decision-making, an independent Model validation department is in place. The Credit Risk department performs regular model reviews and performance-monitoring exercises. All these processes together are governed in accordance with DNB guidelines.

To improve the performance of the current credit risk model SNS Bank started in 2010 to develop a new credit risk model that should be in place in 2011.

Model documentation

Documentation is sufficiently detailed to allow independent validation of the model from the original data sources. It includes a description of the data used for model development, the methodology used (and the rationale for choosing such a methodology), and all assumptions used in the model.

Initial model validation

All models are subject to an independent validation and review process before they can be signed off for implementation. For credit risk models an independent Model validation department and Model Governance Board ensures that the model building and approval process is followed. Furthermore, Basel II compliancy is checked, and independent reviews are performed as part of the technical and business approval of models. The model validation exercise must demonstrate that the model fits its purpose and that it provides accurate estimates.

Model sign-off

There are clearly laid out rules for the sign-off process for models. The credit risk models in SNS Bank receive their final sign-off for implementation from the Group ALCO.

Ongoing model validation and monitoring

All credit risk models are subject to frequent performance monitoring (quarterly review), which ensures that deficiencies in models are identified early and corrective action can be taken before the deficiency becomes serious and affects the decision-making process. Regular monitoring (quarterly) is reported to ALCO Group. The credit risk models are reviewed by Model Validation at least once a year.

Stress Testing

Stress testing is a tool to assess the impact of an extreme, but plausible event on the financial position of SNS Bank NV. This tool is a complementary instrument to the usual risk models used by Group Risk Management.
In 2010 SNS REAAL executed three stress tests for its banking operations.

DNB stress test

In March DNB requested SNS REAAL to perform a stress test in which the impact of two scenarios (a base and stress scenario) on the solvency ratio was calculated. The outcome of this stress test indicates that the impact of the stress scenario on solvency is limited. Based on the results SNS REAAL holds sufficient capital for its banking operations.

CEBS stress test

Subsequently, in June, DNB (by order of CEBS) requested SNS REAAL to perform another stress test on the banking activities of SNS REAAL. The outcome of this stress test indicates that the impact of the stress scenario on solvency is limited. In the stress scenario, the Tier 1 ratio of the banking activities decreases with 0.1% from 10.9% end of Q1 2010 to 10.8% end of 2011. CEBS required SNS REAAL to take up an additional loss for its sovereign exposure of 0.3%-point lowering the Tier 1 ratio to 10.5% end of 2011.

ICAAP (internal) stress test

In September, SNS REAAL executed an internal stress test as part of the ICAAP 2010 based on the banking activities of SNS REAAL. In this stress test SNS REAAL formulated its own stress scenario based on the specific portfolio of SNS REAAL. The outcome of this stress test shows that SNS REAAL holds sufficient capital to withstand a severe stress scenario of several years.
For more details we refer to the annual report of SNS Bank NV.

24.4.3.3 Comparison between expected and actual losses

For retail mortgages, which is the only asset class running IRB Advanced in 2008, 2009 and 2010 the expected loss for non-defaulted exposures was € 49 million during the year 2010. This is to be compared to the realised loss of € 27.3 million. The counterparty weighted probability of default (including defaulted exposure) for 2009 was 3.13% and the corresponding observed default frequency was 1.69%.
Note that the expected loss will vary over time due to the migration of the rating over the business cycle. This shows that SNS Bank's rating models are neither perfectly through-the-cycle nor perfectly point-in-time. The implications are that the expected loss calculated at the top of the business cycle not will represent the expected loss over a full business cycle and that migrations will not explain the full variation in actual losses. It is expected that the average long term net loss will match the average expected loss over time.

24.4.3.4 Alternative uses of the Internal Rating Approach

SNS Bank also uses the internal ratings system, other than for the calculation of regulatory capital, in the following processes:
- Acceptance scoring;
- Collection processes, early and late collections;
- Provision process.

Acceptance Scoring

The implementation of the IRB Advanced method was complemented with the introduction of a credit score card for the mortgage and the corporate and retail business portfolios. The implementation of the credit score card improves SNS Bank's ability to determine the credit risk of new and existing clients (refinancing) at origination.

Collection Process

SNS Bank uses its IRB Advanced model for the routing of delinquent clients to the different treatment paths in both the early and late collections process. The IRB Advanced approach helps to determine the risk category (high, middle or low risk) of delinquent clients who are past due. Delinquent clients are treated according to risk category by the early (1 - 90 days in arrears) and late (90 + days in arrears) collection departments.

Provision Process

The IRB Advanced model helps to determine the required provisions for the retail and retail business portfolios in default. Also, the IRB Advanced model is used in the calculation of provisions for Incurred But Not Reported (IBNR) losses for the mortgage retail portfolio not in default.

24.5 CREDIT RISK MITIGATION

Credit Risk Mitigation

SNS Bank applies a range of risk management procedures to mitigate credit risk on its loan portfolios. The most fundamental of these is to assess the ability, at origination, of a borrower to service the proposed level of debt without distress at the outset. It is a SNS Bank policy to establish that loans are within the customer's capacity to repay rather than to rely solely on collateral.

Collateral

SNS Bank's credit policies also include the assessment of collateral. This information is also used in the calculation of the LGD. The recognition of collateral to mitigate credit risk is managed in terms of the credit policy that clearly defines the following:
- The definition of what qualifies as collateral;
- The requirements for the valuation of collateral;
- Foreclosure values applied to collateral values.

Collateral Valuation – what qualifies as collateral

SNS Bank accepts primarily residential and commercial real estate as collateral. SNS Bank's credit policy determines what type of residential and commercial properties qualify as collateral.

Collateral Valuation - requirements

Valuation of the collateral taken will be within agreed parameters and will be conservative in value. Collateral, in the form of residential and commercial property, long-term insurance policies and so on is maintained in a specific system. The market value of collateral, at its origination date, is also captured in this system. The market value of residential properties is indexed to the development of the residential housing market.

Collateral Valuation - foreclosure

Collateral within the retail mortgage portfolios is subject to revaluation when an account enters the legal process to ensure that the impairment allowance is appropriate given the current valuation. The proceeds realised are being used to reduce or repay the outstanding loan. Any additional funds are returned to the customer.

Within the corporate portfolios, collateral for impaired loans, including guarantees and insurance, is reviewed regularly. The review ensures that the impairment allowance remains appropriate given the current valuation. In the case of a decrease in the value of collateral, an additional impairment allowance may be considered. On the other hand, increases in the value of collateral may result in a release of the impairment allowance.
Guarantees and legal covenants are subject to regular review, to ensure that they remain fit for purpose and remain consistent with accepted local market practice.

SNS Bank also uses netting agreements, financial guarantees and the use of covenants in commercial lending agreements to reduce risk. SNS Bank's principal collateral types are:
- Retail sector – mortgages over residential properties, equity, bonds etc in case of trading exposures.
- Commercial sector – business assets such as premises, stock and debtors.
- Commercial real estate sector – properties being financed.

TABLE 154: EXPOSURE SECURED BY COLLATERALS, GUARANTEES AND CREDIT DERIVATIVES

In € millions	Exposure	Of which secured by guarantees	Of which secured by credit derivatives	Of which secured by collateral
2010				
Standardised exposure classes				
Central governments and central banks	7,766	––	––	––
Institutions	4,716	152	––	1,633
Corporate	17,295	526	––	2,618
Retail	3,391	17	––	506
Equity	14	––	––	––
Total standardised approach	33,182	695	––	4,756
IRB exposure classes				
Retail	30,695	9,708	––	––
Securitisation	19,127	––	––	––
Total IRB approach	49,822	9,708	––	––
Other	930	––	––	––
Total	**83,934**	**10,403**	**––**	**4,756**
2009				
Standardised exposure classes				
Central governments and central banks	7,216	––	––	––
Institutions	4,105	156	––	2,621
Corporate	20,179	586	––	1,772
Retail	3,540	5	––	746
Equity	38	––	––	––
Total standardised approach	35,078	747	––	5,139
IRB exposure classes				
Retail	32,657	8,422	––	––
Securitisation	15,808	––	––	––
Total IRB approach	48,465	8,422	––	––
Other	1,372	––	––	––
Total	**84,915**	**9,169**	**––**	**5,139**

The IRB exposure class Retail concern residential retail mortgages. These mortgages are secured by residential real estate. The value of this real estate is included in the LGD calculations.

In table 155 a breakdown of collateral type is presented. The percentages are based on the figures in table 154.

TABLE 155: COLLATERAL CONCENTRATION

	2010	2009
Guarantees	69%	64%
Collateral:		
- of which real estate	17%	12%
- of which financial collateral	14%	24%
	100%	100%

24.6 INFORMATION ABOUT CREDIT RISK MANAGEMENT, IMPAIRED LOANS AND LOAN LOSSES

24.6.1 Credit risk management

A distinction has been made in credit management between retail clients on the one hand and property finance and other corporate clients on the other. In addition, there is a distinction between credit management for individual clients and credit management on a portfolio level.
For an elaborate description on credit management relating to retail clients, mainly relating to SNS Retail Bank, and to corporate clients, mainly relating to Property Finance, we refer to the chapter on Risk management, paragraph 14.2.1 Credit Risk, subsection Credit management for loans and advances to customers.

Special Credits departments of SNS Bank

An essential part of the risk policy is the timely deployment of the Restructuring and Recovery department. The Restructuring and Recovery departments distinguish between loans to private customers and small and medium enterprises (SME) on the one hand and loans provided by Property Finance on the other hand. The business units SNS Retail Bank and Property Finance each have their own Restructuring and Recovery Department.
For an elaborate description of the way these departments operate we refer to the chapter on Risk management, paragraph 14.2.1.2 Credit Risk, subsections Property Finance Restructuring and Recovery department and SNS Retail Bank Restructuring and Recovery department.

24.6.2 Information about impaired loans and loan losses

An exposure is impaired and a provision is recognised, if there are objective indications that SNS Bank will not be able to collect all the amounts due in accordance with the original contract. An objective evidence of impairment normally means that a facility have been past due for 90 days or more.
In determining the required provisions for loan losses, account is taken of defaults and the experience that credit loss may be incurred but not yet reported (IBNR).
For detailed information on impaired loans and loan losses for both SNS Retail Bank and Property Finance we refer to the chapter on Risk management, paragraph 14.2.1.2 Credit Risk, subsection Restructuring and Recovery Department of SNS Bank.

The following table provides information on financial assets in arrears. With respect to mortgages and other loans and advances to customers this information on arrears is a main factor in determining the provision collectively.

For Property Finance management uses multiple default indicators in the management of individual loans, as disclosed in the next paragraph. An arrear of more than 90 days is just one of the default indicators. The table includes the aggregate of the loans in default and the period in which they have gone into default.

TABLE 156: **FINANCIAL ASSETS IN ARREARS SNS BANK**

In € millions	No arrears	≤ 3 Months	> 3 Months ≤ 6 Months	> 6 Months ≤ 1 Year	> 1 Year	Provision	Total
2010							
Investments	4,249	––	––	––	––	––	4,249
Derivatives	2,317	––	––	––	––	––	2,317
Mortage loans and other loans and advances to customers	52,046	1,055	204	224	337	(231)	53,635
Loans and advances to credit institutions	1,672	––	––	––	––	(1)	1,671
Other assets	4,278	––	––	––	––	––	4,278
Total	64,562	1,055	204	224	337	(232)	66,150

FINANCIAL ASSETS IN ARREARS SNS BANK (continued)

In € millions	No arrears	≤ 3 Months	> 3 Months ≤ 6 Months	> 6 Months ≤ 1 Year	> 1 Year	Provision	Total
2009							
Investments	4,517	––	––	––	––	––	4,517
Derivatives	1,169	––	––	––	––	––	1,169
Mortage loans and other loans and advances to customers	52,864	979	199	192	244	(196)	54,282
Loans and advances to credit institutions	2,640	––	––	––	––	––	2,640
Other assets	2,901	––	––	––	––	––	2,910
Total	64,091	979	199	192	244	(196)	65,518

TABLE 157: **PROVISIONS**

	Specific		IBNR		Total	
In € millions	2010	2009	2010	2009	2010	2009
Balance as at 1 January	406	226	29	19	435	245
Reclassification	––	(220)	––	––	––	(220)
Acquisitions	––	––	––	––	––	––
Usage	(191)	(44)	––	––	(191)	(44)
Additions	795	465	1	9	796	474
Releases	(88)	(37)	(3)	––	(91)	(37)
Other changes	24	16	––	1	24	17
Balance as at 31 December	946	406	27	29	973	435

TABLE 158: **LOAN IMPAIRMENT BY GEOGRAPHY**

In € millions	Book value non-provisioned loans	Book value provisioned loans (gross receivable)	Specific provision	IBNR provision	Total book value	Impairment charges
2010						
The Netherlands	60,368	2,629	(386)	(24)	62,587	204
EMU	1,425	304	(226)	(2)	1,501	121
Outside EMU	598	661	(334)	(1)	924	380
Total	62,391	3,594	(946)	(27)	65,012	705
2009						
The Netherlands	61,651	2,524	(224)	(23)	63,928	113
EMU	1,902	225	(74)	(3)	2,050	221
Outside EMU	862	750	(108)	(3)	1,501	103
Total	64,415	3,499	(406)	(29)	67,479	437

TABLE 159: **LOAN PROVISIONS BY INDUSTRY**

In € millions	Book value non-provisioned loans	Book value provisioned loans (gross receivable)	Specific provision	IBNR provision	Total book value
2010					
Construction and property	10,343	1,773	(726)	(13)	11,377
Public sector	1,230	--	--	--	1,230
Agriculture, horticulture, forestry and fishery	60	6	(2)	--	64
Industry	187	25	(7)	--	205
Service sector companies	426	74	(24)	(5)	471
Other commercial	179	21	(10)	--	190
Private clients	49,966	1,695	(177)	(9)	51,475
Total	**62,391**	**3,594**	**(946)**	**(27)**	**65,012**
2009					
Construction and property	11,836	1,598	(224)	(14)	13,196
Public sector	1,234	--	--	--	1,234
Agriculture, horticulture, forestry and fishery	4	2	(1)	--	5
Industry	189	30	(6)	--	213
Service sector companies	423	61	(19)	(4)	461
Other commercial	183	20	(7)	--	196
Private clients	50,546	1,788	(149)	(11)	52,174
Total	**64,415**	**3,499**	**(406)**	**(29)**	**67,479**

25 Market risk

Market risk is the risk that the company's equity, result or continuity is threatened by movements in the level and/or volatility of market prices. Market prices include interest rates, stock prices and exchange rates.

SNS Bank uses the standard approach in the CRD to calculate capital requirements for the trading book. The model covers interest rate risk and equity risk and is based on fixed risk weights.

Further information about Market risk is included in the chapter on Risk Management, paragraph 14.2.2.

26 Operational risk

Upon implementing the Corporate Governance Code, SNS Bank has chosen to realise as much synergy as possible between the risk management demands of this code and compliance with Basel II requirements. In the day to day operations, this enables the use of one framework for an adequate management of the risks.

The capital requirements for operational risk is calculated according to the standardised approach, in which all of the institution's activities are divided into eight standardised business lines: corporate finance, trading & sales, retail banking, commercial banking, payment & settlement, agency services, asset management and retail brokerage.
The total capital requirement for operational risk is calculated as the sum of the capital requirements for each of the business lines. The risk for each business line is the beta coefficient multiplied by gross income. The beta coefficient multiplied by gross income. The beta coefficients differ between business lines and are in the range of 12% to 18%.

Further information about Operational risk is included in the chapter on Risk management, paragraph 14.3.3.

27 Disclosure of off-balance items

27.1 GENERAL

In this chapter, SNS Bank discloses information about off-balance items with focus on derivatives. Off-balance sheet items are divided into two different exposure types in accordance with calculation of credit risk RWA in the CRD:

1. Off-balance sheet items: main categories of off-balance sheet items are guarantees, credit commitments, and unutilised portion of approved credit facilities.
2. Derivatives: financial instruments that derive their value from underlying interest rates, currencies, equities, credit spreads or commodity prices. Derivatives do not only result in counterparty risk measured within the credit risk RWA but also affect the market risk.

For the different off-balance exposure types mentioned above, there are different possible values for the calculation base. For the off-balance items, the nominal value of the guarantee is applied with a credit conversion factor (CCF) for calculating the exposure at default (EAD). The CCF factor is 50% or 100% depending of the type of guarantee, i.e. lowering the risk weight compared with the same exposure on balance. Credit commitments and unutilised amounts are the part of the external commitment that has not been utilised. This amount forms the calculation base for which a CCF is used for calculating the EAD. The CCF factor is multiplied with the calculation base and is 0%, 20%, 50%, 75% or 100% depending of approach, product type and whether the unutilised amounts are unconditionally cancellable or not. For derivatives it is a combination of the market value and the nominal amount. The overall capital requirements for these items are available in the table where the figures for derivatives stem from counter-party risk. It can be concluded that although off balance items have large exposure amounts, the effect on RWA is reduced due to the use of CCF in the calculation of EAD. These CCF's are fixed rates within the standardised approach. They are related to predetermined hedging sets.

TABLE 160: EXPOSURE, RWA AND CAPITAL REQUIREMENTS BY EXPOSURE TYPE

	On-balance sheet items		Off-balance sheet items		Derivatives		Total	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009
Exposure	75,027	76,967	6,051	6,763	2,856	1,185	83,934	84,915
EAD	51,840	56,662	1,101	1,450	2,856	1,185	55,797	59,297
RWA	17,654	20,270	522	872	1,150	666	19,326	21,808
Capital requirement	1,412	1,622	42	70	92	53	1,546	1,745
Average risk weight	34%	36%	47%	60%	40%	56%	35%	37%

27.2 RISK IN DERIVATIVES

27.2.1 General information about derivatives

Derivative contracts are financial instruments that derive their value from underlying interest rates, currencies, equities or credit spreads. SNS Bank uses derivatives to manage market risks on an economic basis. Derivatives affect counterparty risk and market risk.

27.2.2 Counterparty risk

Counterparty risk is the risk that SNS Bank's counterpart in an FX, interest, commodity, equity or credit derivative contract defaults prior to maturity of the contract and that SNS Bank at that time has a claim on the counterpart. Counterparty risk in SNS Bank is subject to credit limits like other credit exposures and is treated accordingly.

Pillar 1 method for counterparty risk

SNS Bank uses the more risk sensitive standardised method to calculate the EAD for counterparty risk in accordance with the credit risk framework in CRD, i.e. the maximum of current exposure (replacement cost) of all contracts within a netting set and the potential future exposure of these contracts. All derivative transactions that are subject to an International Swaps and Derivatives Association (ISDA-) agreement are considered to be part of a netting set. The potential future exposure is an estimate, which takes into account hedging-effects within a netting set and reflects possible changes in the market value of the contracts during the remaining lifetime, and is measured as the notional principal amount multiplied by a risk weight. The size of the risk weight depends on the contract's remaining lifetime and the underlying asset. As stated above, the EAD equals the maximum of either the sum of the net current exposure or the hedged potential future exposure. In the table below, the EAD as well as the RWA and capital requirement split on the exposure classes are available.

TABLE 161: **COUNTERPARTY RISK EXPOSURES**

	EAD		RWA		Capital requirement	
In € millions	2010	2009	2010	2009	2010	2009
Central governments and central banks	––	––	––	––	––	––
Institutions	2,559	737	853	218	68	17
Corporate	297	448	297	447	24	36
Other	––	––	––	––	––	––

Internal credit limits and internal capital

A new method is being developed in 2011 to align counterparty risk for the internal systems of daily monitoring of internal credit limits on the one hand and internal capital on the other hand, with the in 2009 developed pillar 1 method for the calculation of regulatory capital requirements.

Mitigation of counterparty risk exposure

SNS Bank enters into money and capital market transactions with various financial institutions as part of its treasury and funding activities. This concerns, among others, derivative transactions for the hedging of interest rate and currency risks. Derivative transactions that are subject to a Credit Support Annex (CSA) of the International Swaps and Derivatives Association agreement have terms to maturity varying from 1 year to a maximum of 20 years. The emphasis is on longer maturities. These CSA's are primarily aimed at minimising counterparty risk. Changes in the present value of all existing transactions are settled periodically on a cash basis with the counterparty in question. In addition, a system with counterparty limits applies. This system reduces the concentration risk. SNS Bank's financial collateral agreements do typically not contain any trigger dependent features, for example rating triggers.

In the following table information is available of how the counterparty risk exposure is reduced with risk mitigation techniques.

TABLE 162: **MITIGATION OF COUNTERPARTY RISK EXPOSURE DUE TO CLOSEOUT NETTING AND COLLATERAL AGREEMENTS**

	Current exposure (gross)		Impact back-to-back swaps securitisation		Reduction from netting agreements/ collateral		Current exposure (net)	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009
Total	2,317	1,303	(1,243)	––	704	118	2,856	1,185

27.2.3 Hedging

Information about hedging is included in the chapter on Risk Management, paragraph 14.5.5.

28 Securitisations

28.1 GENERAL

SNS Bank has securitised € 20.0 billion mortgage receivables in special purpose entities (SPV's). With these transactions, the economic and legal ownership of the mortgage receivables is transferred to separate entities. The reasons for SNS Bank to securitize a part of the mortgage receivables are:

- Funding: securitisation is a funding instrument which allows SNS Bank to diversify its funding base. Furthermore through securitisation, SNS Bank is able to reduce the funding costs by borrowing at lower rates compared to senior unsecured lending, subject to market conditions.
- Lower capital requirements: by securitising some of the mortgage receivables SNS Bank is able to manage the RWA and hence capital requirement to lower levels, while maintaining the "earning power" of the asset.
- Liquidity: future cash flows out of mortgage receivables are currently not available in the liquidity position either as cash or as liquid asset. By securitising the mortgage receivables, the cash can be made available for funding new business or investments.

28.2 ROLES

SNS Bank is active in various roles in connection to securitisation activities. In order to support its business development while meeting regulatory capital requirements, SNS Bank, as originator, has launched securitisation programmes based on its Dutch residential mortgage portfolio. SNS Bank has externalised all cash advance facilities to the Hermes SPV's. Furthermore SNS Bank has transferred the Guaranteed Investment Contract (GIC) accounts of the SPV's to external parties. SNS Bank also has transferred most of the SPV interest rate swaps to external parties, SNS Bank has a back-to-back swap with the different external parties keeping the prepayment and interest rate risk on its own books

As arranger and underwriter SNS Bank is active as an arranger of MBS transactions. SNS Bank is responsible for structuring the transaction including negotiations with the rating agencies and coordination with legal counsel for documenting the transaction. As an underwriter SNS Bank is, in cooperation with related financial institutions, responsible for placing the notes issued by the SPV with institutional investors.

SNS Bank is, as administrator, responsible for the daily management of the securitised assets regarding the collection of principal and interest, which is then passed to the holders of the securitisation positions.

In addition, SNS Bank acts as investor for a limited amount of activities.

28.3 APPROACHES

In order to account for the securitisation exposures, SNS bank has decided to adopt the Advanced Internal Rating Approach and the use of the Rating Based Approach (RBA) for rated assets.

Under the RBA, the risk-weighted assets (RWA) are determined by multiplying the amount of the exposure by the appropriate risk weights. The risk weights depend on the external rating and the seniority of the position. Based on each pool's characteristics, the RBA will provide a risk weight, which is applied in the formula.

28.4 ACCOUNTING PRINCIPLES

SNS Bank fully consolidates these SPV's in its financial statements if, on the basis of the economic reality of the relationship between SNS Bank and the SPV, SNS Bank retains the majority of the risks and rewards.

28.5 INFORMATION ABOUT SECURITISATION

SNS Bank has securitised a part of the mortgage book. With these securitisation transactions, the economic and legal ownership of mortgages is transferred to separate companies. These loans are transferred at nominal value plus a deferred selling price. This deferred selling price means that, for some transactions, SNS Bank NV has claims against the SPV that will not be settled in full until the transaction is concluded. Some of the notes issued by the SPV's are e-notes, which are high-yielding bonds. Stress tests have shown that the remaining credit risk for SNS Bank manifests itself in the deferred selling price and the e-notes. SNS Bank has placed all e-notes externally. The amount of the deferred selling price was € 12.7 million as at year-end 2010; the position in e-notes was € 0 million as at year-end 2010.

SNS Bank has also structured a synthetic securitisation in the form of credit guarantees, whereby the credit risk protection has been bought.
SNS Bank has purchased subordinated bonds issued by various Pearl companies and also taken positions in bonds issued by various Hermes companies. In 2010 REAAL Verzekeringen has purchased and sold bonds issued by various Hermes companies. During 2010 SNS placed the a-notes of Hermes XIV and XV and the e-notes of Hermes XVI and XVII, the a-notes of Hermes XVI and XVII qualify as assets eligible at the Dutch Central Bank.

TABLE 163: OUTSTANDING AMOUNTS OF EXPOSURES SECURITISED

	Outstanding amounts of exposures securitised							
	Traditional				Synthetic			
	Originator		Investor		Originator		Investor	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009
Residential mortgages	18,750	15,406	7,624	7,175	377	402	––	––
Total	18,750	15,406	7,624	7,175	377	402	––	––

TABLE 164: OUTSTANDING AMOUNTS OF EXPOSURES SECURITISED AND IMPAIRED

	Outstanding amounts of exposures securitised							
	Traditional				Synthetic			
	Originator		Investor		Originator		Investor	
In € millions	2010	2009	2010	2009	2010	2009	2010	2009
Residential mortgages	31	21	––	––	22	23	––	––
Total	31	21	––	––	22	23	––	––

TABLE 165: EXPOSURE AND CAPITAL CHARGES OF SECURITISATION POSITIONS RETAINED OR PURCHASED PER RISK WEIGHT BAND

	Aggregate exposure amount of securitisation positions retained or purchased			
	Exposure amount		Capital charges, IRB approach	
In € millions	2010	2009	2010	2009
≤ 10%	6,927	6,801	––	––
> 10% ≤ 20%	124	77	––	––
> 20% ≤ 50%	288	173	––	––
> 50% ≤ 100%	––	––	––	––
> 50% ≤ 650%	285	111	––	––
> 650% < 1.250%	––	––	––	––
1250%:	––			
- E-notes Hermes XVI	––	13	––	––
Total	7,624	7,175	––	––

SNS Bank uses the credit rating agencies to rate its securitisation positions.

TABLE 166: **SECURITISATION ACTIVITY**

In € millions	Traditional Originator	Traditional Investor	Realised gains/ losses on traditional securitisations	Synthetic Originator	Synthetic Investor
Securitisation activity in 2010 (exposures securitised)					
Residential mortgages	––	––	––	––	––
Commercial mortgages	––	––	––	––	––
Total	––	––	––	––	––
Securitisation activity in 2009 (exposures securitised)					
Residential mortgages	––	––	––	––	––
Commercial mortgages	––	––	––	––	––
Total	––	––	––	––	––

29

Internal capital adequacy Assessment Process

According to Article 75 of the Capital Requirements Directive (CRD) SNS Bank is required to hold adequate amount of capital for credit risk, market risk (trading book, including position risk, settlement risk, counterparty risk, foreign exchange and commodities risk) and operational risk. Large exposures risk is also included in the scope of Pillar 1.

The responsible risk management departments prepare input parameters for these so called Pillar 1 risks of the Basel Accord. The Group Finance Department translates these inputs to the capital requirement. Risk Management reports and discusses on relevant developments within risk parameters between the business units before they are actually reported internally as well as externally. Apart from that the processes underlying the preparation are surrounded by regular procedures and internal controls within the banking and Group Risk Management environment.

Input parameters used for calculating the capital requirement under Pillar 1, are also used as input in the Internal Capital Adequacy Assessment Process (ICAAP as described in Article 123 of the CRD). The purpose of this ICAAP is to guarantee that the bank's own funds are at an adequate level to carry its current and future risks. More information on the capital adequacy is included in the chapter on Risk and capital management, paragraph Capital adequacy.

30 Liquidity Risk

Information about liquidity risk is included in the chapter Risk Management, paragraph 14.2.3.

31 Capital adequacy

31.1 GENERAL

This chapter describes the conditions and major components of the capital base.
The calculation of capital base is done in accordance with the CRD and the Dutch legislation. The outcome must as a minimum correspond to the sum of the capital requirement for credit risks, market risks and operational risks and capital requirement related to transition rules. In the capital base for SNS Bank only capital contributed by subsidiaries or firms that are covered by the consolidated accounts are to be included.
Items included in the capital base should without restrictions or time constrains be available for the institution to cover risk and absorb potential losses. All amounts are included net of any tax charge. Generally, SNS Bank has the ability to transfer capital within its legal entities without material restrictions.
A summary of items included in the capital base is available in table 167.
The capital base (referred to as own funds in the CRD) is the sum of tier 1 capital and tier 2 capital after deductions. The two main components in the capital base are core equity in the balance sheet and subordinated debt. Below is a detailed description of the items included in the capital base. The capital ratio is calculated by dividing the capital base with risk weighted assets while the quotient is calculated from the capital base in relation to the capital requirement.

31.2 CAPITAL BASE AND CONDITIONS FOR ITEMS TO BE INCLUDED IN THE CAPITAL BASE

Tier 1 capital

Tier 1 capital is defined as capital of the same or close to the character of eligible capital, eligible reserves and also a limited part (up to 25% of tier 1) of the hybrid capital loans (perpetual loans).

Eligible capital

Paid up capital is equal to the share capital contributed by shareholders.

Eligible reserves

Eligible reserves consist primarily of retained earnings, other reserves, minority interest and income from current year. Retained earning are earnings from previous years reported via the income statement. Other reserves are related to the capital part of untaxed reserves, revaluation and translation reserves referred to acquisitions and associated companies under the equity method. The equity interests of minority shareholdings in companies that are fully consolidated in the financial companies group are also included. Positive income from current year is included as eligible capital after verification by the external auditors. However, negative income must always be included as a deduction.

Hybrid capital loans subject to limits

The requirements for including undated loans in tier 1 capital is restricted and repurchase can normally not take place until five years after the loan originally is issued. Hybrid capital loans, undated subordinated loans, may be repaid only by decision from Board of Directors of SNS REAAL and with the permission of the DNB. Further, there are restrictions related to step up conditions, order of priority, interest payments under constraint conditions and the level of amount that can be part of the tier 1 capital. If there are any surplus after applying the legal limit of 25%, exceeding amount can be transferred to tier 2 capital.

Deductions from Tier 1 capital

Intangible assets

The significant part of deducted intangible assets contains goodwill. Other intangible assets relates to it software and client relations.

IRB provisions excess (+) / shortfall

The calculation of the capital base is in accordance with the CRD and the Dutch legislation. The differences between expected loss (EL) and actual provision made for the related exposures are adjusted for in the capital base. Note that this only relates to the IRB exposures. The negative difference (when the EL amount is larger than the provision amount) is included in the capital base as shortfall. According to the rules in the CRD, the shortfall amount shall be deducted from the capital base and be divided into both tier 1 capital and tier 2 capital. For the purpose of the CRD transitional rules calculations of the shortfall is under Dutch regulation deducted from the RWA to be neutralised in a Basel I perspective. A positive difference (provisions exceed EL) can be included in tier 2 capital with certain limitations.

Profit on securitisation / Significant risk

SNS REAAL has securitised part of the mortgage loans. With these securitisation transactions, the economic ownership of mortgage loans is transferred to separate companies. These loans are transferred at nominal value plus a deferred selling price. A positive result within the separate companies creates a positive value of the deferred selling price. According to the rules in the CRD, the profit on securitisation is deducted from the tier 1 capital.
SNS Bank has purchased subordinated bonds issued by various Pearl companies and also taken positions in bonds issued by various Hermes companies. REAAL Verzekeringen purchased bonds issued by various Hermes companies. According to the rules in the CRD, an amount for significant risk is deducted from the tier 1 capital.

Tier 2 capital

The tier 2 capital is mainly related to subordinated debt with some specific deductions. Tier 2 capital includes two different types of subordinated loan capital; perpetual loans and dated loans. The total tier 2 amount may not exceed tier 1 and dated tier 2 loans may not exceed half the amount of tier 1. The limits are set after deductions.
The basic principle for subordinated debt in the capital base is the order of priority in a default or bankruptcy situation. Under such conditions, the holder of the subordinated loan would be repaid after other creditors, but before shareholders. The subordinated debt will to some extent prevent the institution to go into liquidation.
The amount possible to include in the tier 2 capital related to dated loans is reduced if the remaining maturity is less then five years. Outstanding amount in the specific issue is deducted by 20% for each year beyond five years.
As of year end 2010, SNS Bank holds € 1.248 million (2009: € 793 million) in dated subordinated debenture loans and € 75 million (2009: € 39 million) in undated subordinated debenture loans.

A summary of items included in the capital base is as follows:

TABLE 167: **CALCULATION OF TOTAL CAPITAL BASE**

In € millions	2010	2009
Tier 1 capital		
Paid up capital	381	381
Share premium	838	838
Eligible capital	1,219	1,219
Reserves	908	1,005
Income (positive/negative) from current year	(431)	(99)
Eligible reserves	477	906
Tier 1 capital (before hybrid capital and deductions)	1,696	2,125
Hybrid capital loans subject to limits	594	627
Intangible assets	(126)	(197)
IRB provisions excess (+) / shortfall (–)	(12)	(13)
Securities capital	256	260
Other items, net	(32)	(36)
- of which eligible reserves SPVs	(23)	(23)
- of which result tier 1 exchange	(9)	(13)
Deductions from Tier 1 capital	86	14
Tier 1 capital including hybrid capital (net after deduction)	2,376	2,766
- of which hybrid capital	594	627
Tier 2 capital		
Subordinate loan capital	1,248	793
Other additional own funds	77	41
Tier 2 capital (before deductions)	1,325	834
IRB provisions excess (+) / shortfall (–)	(7)	(10)
Deductions from Tier 2 capital	(7)	(10)
Tier 2 capital (net after deductions)	1,318	824
Capital base	**3,694**	**3,590**

Definitions and ratios

TABLE 168: **DEFINITIONS AND RATIOS**

Advanced Measurement Approach *(AMA)*	Method in Basel II for calculating the operational risk. In this method, the bank may develop its own models, based on direct or indirect observations, to quantify the capital requirement for the operational risk.
ALM *(asset and liability management)*	The management of assets and liabilities with the aim of limiting the level and volatility of market risks, while generating the highest possible return within these limits.
ALM position	The interest rate position ensuing from differences in interest maturity between assets and liabilities.
Banking efficiency ratio	Ratio expressing the relationship between total operating costs and total income excluding value changes.
BIS ratio	The solvency ratio applying to banks in which designated capital components are expressed as a percentage of the risk-weighted assets. The minimum 8% requirement has been set by the Bank for International Settlements (BIS).
Cash flow hedge	A hedging of the risk of fluctuations in future cash flows of an asset, a liability or an expected transaction, resulting from variations in prices or stock prices.
Concentration risk	The risk that the capital, result or continuity are threatened by a one-sided composition of portfolios.
Contamination rate *(of mortgages)*	The number or mortgages transferred to the Special Credit department divided by the total number of outstanding mortgages.
Core capital	The Tier 1 capital, less the innovative Tier 1 instruments defined by the Dutch Central Bank.
Core Tier 1 ratio	This ratio expresses core capital as a percentage of total risk-weighted assets.
Corporate finance	Customised corporate finance services based on the issue of and trade in securities and brokerage in the capital finance market.
Credit risk	The risk of a counterparty not complying with its financial or other contractual obligation, negatively impacting the shareholders' equity and the result.
Credit spread	The interest premium above the risk-free interest that companies must pay on their bonds.
Credit Support Annex *(CSA)*	A standard agreement between parties trading in over-the-counter derivatives in which the obligation has been laid down that both parties shall maintain the underlying value of the derivatives in liquid instruments as surety to cover the credit risk.
Customer Due Diligence *(CDD)*	Policy aimed at gaining insight into the relevant aspects of customers in order to secure the integrity of the financial system.
Derivatives	A financial instrument of which the value is derived from one or more underlying values.
Duration	Duration is the weighted average duration of cash flows, whereby the weight of each cash flow is determined by the relative importance of that cash flow.
Duty of due care	The company's duty of due care comprises that in the course of its service provision, the company must observe due care and take the client's interests at heart to the best of its ability.
Earnings-at-Risk *(EaR)*	Earnings-at-Risk is an indicator that simulates the effect of changes to interest rates and share prices on future results.
Earnings coverage ratio	The ratio gives insight into the degree to which an organisation is able to use its profits to cover all interest expenses related to debt financing.
Economic capital	The economic capital requirement established in accordance with in-house models as the capital necessary to cover the risks of all activities within a period of one year.
Effective interest method	A method to calculate the amortised cost price, interest, costs and income based on the effective interest rate of a financial asset or liability.
Equity and investment property risk	The risk that the value of an equity or a property investment or a portfolio of equities or property investments will decrease in the future.
Exchange rate risk	The risk that the company's shareholders' equity, result or continuity is threatened due to movements in the level or the volatility of exchange rates.
Fair value	The amount for which an asset might be traded or for which an obligation could be settled between well-informed and willing independent parties.
Fair value hedge	Hedging the risk of fluctuations in the fair value of an asset or liability.
Financial lease	A lease agreement which transfers virtually all the risks and benefits of the ownership of an asset to the user (lessee).
Financial instrument	An agreement which results in a financial asset for a company and a financial obligation or shareholders' equity instrument for another company.
Financial leverage	The ratio indicates the degree to which the organisation is financed with debt capital.

Fraud risk	Risk of intentional deceit, misappropriation of ownership or non-compliance with the law.
Greenshoe option	A block of shares that is not immediately offered to interested investors, but is reserved for if and when demand for shares outstrips supply. The banks arranging the flotation maintain these shares in order to be able to manage the share price when demand is high.
Innovative Tier 1 instruments	Assets other than paid-up share capital and reserves, that may be taken into account for determining the Tier 1 capital (core capital).
Institutional brokerage	Brokerage for securities transactions for institutional clients.
Interest rate mismatch	The difference in interest maturity between funds lent and funds borrowed.
Interest rate risk	The risk that the company's shareholders' equity, result or continuity is threatened due to movements in the level or the volatility of the interest rates.
Internal Rating Based Approach (IRBA)	Method in Basel II for calculating the credit risk. With this method, the bank may develop its own models, based on direct and indirect observations, for estimating parameters for the calculation of the risk-weighted assets.
Investment loan	Activities by SNS Property Finance aimed at long-term financing of residential housing, shops, shopping centres, offices and industrial premises.
Investment risk	The risk that the value of an investment or investment portfolio will decrease in the future.
Irrevocable credit facility	A credit facility granted to a client that cannot be cancelled unconditionally.
Liquidity risk	The risk that the company has insufficient liquid resources in the short term to comply with its financial obligations.
Loan to Foreclosure Value (LtFV)	A risk indicator expressing the relationship between the mortgage and the foreclosure value of the collateral.
Loss given default	Parameter used in the calculation of economic capital or the required capital under Basel II which reflects the risk of (maximum) loss due to partial or full non-performance of obligations by borrowers, taking into account any collateral.
Macro hedge	A hedge of a specific risk for a portfolio of assets or liabilities.
Market risk	The risk that the company's shareholders' equity, result or continuity is threatened by movements in the level and volatility of market prices.
Micro hedge	A hedge of a specific risk for a specific asset or liability.
Modified duration	Measure of interest rate sensitivity, i.e. the relationship between the movement of an interest rate change and the resulting movement in the present value of the cash flows.
Notional amount	The notional amount shows the unit of account that, related to derivatives, indicates the ratio to the underlying values of the primary financial instruments.
Operational risk	The risk that the company's shareholders' equity, result or continuity is threatened by inadequate of failed internal processes, or external events.
Private loan	Private loans are funds provided or withdrawn on a debt certificate with a predeter¬mined repayment scheme, not using the capital market.
Probability of default	A parameter used in the calculation of the economic capital or required capital under Basel II, that reflects the risk that borrowers, or parties where investments have been made in debt instruments, fail to fully or partially perform their obligations.
Project finance	Activities by SNS Property Finance comprising short-term loans for the construction of offices, shopping centres, shops, industrial premises, residential housing and mixed projects. These also include trade and bridging loans and loans for land purchase.
Property lease	Activity of SNS Property Finance consisting of sale-and-leaseback transactions of commercial property.
Qualifying capital	The sources of funding which, based on the regulations of the regulator, are taken into account in the calculation of the Tier 1, Tier 2 and Tier 3 capital.
Rating	Quality mark which credit rating agencies award to institutions or bonds. Ratings are expressed in a combination of letters and numbers; a triple A (AAA) rating is the highest. The higher the rating, the lower the credit risk for the investor.
Regulatory capital	Capital that must be maintained pursuant to the solvency supervision of SNS Bank by the Dutch Central Bank.
Return on shareholders' equity (ROE)	ROE is the relationship between net profit and shareholders' equity. ROE indicates the return on invested shareholders' equity.
Risk-weighted assets (RWA)	Assets weighted for credit risk, based on the weighting ratio used in the regular reports to the Dutch Central Bank.
Securitisation	Securitisation is a transaction or scheme in which the beneficial title to existing assets, e.g. mortgages, is transferred to a separate entity, which then issues tradable property titles which entitle the holder to the cash flows generated by those assets.

Share premium reserve	The capital paid up in addition to the nominal value of the issued shares.
Solvency	Solvency is the degree to which a company is able to meet its financial obligations, expressed in a ratio (BIS ratio).
Standardised Approach	Method under Basel II for the calculation of the operational risk and the bank's credit risk. This method takes a standardised approach whereby the size of the risk weighting of an item is prescribed by the regulator.
Stress test	A stress test analyses the financial resilience of a financial institution in case of realistic but major changes in parameters that are crucial for the company, including macro-economic changes, crises in the financial markets, legal and regulatory changes and changes in liquidity in money and capital markets.
Structured loan	Financial solution tailor-made to the specific borrowing requirement of clients. The solutions are not limited to standard loan agreements. Complex financial transactions are also utilised.
Supplementary capital	See Tier 2 capital
Tier 1 capital	Also referred to as core capital. This capital consists of the fully paid-up share capital, all reserves excluding revaluation reserves, retained earnings, any third party interest and the innovative tier 1 instruments as defined by the Dutch Central Bank. Intangible fixed assets, excluding software purchased and developed under the company's own resources and for own use, and purchased loan servicing rights are deducted from the tier 1 capital.
Tier 1 ratio	Solvency ratio expressing the tier 1 capital as a percentage of total risk-weighted assets.
Tier 2 capital	Also referred to as supplementary capital. This capital comprises the revaluation reserves; under certain conditions the paid-up portion of the long-term subordi¬nated loans; and cumulative preference shares, to the extent that they are part of the paid-up capital.
Tier 3 capital	Also referred to as other capital. This capital consists of the value of the paid-up portion of the short-term subordinated loans. Certain conditions must be met regarding original duration, early redemption and size.
Value-at-Risk	Statistical yardstick which makes a prediction based on many scenarios about possible losses in a portfolio. A VaR of 100 with a confidence level of 99% means that there is a 1% probability of losses exceeding 100.
Yield curve	The line connecting all interest rate levels with varying durations.