SNS Bank

# ANNUAL REPORT 2011

# Table of contents

# Report of the Management Board

## 1 Key figures

### Key figures

| In € millions | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Balance Sheet** | | | | | |
| Total assets | 81,272 | 78,918 | 80,251 | 76,695 | 70,584 |
| Loans and advances to customers | 64,778 | 65,013 | 67,479 | 65,794 | 60,236 |
| Of which mortgage loans | 52,920 | 50,888 | 50,878 | 48,684 | 46,172 |
| Loans and advances to banks | 1,682 | 1,681 | 2,715 | 2,783 | 1,092 |
| Amounts due to customers | 40,557 | 37,880 | 34,270 | 32,043 | 27,025 |
| Of which savings | 30,342 | 27,398 | 24,435 | 21,859 | 19,179 |
| Amounts due to credit institutions | 4,716 | 3,096 | 7,119 | 6,491 | 5,066 |
| Debt certificates | 27,361 | 29,523 | 30,739 | 30,282 | 32,182 |
| Shareholders' equity | 1,723 | 1,580 | 2,165 | 2,134 | 2,209 |
| Capital base | 2,961 | 3,694 | 3,590 | 3,495 | 3,521 |
| Net interest income | 803 | 871 | 672 | 773 | 783 |
| Other income | 239 | 114 | 426 | 183 | 155 |
| Of which net commission and management fees | 86 | 92 | 99 | 116 | 129 |
| Net result | 38 | (431) | (99) | 144 | 272 |
| Net result SNS Retail Bank | 248 | 139 | 120 | 116 | 186 |
| Net result SNS SME | 38 | 73 | | | |
| Net result Property Finance | (248) | (643) | (219) | 28 | 86 |
| **Ratios** | | | | | |
| Return on shareholders' equity (ROE) | 2.2% | (27.3%) | (4.6%) | 6.7% | 12.6% |
| Efficiency ratio | 49.1% | 57.8% | 57.0% | 62.8% | 60.3% |
| BIS ratio | 14.4% | 16.7% | 13.9% | 14.0% | 11.5% |
| Tier 1 ratio | 12.2% | 10.7% | 10.7% | 10.5% | 8.4% |
| Number of branches SNS Bank | 155 | 143 | 133 | 140 | 146 |
| Number of agencies RegioBank | 529 | 537 | 602 | 672 | 727 |
| Number of cash dispensers | 507 | 490 | 516 | 571 | 513 |
| Number of employees (FTE's, average) | 2,426 | 2,639 | 3,270 | 3,212 | 3,223 |

*As of 1 January 2011, the business units Property Finance and SNS Bank have been regrouped. SNS Bank comprises the sub segments SNS Retail Bank and SNS SME. Comparative figures for 2010 have been adjusted accordingly. For more information see paragraph 17.3.4*

*BIS ratio and Tier 1 ratio are calculated based on Basel II, taking into account the 80% floor of Basel I.*

# 2 Foreword

**A sense of satisfaction at the close of a troubling year**

Despite the difficulties that confronted us during financial year 2011, it was nonetheless a year which I feel we were able to conclude with a certain sense of satisfaction. It was a year of change marked by returning to profit in 2011 after the loss of 2010. We posted a net result for the whole of SNS Bank of € 38 million, while our core activities generated € 286 million. At the same time, we retained a sharp focus on our mission and ambition. Through our mission of Simplicity in finance we aim to become the most customer-friendly financial services provider in the Netherlands.

During 2011, we made further important strides towards achieving this. Hard decisions had to be made in positioning our seven brands more clearly and consistently to better engage with our customers and ensure that they can be confident that we put their interests first. Our aim is to sell transparent and effective products at a fair price. This is not too lofty and intangible a goal - SNS Bank is a customer-facing company. It can emulate the many other Dutch companies for whom a strong notion of customer confidence forms the basis for its earnings.

**Another challenging year**

Financial year 2011 initially appeared to be slightly easier than the difficult 2010. Economic forecasts were encouraging, with financial markets appearing to regain stability and show modest improvement. This optimism was quickly quenched as the Greek sovereign debt crisis flared up. Following Greece, Portugal also sought emergency assistance. Soon the continued existence of the entire European Monetary Union was under discussion. This looming threat, in addition to the natural disasters that had engulfed Japan, led to unprecedented volatility in financial markets and to a shrinking economy instead of the growth which had been anticipated in the second half of 2011.

Due to uncertainty about the continued existence of the European currency union, investors in EU bond markets retreated from the weaker Euro countries and sought security in sovereign debts in Germany and other strong member states, including the Netherlands. Bond rates declined to historically low levels. The considerable drop in prices and turnover on the stock exchanges were other negative factors. Recovery in the fourth quarter was unable to compensate for the damage sustained during the previous quarters. The housing market, too, was negatively impacted, due to lower prices and fewer transactions.

**Robust financial results**

In the face of these chiefly unpredictable negative developments, we managed to achieve strong financial results. SNS Retail Bank pushed its net profit up to € 248 million and Property Finance ended the year in red, though much less than in 2010. Profits and losses of the various business units within the company together led to a positive result of € 38 million. Considering that SNS Bank recorded sharp losses in 2010, this was a swing in the right direction.

Our capital position in 2011 remained solid. The bank has a core Tier 1 ratio of 9.2%. Based on the European Banking Authority (EBA) norm, SNS Bank had a shortfall of € 159 million in September, but that shortfall has now partly been eliminated. As a systemically important bank. It is SNS Bank's ambition to raise its core Tier 1 ratio to 10%. SNS Bank's liquidity position of € 11.1 billion is strong and remains on track for meeting the future requirements of Basel III.

**Further reinforcing the foundation**

Reinforcing our financial foundation continues to be a priority. Strategically, our priorities are to repay the capital support we received from the State and to phase-out the property finance portfolio of Property Finance. The target for 2011 was to reduce the commitments of the core and non-core portfolio of the property finance business by € 2 billion. This ambitious goal was surpassed by € 1 billion. In 2011 the international loan portfolio was reduced by 30% to € 2.2 billion compared. The phasing-out of the property finance portfolio is a process which will involve several years.

Aside from its loan portfolio, Property Finance has also reduced its impairment charges on loans considerably. In 2010, Property Finance reported a loss of € 643 million. In the year under review, this was reduced to € 248 million.

International and Dutch real estate markets remain in a turbulent situation which is expected to continue during 2012. Unfortunately, too many new buildings are still being constructed; offices for the most part. A wiser choice would be to make existing office buildings sustainable.

**Building for the future**

Despite the many challenges, we continued to build for the future during 2011. We are devoting strong attention to corporate responsibility through our mission of Simplicity in finance, our core value CARE! and engagement with the client. We continued to develop new products that made financial affairs simpler and more understandable. This annual report therefore boasts the title *Innovation through simplicity.*
By way of example, SNS Bank was the first major bank in the Netherlands to introduce an interest-bearing current account. SNS Bank and RegioBank have made great progress in making the complaints procedure more efficient and effective.

Frequent customer satisfaction surveys showed an upward trend in 2011, proving that we are heading in the right direction in meeting our clients' needs. The Net Promotor Score also rose for all brands. This instrument measures how many clients recommend us to their family and friends. With the rise of social media, personal recommendations have also become a crucial factor in restoring consumer trust.

**Many new customers**

We succeeded in attracting considerable numbers of new clients and achieving a high customer retention level. SNS Bank welcomed more than 100,000 new clients. Saving deposits increased by € 2.9 billion. Our bank savings product also succeeded in meeting the client’s need with SNS Bank maintaining a leading position in this market.

The explicit choice for a multi-brand strategy was an important strategic milestone in 2011. Many of our competitors invest in one strong brand, preferably with an international appeal, often supported by large budgets for media campaigns and sponsorship. The disadvantage is that these brands are a 'one size fits all' in which customers preferences are lost within a broad group with which they cannot identify.

Global brands for financial products have lost a great deal of prestige in this crisis. Nationally and locally, clearly defined brands which will inspire confidence. ASN Bank, with its tremendous expansion in its number of clients is a perfect example of this. The success of RegioBank, our community bank, shows that it is crucial to engage closely with customers.

**Four strong brands**

SNS Bank has four strong brands: SNS Bank, ASN Bank, RegioBank and BLG. Through sharper brand positioning, we remain closer to different customer groups and reach a greater proportion of Dutch consumers. This is also a good fit with the multiform society of the Netherlands. By sharing as many systems and processes as possible, we can achieve considerable cost-savings and increase economies of scale in the back office, while shortening new product introduction times. An example is the joint production facility for bank savings and the number two market position we worked hard on in 2011.

Looking to the future of our company, our capacity to operate cost-effectively is absolutely essential. Only then can we offer good-quality products at a fair price. The company as a whole is participating in a programme to structurally reduce its cost base.
Today's customers are not only looking for transparent and efficient products at a fair price they also want socially responsible customer service from an organisation that is part of a sustainable chain. For SNS Bank, with its social roots and its core value CARE!, this is self-evident. Starting from personal leadership, we take the lead by incorporating corporate responsibility (CR) in our strategic plans and reporting.

**Sustainable and responsible**

Today's customers not only demand transparent and effective products at a fair price; they also want responsible customer service from an organisation which is part of a sustainable chain. Corporate responsibility is part and parcel of SNS Bank. Our mission of Simplicity in finance focuses on responsible service provision and our core value CARE! means that our concern is not only with financial results but also the care we exercise with respect to each other, the customer and society. CARE! is the vehicle by which corporate responsibility is integrated into how our people function, the services we offer and our business operations. The pillars of our company strategy are designed to reinforce our foundations and to build for the future of SNS Bank, ambitions which can only be achieved through continual dialogue with our stakeholders. With our efforts guided by the feedback from this dialogue we can be confident of focusing on concrete issues - topics which really matter.

Corporate responsibility means that in addition to offering responsible services we also aim to operate as a responsible organisation. In concrete terms, it means acting as a responsible employer. SNS Bank offers its personnel an attractive combination of primary and secondary employment conditions. Determining factors are, of course, meeting our financial possibilities as well as the wishes of society. Three years ago, we therefore introduced a moderate remuneration policy for the Executive Board and senior management. Remuneration is now in line with the recommendations of the Banking Code and other relevant regulations.

**Continued retrenchment**

SNS Bank plans to continue its austerity policy during the current financial year. All financial institutions, SNS Bank included, are moving towards a new yield model involving lower volumes and lower margins. In order to generate a sustainable yield, structurally different employment conditions are essential. This inevitably leads to discussion of the fair price for a financial product.

The year 2011 was not an easy one for our personnel. Nonetheless, employee satisfaction rose from 7.0 to 7.3 (on a scale of 1-10). In spite of retrenchment, SNS Bank remained an attractive and modern employer. Progress with introducing flexible working arrangements (Het Nieuwe Werken) played an important role. This new concept assigns additional responsibility to employees, allowing for a better balance between their working and private lives.

Our mission of "Simplicity in finance" and our core value CARE! also enhance employee satisfaction. CARE! was further pursued in 2011 through a large number of activities both inside and outside the company. An important theme remained helping people become financially independent. With this aim in mind, we actively participated in organisations such as Stay on Top of Your Spending. We also gave 550 guest lessons at primary schools during Money Smart Week. In these straightened times, financial awareness has taken on a new importance. Old certainties are falling away. People increasingly have to think ahead and take future financial concerns into their own hands. The financial sector and the government both have a responsibility to ensure this is a development that proceeds smoothly.

**Ready for the ban on commission**

2012 will undoubtedly be another challenging year with continued uncertainty and a decrease in purchasing power. The housing market will remain weak. We do not anticipate it recovering from its current low level. Moreover, we need to respond to large-scale changes in our product markets. Furthermore, we are moving towards ruling out commission on complex products, the Customer Agreed Remuneration (CAR), which SNS Bank fully supports. We consider CAR to be an opportunity to offer cost-efficient advisory solutions, and on our own initiative started adopting this working procedure back in 2009.

**Mobilising our strengths**

Clearly, we once again have to give of our best in 2012. We will devote particular attention to reinforcing the foundation by continued phase-out of Property Finance and preparations for repaying the capital support to the State. This is no minor undertaking in an environment that is bound to be difficult and can change greatly each quarter. Fortunately, we have significant strength on which to call. In 2011, we proved our capacity to achieve good results with our core activities in difficult circumstances. We managed to attract more clients, reach higher customer satisfaction levels, reduce the cost base and raise more capital. Our employees are increasingly taking on board the implications of the core value CARE! and are motivated promotors of our mission of "Simplicity in finance".

I would like to thank all SNS Bank employees and all those who have devoted themselves to helping achieve our mission and ambitions.

E.J.G.V. Boers

# 3 Profile and brands

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 € 81 billion and 2.426 employees (FTEs), which makes it a major player in the Dutch market. SNS Bank has its head office in Utrecht.

## 3.1 General

### 3.1.1 Rooted in society

As a banker, SNS Bank has strong roots in Dutch society. Through the first savings banks with a public utility function, SNS Bank has a 200-year banking history.

### 3.1.2 Simplicity in finance

SNS Bank wants to stay close to its customers and society. What matters most is that every client gets the right product at the right time. However different our brands are, they share the same basic principles. SNS Bank wants to keep both feet on the ground and doesn't want to make financial matters more complicated than necessary. All our brands represent our core belief in "Simplicity in finance". We want to increase our clients' financial independence through clear, accessible products and services.

### 3.1.3 Having an eye for the customer

We want to deserve our customers, both private and business customers. We want to be their financial specialist. We want to be the best at serving, helping and retaining customers. At SNS Bank, each brand gives its own meaning and direction to this. Our ultimate aim is to build sustainable relationships with our customers and stakeholders.

## 3.2 Our brands

There is no such thing as a general customer. Everyone has different wishes, requirements and preferences. We want to serve all these people in a way that suits them best. That is why we do not hold a "one client, one bank" vision. We choose for different brands that each serves its customers in a way that suits them best. Each brand has its own working method, characteristics, mentality and products, from savings and investments. SNS Bank customers can go to more than 200 shops, ASN Bank is a full online bank, clients choose the coverage that best suits their pet and RegioBank works with personal advisors.

### 3.2.1 SNS Bank

SNS Bank

SNS Bank is the consumer brand with a wide and accessible range of banking and insurance products. SNS Bank is a bank where customers can decide how, when and where they take care of their banking business: online, by phone, at their own home with an advisor or via one of the 200 SNS Shops. SNS Bank also focuses on SME businesses.

**Products:** savings, current accounts, investments, loans, mortgages, company loans on property and insurance.

www.snsbank.nl

### 3.2.2 ASN Bank

ASN BANK

ASN Bank connects people who want to contribute to a sustainable society and offers financial products that contribute to such a society. Many clients are socially involved and well disposed towards a sustainable society. ASN Bank involves these clients into identifying themes to execute its mission.

**Products:** savings, current accounts, investments and asset management.

www.asn.nl

### 3.2.3 RegioBank

RegioBank

RegioBank is the regional banking formulae with a network of some 530 independent advisors. You will find RegioBank in many smaller municipalities. Local and personal service is key.

**Products:** mortgages, savings, current accounts, loans and investments.

www.regiobank.nl

### 3.2.4 BLG Hypotheken

BLG Hypotheken

BLG Hypotheken (Mortgages) is the specialist brand in mortgages for intermediaries. BLG Hypotheken offers flexible mortgages, so that intermediaries can compose a product that will optimally suit their client, even for exceptional situations or homes.

**Products:** mortgages.

www.blg.nl

# 4 Mission, core value and strategy

SNS Bank’s mission is "Simplicity in Finance". We want to increase the financial independence of our customers. We do so by providing simple and accessible products and by offering assistance in making the right choices.

## 4.1 Simplicity in finance

Our mission "Simplicity in finance" follows from the origins of our company nearly 200 years ago. Even then, openness, simplicity and solidarity were the pillars supporting our operations. Our aim is to use those same pillars to aid today’s customers in enhancing their ability to manage their financial affairs. Simplicity in finance is intended to gain and retain customers' and companies' trust.

## 4.2 CARE! and corporate responsibility

We wish to operate responsibly for all our stakeholders. Our core value CARE! represents the responsibility we bear for our customers, for each other and for society, as well as for the results this produces for our shareholders and other investors. CARE! inspires and helps us to better embed corporate responsibility in our conduct, our organisation and our products.

## 4.3 Strategy

Our mission, core value and strategy meet in the picture of our strategic house presented. The foundation supporting this house is a tight-knit and effective organisation, filled with committed and ambitious employees. Inspired by our core value CARE!, they define how they put corporate responsibility into practice. Based on our market positioning and a SWOT analysis, we have identified four strategic priorities:

- Phasing out Property Finance.
- Strong capital policy aimed at repaying the State and the Foundation.
- Winning, helping and retaining clients.
- Reducing the cost base.

The phase-out of Property Finance and a strong capital policy are strengthening SNS Bank’s foundation. We build our future by winning, helping and retaining clients and reducing the cost base.

This strategy fine-tunes the strategic pillars: ‘deserve customers’, ‘dare to choose’, ‘winning, helping and retaining customers’ and ‘decisive on result’. Accentuating our choices, all these elements are included in the strategic priorities. We have also created a distinction between building the foundation and building the future.

### 4.3.1 Phasing out Property Finance

Developments in the financial sector in the past few years, particular in the property markets, led to a strategic reorientation of our Property Finance business. SNS Bank made two strategic choices:

- The creation of a new business unit SNS SME as from 1 January 2011. SNS SME comprises part of the Dutch loans of Property Finance, the SME loan portfolio and SNS Bank’s SME savings. This will optimise and simplify portfolio management and improve our financing options.
- Phase-out of the remaining loans at Property Finance. These loans are the international portfolio and part of the Dutch portfolio. This will improve SNS Bank’s risk profile and financing of the Banking activities.

Following the Property Finance phase-out, SNS Bank will focus exclusively on the Dutch market.

### 4.3.2 Strong capital policy aimed at repayment of the Dutch State and the Foundation

We are pursuing a strong capital policy to add to our strategic flexibility and the trust of customers, lenders and other SNS Bank stakeholders. In doing so, our focus is on:

- Independent, solid capital position.
  It is our goal to repay the capital support received from the Dutch State and the Foundation in a responsible manner.
- Capital release programme.
- Strong risk identification and management.

### 4.3.3 Winning, helping and retaining customers

We aim to provide our customers with suitable products through their preferred distribution channels and brands. Multiple brands and channels generate better effectiveness 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 the Group. In pursuing its goal to attract, help and retain customers, it is SNS Bank's ambition to increase the focus on customers' interests, improving customer satisfaction and the sustainable growth of its brands.

Improved attention to customer interests and higher customer satisfaction can be achieved by:

- Measuring customer satisfaction in a better way, targeting specific groups of customers.
- Continuous dialogue with our customers, allowing us to improve our products and services anytime.
- Improving customer contact and service levels.
- Providing transparent and relevant products and advice.
- Customers can easily determine if a product suits their needs either by themselves or with the help of a financial advisor.

Sustainable growth of our brands will be achieved by:

- New, successful 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 the customer value, return and risks.
- Multi-brand strategy.
  We serve our customers using a multi-brands strategy where each brand serves a specific customer group.
- 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.

### 4.3.4 Reducing the cost base

Reducing our organisation's cost base improves our capital position and competitiveness, which allows us to generate the return we aim at, even in contracting markets and with higher capital requirements.
A major tool in reducing the cost base is standardisation and alignment of IT systems and service centres. Combined with our multi-brand strategy, this allows us to quickly and efficiently respond to changing customer needs or simply broaden our product range.

## 4.4 Basis: Corporate responsibility and CARE!

Our employees are fundamental in achieving our strategic goals. Inspired by our core value CARE!, they define how they put corporate responsibility into practice.

In 2011, SNS Bank enhanced focus on its corporate responsibility strategy. Based on an integral vision that serves our stakeholders, we aim to better manage initiatives in this area and bring these together. As a result, our business units are responsible for achieving their own results - within preset frameworks - more than previously.

Dutch financial institutions are subject to an extensive system of laws and regulations safeguarding the quality and safety of financial products and services. To SNS Bank, proper compliance with those laws and regulations comes natural. Corporate responsibility, however, takes things a step further, allowing us to do business on the basis of our own convictions and our own responsibilities. We aim to take the interests of customers, each other, shareholders and society into account. We have defined four themes to make measurable progress in these areas. The themes apply to all business units and staff departments:

- Personal leadership.
  If you want to change the world, you must be the first to change, which is why we expect our managers and employees to take the lead in making our products and services more sustainable. Setting an example to others, we all propagate the core value CARE! in a recognisable way.
- Responsible services.
  When developing, improving and offering our products and services, we place our customers' interests first. 'Responsible' means that we acknowledge any positive and negative effects on people and the environment in all aspects of our daily work.
- Responsible organisation.
  We want to be a responsible employer that our employees enjoy working for. We encourage their personnel development, wish to offer a good work-life balance and give responsible remuneration. We encourage our employees to assume responsibility for their work and career development.
- Sustainable supply chain and the environment.
  SNS Bank is part of numerous product and service chains. As a major buyer, we exercise influence to make the supply chain more sustainable in cooperation with our partners. We do so by focussing on the responsible use of energy, housing, waste disposal and mobility.

## 4.5 Business units' strategies

In implementing SNS Bank's strategy, the business units SNS Retail Bank and SNS SME make their own choices regarding the best possible products and services. For the strategies pursued by the business units, see paragraph 9.1 SNS Retail Bank and paragraph 9.8 SNS SME.

# 5 SWOT analysis, strategic challenges and ambitions

SNS Bank's strategic challenges are based in part on the organisation's market position and an analysis of its strengths and weaknesses and the opportunities and threats in the market.

## 5.1 Market position

SNS Bank focuses primarily – and, in the future, solely – on the Dutch markets for mortgages and property finance, savings and investments. Our customers are especially private individuals and small and medium-sized enterprises (SME).

We want to stand out with:

- Several brands, allowing us to offer our customers the most suitable products through their preferred brands and distribution channels.
- Our focus on clients interests by developing and offering transparent and accessible products combined with good service and advice.
- Strong market positions based on transparent products with attractive price/quality ratios.
- A clear structured and cost-efficient organisation with shared IT systems and service centres to achieve economies of scale.

## 5.2 SWOT analysis

### 5.2.1 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. Following the Property Finance phase-out, SNS Bank will only be active in the Netherlands. SNS Bank is one of the medium sized players in the Dutch markets for mortgages and savings.
- Several brands.
  Our broad range of distinctive brands allows us to optimise our services to customers with different customer needs and thus increase our customer coverage. We manage our brands at the Group level.
- Efficient organisation.
  This refers to our short time-to-market, our ability to perform integrations quickly and efficiently, and our relatively low cost base.
- Corporate responsibility.
  We are committed to responsible products, service and operations. ASN Bank is the largest sustainable bank in the Netherlands.

### 5.2.2 Weaknesses

- Limited strategic flexibility due to capital support.
  In 2008 SNS Bank issued core Tier 1 capital securities in order to increase its core capital. Repurchase of this capital support has high priority, resulting in reduced strategic flexibility until the moment the capital securities are repurchased in full.
- Rating and financing costs.
  Due to the financial crisis of recent years, and particularly due to the organisation's exposure to the real estate markets, rating agencies have lowered the credit rating. This leads to higher financing costs.
- Brand recognition.
  Compared to the brands of the major players, some of SNS Banks' brands are lesser-known.
- International property finance portfolio.
  The property markets conditions are particularly difficult in a number of countries.

### 5.2.3 Opportunities

- 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. Customers also look for added value in brands they can identify with. Our multi-brand strategy allows us to capitalise on this aspect.
- Restoring confidence in financial institutions.
  Our mission Simplicity in finance and our core value CARE!, are focused on putting the client's interest first and helping to restore consumers' confidence in SNS Bank and in the financial sector as a whole.
- Rise of communities.
  New social media make it easier to set up communities of people with shared interests, for example on the basis of age, lifestyle, hobbies or social issues. SNS Bank’s multi-brand strategy allows it to capitalise on this aspect. Each of the brands can focus on the things relevant to their target groups.
- SME market.
  The SME market is a steadily growing market with often attractive margins on account of the specific services provided.
- Distribution of third-party products.
  The sale of third-party banking products in some product groups is unique in the Dutch market. This enhances our total product range and profitable growth and does not entail any additional demands on capital.

### 5.2.4 Threats

- Downward pressure on margins.
  Legislative and regulatory changes, increasing market transparency and the demand for affordable and simple products lead to new terms of competition and new market entrants. All market parties will have to bring their cost prices even more in line with the value of products and customer advice.
- Lack of confidence in financial institutions.
  The financial crisis has shaken consumer trust in financial institutions. If the financial sector does not succeed in restoring consumer trust, the demand for financial products will decline even further.
- Economy and the real estate and residential property markets.
  The real estate markets in which SNS Bank operates largely continue to be weak. The impairments on international property loans decrease, but maintain evident. The Netherlands is experiencing a (mild) recession, rising unemployment rates and a drop in prices and stagnation in the residential property market. This may lead to mortgage impairments, including lower sales volumes of home-related banking and other parts of the Dutch real estate market.
- Vulnerability in the event of capital market developments.
  Banks companies are dependent on the developments in the money and capital markets and are exposed to changes in interest rates and share prices. These markets are very volatile at the moment, in part because of their dependence on euro-related political policies and the high debts of a number of European countries. Financing our activities and protection of our capitalisation through the capital market can become more difficult and expensive as a result.
- New capital requirements, contribution to deposit guarantee scheme (DGS) and taxes.
  Regulations of regulatory authorities and developments in the financial markets lead to stricter requirements with regard to the amount and quality of the required capital. This will lead to higher capital and liquidity costs and possibly lower returns. Banks may be facing a change to the deposit guarantee scheme, with a requested advance contribution, and the introduction of a banking tax. This could lead to higher capital requirements and lower returns.
- Numerous legislative and regulatory changes.
  The laws and regulations applicable in the financial sector put material pressure on the sector and SNS bank’s organisation. Expectations are that this pressure will continue. In this respect think for instance of adjustments to products and product terms and conditions, data management, the risk management framework, reports and further education and training of employees. The increased regulatory pressure and the current climate in which the

financial sector now finds itself also result in a more (pro)active approach of national and international regulators. Their questions, consultations and requests, including an increased number of (stress) tests, put pressure on the organisation. This could come at the expense of productivity, innovation and results of financial institutions. 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. Also increasing the risk of legal claims.

## 5.3 Strategic challenges

Based on the SWOT analysis, SNS Bank has established the following strategic challenges:

- The Property Finance phase-out in order to improve the risk profile and financing options. This will put pressure on profitability.
- Strong capital management with a focus on terminating the capital support received from the State and SNS Foundation responsibly. The goal is to enhance the organisation's strategic flexibility and to maintain and enhance the trust that customers, lenders and other stakeholders place in SNS Bank.
- Winning, helping and retaining customers in order to raise our brands' vitality and the scale of our activities to a level that safeguards the implementation of our mission 'Simplicity in finance'.
- Reducing the cost base in order to further enhance the organisation's competitive edge and capital position.
  Structural cost reductions are necessary on account of
  - the growing demand for affordable, simple products
  - compete with new market entrants
  - increased market transparency
  - more stringent capital and liquidity requirements.

The phase-out of Property Finance and strong capital management are strengthening SNS Bank's foundation. We build our future by winning, helping and retaining clients and reducing the cost base. These strategic challenges determine our priorities in the years ahead. Chapter 4, Mission, core value and strategy includes a comprehensive overview of our strategy. Chapter 6, Strategy update presents the results we achieved in 2011 when facing our strategic challenges.

## 5.4 Ambitions

### 5.4.1 Net profit

Given the volatile and challenging market conditions, SNS Bank currently does not have any specific profit ambitions. We continue to build on an organisation returning to healthy profitability.

### 5.4.2 Capital and liquidity ratio

Our ambitions are as follows:

- A core Tier 1 ratio according to the EBA (European Banking Authority) standard of at least 9% before the end of June 2012.
- A core Tier 1 ratio of at least 10%.
- A loan to deposit ratio between 125% and 150%. End of 2011 this was 160%.

### 5.4.3 Market share ambitions

#### Market share targets

| | Ambition 2011 | 2011 market share | Ambition 2012 |
|---|---|---|---|
| Savings | 10% | 10% | 12-15% |
| Mortgages (new inflow) | 8-10% | 6% | 6% |

*Market share banksavings is SNS Bank's own estimate*

### 5.4.4 Aiming for measurable results

We want to reinforce our aim on measurable results. We have primary performance indicators that dovetail with our core value CARE! These are the following:

- Result and capital: net profit, efficiency ratios, solvency ratios, core Tier 1 ratio and liquidity ratios.
- Customers: Net Promotor Score, market shares.
- Each other: employee satisfaction, absenteeism.

### 5.4.5 Leading in corporate responsibility

It is SNS Bank's ambition to be leading in the Dutch market in financial services in corporate responsibility as from 2014. This means that SNS Bank will focus on the following for 2012 and beyond:

- Integrating corporate responsibility throughout our organisation's operations. This means in the governance structure, at the management and control levels of all of SNS Bank's business units and staff departments.
- Clear recognition and appreciation of corporate responsibility from our customers and other stakeholders.
- Additional growth in market share through corporate responsibility.

# 6 Strategy update

This chapter gives an overview of the progress made in our strategic priorities and the extent to which our ambitions for 2011 have been realised.

SNS Bank established its strategic priorities and ambitions on the basis of its market position and a SWOT analysis. For the SWOT analysis, strategic challenges and ambitions see chapter 5. We are fixing the foundations of SNS Bank through the priorities of phasing out Property Finance and strong capital management aimed at repaying the Dutch State (the State). We are building for the future through the priorities winning, helping and retaining customer and reducing the cost base.

## 6.1 Phasing out Property Finance

With the phasing out of Property Finance we are improving our risk profile and funding possibilities. For the moment this phase-out puts pressure on the profitability.

Despite the difficult circumstances in the real estate and financial markets, we have made strong progress with the phase-out of Property Finance. Commitments (gross loans including undrawn loans) have been reduced by € 1.3 billion to € 5.5 billion (-20%). The risk-weighted assets were strongly reduced. For more details on Property Finance see chapter 10.

## 6.2 Strong capital management to repay the State and the Foundation

Strong capital management increases our strategic flexibility and the confidence of customers, investors and other stakeholders in SNS Bank.

### 6.2.1 Independent, solid capital position

The focus is on repurchasing the received capital support (core Tier 1 capital securities received from the State) in a responsible manner, while maintaining a strong capital position by the end of 2013. As a result of the cooperative position of the SNS Foundation, we are not compelled to repurchase the core Tier 1 capital securities of the Foundation at the same moment as the Dutch State.

In light of this premise - maintaining our capital position - we did not repurchase any core Tier 1 capital securities in 2011. This is partly related to the increased capital requirements and the troubled financial market circumstances. Besides this, it is our ambition for SNS Bank to obtain a minimum core Tier 1 ratio of 10% in the long term.

In 2011 the Dutch Central Bank (DNB) asked the Dutch banks to draw up a Basel III migration plan. SNS Bank presented her Basel III migration plan mid 2011. Based on the current requirements this plan shows that no important additional measures have to be taken to satisfy the new requirements. For further explanation of Basel III see paragraph 11.3.2.

### 6.2.2 EBA standard for core Tier 1 capital within reach

SNS Bank had reported a core Tier 1 ratio of 8.6% as per 30 September 2011, based on Basel II including the 80% transition floor of Basel I for RWA calculation. Applying the EBA methodology, which includes the capital buffer in relation to sovereign debt, the core Tier 1 ratio was 8.2% as per 30 September 2011. To reach the EBA core Tier 1 ratio of 9%, SNS Bank needed to address a capital shortfall of € 159 million.

In the fourth quarter of 2011, SNS Bank's EBA core Tier 1 ratio had already increased from 8.2% to 8.8%, driven by both an increase of available core Tier 1 capital and a reduction of risk-weighted assets. In all, the EBA capital shortfall was reduced to € 32 million per 31 December 2011. SNS Bank will make sure it will have addressed the remaining shortfall by the end of June 2012.

The BIS ratio decreased from 16.7% at year-end 2010 to 14.4% as a result of redemptions of Tier 2 capital in the first half of 2011. In anticipation of these redemptions, SNS Bank had attracted € 500 million of Tier 2 capital in the fourth quarter of 2010. Furthermore, the BIS ratio decreased due to the lower Tier 2 exchange transaction in the fourth quarter of 2011 whereby lower Tier 2 debt was exchanged for senior debt.

### 6.2.3 Capital release programme update

Due to the very volatile financial markets, a major part of the positive impact on solvency of the released capital was offset in 2011. On balance, in 2011, SNS Bank managed to release approximately € 350 million in capital to year-end 2011 as a result of:

- The reduction of the SNS SME loan portfolio by € 1.6 billion in 2011 resulted in a decrease of risk-weighted assets by approximately € 1.2 billion, freeing up around € 96 million.
- Buy-backs of own funding paper, including the Tier 2 exchange in the fourth quarter, resulting in a capital release of approximately € 95 million.

### 6.2.4 Strong risk management

SNS Bank pursues a prudent risk management policy in line with the requirements of the Banking Code. In 2011, the main indicators were:

- Based on the outlook for 2012, qualifying conditions for new mortgages were made more stringent.
- Property Finance's credit risk management was enhanced. As a result, the management of complex loans improved and losses in relation to these loans were limited as much as possible.
- Solid solvency: core Tier 1 ratio 9.2% and Tier 1 ratio 12.2%. The ambition for the core Tier 1 ratio was increased from 8% to 10% in the long term.
- Total liquidity remained high at € 11.1 billion end of 2011, against € 11.9 billion end of 2010.
- The KPIs of senior management have additional elements included which relate to prudent risk management.
- Explicit statement on the possibility of adequate risk management upon introduction and changes to products.
- A lower concentration risk is actively pursued by reducing relative extensive financing.
- Strategy and policy are tested for, and adjusted if needed based on insights from the stress and scenario analysis.

## 6.3 Winning, helping and retaining clients

By winning, helping and retaining clients, we bring the vitality of our brands on to a level that secures the execution of our mission "Simplicity in finance" – also in the long term. The same applies to the scale and costs of our activities. We want to put our customers' interests first, structurally improve customer satisfaction and grow our brands in a long-term sustainable manner.

### 6.3.1 Customers' interests and satisfaction

**Improved and more focused measurement**

In 2011, SNS Bank brands collaborated on better methods to measure and monitor customer satisfaction. An important step was the introduction of the NPS (Net Promotor Score) measurement method for all retail brands. We use this method to measure the number of clients that is positive about a brand so that they would recommend it to family and friends. From this result, we deduct the number of clients that would advise against the brand. The NPS statistics, based on a representative sample, are conducted twice a year by an external agency. By standardising measurements, we can combine efforts to make improvements and learn from each other. We saw progress in all brands through the course of the year. Only ASN Bank scored well right from the start.

The most important scores, in percentages:

- SNS Bank from -50 at the start of 2011 to -33 year-end 2011
- RegioBank from -27 at the start of 2011 to -18 year-end 2011
- ASN Bank from 32 at the start of 2011 to 34 year-end 2011

Customer satisfaction in the entire financial sector has come under increased pressure in recent years as a result of developments in the financial sector. Among all surveyed Dutch banks and insurers, few had a positive NPS score in 2011, including ASN Bank.

**Learning from client dialogues**
SNS Bank improved the opportunities for clients to directly respond to, or give their opinion about products and services by adding special feedback pages on the website. Social media such as Twitter and Facebook too, make it easy for clients to comment on products and ask questions.

SNS Bank set up a Client Advisory Council in 2010. Four times a year, directors of SNS Bank meet with a mixed group of some twenty clients. In many cases, a member of the Executive Board of SNS REAAL is also present. Topics discussed are for instance; customer service and SNS Bank’s policy, the situation in the financial sector and corporate responsibility. Each meeting, the directors of SNS Bank given an update on what concrete action SNS Bank has taken with the advice from previous meetings.

In 2011, our clients talked with us about a broad range of personal experiences, such as the follow-up of mortgage advice, notifications of interest rate changes, the structure of mortgage and savings rates, activating a new debit card, closing or converting a current account, the lack of contact with SNS Bank after closing a savings account, improved web features for investors and combining mortgage advice with other financial advice. At SNS Bank’s request, clients assessed various services and working methods in terms of accessibility, simplicity and personal touch.

Since August 2010, SNS Bank has launched SNS Community, an online platform for all SNS Bank clients who:

- Want to express their opinion on statements, campaigns or commercials.
- Want to join in discussions and news polls or want to bring up subjects themselves.
- Want to ask SNS Bank employees questions and want to be kept informed on important developments within SNS Bank.

As of January 2012 we have a renewed platform SNS Community. This platform has increased functionality and more possibilities to do research. Every other week we put a simple or complex research question forward, upon which clients can give their opinion. SNS Bank uses the information from this group of clients for improvement of her services. At this moment there are 1,050 members. With the aid of the new platform and new strategy we want to increase the number of members.

ASN Bank makes the ‘Voor de wereld van morgen’ (For Tomorrow’s World) platform available to clients and interested parties, organises events and involves its clients in all kinds of sustainable initiatives, such as crowd funding and contests. Moreover, ASN Bank gave further meaning to dialogues with clients by the way it is moving forward towards implementation of its sustainable mission.

**Improving customer contact and service levels**
Service levels at SNS Bank improved. The number of complaints at SNS Bank declined considerably (37%). Contactability of SNS Customer service remained high (94%).

SNS Bank and RegioBank want to be close to their clients. We devote a lot attention to personal contact through the 204 SNS Shops, 67 of which are licensed to franchisees. Clients who were assisted by one of our employees will also be called by that same employee for the follow up. Whereas many banks are moving away from smaller municipalities, RegioBank is expanding its local network. The number of independent advisors rose. RegioBank is our banking formula for independent intermediaries who want to distinguish themselves when it comes to personal contact and advice.

ASN Bank gauges customer satisfaction after opening an account every month. Customers' tips and ideas are used to make the process simpler and easier.

**Simple, relevant products and appropriate advice**
Offering simple products is an assignment for all our business units. However, simplification is a process which takes time, and furthermore not possible to apply to products already sold. In developing new simple products and services we use feedback from our clients. SNS Bank for example asks feedback from her clients at every customer contact. The main results were:

SNS Bank, RegioBank and BLG have for the most part switched to the non-commission fee based sale of mortgages. Instead, the client pays a fixed advisory fee. In doing so, these brands are ahead of a legal prohibition on mortgage commission fees to be enforced in 2013. SNS Bank is a great advocate of the new tariff structure. It enhances transparency in the market and objective and expert advice.

ASN Bank reduced the number of regular savings accounts from five to one: ASN Ideaalsparen. Most clients now have better conditions. Customer fees on ASN's current account were reduced and terms and conditions improved. ASN Bank changed the names of five of its seven investment funds to better communicate the sustainable character of these funds. RegioBank reduced the number of current accounts from two to one and reduced its fee. SNS Bank had already strongly improved and simplified its range of savings products in 2010, at which time the number of savings products were reduced to six.

SNS Bank organised free e-banking workshops for clients and potential clients at various locations throughout the country.

## 6.3.2 Sustainable growth of our brands

**Multi brand strategy**
SNS Bank distinguishes itself in the Dutch market through a multi-brand strategy. This allows efficient and effective response to market developments. It allows us to direct common indicators, minimise brand overlap and take advantage of specific market opportunities.

We enhanced our formula policy in 2011 by ongoing segmentation and a stronger focus on growth opportunities and value creation. When positioning the brands, we pay more attention to the social-economic status, personal values and self reliance of customers these determine the client's preferred distribution channel.

This multi-brand strategy brings us closer to our clients' needs and desired brand perception than a one brand strategy would. The increase of our market share in the savings market from 9.5% to 10.0% can be partly related to this strategy. Various product improvements and marketing and communication initiatives contributed to the strengthening of the brands. You will find more information in chapter 9 Developments SNS Bank.

**Attracting new clients**
The total number of clients of our retail bank brands increased with more than 100,000 to over 2.9 million. This was mainly due to the attractive payment and savings products. As a result, total savings deposits rose from € 27.4 billion to € 30.3 billion (+11%). The introduction (SNS Bank) and improvement (ASN Bank) of interest-bearing current accounts contributed to this. Each brand developed its own tailor-made commercial initiatives to optimally achieve the target group. In the mortgage market, SNS Bank preferred risk control and increased liquidity buffers to growth. As a result, the market share in new mortgages declined from 6.4% to 5.8%.

**Retaining clients and offering a broader range of products**
SNS Bank expanded its range of third party mortgage products, allowing more clients to get an attractive offer that best suits their wishes and possibilities. Third party mortgage sales increased significantly.

The retention rate of existing mortgages was high. SNS Bank chooses retention of and providing high-quality service to its existing clients is more important than attracting new clients. At the end of 2011, SNS Bank decided to cease selling mortgages through intermediaries, mainly due to the shortage in the capital market and more stringent requirements on the capital buffer. Now that the number of SNS Shops and advisors has increased, SNS Bank is also able to serve more clients itself. For more information, see chapter 9 Developments SNS Bank, More sales, less production.

**Successfull new products**

SNS Bank launched SNS Betalen, an interest-bearing current account. The new current account has a number of extra advantages, such as SNS Kasboek (cashbook). This provides clients insight into the pattern of their spending and to compare it to other households. The launch was accompanied by a comprehensive advertising campaign with the message that everyone should be entitled to receive credit interest on their current account.

SNS Bank launched "SNS Jeugd Sparen" targeted at increasing savings among youngsters, an online account, including MijnSNS, the personal banking environment on the Internet.

## 6.4 Reducing the cost base

A cost base reduction will enhance competitiveness and result in an improved capital position, allowing the organisation to make a profit even in shrinking markets coupled with higher capital requirements.

Compared to 2010, the total adjusted operating expenses decreased from € 536 million to € 514 million (-4%). An important element was a reduction in the average number of FTEs from 2,639 to 2,426 (-8%). SNS Bank benefited from increased online sales and the conversion of SNS offices to SNS Shops.

Other important contributions to the cost reductions were cost synergies through the harmonisation and standardisation of IT-systems, more sharp procurement and adjustment of employment conditions.

Investments made by SNS Bank were mainly aimed at the continued improvement of the cost base in the coming years. The most important investments were related to the New World of Work and IT.

## 6.5 Realisation of ambitions

### 6.5.1 Net profit

At this moment SNS bank has no concrete profit ambition, given the volatile and challenging market circumstances. The changing circumstances on the financial markets, the deteriorated economic prospects and heavily modified laws and regulations made this necessary. We will continue to build an organisation that returns to healthy profit levels.

### 6.5.2 Market share ambitions

See paragraph 5.4.3 Market share ambitions for the realised market shares in 2011 and the ambitions set for these market shares.

### 6.5.3 Management by performance indicators

SNS Bank wants to enhance management by means of quantifiable results. SNS Bank has key performance indicators that are in line with our core value CARE!.

For realised capital and liquidity ratios, we refer to the section above and for other realised financial ratios to our Key figures. In 2011, SNS Bank launched the Net Promotor Score (NPS) to measure and monitor customer satisfaction throughout the Group.

For more information on employee satisfaction and absenteeism, see chapter 13 Our people.

### 6.5.4 Corporate responsibility update

In 2011, the Corporate Responsibility (CR) strategy was reformulated and tightened. The CR department developed policies to further embed CR in our daily activities. For their core activities, the major business units included CR objectives and ambitions in their operating plans for 2012. Thus, customer and employee satisfaction is structurally measured.

# 7 Outlook 2012

The debt crisis in Europe has led to government spending cuts, low consumer confidence, and shortages on the capital market. Banks must take precautions and retain a lot of liquidity and capital as a result of stricter requirements. This puts profitability in the sector under pressure and limits lending. SNS Bank is focusing on improving its capital position and risk profile, and increasing its profitability. We are doing this by continuing to reduce property financing, achieving growth in savings, increasing returns on sales, and lowering costs. We distinguish ourselves with transparent, accessible products and high quality service.

## 7.1 Financial markets in 2012

### 7.1.1 Equities: moderately positive with many uncertainties

The Netherlands and the majority of other European countries will probably be confronted by a mild recession. Unemployment is expected to increase and the disposable income of many Dutch people will decrease. However, the forecast for global economic development is moderately positive, despite the problems in Europe. The economic recovery in the United States appears to be continuing, and the monetary policy of central banks is no longer restraining growth in emerging markets. At the start of 2012, equities appeared to be inexpensive in relation to current and anticipated profits. Although the macroeconomic developments are moderately positive, prudence is recommended. The risks are extremely high due to the major uncertainties arising from the euro crisis.

### 7.1.2 Interest rates low, risk surcharges high and volatile

Economic growth slowed down in the euro zone at the end of 2011. The European Central Bank then cut its official interest rate in two steps to 1.00%. As a result of the uncertainties in the financial markets, the risk surcharges that investors charge banks and peripheral euro countries are, however, very high. These risk surcharges will remain high as long as there are no political solutions or clear economic improvements in the debt positions of the peripheral euro countries. Due to the high borrowing charges on the capital market, banks will focus even more sharply on the savings market and borrowing at the ECB. Competition between banks may result in lower savings margins and on available funding.

The ECB's interest rate policy depends mainly on the inflation trend. With a deepening of the debt crisis, inflation may turn out to be moderate. With returning confidence in the euro as a result of political solutions, inflation and thus the ECB's interest rate can increase somewhat. But, in that case, the risk surcharges can decrease again.

## 7.2 Trend: changes in the distribution landscape

The financial sector's distribution landscape is changing significantly under pressure of laws and social trends. Major changes that SNS Bank has had to face – and will have to cope with in future – are:

Tax benefits via bank savings products.
Up until 2008, it was mainly the life insurers that provided the distribution of products for tax-assisted capital growth. Bank savings products were introduced in 2008, which provide customers with banking alternatives. Bank savings products have grown strongly since then, at the expense of more complex life insurance products that combine capital growth with guarantees and/or insurance policies. Bank savings products are often combined with pure life insurance products, such as term insurance policies and immediate annuities. SNS Bank is well positioned in this market with its combination of banking and insurance operations. Bank savings products are expected to remain a growth market for the time being.

Remuneration via agreement between customer and advisor.
Effective from 1 January 2013, commission will be prohibited for complex products for capital growth and mortgages. Instead of this commission, the advising body (bank or intermediary) will receive remuneration on the basis of an agreement with the customer. The separation between product price and advisors' fee means more transparency for the customer. For producers and advisors this means that, to remain competitive, they must align the prices they offer more

strictly to the customer value they deliver. SNS Bank has already partly changed over to this new pricing model and is adapting the organisation further in order to respond properly to these requirements.

Ban of distribution fee for investment funds.
The Ministry of Finance has stated it wants ban on the distribution fee from providers of investment funds to distribution partners. The current fee concept includes the possibility that investment advice from distributors is (partly) based on financial gain and is thus not objective. Financial institutions must therefore develop a new business model for distribution of investment funds.

Increase in direct selling of simple products.
For simple products, consumers are increasingly opting for purchasing a product without the intervention of an intermediary. Gathering information and comparing products oneself has become increasingly easier as a result of the improvement and expansion of information available online. This trend is clearly visible, especially with savings and private non-life insurance policies. SNS Bank can respond well to this development with its multi-brand strategy and diversification of distribution channels. For example, the selling of non-life insurance via SNS Bank is increasing considerably. Our own advisers and intermediaries remain essential for many products, but cost efficiency and the provision of demonstrable customer value are more important.

## 7.3 Product markets in 2012

SNS Bank mainly expects growth in the market for (bank) savings. The markets for investing, mortgages and property finance are not likely to show growth.

- Mortgage market remains under pressure
- Continued growth of (bank) savings
- Still no turnaround in property market

### 7.3.1 Mortgage market remains under pressure

We expect a decline in the mortgage market in 2012. House prices will probably continue to fall and the number of transactions will continue at a low level. The development of the market will also depend on the progress of the euro crisis and economic developments that are partly related to this situation. The political decision-making concerning income tax friendly policies related to interest on mortgages and the issue of whether or not to stimulate the housing market will also play a major role.

The number of owners of mortgages with payment arrears will probably increase. Reasons could include: lower income due to unemployment, double mortgage payments when the old property remains unsold, and/or negative equity, a mortgage value that is higher than the price realised when the house is sold.

SNS Bank holds a mortgage portfolio with a risk profile in line with the Dutch market. The profitability of new mortgages could develop healthily as a result of reducing costs reductions and increased efficiency. We are achieving this with our focus on selling via SNS Shops and intermediaries who sell our BLG mortgages. In 2012, SNS Bank will no longer sell mortgages under the SNS or BLG brand to large chains and service providers.

The increased number of SNS Shops and SNS advisors means we can serve more customers ourselves. In a period of capital scarcity, SNS Bank prefers to serve existing customers rather than attracting new customers.

Contrary to the above mentioned healthy developments of the mortgages, credit losses are expected to increase. Due to the high percentage of NHG (guaranteed) mortgages and the vigilant and proactive management of mortgages with payment arrears, these losses will be less than the market average.

### 7.3.2 Continued growth of (bank) savings

The euro crisis and the economic situation is encouraging thriftiness in 2012. Because the income of many households is declining or not growing, growth is not expected to be large. A positive incentive is based on maturing investment insurance policies. This is especially true for bank savings. This market is continuing to grow strongly. The bank savings products are a tax-beneficial, simple, and low risk solution for capital growth in the long term. Whether the enthusiasm for investing will increase again in 2012 is uncertain. Since the start of the financial crisis in 2009, the interest among private individuals has not yet returned to its level of the preceding years.

SNS Bank, with its multi-brand strategy, is well positioned to continue gaining market share in the savings market in 2012. Success factors include:

- Trusted brands and spreading of risks.
  In uncertain times, people opt for trusted brands and for spreading the risks. SNS Bank, with various retail bank brands, can therefore be beneficial.
- Positioning in bank savings.
  In the market for bank savings, as a bank-insurer with a strong and extensive distribution network, SNS Bank can benefit well from the anticipated growth.

Competition in the savings market is likely to increase because of developments in capital markets and regulation. This will put pressure on the margins.

### 7.3.3 Still no turnaround in property market

Market conditions remain difficult in the majority of property markets in which Property Finance operates. The situation in the Netherlands will probably worsen in 2012. Demand is starting to pick up slowly in some regions of the United States.

Property Finance will be reducing its portfolio during the next years. SNS SME also expects its portfolio to be further reduced in 2012, due to the maturing of loans and possible sales of sub-portfolios. By reducing risk-weighted assets, SNS Bank wants to increase its buffer capital and free up capital for the redemption of the capital support. The SNS SME portfolio comprises SME mortgages and investment financing in the Netherlands.

# 8 Financial outlines

SNS Bank excluding Property Finance reported a net profit of € 286 million. SNS Retail Bank showed a healthy growth in net profit. The problems in Property Finance made it appropriate to make a big step towards a solution. For this reason the provisions were strengthened. As a result SNS Bank reported a loss of € 431 million in 2010. Capital and funding positions are solid, despite this loss.

## 8.1 Results 2011 compared to 2010

For the year 2011, SNS Bank reported a net profit of € 38 million, compared to a net loss of € 431 million for the year 2010. The main factor behind this rebound was the sharply lower net loss at Property Finance which decreased by € 395 million.

Excluding Property Finance, the core activities of SNS Bank posted a net profit of € 286 million compared to € 431 million for the year 2010.

SNS Bank's net profit increased strongly in spite of a € 20 million net impairment charge on Greek government bonds and higher loan impairment charges. This increase was due mainly to the net gain of € 84 million from the lower Tier 2 exchange transaction and higher net interest income.

At Property Finance, the net loss narrowed sharply, with lower loan impairments and the absence of goodwill impairments which impacted the 2010 result adversely more than compensating for lower net interest income.

## 8.2 Impact of one-off items

At SNS Bank, the net impact of one-off items amounted to € 20 million negative, consisting of an impairment charge on Greek government bonds to reflect the market value. The Greek bonds mature in March 2012.

### Impact of one-ff items on SNS Bank's net result

| *In € millions* | 2011 | 2010 |
|---|---|---|
| Net result for the period at SNS Bank | 262 | 212 |
| Net result for the period at Property Finance | (248) | (643) |
| **Total net result for the period** | **14** | **(431)** |
| Impact of one-off items at SNS Bank | (20) | -- |
| Impact of one-off items at Property Finance | -- | (68) |
| **Total one-off items** | **(20)** | **(68)** |
| Adjusted net result for the period at Retail Bank | 282 | 212 |
| Adjusted net result for the period at Property Finance | (248) | (575) |
| **Total adjusted net result for the period** | **34** | **(363)** |

## 8.3 Operating expenses

Total operating expenses in 2011 decreased by € 3 million (-1%). Total adjusted operating expenses decreased by € 22 million (-4%). This decrease was driven by lower expenses at SNS Bank (- € 21 million) and Property Finance (- € 2 million).

## Total operating expenses SNS Bank

| *In € millions* | **2011** | 2010 | Change |
|---|---|---|---|
| Total operating expenses | 573 | 576 | (1%) |
| **Adjustments** | | | |
| Restructuring charge at SNS Bank (SNS SME) | 4 | 4 | |
| SNS Retail Bank's share in savings guarantee scheme | (1) | -- | |
| Expenses related to winding down portfolio Property Finance | 56 | 36 | |
| **Total adjustments** | **59** | **40** | |
| **Total adjusted operating expenses SNS Bank** | **514** | **536** | **(4%)** |

At SNS Retail Bank, the targeted annual cost savings from the new distribution strategy of € 35 million were realised by year-end 2011.

# 9 Developments SNS Bank

As of 1 January 2011, the activities of the business unit SNS Bank consist of SNS Retail Bank and SNS SME. SNS Bank's total net result rose from € 212 million to € 262 million (+24%), driven by an increase in net interest income, savings portfolio growth, cost savings and a lower Tier 2 exchange transaction. These amply exceeded the higher impairments on loans. The total number of unique customers of the retail bank brands grew by more than 100,000 to over 2.7 million.

**SNS Bank**

| *In € millions* | 2011 | 2010 | Change |
|---|---|---|---|
| SNS Retail Bank | 248 | 139 | 78% |
| SNS SME | 38 | 73 | (48%) |
| **SNS Bank** | **286** | **212** | **35%** |

## 9.1 SNS Retail Bank

### 9.1.1 Strategy

The clients of our retail bank brands are mainly private individuals in the Netherlands. The brands' products are savings, payments, mortgages and investments. The SNS Retail Bank brands complement each other, in line with SNS Bank's multi-brand strategy. The brands differ in their product ranges, distribution channels, primary target groups and brand experience, but profit from efficiency benefits resulting from close collaboration in ICT, product development and procurement.

All brands want to be close to their customers and help them to be financially independent, whereby each brand has its distinctive approach to this. A brief description of the different formulas:

- 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 advisors.
- ASN Bank is the brand for sustainable savings, investment and payments and sells its products solely over the internet, telephone and by mail.
- RegioBank is the bank formula for intermediaries not located in large cities, focusing on local and personal service.
- BLG Hypotheken is the specialist intermediary brand for mortgages.

SNS Retail Bank seeks to reinforce its distribution capabilities.
SNS Retail Bank's key objectives are to further develop on-line sales, even closer mutual collaboration, a nationwide network of compact SNS Shops and RegioBank intermediaries, a complete product range based on its own standardised products as well as third-party products, and continued growth.

## 9.2 Financial developments SNS Retail Bank

### SNS Retail Bank

| *In € millions* | 2011 | 2010 | Change |
|---|---|---|---|
| **Result** | | | |
| Net interest income | 606 | 566 | 7% |
| Net fee and commission income | 79 | 85 | (7%) |
| Investment income | 45 | 47 | (4%) |
| Result on financial instruments | 155 | 9 | 1622% |
| Other operating income | 2 | 1 | 100% |
| **Total income** | **887** | **708** | **25%** |
| Impairment charges to loans and advances | 82 | 59 | 39% |
| Other impairment charges | 119 | 4 | 2875% |
| Total operating expenses | 355 | 459 | (23%) |
| **Total expenses** | **556** | **522** | **7%** |
| **Result before tax** | **331** | **186** | **78%** |
| Taxation | 83 | 47 | 77% |
| **Net result for the period** | **248** | **139** | **78%** |
| One-off items | (20) | -- | 0% |
| **Adjusted net result for the period** | **268** | **139** | **93%** |
| Efficiency ratio | 51.8% | 64.8% | |
| Impairment charges to loans and advances as a % of gross outstanding loans to customers | 0.15% | 0.11% | |
| Risk-weighted assets Basel I (80%) | 12,001 | 11,555 | 4% |
| Savings | 30,342 | 27,398 | 11% |
| Loans and advances to customers | 54,338 | 52,030 | 4% |

*Impairment charges as a % of average gross outstanding loans to customers are for 2010 figures not calculated on the basis of average figures because these are not available for the new segment classification of SNS SME and Property Finance.*

### 9.2.1 Results 2011 compared to 2010

Both commercially and financially, 2011 was a good year for SNS Retail Bank. The bank welcomed 104,000 new customers with overall customer satisfaction levels improving. ASN Bank continues to have one of the highest customer satisfaction rates in the industry and expanded its customer base supported by an award-winning TV advertising campaign. The repositioning of RegioBank is nearing completion and its increased presence in smaller communities is paying off. RegioBank is contributing to the growth of SNS Bank, particularly in bank savings.

Net profit increased by € 109 million to € 248 million (+78%). Adjusted for the one-off impairment charge on Greek government bonds of € 20 million net, net profit was up by € 129 million, due mainly to a gain of € 84 million net from the lower Tier 2 exchange transaction. Excluding the impairment on Greek bonds and the gain from the lower Tier 2 exchange transaction, net profit increased by € 21 million due to higher net interest income and lower operating expenses, compensating for considerably higher loan impairments.

## 9.3 Income

Net interest income increased markedly by € 40 million (+7%) driven by an improved funding profile. Net interest income in 2011 benefitted from the implementation of the harmonisation of the funding costs methodology between SNS Retail Bank, SNS SME and Property Finance.

The savings portfolio increased by € 2.9 billion (+11%), with the second half of the year registering a slight decline. Bank saving balances, included in total saving balances, grew strongly by € 628 million to € 1,331 million (+89%). The increase in saving balances was supported by SNS Bank's competitive interest rates and the good performances of ASN Bank and RegioBank. SNS Retail Bank's market share in savings increased to 10.0% (2010: 9.5%). The loan-to-deposit ratio of SNS Retail Bank improved from 156% at year-end 2010 to 147%.

Net interest income from mortgages was impacted by the sale of subordinated RMBS tranches (e-notes) and the sale of a mortgage portfolio to REAAL as part of the capital release programme in the fourth quarter of 2010. SNS Retail Bank's residential mortgage portfolio of € 51.4 billion was up € 2.1 billion. Of this, € 2.2 billion was caused by the transfer of mainly securitised retail mortgages from DBV as at 1 January 2011. The transfer of these mortgages did not have a material impact on net interest income. Organically, SNS Retail Bank's residential mortgage portfolio remained almost stable, supported by high retention rates. The market for new residential mortgages in the Netherlands decreased by 1.5% in 2011. SNS Retail Bank's market share of new residential mortgages was 5.8%, down compared to 2010 (6.4%).

Net fee and commission income decreased, due mainly to lower fees on insurance products related to retail mortgages. Management fees increased significantly. Compared to year-end 2010, assets under management increased by € 1.3 billion to € 6.0 billion, fully driven by the rebranding of € 1.7 billion of AXA investment funds to SNS investment funds. Assets under management at SNS Fundcoach declined by 20% to € 611 million due to lower equity markets.

Investment income remained stable at € 45 million and consisted mainly of trading results and realised results on the fixed-income portfolio.

The result on financial instruments increased by € 146 million, driven fully by buy-back results on own funding paper. These results amounted to € 156 million, including a gain on the lower Tier 2 exchange transaction in the fourth quarter of € 112 million (€ 84 million net). In 2010, buy-back results had amounted to € 26 million. The higher buy-back results were partly offset by negative fair value movements of the DBV mortgage portfolio.

## 9.4 Expenses

Total operating expenses were € 16 million lower (-3%) driven by a reduction in the number of staff. Costs in 2011 included a release of € 1 million related to SNS Retail Bank's share in the savings guarantee scheme comprising a charge of € 6 million in the first half year followed by a release of € 7 million in the second half due to the final calculations of SNS Retail Bank's share related to Icesave and DSB.

SNS Retail Bank has completed its repositioning programme. The related targeted annual cost savings of € 35 million were realised by year-end 2011 and will have a full-year impact in 2012. The lower operating expenses in combination with higher total income, driven mainly by the gain from a lower Tier 2 exchange, led to a sharp improvement of the efficiency ratio to 51.8%. Excluding the gain from the Tier 2 exchange, the efficiency ratio was 59.6% (2010: 64.8%).

Impairment charges to loans and advances increased sharply by € 23 million to 15 basis points of group outstanding loans from 11 basis points in 2010. This increase was due mainly to a charge in the fourth quarter related to increased prudence in credit risk models, to reflect the current market environment. Furthermore, impairment charges increased due to lower recovery amounts on mortgages as a result of pressure on housing prices.

Other impairment charges amounted to € 31 million and consisted mainly of the impairment of Greek government bonds of € 27 million, classified as available for sale, to reflect market value. Impairments on tangible fixed assets amounted to € 3 million.

## 9.5 Credit risk

Housing prices in the Netherlands declined throughout 2011. The price index of existing home sales fell 2.3% year-on-year and the number of homes sold was down 4.3% year-on-year. The weak housing market lengthens the recovery period of loans in default and lowers the final recovery amount.

A new code of conduct for banks operating in the Netherlands came into effect as of 1 August 2011. The code limits new residential mortgages to 104% (plus tax, currently 2%) of the purchase price, instead of the previous limit of 112% (plus 6% tax). It also requires, in addition to a more thorough assessment of the financial capacity of the borrower, a compulsory redemption of 50% of the market value during the maturity of 30 years. The new code and the uncertain economic outlook are expected to keep activity on the mortgage market subdued.

As a result of the modest economic growth and weak housing market in the Netherlands, loans in arrears at SNS Retail Bank increased from € 1.616 million to € 1.792 million at year-end 2011 and as percentage of gross loans from 3.10% to 3.28%. However, as of the second half of 2011 the increase in arrears is slowing down compared to both the second half of 2010 and the first half of 2011. Also, the quality of new inflow of mortgages is improving thanks to stricter standards and an increase in mortgages covered by the Dutch Mortgage Guarantee Scheme (NHG).

At SNS Bank 55% of new mortgage production in 2011 was covered by the Dutch Mortgage Guarantee Scheme (NHG). Of the total mortgage portfolio, 18.0% is now covered by NHG. The weighted average indexed Loan to Foreclosure Value (LtFV) stood at 92% as at end 2011 compared to 88% at year-end 2010.

## 9.6 Organisation and distribution

### 9.6.1 SNS Bank: innovation through simplicity

SNS Bank has made online banking even simpler and more comprehensive for its customers. In 2011 SNS Bank offered, first of the large Dutch banks, as a novelty an interest-bearing current account. In 2010 SNS Bank strongly simplified its range of savings products. Furthermore SNS Bank alerts customers if they can transfer to a savings account with better terms.

On the website customers can indicate after a search order directly if they are satisfied with the information offered. This direct feedback enables SNS Bank to continue further improvement of her website. In addition the SNS Kasboek (cashbook) has been introduced for improved budget management. On the customer service page, customers can now simply provide their input or ask questions through social media such as Twitter. Since 2011, SNS Bank has also maintained contact with its customers through Facebook. The SNS Bank website offers all kinds of tools for disabled people. SNS Bank remained the only bank in the Netherlands in 2011 to have received the title ‘Drempelvrij’ by Stichting Waarmerk Drempelvrij, which testifies to the accessibility of its website.

SNS Bank involves customers in the development and improvement of products and services, for example through the SNS Community, the customer forum and contests. One example in 2011 is the new iPhone app, which has been developed based on ideas generated through a contest.

SNS Bank wants to be close to its customers by means of its shops and advisors. The number of old SNS offices decreased further to 18 and the number of new SNS Shops rose from 89 to 137. The number of franchisers’ shops of the bank grew from 47 to 67. Many former insurance intermediaries are attracted to our franchise formula. The new SNS shops are often situated on category A locations and facilitate easy access to information and personal advice as well as assistance with online banking. Consultations, after prior arrangement, take place at the shops, at customers’ homes or elsewhere.

Customer satisfaction at SNS Bank, based on the NPS measurement method, rose from -50% at the beginning of 2011 to -33% at the end of 2011. The number of complaints fell considerably by 37%. With a 94% service level, the accessibility of the SNS customer services remained at a high level.

### 9.6.2 ASN Bank: continued growth

ASN Bank again reinforced its leading position in the sustainable-banking market. The total number of customers rose by 58,442 (+11.3%). 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 sustainability policy, product policy, customer service and marketing have created a strong brand reputation and high customer satisfaction levels. ASN Bank mainly focuses on market for private individuals. In addition, she also accepts social organisations and companies as customers, on the condition that they act according to the responsible business principles of ASN Bank.

In 2011, ASN Bank further elaborated its dialogue with customers about the specifics of its sustainability mission. ASN Bank involved its customers and other interested parties in the amendment of its human rights policy. Through social media (crowd sourcing) and a meeting, ASN Bank availed itself of the vision and expertise of hundreds of customers, stakeholders and experts like John Ruggie. She used this in order to fine-tune its issue paper on human rights. In June 2011 the UN human rights council adopted the Guiding Principles on Business & Human Rights. ASN Bank incorporated these guidelines into her issue paper on human rights.

In addition the bank gave substance to the themes chosen by customers through collaboration with strategic partners. On behalf of customers with Ideaalsparen (Ideal savings account) and credit card holders ASN Bank supports projects of these partners. Each year a portion of the profits flows directly to the projects associated with the chosen themes.

ASN Bank was the first bank to introduce a switch-support service for new customers with a personal switch-over team. She improved also the website's navigation structure. The first TV advertising campaign was launched in 2011 in order to enhance people's knowledge of ASN Bank and its sustainability policy. Surveys revealed that many people who are interested in sustainability or sustainable banking did not yet know ASN Bank. Furthermore the bank expanded her Sustainability and Research Department. ASN Bank now independently performs all activities regarding policy-making, company assessments and research.

Customer satisfaction at ASN Bank, based on the NPS measurement method, rose from 32% at the beginning of 2011 to 34% at the end of 2011.

### 9.6.3 RegioBank: personal contact and advice

RegioBank is our banking formula for independent advisors (intermediaries). The formula is based on personal contact and advice. As many other banks are leaving the less crowded towns, RegioBank meets a growing need for local bank branches that provide personal service, including teller services. RegioBank has a flexible and low cost structure, in part because of the good alignment with the common systems of our retail bank brands.

It appeared that the difference between SNS Regio Bank and SNS Bank was not clearly enough perceived by various target groups, despite different positioning. Therefore, in January 2011, SNS Regio Bank name was changed into RegioBank. This change is well received by customers and intermediaries. At the end of 2011, RegioBank collaborated with approximately 530 independent advisors throughout the Netherlands.

Customer satisfaction at RegioBank, based on the NPS measurement method, rose from -29% at the beginning of 2011 to -18% at the end of 2011. The satisfaction of independent advisors working together with RegioBank rose from 63% to 82%.

### 9.6.4 Efficiency through central service centres

Transaction processing of all brands of the SNS Bank business unit is centralized in service centres with respect to payments, savings, mortgages, investments and customer processes. In 2011, the quality of services rendered to customers has been further enhanced, in part by means of the standardisation and automation of processes. It is now even easier for customers to choose products they can identify with. The following in particular contributed to increased efficiency and customer focus:

- Increased automation for opening current or savings accounts, which has made this even easier and faster.
- Integration of processes of various mortgage activities.
- Outsourcing of part of the investment processes.
- Enhanced harmonisation between service centres and the bank's internet channel and between SNS Bank and REAAL. The speed and accuracy of sales and administrative processing of insurance policies at SNS Bank increased as a result.
- System modifications for more efficient compliance with new regulations, including assessing customers' creditworthiness and identifying money-laundering schemes.

### 9.6.5 Awards

Our retail bank brands again received many awards in areas such as customer service, customer friendliness, customer focus, best financial website, best online presence, online opening of savings accounts, most flexible current account, most flexible mortgage and best investment funds.

## 9.7 Commercial developments SNS Retail Bank

### 9.7.1 Savings and payments

**Further market share growth**

The total Dutch savings market, including bank savings, grew from € 291 billion to € 306 billion (+5.2%). SNS Retail Bank's market share continued to grow, increasing from 9.5% to 10.0%. As at year-end 2011, total savings amounted to € 30.6 billion, representing an increase of approximately 58% in four years. As a result, retail funding rose from 64% to 67%, further decreasing the bank's funding dependence on the capital market.

Savings balances strongly increased in the first six months in particular. Customer interest rates rose in the second half of the year. The strong growth was the result of a number of factors. The product range, which was strongly simplified in 2010, makes it even easier for our customers to compare and select products online. When they can switch to a savings account with better terms and conditions, they receive a message from MijnSNS (their personal banking environment) or a telephone call. This service is much appreciated by our customers. The number of customers who left us in 2011 fell, compared to 2010.

**Interest on SNS Bank current account attracts customers**

In 2011, SNS Bank was the first major Dutch bank to introduce an interest-bearing current account. This new product was only introduced at the end of the year, nevertheless attracted almost 21,000 new SNS Bank customers in 2011. The introduction was underpinned by an intensive campaign, spreading the message that everyone is entitled to receive interest on their current accounts.

A new service available to all customers with a current account is SNS Kasboek, which makes it easy to track income and expenses. Customers can set budgets and (anonymously) compare their income and expenses with those of other SNS Kasboek users. SNS Kasboek is in line with SNS Bank's mission to help customers gain financial independence by giving them control of and insight into their finances.

**Strong growth ASN Bank savings balances**

ASN Bank contributed approximately 31% to SNS Retail Bank's total net savings growth, mainly driven by a strong increase in the number of customers and high customer loyalty.

As from 1 January 2011, ASN Bank reduced its five regular savings accounts to a single simple and transparent product without 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. In addition, the bank introduced the ASN Jongerenrekening, a current account for young people aged 12 to 25.

During 2011, ASN Bank improved the terms and conditions of its interest-bearing current account, which was offered as one of the first banks. The monthly fee for the principal account holder and the credit interest rate in the event of overdrafts were both lowered. ASN Bank also introduced an iPhone app for up-to-date balance information.

**Customer retention high at RegioBank**

RegioBank contributed approximately 21% to the net savings growth at SNS Retail Bank. Customer retention was very high, partly as a result of its local and personal service.

RegioBank reduced the number of regular current accounts for private individuals from two to one. All customers with the more expensive package, Basis Betalen, were transferred to the cheaper package, Plus Betalen. In addition, RegioBank has an account for children, that offers increasingly more options as the children grow up. Partly because of RegioBank's involvement in the foundation Weet Wat Je Besteedt , the minimum age for requesting an overdraft was raised from 15 to 18 years. In 2011, RegioBank enhanced its payment services for SME and self-employed persons with fixed and mobile payment terminals and online payment options. At the end of 2011, RegioBank introduced a special account for self-employed persons, the ZZP Rekening, on the basis of transaction bundles and online banking. The ZZP Rekening is easy to combine with a personal account in one personal internet environment.

In 2011, RegioBank was praised in many surveys regarding the quality of its products, including the following:

- Highest score and best buy for various savings products according to the Dutch Consumers' Association in February and December.
- Maximum valuation for Eigen Huis Sparen, Spaar-op-Maat Vrij and Bonus Sparen by Moneyview in June.
- Third rank current account package Plus Betalen at the Dutch Consumers' Association in July.
- Lijfrente Opbouw most flexible life annuity product according to Moneyview in November.

**Continuing growth bank savings**

Bank savings increased with € 628 million to € 1.3 billion. Bank saving products are simple, transparent products with relative low risks and low costs enabling our customers to benefit from tax exemption to the greatest possible extent. That explains their growing popularity. In 2010, SNS Bank expanded its product range, in collaboration with the other retail bank brands and REAAL. Sales of pension related products and severance pay were up approximately 90% in 2011. The figures are exclusive of bank saving for mortgage redemption.

RegioBank improved its support to independent advisors. The advisor has an option with bank savings products for supplementary pension accruals to convert their product fee into a higher interest rate for customers and additionally charge a separate fee. RegioBank and REAAL improved their approach of visitors to the website. By means of a calculation model, customers can gain insight into the financial impact of products on their own situation and immediately request a meeting with an advisor. At the end of 2011, all brands had the best interest rates in the market on the interest periods most commonly used at our organisation.

Bank savings products can be divided into wealth creation products and benefit products. You can create Wealth creation is an addition to a pension and/or following a severance payment. The benefit products serve as an addition to the pension and/or for the payment of an amount that has been built up following a severance payment. Bank savings can also be used for mortgage redemption.

## 9.7.2 Mortgages

**Losses still limited despite stagnation in residential property market**

Volumes in the Dutch new mortgages market showed a limited decline, from € 67 billion in 2010 to € 64 billion in 2011. The number of mortgage transactions decreased by approximately 4.6% to 246,000, while the average transaction amount increased about 2%. The number of defaults at SNS Retail Bank rose slightly and the scope of write-downs increased. The number of write-downs (611) was only limited, but still increased. The number of payment arrears on mortgages showed a limited increase as well of 2.7%. SNS Bank's risk profile remained moderate as a result of the high rate of new mortgages covered by the National Mortgage Guarantee Scheme (NHG). This rate grew from 48.3% to 55.2%.

The lower and middle segments of the residential property market, in which SNS Retail Bank is well represented, still had only a limited exposure to price drops in 2011. The average amount of registered new mortgage loans extended by SNS Retail Bank in 2011 was € 220,000 compared to a nationwide average of € 267,000. In consultation with the Ministry of Finance, the Dutch banks agreed on stricter rules for taking out a mortgage. The mortgage may not exceed the maximum of 104% of the property plus transfer tax. For interest-only mortgages this upper limit is set at 50%.

In addition there are stricter income composition standards that determine the maximum amount. In this way banks are limiting the risks on new mortgages. Consumers themselves are also becoming more cautious. A growing number of home owners create additional wealth to repay their mortgage loans.

**Sharing ideas, also with payment difficulties**

Since 2010, SNS Retail Bank has a Special Credits department responsible for customers who want to pay their mortgages but are no longer able to do so. The account managers try to offer solutions and provide assistance. The number of customers facing financial difficulties has increased since last year, for example as a result of unemployment, divorce or lower income. SNS Bank wants to make a distinction between people with poor payment ethics and people who act entirely in good faith.

The SNS Bank account managers visit customers at home, familiarise themselves with the financial situation, make suggestions to limit expenses and/or increase income and then try to find a solution together with the customer. Such a solution is always much more beneficial to both parties than a foreclosure sale by means of an auction.

**More sales, less production**

SNS Bank wants to establish more firmly its position as advisor. The growth in the number of SNS Shops, the range of third-party mortgages and additional training for our advisors underpinned this development. SNS Bank introduced fixed advisory fees, anticipating the ban on commission fees scheduled to take effect in 2013. This enhances the market's transparency and removes any (alleged) benefit of the sales person in maximising the mortgage amount.

At the end of 2011, the decision was made to discontinue the sale of SNS mortgages through intermediaries under our own brand name. As a result, SNS Bank has become the exclusive house brand within the range of direct sales. Mortgages under the brand name BLG will continue to be available through the independent intermediaries. The main reason is that the business unit SNS Bank finds it more important to serve existing customers well instead of attracting new customers.

SNS Bank's own mortgage, the SNS Plafondrente Hypotheek (capped rate mortgage), remained popular in 2011, comprising approximately 21% of the sales effected through its own sales channel. This product positively capitalises on customers' need for a limitation of risks. Customers taking out this mortgage benefit from interest rate decreases, but are also assured that interest rates will never exceed the agreed interest rate cap.

In collaboration with the website Huislijn, SNS Bank introduced the home searching service Mail Mijn Huis, which informs (potential) customers by e-mail about the current supply of owner-occupied and rented homes that meet their desires. This service brings (potential) customers in contact with SNS Bank in a positive way even before they start looking for a mortgage. In 2011 there were also various promotions, such as an interest discount of 0.2% on the interest rate cap of the SNS Plafondhypotheek and four free insurance policies with an SNS mortgage.

**Most mortgages through RegioBank and BLG Hypotheken**

The indirect channel was responsible for the majority of sales (excluding franchisers' shops), with 74% (2010: 83%), 18% of which (2010: 23%) was achieved by RegioBank advisors and 61% (2010: 77%) by independent intermediaries carrying our intermediary brand BLG Hypotheken.

With its campaign 'Oplossing voor uw Aflossing' (Solution to Your Redemption), RegioBank was one of the first banks to focus attention on the importance of wealth creation with a view on mortgage redemption. The introduction of the mortgage without commission fees was very well received. In 2011, 85% of all mortgage applications were effectuated without commission fees.

### 9.7.3 Investments

**Limited upturn in investor sentiment**

Our customers' appetite for investment showed a limited increase, despite the euro crisis and uncertain economic conditions. Total assets under management were up € 1.6 billion, from € 4.8 billion to € 6.4 billion, largely attributed to an internal transfer for the benefit of the SNS Investment Funds.

In the middle of 2011, the securities processing operations for the customer group Zelf Beleggen were outsourced to BinckBank. Investors receive more information and more options for setting up their portfolios on the investment site of BinckBank.

SNS Bank customers can invest independently through SNS Fundcoach or SNS Zelf Beleggen. SNS Fundcoach offers a selection of more than three hundred major international and specialist investment fund providers. SNS Zelf Beleggen gives customers the opportunity to invest in shares, bonds, options and a limited number of investment funds. The number of transactions effected through SNS Zelf Beleggen showed a limited decrease. Investment management and advice-based investing for assets of € 250,000 or more in respect of individual shares are provided by SNS Securities. This part of SNS Bank specialises in investments, loans and financial transactions.

SNS Bank received various awards for its investment funds. SNS Beleggingsfondsen won the Lipper Award in the mixed assets category for the third year in a row. The Lipper Awards are awarded to investment funds and investment houses that consistently outperform the market average in the longer term. The Eurofonds Grand Prix was won in the smaller investment houses category on account of the best return, adjusted for the risk profile, over the past three years.

**Sustainable names for ASN Bank investment funds**

ASN Bank offers its customers only sustainable investment funds based on unequivocal admission and exclusion criteria, which can be found at www.asnbank.nl. In May, ASN Bank changed the names of five of its seven investment funds in order to better highlight the sustainable nature of these funds. The word 'sustainable' (in Dutch: duurzaam) was added to the names of four funds: ASN Duurzaam Aandelenfonds, ASN Duurzaam Obligatiefonds, ASN Duurzaam Mixfonds and ASN Duurzaam Small & Midcapfonds. ASN-Novib Fonds' name was changed to ASN-Novib Microkredietfonds in order to better indicate the type of investments made by this fund.

Various ASN Bank funds again received awards. The ASN Milieu & Waterfonds won the Groene Stier ('Green Bull') award – the public award for the best sustainable investment product, organised by Belegger.nl – for the fifth year in a row, and also won the FD Morningstar Award 2011. The ASN Duurzaam Aandelenfonds was chosen product of the year by De Telegraaf's OverGeld.nl, winning in a competition that also included non-sustainable products of renowned Dutch and foreign financial institutions. One of the distinguishing features of the ASN Duurzaam Aandelenfonds is its strong focus on limiting carbon emissions.

ASN Bank acquired a majority interest in ASN Asset Management (formerly NBC Duurzaam Vermogensbeheer). 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 entities, countries and projects that take human well being and the environment into account. ASN Asset Management is intended for private individuals, foundations, associations and social institutions with investable assets of € 200,000 or more.

**Profit contributions SNS Securities**

SNS Securities' profit contribution decreased due to the challenging market conditions. The customer and securities deposits of high-net-worth SNS Bank customers were transferred to SNS Securities in Amsterdam at the end of 2010. Thus the various wealth propositions within SNS REAAL are more closely coordinated. SNS Securities wants to continue its growth in the area of high-net-worth individuals.

SNS Securities provides securities services (shares, bonds and derivatives) to national and international professional investors. In addition, it supports SME and larger companies in private and public capital market transactions and offers investment management and securities services to high-net-worth private investor's. 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 REAAL's risk management.

## 9.8 SNS SME

### 9.8.1 Strategy

SNS SME's clients are mainly SME companies, self employed persons and property investors. The main products for this market are savings, payments, mortgages, loans based on the value of business premises, and insurance. Simplicity in finance in the corporate market is considered just as important as in the retail market.

Since 1 January 2011, SNS SME is a combination for the former SME activities of SNS Retail Bank and part of Property Finance's Dutch investment finance portfolio. It has a moderate risk profile, but is subject to deteriorating market conditions. SNS SME focuses on loans secured by property collateral and based on limited contract size.

## 9.9 Financial developments SNS SME

**SNS SME**

| *In € millions* | **2011** | 2010 | Change |
|---|---|---|---|
| **Result** | | | |
| Net interest income | 144 | 168 | (14%) |
| Net fee and commission income | 7 | 7 | 0% |
| Result on financial instruments | (6) | -- | 0% |
| Other operating income | -- | 3 | (100%) |
| **Total income** | **145** | **178** | **(19%)** |
| Impairment charges to loans and advances | 46 | 26 | 77% |
| Total operating expenses | 48 | 53 | (9%) |
| **Total expenses** | **94** | **79** | **19%** |
| **Result before tax** | **51** | **99** | **(48%)** |
| Taxation | 13 | 26 | (50%) |
| **Net result for the period** | **38** | **73** | **(48%)** |
| Efficiency ratio | 33.1% | 29.8% | |
| Impairment charges to loans and advances as a % of gross outstanding loans to customers | 0.71% | 0.36% | |
| Risk-weighted assets Basel I (80%) | 4,115 | 5,314 | (23%) |
| Loans and advances to customers | 5,656 | 7,199 | (21%) |

*Impairment charges as a % of average gross outstanding loans to customers are for 2010 figures not calculated on the basis of average figures because these are not available for the new segment classification of SNS SME and Property Finance.*

### 9.9.1 Result 2011 compared to 2010

SNS SME posted a net profit of € 38 million compared to € 73 million for the year 2010. This decrease was fully driven by lower total income (-19%) and higher impairment charges. Operating expenses were markedly lower. Total income declined due mainly to the reduction of the loan portfolio as part of SNS REAAL's capital release programme. The strengthening of provisions for non-performing loans required higher impairment charges.

## 9.10 Income

SNS SME's total income declined by € 33 million due to lower net interest income and a lower result on financial instruments. Net interest income was negatively influenced by the lower loan portfolio and lower SME savings balances. SME savings included in 'Other amounts due to customers', decreased from € 3.7 billion at year-end 2010 to € 3.3 billion. Furthermore, net interest income was negatively impacted by the implementation of a harmonisation of funding costs methodology between SNS Retail Bank and SNS SME.

The negative result on financial instruments resulted from the sale of € 330 million non-provisioned loans with a small discount of € 6 million. Other operating income was nil, whereas the year 2010 had benefitted from some gains on the sale of rental objects.

## 9.11 Expenses

Total operating expenses decreased by € 5 million supported by a reduction in the number of staff. However, as a result of the decrease in total income, the efficiency ratio increased from 29.8% to 33.1%.

Impairment charges to loans and advances increased by € 20 million to € 46 million mainly due to the need to strengthen provisioning levels in the former Property Finance SME loan portfolio. Non-performing loans increased by € 32 million to € 249 million equating to 4.3% of loans outstanding. The coverage ratio of SNS SME increased from 36.4% to 41.8%.

The average LtV of the former Property Finance loan portfolio included in SNS SME increased by 4.2 percentage points from 70.2% at year-end 2010 to 74.4% as collateral values were updated based on a reappraisal of a representative part of the portfolio. Although recent valuations reflect careful interpretations of comparable transactions, valuation ranges remain relatively wide.

## 9.12 Development portfolio

### Breakdown SNS SME Portfolio

| *In € millions* | PF SME | SNS Retail Bank SME | SNS SME |
|---|---|---|---|
| **Total portfolio December 2011** | | | |
| Commitments | 4,144 | 1,613 | 5,757 |
| Undrawn commitments | (14) | -- | (14) |
| **Outstanding loan portfolio (gross)** | **4,158** | **1,613** | **5,771** |
| Loan provision | 42 | 62 | 104 |
| **Outstanding loan portfolio** | **4,116** | **1,551** | **5,667** |
| Property projects | 7 | -- | 7 |
| **Total exposure** | **4,123** | **1,551** | **5,674** |
| Non performing loans | 41 | 208 | 249 |
| Non performing loans as % of loans outstanding | 1.0% | 12.9% | 4.3% |
| Coverage ratio | 103.2% | 29.8% | 41.8% |
| **Total portfolio December 2010** | | | |
| Commitments | 5,714 | 1,673 | 7,387 |
| Undrawn commitments | 97 | -- | 97 |
| **Outstanding loan portfolio (gross)** | **5,617** | **1,673** | **7,290** |
| Loan provision | 11 | 68 | 79 |
| **Outstanding loan portfolio** | **5,606** | **1,605** | **7,211** |
| Property projects | 11 | -- | 11 |
| Held for sale | 27 | -- | 27 |
| **Total exposure** | **5,644** | **1,605** | **7,249** |
| Non performing loans | 12 | 205 | 217 |
| Non performing loans as % of loans outstanding | 0.2% | 12.3% | 3.0% |
| Coverage ratio | 91.7% | 33.2% | 36.4% |

*Portfolios based on former business unit structure*

As part of SNS REAAL's capital release programme, commitments at SNS SME were reduced from € 7.4 billion at the end of 2010 to € 5.7 billion (-22%). Total exposure was reduced by € 1.6 billion to € 5.7 billion. The decline of outstanding loans was due to redemptions and the sale of a number of loans.

Assets held for sale decreased from € 27 million as at year-end 2010 to nil. Property projects decreased slightly to € 7 million.

## 9.13 Commercial developments SNS SME

SNS SME signed a sustainability covenant with ABN Amro, FGH Bank, ING Real Estate Finance and Syntrus Achmea Vastgoed. The parties involved aim to promote sustainable real estate construction and sustainable renovation. A core group of property financiers of the Dutch Green Building Council (DGBC) took the initiative for this covenant. The co-signers aim to further embed sustainability in their own organisations and put more weight to sustainability when making a choice in the real estate to be financed and the financing conditions. The co-signers will develop a strategy to integrate sustainability in the real estate sector and promote the sustainable construction of new homes and to increase the sustainability of existing properties of their clients.

# 10 Developments Property Finance

Net loss sharply lower at € 248 million, driven by lower impairment charges. Total exposure reduced by € 1.0 billion to € 5.3 billion (-16%). Net interest income sharply lower due to lower loan portfolio and higher funding costs. Coverage ratio lower at 34% of virtually stable non-performing loans (year-end 2010: 41%). Operating expenses impacted by costs related to phasing out of loan portfolio.

## 10.1 Financial developments at Property Finance

### Property Finance

| *In € millions* | 2011 | 2010 | Change |
|---|---|---|---|
| **Result** | | | |
| Net interest income | 53 | 137 | (61%) |
| Result on financial instruments | (30) | (29) | (3%) |
| Result assets and liabilities held for sale | (4) | -- | 0% |
| Other operating income | (9) | (9) | 0% |
| **Total income** | **10** | **99** | **(90%)** |
| Total operating expenses | 82 | 64 | 28% |
| Impairment charges | 251 | 784 | (68%) |
| Impairment charges goodwill | -- | 68 | (100%) |
| **Total expenses** | **333** | **916** | **(64%)** |
| **Result before tax** | **(323)** | **(817)** | **60%** |
| Taxation | (75) | (174) | 57% |
| **Net result for the period** | **(248)** | **(643)** | **61%** |
| One-off items | -- | (68) | 100% |
| **Adjusted net result for the period** | **(248)** | **(575)** | **57%** |
| Impairment charges as a % of gross outstandings to customers | 3.9% | 11.1% | |
| Risk-weighted assets Basel I (80%) | 4,418 | 5,261 | (16%) |
| Loans and advances to customers | 4,784 | 5,784 | (17%) |
| Property projects | 505 | 456 | 11% |
| Assets held for sale | -- | 94 | (100%) |

*Impairment charges as a % of average gross outstandings are for 2010 figures not calculated on the basis of average figures because these are not available for the new segment classification of SNS SME and Property Finance.*

## 10.2 Results 2011 compared to 2010

Property Finance posted a net loss of € 248 million, an improvement of € 395 million compared to 2010. Adjusted for the goodwill impairment of € 68 million in 2010, the net loss fell by € 327 million. This decrease was due fully to lower impairments, more than compensating for lower net interest income and higher operating expenses.

## 10.3 Income

Net interest income declined by 61%. The winding down of the loan portfolio reduced interest income substantially and also led to lower interest-related fee and commission income included in net interest income. Approximately one third of the decline was due to higher funding costs as a result of the implementation of a harmonisation of funding methodology between SNS Retail Bank and Property Finance.

The result on financial instruments of € 30 million negative consisted mainly of discounts on sales of non-provisioned loans, especially in the second half year. The result of financial instruments for the whole of 2011 was almost stable compared to 2010.

Operational and transaction results related to assets and liabilities held for sale amounted to € 4 million negative.

Other operating income was stable at € 9 million negative and consisted mainly of negative results on property projects.

## 10.4 Expenses

Operating expenses increased by € 18 million to € 82 million, as legal and advisory costs related to winding down the loan portfolio rose to € 56 million compared to € 36 million in 2010. Adjusted for these costs, operating expenses declined by € 2 million driven by a decrease in FTEs.

Impairment charges decreased sharply by € 533 million to € 251 million (-68%) and consisted of € 163 million of impairments on loans, € 91 million of impairments on property projects and € 3 million reversal of earlier impairments on participations. Impairment charges on the Dutch portfolio amounted to € 123 million compared to € 174 million in 2010. In the international portfolio, impairment charges decreased to € 128 million from € 610 million in 2010, following the strengthening of provisioning levels in 2010 and due to the progress in winding down the portfolio in 2011.

Impairments in the second half of 2011 amounted to € 113 million compared to € 138 million for the first half of 2011. This decrease was due mainly to a release of a provision related to the restructuring of a non performing loan in the fourth quarter.

## 10.5 Portfolio development

Dutch and international real estate markets experienced another tough year. Circumstances in international real estate markets remained difficult, keeping real estate values under pressure. Real estate markets in the Netherlands weakened in 2011 as well, as reflected in high vacancy ratios in the retail and office sectors and a pressure on rent levels. In general, the availability of credit for real estate financing declined. This resulted in a level of impairments that remained high. The impairments reflect the changes in the expected cash flows 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 independent professional appraisers.

Due to the deterioration in real estate markets, the average LtV of the total loan portfolio increased by 6.9 percentage point from 96.4% to 103.3%. The average LtV of the international portfolio decreased from 97.6% to 94.4%, due mainly to the sale of and foreclosure on non-performing loans in the United States and Spain. Net of provisions the average LtV of the international portfolio amounted to 82.4% at year-end 2011.

In contrast to the international portfolio, the average LtV of the Dutch portfolio increased from 95.8% to 110.0%. Net of provisions the average LtV of the Dutch portfolio amounted to 99.2% at year-end 2011. Loans with LtVs above 100% are monitored stringently. Furthermore, additional measures are taken such as additional guarantees and cross-collateralisation.

Collateral values have been updated based on reappraisal of a representative part of the portfolio. Market circumstances have led to a reduction of recent and comparable transactions, with recent transactions sometimes reflecting sellers in financial difficulties. Although recent valuations reflect careful interpretations of comparable transactions, valuation ranges remain relatively wide.

## 10.6 Total portfolio

Total commitments declined from € 6.8 billion at the end of 2010 to € 5.5 billion (-20%). Total exposure declined from € 6.3 billion at year-end 2010 to € 5.3 billion (-16%), corresponding to a decline in risk-weighted assets by € 0.9 billion.

Total non-performing loans decreased by € 33 million to € 1,728 million. This was due mainly to the sale of non-performing loans and the foreclosure and reclassification of non-performing loans to property projects of € 372 million gross and € 160 million net. This was largely offset by new inflow, of which 67% related to Dutch loans. Total non-performing loans as a percentage of gross loans increased from 27% to 32% driven by the decline in the portfolio.

Compared to year-end 2010, the loan provision decreased by € 133 million to € 595 million due to the reduction of the loan portfolio and the foreclosure and reclassification of non-performing loans to property projects. The coverage ratio decreased from 41% to 34%. In the Netherlands and North America, the coverage ratios remained stable at 29% and

54% respectively. The coverage ratio in Europe declined from 49% to 38%, due mainly to new inflow of non-performing loans in Germany.

Compared to year-end 2010, property projects (real estate projects where Property Finance has taken control) increased from € 456 million to € 505 million due mainly to new foreclosures, partly compensated by impairments and sales. The foreclosures in 2011 largely consisted of projects in the USA and Spain. Held for sale, consisting of projects expected to be sold in the near future, decreased from € 94 million at year-end 2010 to nil. This mainly related to the sale of the 55 West project in the USA in the first half of 2011.

### Table 14: Breakdown Property Finance portfolio

| *In € millions* | 2011 | 2010 |
|---|---|---|
| **Total portfolio** | | |
| Commitments | 5,480 | 6,840 |
| Undrawn commitments | 102 | 328 |
| **Outstanding loan portfolio (gross)** | **5,378** | **6,512** |
| Loan provision | 595 | 728 |
| **Outstanding loan portfolio** | **4,783** | **5,784** |
| Property projects | 505 | 456 |
| Held for sale | -- | 94 |
| **Total exposure** | **5,288** | **6,334** |
| Non performing loans | 1,728 | 1,761 |
| Non performing loans as % of loans outstanding | 32.1% | 27.0% |
| Coverage ratio | 34.4% | 41.3% |
| Average loan-to-value (LtV) | 103.3% | 96.4% |
| | | |
| **Dutch portfolio** | | |
| Commitments | 3,323 | 3,763 |
| Undrawn commitments | 75 | 216 |
| **Outstanding loan portfolio (gross)** | **3,248** | **3,547** |
| Loan provision | 324 | 222 |
| **Outstanding loan portfolio** | **2,924** | **3,325** |
| Property projects | 29 | -- |
| **Total exposure** | **2,953** | **3,325** |
| Non performing loans | 1,130 | 788 |
| Non performing loans as % of loans outstanding | 34.8% | 22.2% |
| Coverage ratio | 28.7% | 28.2% |
| Average loan-to-value (LtV) | 110.0% | 95.8% |
| | | |
| **International portfolio** | | |
| Commitments | 2,157 | 3,077 |
| Undrawn commitments | 27 | 112 |
| **Outstanding loan portfolio (gross)** | **2,130** | **2,965** |
| Loan provision | 271 | 506 |
| **Outstanding loan portfolio** | **1,859** | **2,459** |
| Property projects | 476 | 456 |
| Held for sale | -- | 94 |
| **Total exposure** | **2,335** | **3,009** |
| Non performing loans | 598 | 973 |
| Non performing loans as % of loans outstanding | 28.1% | 32.8% |
| Coverage ratio | 45.3% | 52.0% |
| Average loan-to-value (LtV) | 94.4% | 97.6% |

## 10.7 Dutch portfolio

Total commitments declined from € 3.8 billion at year-end 2010 to € 3.3 billion (-12%). Total exposure declined from € 3.3 billion at year-end 2010 to € 3.0 billion (-11%), mainly through redemptions.

Non-performing Dutch loans increased by € 342 million compared to year-end 2010 due mainly to new inflow reflecting the weakening and challenging of domestic real estate markets. The outflow was limited. Total non-performing loans as a percentage of gross loans outstanding increased from 22% at year-end 2010 to 35%. The coverage ratio was almost stable at 29%.

## 10.8 International portfolio

Total commitments declined from € 3.1 billion at year-end 2010 to € 2.2 billion (-30%). Total exposure declined from € 3.0 billion at year-end 2010 to € 2.3 billion (-22%). The international loan portfolio was reduced through redemptions, the sale of loans, movements in foreign exchange rates (-€ 20 million) and reclassifications from loans to property projects.

As a result of restructuring activities, non-performing international loans decreased by € 375 million in 2011. New inflow in 2011 related to North America and Germany, the outflow mainly related to North America, Spain and Denmark. As a percentage of gross loans outstanding, non-performing loans decreased from 33% at year-end 2010 to 28%.

The coverage ratio of the international non-performing loans decreased from 52% to 45%, mainly due to the reclassification of non-performing loans to property projects and to new inflow in Germany.

# 11 Risk and capital management

Risk levels rose in 2011. This was mainly due to the uncertainty in Europe (particularly related to the euro), volatility in the financial markets and the deteriorating economic situation.

## 11.1 Key risks for SNS Bank

The main risks for SNS Bank end of 2011 were:

- Growing uncertainty over credit losses caused by a deterioration of the macro-economic environment. This is particularly true for Property Finance, SNS Bank SME and the mortgage portfolio.
- Potentially higher losses on foreclosures caused by developments on the housing market. Uncertainties in the market, for example with regard to economic developments and possible limitations on the mortgage interest deduction, negatively impacts people's readiness to buy a house, home moving and the development of house prices.
- All euro-related risks including the risk of a partial default of a European Union member state are considerable.
- The long-term interest rate in Germany and the Netherlands is very low. In addition, the relationships between the interest rate levels of government bonds, corporate bonds and derivatives in Europe are very volatile. SNS Bank is fairly well protected against generic interest rate fluctuations, but remains vulnerable for mutual relationships of the interest rate levels, especially for differences in interest rates between countries in Europe and various fixed-income instruments.
- The liquidity position of SNS Bank is good. However, maintaining a large liquidity buffer comes at the expense of revenue-generating capital. In addition, in determining their liquidity positions, banks must in general take into account uncertainty in the financial markets, the ratings of financial institutions which are under pressure, and fluctuating savings volumes.
- Changing supervisory regulations and uncertainty over the rate of implementation make it difficult to manage the balance sheet of a financial institution and as a result the profitability.
- Given the pressure on the revenue models, the ability to generate capital has been affected negatively. This is enhanced by the volatility in the financial markets in combination with the developments of the real economy.

## 11.2 Risk management in exceptional circumstances

Numerous external developments have affected the choice for more or less risk tolerance:

- Since the end of 2009, the risk in the investment portfolio of European government bonds increased substantially because partial defaults of members of Eurozone are no longer considered unfeasible. Increasingly, market participants question the viability of the euro in its present form. As a consequence, SNS Bank has implemented additional risk indicators and limits. This resulted in an exposure reduction to peripheral countries which reduced the risk appetite for this type of risk.
- The housing market is weak in terms of volume and price developments. In case of arrears, an important question is when to foreclose on a house. This is a difficult choice, both from the interests of the customer and the bank. SNS Bank pursues a balanced policy in this respect.
- Property Finance's total outstanding loans were sharply reduced. The reduction of these loans is one of SNS Bank's strategic priorities. Despite the ongoing challenging conditions in the financial and property markets, total commitments of Property Finance were further reduced in 2011.

All things considered, risks related to the conditions in which SNS Bank is operating significantly increased SNS Bank's risk profile. On the other hand, risks were reduced as a result of measures taken by SNS Bank's management.

## 11.3 New regulation and implementation thereof

### 11.3.1 New regulation

In 2011, the Basel Committee published final documents (Basel III) aimed at strengthening global capital adequacy and liquidity regulations. These documents covered areas such as the (quality of the) capital base, a countercyclical capital framework, the leverage ratio and minimum liquidity standards.

In July 2011, the European Commission issued proposals amending the Capital Requirements Directive (CRD IV), broadly in line with the Basel Committee proposals. Yet, the interaction between Basel III, CRD IV and other potential national and international regulatory changes means that there is still uncertainty on the impact and implementation date of the proposed amendments.

In a period in which financial institutions have to do with relatively large uncertainties these regulatory changes and the discretionary power at national level will result in higher capital and liquidity requirements.

Along with the Dutch Central Bank (DNB), the Ministry of Finance announced in 2011 to give substance to national policy in the coming years for the Dutch systemically important banks, including SNS Bank. Characteristics of a systemically important bank are that its position in the (Dutch) banking sector can bring risks on financial stability and the real economy. The new policy of the Ministry and DNB focuses on enhancing the resilience and improve the unwinding opportunities in distressed situations.

### 11.3.2 Basel III migration plan

In 2011, the Dutch Central Bank (DNB) requested the Dutch banks to submit a Basel III migration plan. SNS Bank submitted its Basel III migration plan mid-2011. Based on the current requirements, this plan shows that no significant additional measures are needed to fulfil the new requirements. Apart from the further phase-out of Property Finance, the mortgage production will be limited and only take place via SNS Bank's own distribution channel. The net mortgage portfolio will either remain stable or decrease slightly through regular redemptions and because of the general condition of the mortgage market. Moreover, SNS Bank will focus on attracting savings deposits, including bank savings, in a responsible way. These measures will, in preparation for Basel III, bring about improvement in the Loan-to-Deposit ratio.

In a letter to the Dutch banks, DNB indicated that, in response to the migration plans submitted, the entire industry started from overly optimistic profit forecasts and sharp growth of savings deposits. SNS REAAL meets these findings by the abovementioned combination of lower growth on the asset side and its focus on attracting savings deposits in a responsible way.

## 11.4 Developments in capital and solvency

In 2011, the most important solvency ratios for SNS Bank improved. At the end of 2011, the core Tier 1 ratio stood at 9.2% (year-end 2010: 8.1%) and the Tier 1 ratio at 12.2% (year-end 2010: 10.7%). This improvement was due mainly to the decline in risk-weighted assets, driven by the reduction in commitments at Property Finance and SNS SME. At the end of 2011, risk-weighted assets amounted to € 20.5 billion compared to € 22.1 billion at year-end 2010.

The BIS ratio decreased from 16.7% at year-end 2010 to 14.4% as a result of redemptions of Tier 2 capital in the first half of 2011. In anticipation of these redemptions, SNS Bank had attracted € 500 million of Tier 2 capital in the fourth quarter of 2010. The BIS ratio also decreased as a result of the lower Tier 2 exchange transaction in the fourth quarter of 2011, in which lower Tier 2 debt was exchanged for senior unsecured debt.

The long-term aim is to achieve a core Tier 1 ratio of 10% for SNS Bank, taking the additional capital surcharge for systematically important banks into consideration.

SNS REAAL also downstreamed capital for an amount of € 50 million to SNS Bank.

In 2011, the European Commission (EC) reconfirmed its approval for the capital support by the Dutch State to SNS

REAAL. The reconfirmation of approval follows the renotification of the capital support earlier this year. In 2012, the Dutch State will provide to the European Commission a Monitoring Report for 2011, as well as a capital update based on the interim report.

### 11.5 Capital Adequacy ICAAP 2011

SNS Bank periodically assesses the capital adequacy under Basel II by means of the Capital Adequacy Assessment Process (ICAAP). There is uncertainty as to the future ICAAP regulations and the applicability thereof.

In the ICAAP, the required amount of capital is determined by the statutory directors of SNS Bank and the Executive Board. Points of departure are the balance sheet, (planned) 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 REAAL performed an internal stress test on the Banking activities in 2011 as part of the ICAAP. A thorough analysis of the risks involved was performed and these were tried by means of the stress test. SNS REAAL uses its own specific economic scenarios for this stress test. Moreover, the economic capital and the regulatory capital (Basel II, pillar 1) are part of the ICAAP as well and the capital management process is reviewed. With reference to the Supervisory Review and Evaluation Process (SREP) SNS REAAL is in continuous dialogue with the Dutch Central Bank on the ICAAP results. SNS Bank improved its ICAAP process in 2011, making it more transparent and easier to test for both internal and external parties.

### 11.6 Temporary solvency buffer EBA

In December 2011, SNS REAAL issued a press release in response to announcements by the European Banking Authority (EBA) and the Dutch Central Bank regarding the requirement for banks to strengthen their capital position by building up a temporary capital buffer against the current market prices of their sovereign debt exposures. The EBA required banks to establish buffers such that the core Tier 1 ratio reaches a level of 9% by the end of June 2012, whereby the sovereign debt exposures are valued at the market prices of September 2011.

As at 30 September 2011, SNS Bank reported a core Tier 1 ratio of 8.6% based on Basel II, taking into account the 80% floor of Basel I for the RWA calculation. Using the EBA methodology, which includes the capital buffer for sovereign debt, the core Tier ratio as at 30 September 2011 stood at 8.2%. To achieve the core Tier 1 ratio according to the EBA standard of 9%, SNS Bank needed to make up a capital shortfall of € 159 million.

In the fourth quarter of 2011, SNS Bank’s core Tier 1 ratio according to the EBA standard had already risen from 8.2% to 8.8% due to a rise in available core Tier 1 capital and the aforementioned drop in RWA. In total the EBA capital shortfall has dropped to € 32 million as per 31 December 2011. SNS Bank will ensure that the remainder of the shortfall will have been made up by end of June 2012.

## 11.7 Funding, liquidity position

### 11.7.1 Banking activities

In 2011, SNS Bank's wholesale funding activities on the capital market were negligible. By attracting savings deposits SNS Bank could fully provide its financing requirements. In 2011, savings deposits rose by € 2.9 billion (+11%) compared to year-end 2010 due to a strong inflow of deposits and a high retention rate. Bank savings, part of the total savings deposits, grew by € 628 million to € 1.3 billion. As a result, the loan-to-deposit ratio improved from 172% to 159%.

Total liquidity remained high. At year-end 2011, liquidity stood at € 11.1 billion, compared to € 11.9 billion at the end of 2010. The cash position was positively impacted by the increase in savings in combination with a limited growth in mortgages and the reduction of commitments at SNS SME and Property Finance. This was partly reversed because of loan redemptions. In the fourth quarter of 2011, € 1.5 billion was drawn on ECB credit facilities, as a result of which the liquidity position rose with the same amount and the quantity of underlying assets which are ECB eligible and readily available decreased. In February 2012 the ECB made another issue in which SNS also participated.

### 11.7.2 Liquidity SNS Bank tested with ILAAP

The Dutch Central Bank introduced the ILAAP (Internal Liquidity Adequacy Assessment Process) in 2011. SNS Bank, together with a number of other banks went through this process for the first time in 2011. In the ILAAP, the level of liquidity is determined by the statutory directors of SNS Bank and the Executive Board. Points of departure are the balance sheet, (planned) strategy, risk appetite and existing risks. The assessment includes questions on risk management and whether SNS Bank's liquidity is sufficiently robust in current and future circumstances to absorb the risks.

Liquidity stress testing is part of the ILAAP. In this stress test, the drying up of funding in the money and capital markets is taken into account. To this end, SNS Bank has drawn up its own scenarios, taking institution-specific risks into account. Based on the ILAAP, it is ascertained that the level of liquidity of SNS Bank is sufficient in relation to actuality. The ILAAP will be further integrated to be able to prove the extent of control.

## 11.8 Developments in market risk

### 11.8.1 Duration

In 2011, the yield curve flattened. In the first half, the short-term interest rates went up and from mid-2011 the long-term interest rates went down due to economic developments. At the same time, interest rates were very volatile in 2011. The interest rate sensitivity of the fair value of shareholders' equity is expressed in the duration of the shareholders' equity. During 2011 the strategic bandwidth for the duration of the shareholders' equity was 0 to 10. Due to the volatility of the interest rate, the duration was kept at a low level in 2011, between 2 and 5. At year-end 2011 the duration of equity was 3.8. As per January 2012, the strategic bandwidth has been reduced to 0 to 8.

### 11.8.2 Earnings-at-risk

The Earnings-at-Risk (EaR) reflect the interest rate sensitivity of the net interest income of SNS Bank on a 12-months horizon. The EaR is calculated on the basis of a number of scenarios with significant interest rate shocks. In 2011, there were no strong movements in the EaR and the EaR averaged € 10 million. At year-end 2011, the EaR was € 7 million.

### 11.8.3 Spread risk

In 2011, spreads on the so-called peripheral countries widened further as a result of the increased credit risk. SNS Bank monitors position and spread development on a very frequent basis.

To limit the risks, SNS Bank reduced its position in sovereign debt of GIIPS countries in 2011 by 52% to € 486 million. The market value of the exposure of SNS Bank to GIIPS countries decreased from 29% (year-end 2010) to 14% of the total exposure to government bonds. Positions in French, Austrian and Belgian sovereign debt were also reduced considerably. The revenues were primarily reinvested in German government bonds. The fair value of Irish government bonds rose due to lower credit risk surcharges.

### 11.8.4 Trading risk

SNS Bank has a small trading portfolio that fits its moderate risk profile. In line with this profile, the total limit in terms of Value-at-Risk (99% confidence level on a daily basis) was established at € 2.4 million. In 2011, SNS Bank only made limited use of the allowable limit.

## 11.9 Developments in credit risk

The total loan portfolio amounted to € 64.8 billion at year-end 2011. Most of the loan portfolio (79%) consisted of Dutch residential mortgages.

The main developments in the field of credit risk in 2011 were the falling housing prices and the stagnating market for both existing and new owner-occupied homes in the Netherlands. The market for national and international property projects also continued to deteriorate.

### 11.9.1 SNS Retail Bank

The loan portfolio of SNS Retail Bank was € 54 billion at year-end 2011, € 51 billion of which comprised residential mortgages. 15% of these mortgages are covered by the National Mortgage Guarantee.

The market for owner-occupied residential property was weak in 2011, as it was in 2010. Despite measures taken by the Government, such as reducing the transfer tax, both the number of housing transactions and the average house price fell. The number of housing transactions was at a historic low and house prices fell for the third consecutive year. The falling house prices and the stagnating residential property market led to longer foreclosure periods and larger losses on foreclosures.

### 11.9.2 SNS SME

Sentiment in the national property and funding markets deteriorated in 2011. The average vacancy rates in the markets for office space, retail stores and industrial property increased considerably. These developments led to an increase in the number of loan defaults and to higher decreases in value, although still limited in relation to the average net exposure.

As part of SNS REAAL's program to free up capital, the commitments at SNS SME were reduced from € 7.4 billion to € 5.7 billion (-22%). The net exposure was reduced by € 1.6 billion to € 5.7 billion. The decrease in loans outstanding was the result of redemptions and the sale of a number of credits.

The assets held for sale decreased from € 27 million to nil. Property projects decreased slightly to € 7 million.

### 11.9.3 Property Finance

National and international real estate markets experienced another difficult year in 2011. The conditions on the international real estate markets remained difficult and kept the value of real estate under pressure. The real estate markets deteriorated in the Netherlands in 2011, which is visible in high vacancy rates in the commercial and office sector and pressure on rents.

Since adapting the strategy in 2009 and 2010, Property Finance's focus has been entirely on reduction of the portfolio and limiting the losses. Reduction of commitments in 2011 was realised through a combination of regular redemptions, loan sales, restructuring and through foreclosure and the following transfer of loans to property projects and assets held for sale.

The total commitments decreased from € 6.8 billion to € 5.5 billion (-20%). The net exposure fell from € 6.3 billion to € 5.3 billion (-16%). This corresponds to a decrease in the risk-weighted assets of € 0.9 billion.

The total of provisioned loans decreased by € 33 million to € 1.728 million. This was mainly due to sales of provisioned loans and the foreclosure and reclassification of provisioned loans to property projects of € 372 million gross (€ 160 million net of provisions). This decline was largely offset by new inflows, of which 67% related to Dutch loans. The total of provisioned loans expressed as a percentage of the gross loan portfolio increased from 27% to 32%.

## 11.10 Management of non-financial risks

The Financial crisis and the subsequent public debate on the financial services industry has revealed that culture and behaviour are essential to restore trust in the financial services industry. In 2009, SNS Bank formulated a new mission, core value and strategy with a focus on putting the client's best interests first. Besides the conditions imposed on financial robustness, the emphasis on non-financial risk management based on 'lessons learned' has increased. Non-financial risk management is based on compliance with external and internal regulation and having and maintaining corporate integrity.

### 11.10.1 Existing factors

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

- A clear governance structure, including a transparent assignment of duties and responsibilities and escalation procedures, boosted/supported by the new risk management structure SNS Bank implemented a so-called '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. The third Line of Defence is formed by Group Audit, which tests the set-up and operation of the system as a whole.
- CS&O annually executes a monitoring programme in consultation with Group Audit. On the basis of the risk-based analysis, they decide which means are used for what issues each year.
- CS&O draws up a non-financial risk report on a quarterly basis, giving an overview of the main developments in non-financial risks, progress in the follow-up of action items and the implementation of new/adjusted regulations and an analysis of the developments in incidents.
- In addition to other Group staff departments, CS&O provides advice in the business units' product development, approval and periodic review processes.
- The training & awareness programme comprises information meetings, e-learning programmes, presentations and 'train the trainer' workshops.
- As second Line of Defence, CS&O formulates the Group (wide) policy on operational integrity with respect to non-financial risks. The first Line is responsible for the implementation (and compliance) of this policy and will draw up an implementation plan. If required, CS&O provides advice on the implementation in the business units.
- By means of semi-annual in-control statements (ICSs), the management teams of each business unit reports about how the real risks are managed, providing demonstrable foundations. In the ICS, management reports on the main

risks and accompanying control measures, the improvements realised over the previous period and the progress on improvement measures.

- To calculate the capital requirement for the operational risk, a standardised approach is used. This implies that, based on a fixed percentage of the turnover per business line of the bank, we allocate an amount for the Pillar 1 capital. This Pillar 1 capital is assessed under the ICAAP, in which greatest risks to the bank are validated on probability of occurrence and impact. For this reason, SNS Bank's ICS is important input device.

### 11.10.2 New developments

The main new developments to manage non-financial risks are:

- The risk committee structure was adjusted in 2011 to create an efficient and well-functioning organisation structure. To achieve this, responsibilities were univocally defined and a clear division was brought about between policy formulation and policy execution. A Group Risk Committee was set up, which is the primary policy-formulating body within SNS Bank.
- An operational risk framework was developed. The aim is to support SNS Bank's management in the managing of operational risks within the scope of the regulations and objectives of SNS Bank.
- In 2011, a study into the corporate integrity climate within SNS Bank was conducted. The results of the study in 2011, which was once more conducted in collaboration with KPMG, show that corporate integrity and compliance have improved compared to the study in 2010. Employees are very committed to integrity and compliance. On all counts, SNS REAAL scored better than other respondents in the Financial Industry Benchmark 2011.
- Employees can now report irregularities such as fraud, undesirable behaviour and information security breaches to the newly set up compliance hotline. Here, they can also anonymously report irregularities (Whistleblowing procedure). The aim is to get risks reported in a timely manner to prevent or limit consequential loss and to be able to take adequate measure to prevent similar irregularities.
- A social development that also has consequences for SNS Bank is the increasing threat of cybercrime. Suitable measures are taken to avert this threat.

# 12 Funding and credit ratings

The accessibility of the money and capital markets deteriorated in 2011. SNS Bank had already increased its cash position at the end of 2011. Through the growth of the savings deposits and the winding down of Property Finance and SNS SME, SNS Bank could limit its dependence on the sometimes extremely volatile markets. The cash position remained high and was further expanded during the year, partly because the prospects for the capital market in 2012 were not encouraging.

## 12.1 Public funding strategy

Our public funding strategy focuses on funding the activities of SNS Bank at competitive levels, i.e. at minimum cost while reducing/limiting risks. This strategy is based on two pillars. The first pillar comprises measures to ensure sufficient and prompt liquidity. In this manner we can avoid the risk that, at a later stage, we will need to obtain money at unfavourable conditions. The second pillar is the diversification in terms of funding instruments, types of investors and geographical areas. For example, SNS Bank can opt for the most suitable instrument, depending on the varying market conditions, the capital requirement, and the qualifications demanded by DNB (De Nederlandsche Bank – the Dutch central bank). Our customers' savings play an ever increasingly important role in the total funding, which enables us to limit our dependence on public money and capital markets.

## 12.2 Funding transactions in 2011

The debt crisis in Europe dominated the financial markets in 2011. The uncertainties increased. This applied to both the political solutions for the debt positions of the peripheral euro countries, and for the exposure of European banks to bonds issued by these countries. The mutual distrust between banks increased as a result of this, and led to further deterioration of the accessibility to the capital market. Banks increasingly placed their surplus cash with the ECB. At the end of 2011, the ECB issued three-year loans to banks at an interest rate of 1%. This measure contributed to the process of calming the markets, and expanded the opportunities at banks for refinancing, lending and investing in bonds of euro countries. With the issue in December 2011, the ECB granted € 489 billion to 523 banks. SNS Bank also made use of this, in light of the prolonged deteriorating capital markets. In February 2012 the ECB made another issue in which SNS Bank also participated.

SNS Bank kept its liquidity position at a high level throughout the year. The liquidity position at the end of 2011 was € 11.1 billion, compared to € 11.9 billion at the 2010 year-end. The high cash balance at the end of 2010, the winding down of Property Finance and SNS SME, and the growth of the savings deposits meant it was not necessary for SNS Bank to go to the capital market to find funding. There were no significant transactions for the funding of the banking operation, with the exception of an exchange offer to increase the core Tier 1 capital. SNS Bank, as underwriter, did place a 30-year Tier 2 bond loan worth € 400 million and a subordinated perpetual bond loan worth 105 million Swiss Franc on the market, both for SRLEV, the legal entity that contains the life operations of REAAL and Zwitserleven.

## 12.3 Increasing capital buffers

The Basel III regulations, aimed at strengthening the world capital and liquidity regulation, involve the principle that capital buffers of banks have to become larger and of improved quality. In connection with Basel III and market expectations, SNS Bank aspires a core Tier 1 capital ratio of 10% for the long term. By means of an exchange offer to holders of lower Tier 2 bonds, SNS Bank was able to add a substantial amount of € 72 million, after tax, to its core Tier 1 capital in 2011. The outstanding lower Tier 2 bonds had suffered seriously from the highly volatile market conditions and their price had dropped substantially. SNS Bank could therefore buy back these loans at a significant discount. In doing so, SNS Bank offered investors a premium of 10 to 13 basis points on the market price. SNS Bank was able to buy back 57% of the outstanding bonds. In exchange, the investors received a five-year senior non-subordinated bond with a coupon of 6.625%. The total amount of this new loan is € 302 million. SNS REAAL also downstreamed capital for an amount of € 50 million to SNS Bank.

The risk-weighted assets improved, driven by the decline of commitments at Property Finance and SNS SME. At the end of 2011, risk-weighted assets amounted to € 20.5 billion compared to € 22.1 billion at year-end 2010.

## 12.4 Risk loadings increased

Risk loadings increased further in 2011 due to the uncertainties surrounding the debt crisis. When, in addition to Greece, other peripheral euro countries were affected by higher risk loadings, the risk loadings of financial institutions across Europe also increased sharply.

The high-risk loadings were also reflected in market prices for securities of SNS Bank. In particular, the risk loadings of the subordinated bonds, covered bonds, and Residential Mortgage Backed Securities (RMBS) increased considerably. The indicative risk loadings as at 31 December 2011 for bonds with maturity of five years:

- Covered bond 140 basis points
- RMBS 175 basis points

## 12.5 No private placements

There were no private placements of debt securities in 2011. SNS Bank has two commercial paper programmes, one European programme and one French programme, each with a maximum amount of € 4 billion. Commercial paper has a maturity of one to 12 months. SNS Bank does not want to depend on short-term money programmes. In 2011, as well, only very limited use was made of these programmes. The amount outstanding at the end of 2011 in the European programme was approximately € 50 million, and the funding via the French programme amounted to approximately € 125 million. All issues from SNS Bank in 2011 were benchmark bonds. Issues of liquid benchmark bonds contribute to broadening the investor base. Benchmark Bonds can be traded on the stock exchanges in Europe. Their liquid nature makes it more attractive, for institutional investors as well, to invest in an SNS Bank bond.

## 12.6 Credit ratings

In 2011 credit ratings of European financial institutions came under severe pressure. On 15 March 2011, Fitch lowered its rating of SNS Bank by one notch from A- to BBB+, whereby – at the same time, the ‘negative outlook’ was replaced with a ‘stable outlook’. The reason for the downgrading was the high losses at Property Finance.

On 5 April 2011, Moody's downgraded the rating of SNS Bank with a notch from A3 to Baa1 because of high impairments at Property Finance, which restrict the profit earning capacity of SNS Bank in the short and medium term.

All the Standard & Poor's ratings remained unchanged in 2011, with the 'negative outlook' being retained.

On 1 March 2012, Standard & Poor’s lowered all ratings of SNS Bank and its operating entities with one notch, while at the same time replacing the ‘negative outlook’ by a ‘stable outlook’. The downgrade was underpinned by S&P’s view of a weaker than previously expected economic outlook, impacting the expected recovery at SNS Bank.

The current ratings and the latest reports from Standard & Poor's, Moody's, and Fitch can be consulted on and downloaded from the Investor section of the SNS REAAL website. The following table presents the ratings as per 31 December 2011.

## Credit ratings

| | S&P | Moody's | Fitch |
|---|---|---|---|
| Long-term | A- (negative) | Baa1 (stable) | BBB+ (stable) |
| Short-term | A2 | P-2 | F2 |

# 13 Our people

Many employees are satisfied with their jobs and with SNS bank as an employer. Employee satisfaction rose from 7.0 to 7.3. To fixing our foundation and to build for our future, we reorganised activities in many parts of the company. This often resulted in the loss of jobs and positions. Despite these changes it appears that most employees are pleased with the way we adapt ourselves to changing circumstances.

## 13.1 Responsible employer

It is our personnel that carries out our mission Simplicity in finance. They shape corporate responsibility within SNS Bank, motivated by our core value CARE!. Therefore, we believe it is very important that our employees are professional, dedicated and motivated. SNS Bank expects their employees to demonstrate responsible employeeship. We demand from them personal leadership and expect our employees to assume individual responsibility for the planning and execution of their work and management of their own career.

Employees can expect SNS Bank to be a responsible employer. In SNS Bank's vision, this first and foremost means an inspirational management style driven by CARE!, stimulating and giving feedback to one another. In practically all our HR instruments we pay particular attention to CARE! behaviour, from acquisition and selection to management development. Thus, CARE! forms part of employees' performance appraisals.

CARE! is also incorporated in the many social initiatives in which SNS Bank employees participated in 2011. For instance, the Money Smart Week for children. 500 SNS REAAL employees taught children about money matters in their schools. Or charity events in which employees from both SNS Bank and ASN Bank participated.

Being a responsible employer also means an attractive package of employment conditions. Programmes directed at diversity and sustainable employability of employees are another requirement. We consider good training and development opportunities a necessity, as well as a good work-life balance. For the latter, the New World of Work is an important tool. Moderate remuneration for the Executive Board and senior management is also part of being a responsible employer.

The HR Department took initiatives to give meaning to responsible employment practices in the following areas.

## 13.2 Sustainable employability

### 13.2.1 From work to work

At SNS SME and Property Finance considerable reorganisations took place in 2011. We offered employees who were looking for a new position support, after they lost their job because of a reorganisation. They were given intensive guidance and support by a mobility manager and a career advisor. The Social Plan's basic principle is 'from work to work', preferably within SNS Bank or else outside the organisation. To encourage internal transfers, we organised career events.

Especially for reassignment candidates of 58 years and older, we set up a Pluspool, an internal employment agency for temporary work or projects. This way, we continue to utilise their know-how and experience.

### 13.2.2 In the interest of everyone

In an organisation such as SNS Bank, which focuses on efficiency and customers, changes occur frequently. Sustainable employability is therefore important for everyone, not only for reassignment candidates. On the one hand, SNS Bank wants to strengthen cooperation between her brands and on the other, it wants to give the brands a clearer brand identity. Thus, cross-brand career development is a great opportunity for both SNS Bank and many of our employees. It improves the exchange of information and our people will get an opportunity to further develop themselves. HR has several instruments to increase employees' employability. The Performance and Competency Assessment, a performance management cycle, is directed at the employee's current performance as well as at his or her's employability and career opportunities in the future. If necessary, a Personal Development Plan can be drawn up, or (external) career counselling called in. Our training courses and Talent Development and Management Development programmes are part of this policy too.

In 2011, we introduced a tool for integral personnel planning. It enables managers to map out the impact of internal and external developments on the number of employees, both quantitatively and qualitatively. Through increased insight into the future need for personnel, managers will be able to plan the employability of their employees in a more timely and efficient way.

## 13.3 The New World of Work offers more flexibility and job satisfaction

The primary reason to switch to the New World of Work (NWW) is to achieve a higher level of employee satisfaction and higher productivity. The investments, in particular the office renovation project and the purchase of technical aids, will be recovered by operating more economically and more effective. We will considerably save on office space costs and productivity is expected to increase. More than two years after the start, over 2,000 staff employees are now working according to the new concept. In 2012, the remaining employees at our head office in Utrecht will switch to the NWW. If everything goes according to plan, a new office building, especially fitted out for this new way of working, will be put into use in Alkmaar in 2013.

The annual employee satisfaction survey among SNS REAAL employees is an important instrument to get Group-wide insight into the general satisfaction and into issues that require adjustment or improvement. In 2011, employee satisfaction rose from 7.0 to 7.5 (on a 10 point scale). Employees were especially positive about:

- The New World of Work. Although this innovative concept of working has not yet been introduced throughout the organisation, employees consider it a significant advance, for example for a better work-life balance.
- The work environment within the company, which is viewed as informal.
- Improvements in the organisation's customer and result-driven approach.

Points of improvement are career opportunities and the work pressure, which is high in many parts of the organisation. Collaboration between the various business units is another improvement point according to the employees. The response rate to the survey was very high, 85%, an indication of the overall level of commitment towards the organisation.

## 13.4 Education and training

### 13.4.1 CARE! for one another, learn from one another

We offer our people many opportunities to develop themselves professionally and personally, thus improving their performance and employability inside and outside the company. Through new working methods and through development, exchange and retention of know-how, we create surplus value for our customers. It also improves our competitiveness. HR supports employees with a variety of professional training courses, the Performance and Competency Appraisal cycle, generic training programmes, traineeships, Talent Development and Management Development programmes.

In 2011, SNS Bank highlighted the opportunities for personal and career development even more than before. We held career events with resume checking services and vacancy overviews in various locations. Workshops were also held on subjects such as personal branding, social media and managing your own career. Furthermore, colleagues from different business units described and talked about their work. In addition, a community of internal coaches was set up, enabling employees to get acquainted with coaching in an accessible way.

The management style which employees encounter is important for the personal and professional development. How do you evaluate a customer interview? How do you give each other feedback after something has gone wrong? And how can you learn from your own mistakes and from those of others? A good manager does not hesitate to discuss a customer interview that did not go well with his staff; to learn from it for himself and the others. We call this CARE! for one another. And if we learn something from it, it means that we also CARE! for the customer and CARE! for the result.

### 13.4.2 Internships and traineeships

To attract talent, SNS Bank organises workshops and guest lectures in SNS Bank locations and at both colleges of higher education and universities. In collaboration with the latter two, we use SNS Banks ambassadors for campus recruitment. These colleagues share their expertise and experience with enthusiasm to students. An internship remains a good way for students to truly experience working at SNS Bank. We have many trainees working on all kinds of projects in our organisation. In 2011, we organised an event especially for trainees, with workshops and interviews with Dick Okhuijsen, member of the Executive Board of SNS REAAL, and professionals who recently started to work for SNS Bank.

SNS Bank can offer new talent a management traineeship or a financial traineeship. For the management traineeship we recruit graduates who have the capabilities to grow into a key position at SNS Bank at the minimum. The management traineeship is a three-year development scheme. The trainee swaps jobs at least three times between the business units. After that, he or she can make a well-balanced decision about which job suits best. Financial trainees follow a two-year training programme to become a financial specialist. During this programme, they get acquainted with the work in the various financial departments of SNS Bank. In 2011, seven new management trainees and four financial trainees started their traineeship at SNS REAAL.

### 13.4.3 Talent Development

SNS Bank has a Talent Development programme for talented employees. It is intended for managers and specialists that perform very well and have growth potential. The outflow rate of these employees is below average and they transfer to other positions more frequently. This helps us achieve important goals: developing, binding and retaining talented employees.

### 13.4.4 Management Development

The Management Development programme focuses on senior level employees. The aim is to help them move up to the most senior management levels. An important target group are the MD potentials: managers and specialists with the potential to grow to the level of director. This MD programme has been developed especially for this group in collaboration with Nyenrode Business University.

## 13.5 Feeling good

SNS Bank greatly values prevention and restricting of absenteeism. Our health policy consists of a prevention policy, an absenteeism policy and follow-up care. SNS Bank makes use of external professional services, such as a health and safety service company, for an effective absenteeism policy and high-quality follow-up care. SNS Bank continued a health campaign started in 2010. It primarily focuses on prevention: getting more exercise, not smoking, moderating alcohol consumption, healthier eating and finding sufficient time to relax. SNS Bank also encouraged company fitness, health food in the company restaurant and cycling to work.

## 13.6 Moderate remuneration Executive Board and senior management

The sustainable remuneration policy for the senior management, started in 2010, was adapted to the new European legislation in 2011. The new remuneration policy entered into force with retroactive effect from 1 January 2011, entails adjustments in the variable remuneration:

- The variable remuneration is made up of a direct component and a deferred component.
- The variable part of the remuneration will be paid half in cash and half in shares. Formerly, 100% was paid in cash.
- 60% of the variable remuneration will be paid after one year, of which half in cash and half in shares. The latter stay in retention for three years in case of the Management Board, and one year in case of senior management. Formerly, 33% was paid after one year.
- The deferred and conditional component is 40% of the total variable remuneration. Upon unconditionally granting, half of the amount in question will be paid in cash, three years after the period to which the awarded variable remuneration relates to has lapsed. The other half will be distributed in SNS REAAL shares, five years after the period to which the awarded variable remuneration relates to has lapsed in case of the Management Board, and four years in case of senior management.

The senior management did not receive variable remuneration over 2011. Irrespective of SNS Bank's level of profit, they will not be awarded variable remuneration until the capital support has been fully repaid to the Dutch State.

More information on the remuneration of the senior management can be found in the remuneration report on the website of SNS REAAL: www.snsreaal.nl

## 13.7 Room for Wajong youngsters

We want our organisation to reflect the pluralism of our society. This means that we want to hire more people with a handicap. It is in line with our core value CARE! to hire more Wajonger youngsters. Wajong stands for the Invalidity Insurance Act for Young Disabled Persons and its objective is to support disabled persons in finding and retaining paid work. Wajong youngsters are usually very motivated to work. Our company can get something out of these youngsters. We do not create jobs especially for them, but we look for the right candidate for the available vacancies and for specific coaching of the candidate as well as the manager and the colleagues.

With regard to the gender ratio too, SNS Bank aims at diversity. We want to encourage more women to move into top-level management positions. For instance by informing relevant bodies such as management teams of the percentage of women per management level and the gender ratio. We make sure that this topic is regularly on the agenda and that its progress is discussed. The percentage of women in management positions rose.

## 13.8 Employment conditions

### 13.8.1 Present Collective Labour Agreement and Social Plan

The present Collective Labour Agreement (CAO) will continue to be in force until 31 May 2012. With effect from 1 January 2011, the salaries were increased by 1% and on 1 January 2012 there will be another increase of 1%. In the CAO agreements were made on job security and sustainable employability. The Social Plan will continue to be in force until 31 December 2012 and is aimed primarily at keeping older employees at work.

### 13.8.2 Retrenchment key theme in new CAO

Customers are increasingly demanding cheap and simple products. Price competition in the financial services industry will continue to increase and the yields are structurally lower. In the course of 2011 the Executive Board announced that the cost must go down further. For a sustainable revenue model for the future we also can not escape the retrenchment of employee conditions.

In practice this means that a moderate performance bonus is paid in relation to 2011. In 2012 and 2013 probably no performance bonuses will be paid as long as the capital support of the Dutch state has not been repaid in full and market conditions improve significantly. The Central Workers Council (CWC) is deeply involved in this decision. In the upcoming collective bargaining discussions retrenchment, including salary reduction, will be an important starting point of us.

### 13.8.3 Simplification and flexibilisation

In 2011, SNS Bank simplified its extensive package of employment conditions to help employees get better insight into all the possibilities. It is now easier to attune their employment conditions to their personal situation.

The new Employment Conditions Knowledge Base is easy to use and has four themes: my work, my time, my money and my career. With a simple search engine, employees will find answers to questions on employment conditions. Moreover, there are links to forms, related subjects, corporate schemes and relevant external sites. In 2011, we organised meetings on the simplification and flexibilisation of our employment conditions. The vast majority of those present welcomed the changes. More than half of them actually expected they would deal with the employment conditions more flexibly. Consequently, we will draw up an implementation proposal to discuss with the trade unions in 2012.

## 13.9 SNS REAAL Pension Fund

Per 1 January 2011, the SNS REAAL Pension Fund granted an indexation of 0.25%. As a result, the commenced pension payments and accrued pension entitlements rose by 0.25%. Inflation was thus partly mitigated.

In the course of 2011, the cover ratio of the pension fund dipped under the required cover ratio level. In the fourth quarter of 2011, the (nominal) cover ratio of the SNS REAAL Pension Fund rose from 109.7% to 115.1%(preliminary figure), with a required cover ratio of around 112%. At the end of 2011 there was no shortfall. The pension fund has sufficient means to pay the pensions, also for the longer term. There is, however, insufficient buffer available to cope well with (further) setbacks. Therefore, no indexation was granted per 1 January 2012.

## 13.10 Employer surveys

We believe we do our utmost to be a good employer. Naturally, we also want to know if others think the same way.

According to the Best Employer Survey by Effectory, a market research specialist, ASN Bank turns out to be the second best employer in the category of companies with less than one thousand employees. Employees are mainly inspired by the sustainable mission of the bank.

## 13.11 Employee participation

An important topic about which SNS REAAL's Executive Board and the Central Works Council (CWC) entered into discussion in 2011 was the retrenchment of the employment conditions. One of the issues discussed was the profit sharing scheme. Besides employee conditions, they also talked about several requests for advisory opinions on the organisational changes. Together with the decentralised works councils, the CWC kept looking for socially justified solutions for employees faced with an organisational change. To enable all employees to join the discussion on SNS REAAL's future, we organised debates on our future throughout the country.

# Report of the Supervisory Board

## 14 Report of the Supervisory Board

Members of the Supervisory Board of SNS Bank NV are also member of the Supervisory Board of SNS REAAL NV. For this reason, meetings of the Supervisory Board of SNS REAAL are combined meetings, and the agenda of the Supervisory Board includes items specifically relevant to SNS Bank. As a result, the following paragraphs are an extraction of the specific items in relation to SNS Bank NV of the meetings of the members of the Supervisory Board.

For a full version of the Report of the Supervisory Board of SNS REAAL we refer to the annual report of SNS REAAL, available on www.snsreaal.nl.

In 2011, the European debt crisis left a big mark on the economy, the financial sector and, consequently, also on SNS Bank. Although it looked as though 2010 showed the first signs of economic recovery, in the second half of 2011, Europe was faced with the consequences of having (too) high a level of sovereign debts. In the first six months of 2011, the Dutch media devoted a great deal of attention to the variable remuneration for executives in the financial services industry, and the changing and more stringent supervision of banks since 2010. At the end of 2011, the Banking Code Monitoring Committee issued a positive report on the Dutch banks' compliance and administering of the Banking Code. Unfortunately, judging from critical public opinion, confidence in the financial services industry does not yet seem to have been restored.

### 14.1 Main topics and discussions

In these turbulent times a wide variety of issues and developments required the attention of the Supervisory Board. SNS Bank was faced with a persistent low interest rate, rising and very volatile risk surcharges, turmoil over the euro, a tight funding market, a great deal of media attention for pensions, prolonged difficult real estate market conditions, changing legislative and regulatory requirements and changes in the supervisory and political climate. The Supervisory Board regularly discussed the manner in which SNS Bank should adapt itself to these conditions and the pressure this is causing on the organisation. The main themes were SNS Bank's capital position, Property Finance, risk management and risk appetite, SNS Bank's business model, the changing and especially the more stringent regulatory environment, a large number of projects, good customer service and optimising the focus on customers and customers' interests. These themes are also included in the management letter of the external and internal auditor.

### 14.2 Composition of the Supervisory Board

As per 20 April 2011 the number of Supervisory Board members is reduced to nine. Hans van de Kar and Henk Muller stepped down and Jaap Lagerweij and Robert-Jan van de Kraats were reappointed. Piero Overmars succeeded Hans van de Kar as Deputy Chairman of the Supervisory Board.

During 2011 Jan Nijssen was appointed as member of the Supervisory Board. With the appointment of Jan Nijssen, the knowledge and experience in the area of financial services was further expanded on the Supervisory Board.

## 14.3 Meetings of the Supervisory Board

### 14.3.1 Main topics

In 2011, the Supervisory Board met twelve times, two of which via telephone conference: in February, March, April, May, June, August, September, October, November and December. None of the Supervisory Board members were frequently absent. More detailed information on the main topics discussed can be found in the Annual accounts of SNS REAAL 2011, chapter Report of the Supervisory Board.

### 14.3.2 Presence of the external auditor

The external auditor is present during all the meetings of the Audit Committee and at least once a year during a meeting of the Risk Committee. Optionally, the external auditor attends meetings of the Supervisory Board, once during 2011 at the meeting in March. During this meeting, amongst other subjects, the Annual Report 2010 was discussed.

## 14.4 Committee meetings

The Supervisory Board has four committees:

- Audit Committee
- Nomination Committee
- Remuneration Committee
- Risk Committee

In the course of 2011, the Credit Committee was merged with the Risk Committee. More detailed information on the topics discussed in and developments of the committees can be found in the annual accounts of SNS REAAL 2011, chapter Report of the Supervisory Board. 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 of the Supervisory Board in respect of the duties assigned to it and reports to the Supervisory Board.

## 14.5 Closing words

The Supervisory Board would explicitly like to express its gratitude and appreciation to all SNS Bank employees for the work performed over the past year, and especially for their involvement and commitment. Unfortunately, economic and financial conditions in 2011 were once again turbulent. This situation forced the management to ask all employees to take a step back in their variable remuneration. Moderation of the fixed annual income will come up for discussion with the trade unions in 2012. Although necessary, this had not been an easy decision. Despite these developments and the persistent negative sentiment towards the financial services industry, SNS Bank personnel continue to dedicate themselves with great enthusiasm to SNS Bank. The Supervisory Board is well aware that this is not self-evident and wishes to express its deepest gratitude to them.

SNS Bank’s management again faced a great deal of pressure this year. Despite the occasional instances in which the pressure under which management had to perform was exceptionally high, cooperation with the Supervisory Board remained outstanding. We would like to express our gratitude to them for that too.

Henk Kroeze stepped down as Chairman of the Board of SNS Bank and member of the Management Committee of SNS REAAL with effect from 1 January 2012. He will leave SNS Bank as of 30 April 2012. The Supervisory Board would like to express its gratitude to Henk Kroeze for the work performed in his years of service.

Finally, the Supervisory Board would like to express its gratitude for the work performed by Hans van de Kar and Henk Muller in their many years of service as Supervisory Board members and for the work performed by Rien Hinssen in his years as member of the Executive Board of SNS REAAL and in the years before to that for SNS Bank.

Utrecht, 5 March 2012

On behalf of the Supervisory Board,

Rob Zwartendijk, Chairman

# Corporate governance

## 15 Corporate governance

This chapter contains a review of the members of the Supervisory Board, followed with an outline of the application of the Dutch Banking Code that applies to SNS Bank. The chapter concludes with the required statements.

Because the governance framework of SNS Bank is an integrated part of the governance framework of SNS REAAL we refer for more detailed information on Corporate Governance, the Executive Board, the Supervisory Board, shareholders and shares, to SNS REAAL's Annual Report 2011.

### 15.1 The Supervisory Board

The Supervisory Board of SNS Bank comprises the following members as per 31 December 2011:

- Rob Zwartendijk (Chairman)
- Piero Overmars (Vice Chairman)
- Charlotte Insinger
- Robert Jan van de Kraats
- Jaap Lagerweij
- Jos Nijhuis
- Jan Nijssen
- Herna Verhagen
- Ludo Wijngaarden

The Supervisory Board has set up four committees that comprised the following members on 31 December 2011:

- the Audit Committee, consisting of Robert-Jan van de Kraats (Chairman), Charlotte Insinger, Jos Nijhuis, Piero Overmars and Ludo Wijngaarden.
- the Nomination Committee, consisting of Rob Zwartendijk (Chairman), Jaap Lagerweij and Herna Verhagen.
- the Remuneration Committee, consisting of Herna Verhagen (Chairman), Ludo Wijngaarden and Rob Zwartendijk.
- the Risk Committee, consisting of Piero Overmars (Chairman), Charlotte Insinger, Robert-Jan van de Kraats, Jaap Lagerweij and Rob Zwartendijk.

In view of the Credit Committee's limited tasks, the Supervisory Board decided in 2011 to merge this committee with the Risk Committee.

The Supervisory Board of SNS Bank is composed of the same individuals as the Supervisory Board of SNS REAAL.

### 15.2 Banking code

This section contains an outline of the application of the Dutch Banking Code. More details can be found in the annual accounts 2011 of SNS REAAL.

This section contains an outline of the application of the Dutch Banking Code. More details can be found in the annual accounts 2011 of SNS REAAL.

- Transparent rates and conditions, appropriate advice
- Customer-driven and efficient organisation
- Sustainability and satisfaction
- Retention and quality in the large corporate market

- Corporate responsibility Leadership Journey
- Changes to own costs and customers' pension contributions
- Abolition of brokerage fee promotes quality of advice
- Accessible and clear information

### 15.2.1 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 (referred to as the Code). Since 2009, SNS Bank has been implementing the recommendations of the Code within its organisation where appropriate.

### 15.2.2 Contributions to restoring 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 these 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.

### 15.2.3 SNS Bank adopts Code before coming into force

The Banking Code is applicable to all of SNS Bank's activities and came into force on 1 January 2010. Even before this date, in 2009, SNS Bank started applying the Code.

In the meantime, SNS Bank almost completely complies with the Code. SNS Bank and all its employees carefully monitor compliance with the Code and try to further improve them, in line with the execution of the mission Simplicity in finance and the core vale CARE!

### 15.2.4 SNS Bank applies the Code to all activities

Right from the start, SNS Bank has applied the Code to all of its activities almost completely.
Some examples are:

- SNS Bank's mission Simplicity in finance starts from putting its clients and its clients' best interests first in accordance with the Code.
- The remuneration policy of the management complies with the Code and the applicable laws and regulations.
- The management of SNS Bank signed the moral-ethical statement in February 2010. The principles included in this statement provide all SNS Bank personnel with an ethical framework to guide them in their conduct and behaviour.
- In 2011, the management teams of the various business units participated in continuing education under the Code.
- The Product Approval Process has been implemented in all relevant business units under the Code and will be audited per business unit every year.
- SNS Bank has a risk management structure that is compliant with the Code and that is constantly in development.
- The internal audit function is organised at Group level and is compliant with the Code.

### 15.2.5 Application of the Code in practice

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

### 15.2.6 Compliance with the Banking Code

SNS Bank applies the Banking Code to all its activities almost completely. On some points, full implementation could only take place in the course of 2011 and could, therefore, only come into force with retroactive effect from 1 January 2011:
Recommendation 6.2.1, 6.3.2, 6.3.3, 6.3.4: In 2011, the remuneration policy for the Executive Board and senior management has, in close cooperation with the regulatory authorities, been amended in connection with the taking effect of the CRD III remuneration rules and the Decree on Controlled Remuneration Policies (Wft 2011). Subsequently, a remuneration policy for these officers came into force at the end of 2011 that is compliant with the aforementioned recommendations. This policy is applicable with retroactive effect from 1 January 2011. In 2011 some managers received a severance payment of more than 100% of the annual salary based on existing contractual arrangements.

### 15.2.7 Putting clients first

The Banking Code recommendations aimed at the culture of the activities, such as putting clients first and carefully considering the interests of all SNS Bank's stakeholders concerned (section 3.2 of the Code) is abstractly formulated. Implementation and compliance with these recommendations can therefore - by definition – only be objectively verified to a limited extent.

SNS Bank is convinced that these recommendations are embedded in the culture of all of its business units and receive constant attention from management and employees of SNS Bank. One of the elements of SNS Bank's strategy is putting clients and clients' interests first, which is embedded in the mission Simplicity in finance and the core value CARE! Due care is exercised when considering the interests of all of SNS Bank's stakeholders. Putting clients first is part of employees' performance appraisal and of the product approval process for existing and new products. Business units must report to the Executive Board on the way in which they put the clients first.
The implementation of these recommendations from the Banking Code is discussed in more detail in other sections of this Annual Report:

- Our brands
- Winning, helping and retaining customers
- Customers' interests and satisfaction
- Sustainable growth of our brands
- SNS Bank: innovation through simplicity
- ASN Bank: continued growth
- RegioBank: personal contact and advice
- Commercial developments SNS Retail Bank
- Strategy

### 15.2.8 Continuing education and competence Supervisory Board and senior management

In 2011, the members of the Supervisory Board and senior management attended several training courses in line with the recommended topics in the Code. Together with the HR Department, the Company Secretary organises a range of in-house training courses with internal and external speakers. Some examples of topics addressed in the continuing education programme are financial reporting, risk management, putting clients' interests first, sanctions legislation and dealing with price-sensitive information. HR keeps an attendance record of the internal and external training courses attended by aforementioned officers.

The know-how of the senior management teams is part of their performance appraisal.

## 15.3 Management statements

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

### 15.3.1 In-control statement

The SNS Bank Management Board states it has reasonable assurance that the actual risks it is faced with have been defined. The basis for this is provided by SNS Bank's risk management organisation, as described in the chapter on Risk management. The design and operating effectiveness of key control is assessed on a regular basis. SNS Bank has a structured process of internal in-control statements and the accompanying evaluation by senior management. The following relevant areas of management attention are applicable for SNS Bank as a whole:

- In the area of SNS Bank's capitalisation, the phase-out and restructuring of Property Finance and management of the consequences of the low interest rates and longevity risk are given priority.
- Society is increasingly faced with the threat of cybercrime. SNS Bank is closely monitoring this development and takes appropriate measures where necessary.
- In 2011 SNS Bank further tightened its product management process compared to 2010. 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, these products will also continue to be a point of focus.

### 15.3.2 Managing financial reporting

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

- The Financial Committee, which is responsible for setting policy frameworks as well as the organisation of financial and actuarial administrations and processes.
- The business units and staff departments, which are responsible for carrying out the business units' and departments' work, and thus for an accurate, complete and timely 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 statements, which assessment is amongst other things based on the key controls' results. After approval by the management of SNS Bank, the findings of the financial reporting process, together with the financial accountability, is discussed in the Audit Committee.
- The review of the functioning of these systems by the internal and external auditors. The external auditor reports thereon insofar as it relates to the audit of the financial statements. The findings are discussed with the Financial Committee, the Executive Board and the Audit Committee.

### 15.3.3 Transparency statement

15.3.3 Transparency statement

The members of the Management Board state the following: “SNS Bank prepares the consolidated and company financial statements 2011 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 2011 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 Banks NV faces are described in the Annual Report.”

Utrecht, 5 March 2012

Dick Okhuijsen
Ernst Jan Boers
Ference Lamp
Wim Henk Steenpoorte

# Financial statements

## 16 Consolidated financial statements

### 16.1 Consolidated balance sheet

#### Consolidated balance sheet

| Before result appropriation and in € millions | Notes | 31-12-2011 | 31-12-2010 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 1 | 5,128 | 3,833 |
| Loans and advances to banks | 2 | 1,682 | 1,681 |
| Loans and advances to customers | 3 | 64,778 | 65,013 |
| Derivatives | 4 | 3,354 | 2,317 |
| Investments | 5 | 4,106 | 4,249 |
| Investment properties | 6 | 1 | 1 |
| Property projects | 7 | 512 | 467 |
| Investments in associates | 8 | 17 | 6 |
| Property and equipment | 9 | 90 | 110 |
| Intangible assets | 10 | 153 | 164 |
| Deferred tax assets | 11 | 225 | 267 |
| Corporate income tax | 12 | 115 | 102 |
| Other assets | 13 | 1,111 | 587 |
| Assets held for sale | 14 | -- | 121 |
| **Total assets** | | **81,272** | **78,918** |
| **Equity and liabilities** | | | |
| Savings | 15 | 30,342 | 27,398 |
| Other amounts due to customers | 16 | 10,215 | 10,482 |
| **Amounts due to customers** | | **40,557** | **37,880** |
| Amounts due to banks | 17 | 4,716 | 3,096 |
| Debt certificates | 18 | 27,361 | 29,523 |
| Derivatives | 4 | 3,606 | 2,880 |
| Deferred tax liabilities | 11 | 303 | 323 |
| Other liabilities | 19 | 1,694 | 1,317 |
| Other provisions | 20 | 35 | 41 |
| Participation certificates and subordinated debt | 21 | 1,121 | 2,022 |
| Share capital | | 381 | 381 |
| Other reserves | | 1,304 | 1,630 |
| Retained earnings | | 38 | (431) |
| **Shareholder's equity** | **22** | **1,723** | **1,580** |
| Equity attributable to securityholders | 22 | 156 | 256 |
| **Total equity** | | **1,879** | **1,836** |
| **Total equity and liabilities** | | **81,272** | **78,918** |

*The references next to the balance sheet items relate to the notes to the consolidated balance sheet starting from chapter 23.*

*Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 17.3.4 Changes in presentation of the accounting principles for the consolidated financial statements.*

## 16.2 Consolidated income statement

### Consolidated income statement

| *in € millions* | *Notes* | 2011 | 2010 |
|---|---|---|---|
| **Income** | | | |
| Interest income | | 2,761 | 2,489 |
| Interest expense | | 1,958 | 1,618 |
| **Net interest income** | *26* | **803** | **871** |
| Fee and commission income | | 139 | 138 |
| Fee and commission expense | | 53 | 46 |
| **Net fee and commission income** | *27* | **86** | **92** |
| Share in result of associates | *28* | (1) | (9) |
| Investment income | *29* | 45 | 47 |
| Result on financial instruments | *30* | 119 | (20) |
| Other operating income | *31* | (6) | 4 |
| Result assets and liabilities held for sale | *32* | (4) | -- |
| **Total income** | | **1,042** | **985** |
| **Expenses** | | | |
| Staff costs | *32* | 258 | 256 |
| Depreciation and amortisation of fixed assets | *9/10* | 30 | 35 |
| Other operating expenses | *33* | 285 | 285 |
| Impairment charges | *34* | 410 | 941 |
| **Total expenses** | | **983** | **1,517** |
| **Result before tax** | | **59** | **(532)** |
| Taxation | *35* | 21 | (101) |
| **Net result continued operations** | | **38** | **(431)** |
| Net result discontinued operations | | -- | -- |
| **Net result for the period** | | **38** | **(431)** |
| **Attribution:** | | | |
| Net result attributable to shareholders | | 38 | (410) |
| Net result attributable to securityholders | | -- | (21) |
| **Net result attributable to shareholders and securityholders** | | **38** | **(431)** |
| Net result attributable to minority interests | | -- | -- |
| **Net result for the period** | | **38** | **(431)** |

*The references next to the income statement items relate to the notes to the consolidated income statement starting from chapter 23.*

*Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 17.3.4 Changes in presentation of the accounting principles for the consolidated financial statements.*

# 16.3 Consolidated statement of comprehensive income

## Consolidated statement of comprehensive income

| *in € millions* | 2011 | 2010 |
|---|---|---|
| **Net result for the period** | **38** | **(431)** |
| Unrealised revaluations property and equipment | -- | (1) |
| Realised revaluations through profit or loss | (2) | -- |
| **Change in revaluation reserve** | **(2)** | **(1)** |
| Unrealised revaluations from cash flow hedges | 37 | 3 |
| Realised revaluations through profit or loss | -- | (1) |
| **Change in cash flow hedge reserve** | **37** | **2** |
| Unrealised revaluations investments available for sale | (68) | (143) |
| Impairments fair value | 20 | -- |
| Realised revaluations through profit or loss | (34) | (14) |
| **Change in fair value reserve** | **(82)** | **(157)** |
| Other changes | 2 | (11) |
| **Change in other comprehensive income (after tax)** | **(45)** | **(167)** |
| **Total comprehensive income** | **(7)** | **(598)** |
| | | |
| **Attribution:** | | |
| Total comprehensive income attributable to shareholders | (7) | (589) |
| Total comprehensive income to minority interests | -- | (9) |
| **Total comprehensive income** | **(7)** | **(598)** |

*Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in paragraph 17.3.4 Changes in presentation of the accounting principles for the consolidated financial statements.*

## 16.4 Consolidated statement of changes in equity

### Consolidated statement of changes in total equity 2011

| *in € millions* | Issued share capital ordinary shares | Share premium reserve ordinary shares | Revaluation reserves | Cash flow hedge reserve | Fair value reserve | Other reserves | Retained earnings | Equity attributable to shareholders | Securities capital | Third party interests | Group equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2011 | 381 | 838 | 2 | 27 | (145) | 908 | (431) | 1,580 | 256 | -- | 1,836 |
| Transfer of net result 2010 | -- | -- | -- | -- | -- | (410) | 431 | 21 | (21) | -- | -- |
| **Transfers 2010** | -- | -- | -- | -- | -- | (410) | 431 | 21 | (21) | -- | -- |
| Unrealised revaluations | -- | -- | -- | 37 | (68) | -- | -- | (31) | -- | -- | (31) |
| Realised revaluations through profit or loss | -- | -- | (2) | -- | (34) | -- | -- | (36) | -- | -- | (36) |
| Other changes | -- | -- | -- | -- | -- | 2 | -- | 2 | -- | -- | 2 |
| Impairments | -- | -- | -- | -- | 20 | -- | -- | 20 | -- | -- | 20 |
| **Amounts charged directly to total equity** | -- | -- | (2) | 37 | (82) | 2 | -- | (45) | -- | -- | (45) |
| **Net result 2011** | -- | | -- | -- | -- | -- | 38 | 38 | -- | -- | 38 |
| **Total result 2011** | -- | -- | (2) | 37 | (82) | 2 | 38 | (7) | -- | -- | (7) |
| Capital issue | -- | 129 | -- | -- | -- | -- | -- | 129 | -- | -- | 129 |
| Securities issue / repurchase | -- | -- | -- | -- | -- | -- | -- | -- | (79) | -- | (79) |
| **Transactions with share holders and securityholders** | -- | 129 | -- | -- | -- | -- | -- | 129 | (79) | -- | 50 |
| **Total changes in equity 2011** | -- | 129 | (2) | 37 | (82) | (408) | 469 | 143 | (100) | -- | 43 |
| **Balance as at 31 December 2011** | 381 | 967 | -- | 64 | (227) | 500 | 38 | 1,723 | 156 | -- | 1,879 |

## Consolidated statement of changes in total equity 2010

| *in € millions* | Issued share capital ordinary shares | Share premium reserve ordinary shares | Revaluation reserves | Cash flow hedge reserve | Fair value reserve | Other reserves | Retained earnings | Equity attributable to share-holders | Secu-rities capital | Third party interests | Group Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 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) | -- | -- |
| **Transfers 2009** | **--** | **--** | **--** | **--** | **--** | **(95)** | **99** | **4** | **(4)** | **--** | **--** |
| Unrealised revaluations | -- | -- | (1) | 3 | (143) | -- | -- | (141) | -- | -- | (141) |
| Realised revaluations through profit or loss | -- | -- | -- | (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)** |
| **Transactions with shareholders and securityholders** | **--** | **--** | **--** | **--** | **--** | **--** | **--** | **--** | **--** | **--** | **--** |
| **Total changes in equity 2010** | **--** | **--** | **(1)** | **2** | **(157)** | **(97)** | **(332)** | **(585)** | **(4)** | **(9)** | **(598)** |
| **Balance as at 31 December 2010** | **381** | **838** | **2** | **27** | **(145)** | **908** | **(431)** | **1,580** | **256** | **--** | **1,836** |

For more information on the statement of changes in equity please refer to the statement of changes in equity in paragraph 17.5.12 (Equity of the accounting principles for the consolidated financial statement).

## 16.5 Consolidated cash flow statement

### Consolidated cash flow statement

| *in € millions* | 2011 | 2010 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Operating profit before taxation | 59 | (532) |
| Adjustments for: | | |
| Depreciation and amortisation of fixed assets | 32 | 20 |
| Changes in other provisions | 15 | 21 |
| Impairment charges / (reversals) | 410 | 941 |
| Unrealised results on investments through profit or loss | (90) | (165) |
| Retained share in the result of associates | 1 | 9 |
| Change in operating assets and liabilities | | |
| Change in loans and advances to customers | 2,195 | 3,113 |
| Change in loans and advances to banks | 1,334 | (2,989) |
| Change in savings | 2,944 | 2,963 |
| Change in trading portfolio | 52 | 41 |
| Change in other operating activities | (1,011) | (1,113) |
| **Net cash flow from operating activities** | **5,941** | **2,309** |
| **Cash flow from investment activities** | | |
| Sale of intangible assets | -- | 16 |
| Sale of property and equipment | 17 | 4 |
| Sale of subsidiaries | 122 | -- |
| Sale of investment property | 194 | -- |
| Sale and redemption of investments and derivatives | 4,079 | 1,618 |
| Purchase of intangible fixed assets | (6) | (9) |
| Purchase of property and equipment | (18) | (17) |
| Purchase of investments in associates | 108 | (10) |
| Purchase of investment property | -- | (58) |
| Purchase of investments and derivatives | (3,928) | (1,582) |
| **Net cash flow from investment activities** | **568** | **(38)** |
| **Cash flow from finance activities** | | |
| Issue of shares and share premium | 154 | -- |
| Issue of subordinated loans | 60 | 635 |
| Issues of debt certificates | 1,556 | 6,207 |
| Repurchase of securities | (100) | -- |
| Redemption of subordinated loans | (982) | (205) |
| Redemption of debt certificates | (5,895) | (7,634) |
| **Net cash flow from financing activities** | **(5,207)** | **(997)** |
| Cash and cash equivalents 1 January | 3,833 | 2,554 |
| Effect of exchange rate fluctuations on cash held | (7) | 5 |
| Change in cash and cash equivalents | 1,302 | 1,274 |
| **Cash and cash equivalents as at 31 December** | **5,128** | **3,833** |
| **Additional disclosure with regard to cash flows from operating activities** | | |
| Interest income received | 2,803 | 2,445 |
| Dividends received | 1 | -- |
| Interest paid | 1,781 | 1,471 |

*Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in paragraph 17.3.4 Changes in presentation of the accounting principles for the consolidated financial statements.*

# 17 Accounting principles for the consolidated financial statements

## 17.1 Adoption of the financial statements

The consolidated financial statements of SNS Bank NV for the year ended on 31 December 2011 were authorised for publication by the Executive Board following their approval by the Supervisory Board on 5 March 2012. The financial statements will be submitted to the General Meeting of Shareholders for adoption on 25 April 2012.

## 17.2 General information

SNS Bank NV (SNS Bank), incorporated and established in the Netherlands, is a public limited liability company incorporated under the laws of the Netherlands. SNS Bank'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.

Due to this change in presentation the segment information shown in the annual report of SNS REAAL differs from the information in the separate financial statements of SNS Bank NV as shown in the annual report of 2011. The SNS Retail Bank net result in the annual report of SNS Bank NV is € 24 million higher, as net interest income is € 5 million (gross) higher and result on financial instruments is € 27 million (gross) higher. These differences consist of the sale of € 0.5 billion of mortgages of SNS Retail Bank to the Insurance activities.

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

## 17.3 Basis of preparation

### 17.3.1 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.

### 17.3.2 Changes in published Standards and Interpretations effective in 2011

New or amended standards become effective on the date specified in the relevant IFRS, but may allow early adoption. In 2011, the following standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee 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.

- 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.

### 17.3.3 Interpretations of existing standards or amendments to standards, not yet effective in 2011

The following new standards, amendments to existing standards and interpretations, published prior to 1 January 2012 and effective for accounting periods beginning on or after 1 January 2012, were not early adopted by SNS Bank.

- IFRS 9 Financial Instruments.
- IFRS 10 Consolidated Financial Statements.
- IFRS 11 Joint Arrangements.
- IFRS 12 Disclosures of Interests in Other Entities.
- IFRS 13 Fair Value Measurement.
- IAS 27 Separate Financial Statements.
- IAS 28 Investments in Associates and Joint Ventures.
- Amendment to IFRS 7 Financial Instruments: Disclosures – 'Transfer of Financial Assets'.
- Amendment to IAS 12 Income Tax – 'Recovery of Underlying Assets'.
- Amendment to IFRS 1 First-Time Adoption of International Financial Reporting Standards – 'Severe Hyperinflation and Removal of Fixed Dates for First-Time Adoptors'.
- Amendment to IAS 1 Presentation of Financial Statements – 'Presentation of Items of Other Comprehensive Income'.
- Amendment to IAS 19 Employee Benefits.
- Improvements to IFRSs 2011.

IFRS 9 Financial Instruments: Classification and Measurement, will be effective 1 January 2015. 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 this IASB project has been completed in full, and published.

In June 2011 the amendment to IAS 19 Employee Benefits was published. The main changes are the elimination of the use of the corridor approach of the defined benefit plans and deviations from actuarial assumptions to be recognised directly in equity (OCI). The amendment will be effective for accounting periods beginning on or after 1 January 2013. The change is limited, since the SNS Bank staff pension entitlements are, to the largest extent, part of a defined contribution plan.

IFRS 10 "Consolidated financial statements" effective for accounting periods beginning on or after 1 January 2013, introduces a single recognition model for all entities, based on control, regardless of the type of entity consolidated. Although this new requirement is still being analysed SNS Bank does not expect the adoption of the new standard to have a significant effect on the consolidated financial statements.

### 17.3.4 Changes in principles, estimates and presentation

#### 17.3.4.1 *Changes in presentation*

Business unit Property Finance has been split into two separate segments as from 1 January 2011. Property Finance retains its international loan portfolio and part of its Dutch loan portfolio. This 'run-off' unit will be phased out over the next years. The remaining part of Property Finance's Dutch portfolio is combined with the existing small and medium-sized enterprise (SME) activities of SNS Retail Bank in the new unit called SNS SME.

The accompanying statements present the impact of the aforementioned changes in the segmental balance sheet as at 31 December 2010 and the segmented income statement for 2010 of SNS Bank.

As a result of the formation of the SNS SME business unit, the name of the primary segment SNS Retail Bank has been changed to SNS Bank, which now comprises the subsegments SNS Retail Bank and SNS SME.

## Reported balance sheet by segment 31 December 2010

| *in € millions* | SNS Retail Bank | Property Finance | Eliminations | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 3,813 | 977 | (957) | 3,833 |
| Loans and advances to banks | 14,050 | 10 | (12,379) | 1,681 |
| Loans and advances to customers | 53,635 | 11,378 | -- | 65,013 |
| Derivatives | 2,317 | -- | -- | 2,317 |
| Investments | 4,249 | -- | -- | 4,249 |
| Investment properties | 1 | -- | -- | 1 |
| Property projects | -- | 467 | -- | 467 |
| Investments in associates | -- | 6 | -- | 6 |
| Property and equipment | 109 | 1 | -- | 110 |
| Intangible assets | 116 | 48 | -- | 164 |
| Deferred tax assets | 258 | 9 | -- | 267 |
| Corporate income tax | 97 | 7 | (2) | 102 |
| Other assets | 530 | 279 | (222) | 587 |
| Assets held for sale | -- | 121 | -- | 121 |
| **Total assets** | **79,175** | **13,303** | **(13,560)** | **78,918** |
| **Equity and liabilities** | | | | |
| Savings | 27,398 | -- | -- | 27,398 |
| Other amounts due to customers | 10,292 | 190 | -- | 10,482 |
| Amounts due to banks | 4,049 | 12,383 | (13,336) | 3,096 |
| Debt certificates | 29,523 | -- | -- | 29,523 |
| Derivatives | 2,880 | -- | -- | 2,880 |
| Deferred tax liabilities | 313 | 10 | -- | 323 |
| Corporate income tax | 2 | -- | (2) | -- |
| Other liabilities | 1,469 | 70 | (222) | 1,317 |
| Provisions | 35 | 6 | -- | 41 |
| Participation certificates and subordinated debt | 2,022 | -- | -- | 2,022 |
| Equity attributable to shareholders | 936 | 644 | -- | 1,580 |
| Equity attributable to securityholders | 256 | -- | -- | 256 |
| Minority interests | -- | -- | -- | -- |
| **Total equity** | **1,192** | **644** | **--** | **1,836** |
| **Total equity and liabilities** | **79,175** | **13,303** | **(13,560)** | **78,918** |

## Adjusted balance sheet by segment 31 December 2010

| *in € millions* | SNS Retail Bank | SNS SME | Property Finance | Eliminations | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 3,813 | 768 | 209 | (957) | 3,833 |
| Loans and advances to banks | 14,050 | 10 | -- | (12,379) | 1,681 |
| Loans and advances to customers | 52,030 | 7,199 | 5,784 | | 65,013 |
| Derivatives | 2,317 | -- | -- | -- | 2,317 |
| Investments | 4,249 | -- | -- | -- | 4,249 |
| Investment properties | 1 | -- | -- | -- | 1 |
| Property projects | -- | 11 | 456 | -- | 467 |
| Investments in associates | -- | 1 | 5 | -- | 6 |
| Property and equipment | 109 | 1 | -- | -- | 110 |
| Intangible assets | 116 | 48 | -- | -- | 164 |
| Deferred tax assets | 258 | -- | 9 | -- | 267 |
| Corporate income tax | 97 | (46) | 53 | (2) | 102 |
| Other assets | 530 | 182 | 828 | (953) | 587 |
| Assets held for sale | -- | 27 | 94 | -- | 121 |
| **Total assets** | **77,570** | **8,201** | **7,438** | **(14,291)** | **78,918** |
| **Equity and liabilities** | | | | | |
| Savings | 27,398 | -- | -- | -- | 27,398 |
| Other amounts due to customers | 5,942 | 4,350 | 190 | -- | 10,482 |
| Amounts due to banks | 7,071 | 2,576 | 6,785 | (13,336) | 3,096 |
| Debt certificates | 29,523 | -- | -- | -- | 29,523 |
| Derivatives | 2,880 | -- | -- | -- | 2,880 |
| Deferred tax liabilities | 313 | 3 | 7 | -- | 323 |
| Corporate income tax | 2 | -- | -- | (2) | -- |
| Other liabilities | 1,469 | 780 | 21 | (953) | 1,317 |
| Provisions | 35 | 3 | 3 | -- | 41 |
| Participation certificates and subordinated debt | 1,858 | 164 | -- | -- | 2,022 |
| Equity attributable to shareholders | 823 | 325 | 432 | -- | 1,580 |
| Equity attributable to securityholders | 256 | -- | -- | -- | 256 |
| Minority interests | -- | -- | -- | -- | -- |
| **Total equity** | **1,079** | **325** | **432** | **--** | **1,836** |
| **Total equity and liabilities** | **77,570** | **8,201** | **7,438** | **(14,291)** | **78,918** |

## Reported income statement by segment 2010

| *in € millions* | SNS Retail Bank | Property Finance | Eliminations | Total |
|---|---|---|---|---|
| **Income** | | | | |
| Interest income | 2,279 | 478 | (268) | 2,489 |
| Interest expense | 1,645 | 241 | (268) | 1,618 |
| **Net interest income** | **634** | **237** | **--** | **871** |
| Fee and commission income | 138 | -- | -- | 138 |
| Fee and commission expense | 46 | -- | -- | 46 |
| **Net fee and commission income** | **92** | **--** | **--** | **92** |
| Share in result of associates | -- | (9) | -- | (9) |
| Investment income | 47 | -- | -- | 47 |
| Result on financial instruments | 9 | (29) | -- | (20) |
| Other operating income | 1 | 3 | -- | 4 |
| **Total income** | **783** | **202** | **--** | **985** |
| **Expenses** | | | | |
| Impairment charges/ (reversals) | 83 | 858 | -- | 941 |
| Staff costs | 213 | 43 | -- | 256 |
| Depreciation and amortisation of fixed assets | 33 | 2 | -- | 35 |
| Other operating expenses | 237 | 48 | -- | 285 |
| **Total expenses** | **566** | **951** | **--** | **1,517** |
| **Result before tax** | **217** | **(749)** | **--** | **(532)** |
| Taxation | 55 | (156) | -- | (101) |
| Minority interests | -- | -- | -- | -- |
| **Net result attributable to shareholders and securityholders** | **162** | **(593)** | **--** | **(431)** |

### Adjusted income statement by segment 2010

| *in € millions* | SNS Retail Bank | SNS SME | Property Finance | Eliminations | Total |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Interest income | 2,117 | 397 | 243 | (268) | 2,489 |
| Interest expense | 1,551 | 229 | 106 | (268) | 1,618 |
| **Net interest income** | **566** | **168** | **137** | **--** | **871** |
| Fee and commission income | 131 | 7 | -- | -- | 138 |
| Fee and commission expense | 46 | -- | -- | -- | 46 |
| **Net fee and commission income** | **85** | **7** | **--** | **--** | **92** |
| Share in result of associates | -- | -- | (9) | -- | (9) |
| Investment income | 47 | -- | -- | -- | 47 |
| Result on financial instruments | 9 | -- | (29) | -- | (20) |
| Other operating income | 1 | 3 | -- | -- | 4 |
| **Total income** | **708** | **178** | **99** | **--** | **985** |
| **Expenses** | | | | | |
| Impairment charges/ (reversals) | 63 | 26 | 852 | -- | 941 |
| Staff costs | 201 | 30 | 25 | -- | 256 |
| Depreciation and amortisation of fixed assets | 33 | 1 | 1 | -- | 35 |
| Other operating expenses | 225 | 22 | 38 | -- | 285 |
| **Total expenses** | **522** | **79** | **916** | **--** | **1,517** |
| | | | | | |
| **Result before tax** | **186** | **99** | **(817)** | **--** | **(532)** |
| Taxation | 47 | 26 | (174) | -- | (101) |
| Minority interests | -- | -- | -- | -- | -- |
| **Net result attributable to shareholders and securityholders** | **139** | **73** | **(643)** | **--** | **(431)** |

## 17.3.5 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. All group entities have applied the accounting principles consistently to all periods.

### 17.3.5.1 *Accounting principles applied to balance sheet items*

In preparing the financial statements, the accounting principles 'fair value', 'amortised cost' and 'historic cost' are used.

Fair value is used for land and buildings in own use and investment property, part of the loans and advances to customers, investments classified at fair value through profit or loss, investments classified as available for sale, invested collateral securities lending, 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.

### 17.3.5.2 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 million, unless stated otherwise. Counts are based on unrounded figures. Their sum may differ from the sum of the rounded figures.

## 17.3.6 Main accounting principles, estimates and assumptions

### 17.3.6.1 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.

### 17.3.6.2 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 initial effective interest rate of the loans and advances.

The criteria for impairment are applied to the entire loan portfolio. Homogenous groups of loans and advances with smaller amounts per individual loan or advance (and 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.

### 17.3.6.3 Net realisable value of property projects

Property projects are valued at the lower of cost or net realisable value (NRV). NRV is the estimated sales price less sales costs, in which the projected revenues and costs are discounted at the weighted average cost of capital (WACC) of SNS Bank.

The estimated sales price at the exit date in the future is determined based on projections of the rental income, price per square meter, construction costs, interest costs and expected market returns on exit date and is based on valuations provided by professional appraisers.

### 17.3.6.4 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 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. Input in the models is as far as possible based on observable market data. All valuation methods used are assessed and approved in-house according to internal governance procedures.

### 17.3.6.5 Intangible assets

#### Intangible fixed assets

An asset is subject to impairment if its book value exceeds the realisable value from continued use (value in 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. Goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use 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.

#### 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 reference group is determined individually per CGU.

#### Software and other intangible assets

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

The key assumptions used herein are the discount rate and the royalty rate. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

#### Reversal of impairments on intangible fixed assets

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 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 measured at amortised cost or available for sale 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 qualitative considerations. Debt securities are assessed on aspects including expected credit losses and credit losses already incurred (for example due to default), market data on credit losses and other evidence of the issuer of the instrument's inability to meet its payment commitments.

### Equity investments

An investment in equity instruments (an investment in shares), it 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, 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.

### Reversal of impairments on debt securities and equity investments

If 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.

## 17.4 Accounting principles used for consolidation

### 17.4.1 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.

### 17.4.2 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.

### 17.4.3 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 she has 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's accounting principles, if needed.

Upon recognition, associates and joint ventures are initially accounted for at the cost price (including the 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 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.

### 17.4.4 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.

### 17.4.5 Foreign currencies

Upon initial recognition, transactions in foreign currencies are converted into euros at the exchange rate at the transaction date. Monetary 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.

### 17.4.6 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.

### 17.4.7 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.

### 17.4.8 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.

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 measurement of the instrument.

### 17.4.9 Information by segment

The primary business segments of SNS Bank are clearly distinctive organisational components, and carry out activities that generate income and expenses. It encompasses also the operational segment Group Activities that primarily performs transactions and activities with and on behalf of other parts of SNS Bank. The Management Committee 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 Bank
- Property Finance

The segment SNS Bank has two subsegments SNS Retail Bank and SNS SME.

More information on the different segments can be found in chapter 18.1 (Information by segment).

## 17.5 Specific balance sheet principles

### 17.5.1 Financial assets

SNS Bank classifies its financial instruments in one of the following categories: (1) loans and receivables, (2) available for sale and (3) 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 instruments 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.

The categories are explained in more detail in the following section

#### 17.5.1.1 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 credit institutions are included under loans and advances to banks.

#### 17.5.1.2 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.

#### 17.5.1.3 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. The conditions of 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.

Several securitised mortgages with mortgage collateral, mortgages to be securitised and related derivatives and liabilities are measured at fair value with changes through profit or loss. This relates to the mortgages of the Holland Homes MBS securitisation programme and mortgages held for trading. The fair value is determined on the basis of the current swap curve, plus a risk surcharge derived from the development of the mortgage rate in relation to the swap rate. Besides this, the probability of prepayment is also taken into account. Details of these mortgages are given in the notes.

##### 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 resulting actions follow the same criteria as mortgages and mortgage-backed property finance.

### Lease

SNS Bank has entered (as lessor) 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 SME.

### 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 17.3.6.2 (Provision for bad debts).

## 17.5.1.4 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 (see paragraph 22.2 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 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% of the expected outcome.

SNS Bank ceases the hedge 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 item 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 item.

If the hedged item 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 measurement of the hedged item, which is designated as part of a cash flow hedge, does not change.

If the forecast 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 (OCI) until the expected transaction actually takes place.

If the transaction in question is no longer expected to take place, the accumulated result reported in OCI is directly taken to the income statement.

#### 17.5.1.5 Investments

##### Loans and receivables (amortised cost)

The category loans and receivables comprises unlisted investments with a fixed term and the saving components of offset mortgages that the insurance company has concluded. The loans and receivables are measured at amortised cost using the effective interest method, less a provision for impairment if necessary.

##### Available for sale (fair value through other comprehensive income)

Investments that do not meet the criteria defined by management for ‘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 fair value adjustments of these investments are recognised in other comprehensive income (shareholders’ equity), taking account of deferred taxes.

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.

### 17.5.2 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 the transaction costs, upon initial recognition. Property investments are treated as long-term investments and measured at fair value, being the value of the property in a let state. The fair value is based on the appraisals performed every year by independent external appraisers with sufficient expertise and experience in property locations and categories. These appraisals are based on recent market transactions. The valuation of the fair value of investment properties depends on the location, quality, age and marketability of the relevant property. Changes in the fair value of investment property are recognised in the income statement under ‘investment income’.

## 17.5.3 Property projects

Property projects comprise commercial and residential property and comprises completed and not yet completed projects. These properties are stated at the lower of cost price and net realisable value (NRV). NRV is the estimated sales price less sales costs. If the NRV is lower than the book value, an impairment is recognised in the income statement. Reversals of impairments are also recognised in the income statement.

## 17.5.4 Property and equipment

### 17.5.4.1 *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 Bank 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 value, use is made of observable prices of recent transactions.

Increase in the fair value exceeding the cost price is 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' the moment the expense is incurred. Expenses incurred after the acquisition of an asset that increase or extend the future economic benefits of land and buildings in own use 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'.

### 17.5.4.2 *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 can vary 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 written down to the realisable value.

Repairs and maintenance expenses are recognised under 'other operating expenses' the moment 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'.

## 17.5.5 Intangible fixed assets

### 17.5.5.1 Goodwill

Acquisitions 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. 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 and insofar these are 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 17.3.6.5 Impairment of intangible fixed assets and financial instruments).

### 17.5.5.2 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.

### 17.5.5.3 Other intangible fixed assets

The other intangible fixed assets include assets with a definite and an indefinite useful life, such as distribution channels, trademarks, 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.

## 17.5.6 Taxes

### 17.5.6.1 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.

#### 17.5.6.2 Deferred tax liabilities

Deferred tax liabilities concern tax payable in future periods in connection with taxable temporary differences. The treatment is in accordance with the previous section.

#### 17.5.6.3 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.

### 17.5.7 Other assets

Other assets consist of 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 (DGS) (DGS) 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.

### 17.5.8 Financial liabilities

#### 17.5.8.1 Savings, other amounts due to customers and amounts due to banks

Savings consists of balances on (bank)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 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 measurement at initial recognition and the redemption value based on the effective interest method is recognised under 'interest expense' in the income statement during the term of these savings and amounts owed.

### 17.5.8.2 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.

A specific category of outstanding debt certificates (the securitised mortgages through Holland Homes transactions) remains after initial recognition measured at fair value whereby subsequent value adjustments are accounted for in the income statement so that any inconsistency in the valuation is eliminated that would otherwise arise from the different valuation of assets and liabilities.

When SNS Bank purchases its own debt securities, these debt certificates are derecognised.

### 17.5.8.3 Derivatives
See paragraph 17.5.1.4 (Derivatives).

## 17.5.9 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

## 17.5.10 Provisions

### 17.5.10.1 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.

### 17.5.10.2 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:

- The termination of the employment contracts of current employees in accordance with a detailed formal plan without the option of the plan being withdrawn; or
- The 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.

#### 17.5.10.3 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.

### 17.5.11 Participation certificates and subordinated debt

#### 17.5.11.1 Participation certificates

SNS Bank issues participation certificates to third parties. These 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 transaction costs. 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.

#### 17.5.11.2 Subordinated debt

The subordinated (bond) loans issued by SNS Bank are included under the subordinated debt. The Dutch Central Bank includes these loans as Tier 1 and/or Tier 2 capital for the solvency test at SNS Bank. They 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.

### 17.5.12 Equity

#### 17.5.12.1 Issued share capital and share premium reserve

The share capital comprises the issued and paid-up 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.

#### 17.5.12.2 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’.

#### 17.5.12.3 Revaluation reserve

Revaluations of property in own use (see paragraph 17.5.4.1 Land and buildings in own use) are included in the revaluation reserve.

#### 17.5.12.4 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 17.5.1.4 Hedge accounting).

#### 17.5.12.5 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 17.5.1.5 Investments). In addition, exchange rate differences on non-monetary financial assets that are classified as available for sale are stated in this reserve.

#### 17.5.12.6 Other reserves

Other reserves mainly comprise SNS Bank's retained profits.

#### 17.5.12.7 Securities capital and securities capital share premium reserve

The securities capital comprises of the share of SNS Bank in the securities capital issued by SNS REAAL and paid up by the Dutch State and Stichting Beheer 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.

#### 17.5.12.8 Securities dividend

The securities dividend amount for a financial year, which is payable after the balance sheet date, is disclosed in paragraph 27.1 'Provisions regarding profit or loss appropriation' under 'Other information'.

## 17.6 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.. For more information, please refer to paragraph 'Specific balance sheet principles'.

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.

### 17.6.1 Income

Income represents the fair value of the services, after elimination of intra-group transactions within SNS Bank. Income is recognised as described in the following paragraphs.

### 17.6.1.1 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.

### 17.6.1.2 Interest expenses

Interest expenses comprise the interest expenses arising from financial liabilities of the banking operations. 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.

### 17.6.1.3 Fee and commission income

Fee and commission income include income from securities transactions for clients, asset management 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 result.

### 17.6.1.4 Fee and commission expenses

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.

### 17.6.1.5 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.

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

#### Interest
The interest income is recognised in the income statement under the effective interest method.

#### 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 these securities are quoted ex-dividend.

#### 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
Realised and unrealised increases and decreases in the value of investments in the category fair value through profit or loss are recognised here. The revaluations concern the difference between on the one hand the fair value at the end of the reporting period or net proceeds from the sale during the reporting period, and on the other hand the fair value at the beginning of the reporting period or the purchase price during the reporting period.

Realised revaluations of investments in the other categories are recognised here, being the difference between sales price and amortised cost

### 17.6.1.7 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'.

This item also includes the profit or loss from the revaluation of the outstanding debt certificates, which are measured at fair value after initial recognition, with value adjustments taken in the income statement.

In addition, buy-back results on own funding paper and results from the sale of loans are accounted for under this item.

### 17.6.1.8 Other operation income
This comprises all the income that cannot be accounted for under other headings.

## 17.6.2 Expenses
Expenses are recognised in the income statement on the basis of a direct relationship between the costs incurred and the corresponding economic benefits. 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.

### 17.6.2.1 Staff costs

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

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.

### 17.6.2.2 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 5 under the applicable items.

### 17.6.2.3 Lease

The lease agreements that SNS Bank (as a lessee) 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.

### 17.6.2.4 Other operating expenses

This includes office, accommodation and other operating costs.

### 17.6.2.5 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 chapter 17.5 (Specific balance sheet principles) under the applicable items.

## 17.7 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.

## 17.8 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.

# 18 Segmented financial statement

## 18.1 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 SME finance, and asset management (savings and investments). The services to private individuals and the SME clients are mostly rendered through the main brands SNS Bank and Property Finance, and 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 a segment, 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 regular market conditions (‘at arm’s length’), excluding the specific transactions referred to in chapter 23.23 (Related parties). Intercompany common control transactions are accounted for using book value accounting.

### 18.1.1 SNS Bank

This segment offers banking products for both the retail (subsegment SNS Retail Bank) and SME markets (subsegment SNS SME). Together with the segment Property Finance the segment SNS Bank constitutes the legal entity SNS Bank NV.

#### 18.1.1.1 SNS Retail Bank

This segment offers banking products in the field of mortgages, asset growth and asset protection for the retail. In addition to the unit SNS Bank the subsegment SNS Retail Bank also comprises the units ASN Bank, BLG Hypotheken, RegioBank and SNS Securities.

#### 18.1.1.2 SNS SME

SNS SME is the new business segment started as from 1 January 2011. SNS SME is a combination of the existing small and medium-sized enterprise (SME) activities of SNS Retail Bank and the core company of Property Finance. SNS SME focuses itself with a specific and leading product range on Dutch SME companies. They offer financial products for insurance, payments, savings and financing.

### 18.1.2 Property Finance

This segment consists of the former SNS Property Finance international and Dutch property finance portfolio, that will be phased out.

## 18.2 Balance sheet by segment

### Balance sheet by segment 31 December 2011

| *in € millions* | SNS Retail Bank | SNS SME | Property Finance | Eliminations | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 5,109 | 273 | 223 | (477) | 5,128 |
| Loans and advances to banks | 11,201 | 2,534 | -- | (12,053) | 1,682 |
| Loans and advances to customers | 54,338 | 5,656 | 4,784 | -- | 64,778 |
| Derivatives | 3,354 | -- | -- | -- | 3,354 |
| Investments | 4,106 | -- | -- | -- | 4,106 |
| Investment properties | 1 | -- | -- | -- | 1 |
| Property projects | -- | 7 | 505 | -- | 512 |
| Investments in associates | -- | 1 | 16 | -- | 17 |
| Property and equipment | 88 | -- | 2 | -- | 90 |
| Intangible assets | 106 | 47 | -- | -- | 153 |
| Deferred tax assets | 218 | 2 | 5 | -- | 225 |
| Corporate income tax | 114 | -- | 13 | (12) | 115 |
| Other assets | 939 | 3,083 | 307 | (3,218) | 1,111 |
| Assets held for sale | -- | -- | -- | -- | -- |
| **Total assets** | **79,574** | **11,603** | **5,855** | **(15,760)** | **81,272** |
| **Equity and liabilities** | | | | | |
| Savings | 30,342 | -- | -- | -- | 30,342 |
| Other amounts due to customers | 6,407 | 3,628 | 180 | -- | 10,215 |
| Amounts due to banks | 5,174 | 6,670 | 5,402 | (12,530) | 4,716 |
| Debt certificates | 27,361 | -- | -- | -- | 27,361 |
| Derivatives | 3,606 | -- | -- | -- | 3,606 |
| Deferred tax liabilities | 296 | 2 | 5 | -- | 303 |
| Corporate income tax | -- | 12 | -- | (12) | -- |
| Other liabilities | 4,669 | 162 | 81 | (3,218) | 1,694 |
| Provisions | 30 | 3 | 2 | -- | 35 |
| Participation certificates and subordinated debt | 505 | 616 | -- | -- | 1,121 |
| Equity attributable to shareholders | 1,028 | 510 | 185 | -- | 1,723 |
| Equity attributable to securityholders | 156 | -- | -- | -- | 156 |
| **Total equity** | **1,184** | **510** | **185** | **--** | **1,879** |
| **Total equity and liabilities** | **79,574** | **11,603** | **5,855** | **(15,760)** | **81,272** |

## Balance sheet by segment 31 December 2010

| *in € millions* | SNS Retail Bank | SNS SME | Property Finance | Eliminations | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 3,813 | 768 | 209 | (957) | 3,833 |
| Loans and advances to banks | 14,050 | 10 | -- | (12,379) | 1,681 |
| Loans and advances to customers | 52,030 | 7,199 | 5,784 | -- | 65,013 |
| Derivatives | 2,317 | -- | -- | -- | 2,317 |
| Investments | 4,249 | -- | -- | -- | 4,249 |
| Investment properties | 1 | -- | -- | -- | 1 |
| Property projects | -- | 11 | 456 | -- | 467 |
| Investments in associates | -- | 1 | 5 | -- | 6 |
| Property and equipment | 109 | 1 | -- | -- | 110 |
| Intangible assets | 116 | 48 | -- | -- | 164 |
| Deferred tax assets | 258 | -- | 9 | -- | 267 |
| Corporate income tax | 97 | (46) | 53 | (2) | 102 |
| Other assets | 530 | 3,204 | 828 | (3,975) | 587 |
| Assets held for sale | -- | 27 | 94 | -- | 121 |
| **Total assets** | **77,570** | **11,223** | **7,438** | **(17,313)** | **78,918** |
| **Equity and liabilities** | | | | | |
| Savings | 27,398 | -- | -- | -- | 27,398 |
| Other amounts due to customers | 5,942 | 4,350 | 190 | -- | 10,482 |
| Amounts due to banks | 4,049 | 5,598 | 6,785 | (13,336) | 3,096 |
| Debt certificates | 29,523 | -- | -- | -- | 29,523 |
| Derivatives | 2,880 | -- | -- | -- | 2,880 |
| Deferred tax liabilities | 313 | 3 | 7 | -- | 323 |
| Corporate income tax | 2 | -- | -- | (2) | -- |
| Other liabilities | 4,491 | 780 | 21 | (3,975) | 1,317 |
| Provisions | 35 | 3 | 3 | -- | 41 |
| Participation certificates and subordinated debt | 1,858 | 164 | -- | -- | 2,022 |
| Equity attributable to shareholders | 823 | 325 | 432 | -- | 1,580 |
| Equity attributable to securityholders | 256 | -- | -- | -- | 256 |
| **Total equity** | **1,079** | **325** | **432** | **--** | **1,836** |
| **Total equity and liabilities** | **77,570** | **11,223** | **7,438** | **(17,313)** | **78,918** |

## *18.3* Income statement by segment

### Income statement by segment 2011

| *in € millions* | SNS Retail Bank | SNS SME | Property Finance | Eliminations | Total |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Interest income | 2,479 | 470 | 211 | (399) | 2,761 |
| Interest expense | 1,873 | 326 | 158 | (399) | 1,958 |
| **Net interest income** | **606** | **144** | **53** | **--** | **803** |
| Fee and commission income | 132 | 7 | -- | -- | 139 |
| Fee and commission expense | 53 | -- | -- | -- | 53 |
| **Net fee and commission income** | **79** | **7** | **--** | **--** | **86** |
| Share in result of associates | -- | -- | (1) | -- | (1) |
| Investment income | 45 | -- | -- | -- | 45 |
| Result on financial instruments | 155 | (6) | (30) | -- | 119 |
| Other operating income | 2 | -- | (8) | -- | (6) |
| Result assets and liabilities held for sale | -- | -- | (4) | -- | (4) |
| **Total income** | **887** | **145** | **10** | **--** | **1,042** |
| **Expenses** | | | | | |
| Staff costs | 201 | 27 | 30 | -- | 258 |
| Depreciation and amortisation of fixed assets | 29 | -- | 1 | -- | 30 |
| Other operating expenses | 213 | 21 | 51 | -- | 285 |
| Impairment charges | 113 | 46 | 251 | -- | 410 |
| **Total expenses** | **556** | **94** | **333** | **--** | **983** |
| **Result before tax** | **331** | **51** | **(323)** | **--** | **59** |
| Taxation | 83 | 13 | (75) | -- | 21 |
| Minority interests | -- | -- | -- | -- | -- |
| **Net result attributable to shareholders and securityholders** | **248** | **38** | **(248)** | **--** | **38** |

### Income statement by segment 2010

| *in € millions* | SNS Retail Bank | SNS SME | Property Finance | Eliminations | Total |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Interest income | 2,117 | 397 | 243 | (268) | 2,489 |
| Interest expense | 1,551 | 229 | 106 | (268) | 1,618 |
| **Net interest income** | **566** | **168** | **137** | **--** | **871** |
| Fee and commission income | 131 | 7 | -- | -- | 138 |
| Fee and commission expense | 46 | -- | -- | -- | 46 |
| **Net fee and commission income** | **85** | **7** | **--** | **--** | **92** |
| Share in result of associates | -- | -- | (9) | -- | (9) |
| Investment income | 47 | -- | -- | -- | 47 |
| Result on financial instruments | 9 | -- | (29) | -- | (20) |
| Other operating income | 1 | 3 | -- | -- | 4 |
| **Total income** | **708** | **178** | **99** | **--** | **985** |
| **Expenses** | | | | | |
| Impairment charges | 63 | 26 | 852 | -- | 941 |
| Staff costs | 201 | 30 | 25 | -- | 256 |
| Depreciation and amortisation of fixed assets | 33 | 1 | 1 | -- | 35 |
| Other operating expenses | 225 | 22 | 38 | -- | 285 |
| **Total expenses** | **522** | **79** | **916** | **--** | **1,517** |
| | | | | | |
| **Result before tax** | **186** | **99** | **(817)** | **--** | **(532)** |
| Taxation | 47 | 26 | (174) | -- | (101) |
| Minority interests | -- | -- | -- | -- | -- |
| **Net result attributable to shareholders and securityholders** | **139** | **73** | **(643)** | **--** | **(431)** |

## *19* Acquisitions

All shares in DBV Finance BV were sold by SRLEV NV to SNS Bank NV on 28 January 2011 for an amount of € 16 million.DBV Finance contributed € 15 million in 2011. DBV Finance BV is legally merged with SNS Bank NV and is included in the segment SNS Retail Bank.

# 20 Risk and capital management

## 20.1 Maintaining a moderate risk profile

SNS Bank emphasises the importance of mitigating its risk profile. This means that balance sheet risks will be further limited and capital levels will be increased on a trend basis.

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

The net loan portfolio of SNS Retail Bank amounted to € 54.3 billion at year-end 2011 (2010: € 52.3 billion), 95% of which comprised Dutch residential mortgages. 2011 saw a decrease in this portfolio's credit quality and a drop in average house prices. The impairments on residential mortgages amounted to 77 basis points (2010: 55 basis points) of the risk-weighted assets.

Property Finance's net loan portfolio amounted to € 4.8 billion at year-end 2011 (2010: € 5.8 billion), 61% of which originated in the Netherlands (2010: 57%). 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 on the one hand. On the other hand, the risk has increased due to the uncertain economic situation in Europe.

SNS REAAL's investment portfolios have relatively limited exposure to government bonds from countries that were severely affected by the eurozone crisis. In 2011 the positions in government bonds from the periphery of the Eurozone were substantially reduced. The impact of negative market developments, including declining interest, on the investment portfolios is mitigated by various hedging strategies.

## 20.2 Main developments

The most important developments are:

**Capital and solvency**

- At the end of the year, the capital ratios for the SNS Bank were strong. Core Tier 1 ratio increased to 9.2% (year-end 2010: 8.1%).
- In 2011, SNS Bank's solvency ratios improved. The solvency position was positively affected by the decline in risk-weighted assets. The main reason for this decline was the reduction of loan commitments at Property Finance and SNS SME. In addition the offer to exchange Tier 2 capital strengthened core Tier 1 capital (€ 72 million) and received SNS Bank a € 50 million capital contribution from SNS REAAL.
- Based on the methodology in the capital EBA test, SNS Bank reported a capital deficit of € 159 million at end September 2011. Year-end 2011 the deficit was reduced to € 32 million. SNS Bank will ensure that there will be no longer a deficit at the end of June 2012.

**Liquidity**

- The liquidity was maintained during the year on a high level. At the end of 2011, the liquidity position of the bank was € 11.1 billion (year-end 2010: € 11.9 billion), of which € 6.9 billion of readily available ECB eligible assets per end 2011.
- SNS Bank was mainly funded through the retail market in 2011. Savings deposits increased by € 2.9 billion (+11%)

compared with year-end 2010 due to a large inflow of new deposits, while the retention level remained high. The liquidity position is strong.
- In 2011, SNS Bank for the first time completed the internal liquidity process introduced by the Dutch Central Bank in 2011, which is also referred to as the ILAAP (Internal Liquidity Adequacy Assessment Process). This process makes an assessment of how risks are dealt with and to what extent the liquidity of SNS Bank in current and possibly future circumstances is sufficiently robust to absorb the risks. The ILAAP also comprises a liquidity stress test. This liquidity stress test takes into account, among other things, the drying-up of funding on the money and capital markets.

**Market risk**

- As a result of the eurozone crisis, during 2011 the government bond portfolio was positioned more defensively by substantially reducing exposure to government loans from the peripheral countries in Europe.

**Credit risk**

- SNS Retail Bank's mortgage portfolio shows an increase in the loss indicators.
- The 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 effective control over a number of commercial projects for restructuring purposes in order to reduce potential losses. These projects are fully consolidated in the financial statements of SNS REAAL. In 2010 € 79 million was reclassified from property projects to assets held for sale. Of assets held for sale € 22 million was not sold in 2011 and reinstated under the heading property projects, amounting € 512 million (Property Finance: € 505 million, PF SME € 5 million) at the end of 2011, mainly international projects.

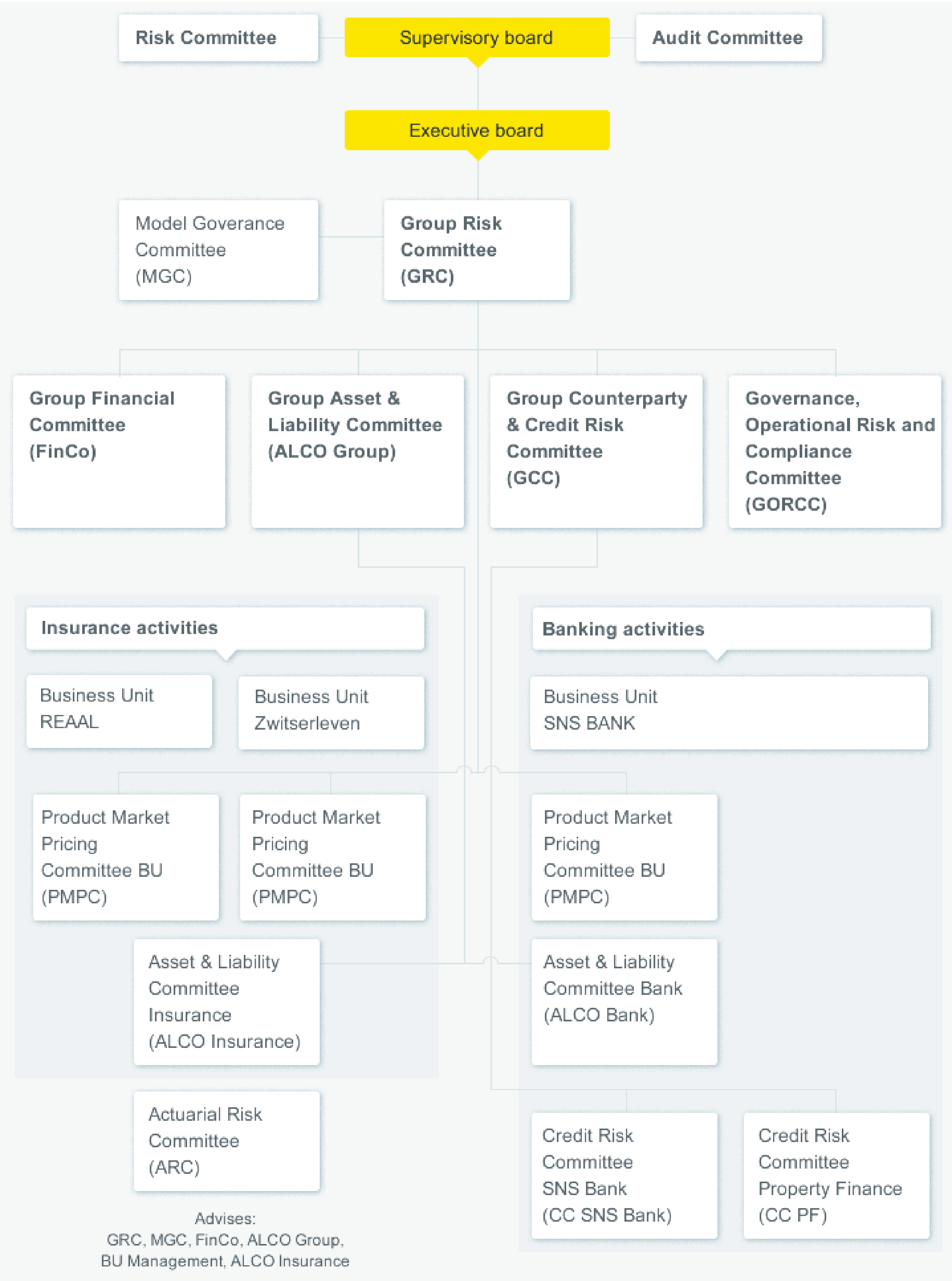
## 20.3 Risk management organisation

The risk management organization of SNS Bank NV and its subsidiaries are integrated in the risk management organization of SNS REAAL. The chapter on risk and capital management, which amongst others include the risk management and business framework, thus covering SNS REAAL as a whole. The remaining chapters are focussed on SNS Bank.

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 entities SNS Bank NV are organised into two primary business units. SNS Bank offers banking products in the field of mortgages, asset growth and asset protection for both the retail (subsegment SNS Retail Bank) and SME markets (subsegment SNS SME). Together with the segment Property Finance the segment SNS Bank constitutes the legal entity SNS Bank NV.

*SNS REAAL risk management organisation*




This structure was implemented year-end-2011.

The business units' responsibility is defined using the (risk) policy frameworks which the Group Risk Committee (GRC) established.

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. It should be noted here that the former business unit Property Finance no longer has its own status as a business unit, but is maintained as a separate business in order to phase out the non-core portfolio.

**Responsibility levels in risk management**
SNS REAAL distinguishes three risk management responsibility levels, also referred to as the 'Three Lines of Defence':

- the first line is the line organisation, which is responsible for the risk and the management of the risk;
- the second line is formed by the risk management departments, which support the first line in policy matters and have a monitoring role with regard to risk positions and the quality of risk management;
- the third line is the independent 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, with the Group Risk Committee (GRC) being the highest risk management body reporting to the Executive Board and primarily setting frameworks. 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 three 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.

## 20.4 Risk committees

The risk committees have an operational role and, if necessary, they determine frameworks within the set of frameworks established by the GRC. The Group committees have an equal status in the risk committee structure. Their primary focus is on optimising risk and return. In their framework-establishing role, they ensure that the frameworks set by the GRC are enforced and are further elaborated where necessary. All committees have a clear reporting line and escalation line to the higher risk committee, both for powers and for decisions.

In their operational role, the Group committees decide on matters concerning the Banking and Insurance activities, as well as on matters that go beyond the powers of the Banking activities or the Insurance activities.

***Risk Committee***
The Supervisory Board delegated five of its members to 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 codes of

conduct, as well as the use of information technology in risk control.

***Group Risk Committee***
In their ratifying role, SNS REAAL's Executive Board and the managing directors of SNS Bank NV and REAAL NV have ultimate responsibility for the risk management within the Group, the Banking activities and the Insurance activities.

The GRC is the highest risk management body reporting to the Executive Board and primarily setting frameworks. The Executive Board and the managing directors of the Banking and Insurance activities are represented in the GRC, which makes statutory decision-making possible. The GRC furthermore consists of the chairman of SNS Asset Management, the CFO of Group Finance, as well as the heads of compliance departments for financial and non-financial risks (Group Risk Management and Compliance, Security & Operational Risk Management). The latter compliance departments have an advisory role in the GRC.

The GRC defines the desired risk profile for financial and non-financial risks, and determines the risk appetite, risk policy frameworks and risk management framework for SNS REAAL and its business units.

In addition, the GRC approves the liquidity plan and the capital management plan.

***Risk Committees at Group level***
At Group level, SNS REAAL also has the following risk committees:

- **Model Governance Committee (MGC)** to approve internal models;
- **Group Financial Committee (FinCo)** to manage the financial and actuarial administration, consolidation, processes and infrastructure, ensuing management information and internal/external financial reporting;
- **Group Asset & Liability Committee (ALCO Group)** to manage all financial risks. ALCO Group comprises ALCO Bank and ALCO Insurance;
- **Group Counterpart & Credit Risk Committee (GCC)** to manage the credit risks, including the counterparty credit risks, or related policies, and to approve loans and revisions. The SNS Bank Credit Risk Committee and the PF Credit Risk Committee operate under the GCC;
- **Governance, Operational Risk & Compliance Committee (GORCC)** to manage the non-financial risks.

***Risk Committees at Business Unit level***
Within the business units local risk committees operate, either within the policy frameworks of the group committees or solely in an advisory role. The BU-level risk committees are:

- **Product Market Pricing Committee (PMPC)** for the formal approval of products, one per BU (BU SNS Bank; BU REAAL and BU Zwitserleven). The PMPC 's have a direct escalation line to the GRC;
- **Asset & Liability Committee Insurance (ALCO Insurance)** to control financial risks in the insurance balance (excluding credit to customers);
- **Asset & Liability Committee Bank (ALCO Bank)** to control the ALM risks of the bank balance;
- **Credit Risk Committee SNS Bank (CC SNS Bank)** to control all forms of credit risks in the banking balance (with the exception of credit to customers in PF);
- **Credit Risk Committee PF (CC PF)** to control credit to customers of PF.

In parallel, there is the advisory committee for the group and for the BU's REAAL and Swiss Life: the Actuarial Risk Committee (ARC). This committee advises include the influence of parameters on rates and models, hedging advice and underwriting risk.

***Decision-making processes***
The general rule is that consensus is aimed for and decisions are taken by a majority of the votes present, subject to a quorum that has been set in advance. In the event of a tie, the chairman shall decide.

The highest-level risk officer present has a right of veto, and if this right is exercised, there is a clear escalation line to the next higher risk committee. Every member of the Group committees has an equal right to vote, and in addition to the voting right, a right to escalate the decision taken within the committee to a higher committee.

In the GRC, decisions can only be taken within the powers allocated to the parties present under the Articles of Association.

## 20.5 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 shared service centres for the Banking and Insurance activities 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.

This advisory role does not only entail a supporting role in setting up and implementing policy, but also a role monitoring quality of risk control.

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 for the Group and the Banking and Insurance activities;
- Structuring and implementing the capitalisation and funding policies;
- Portfolio management and modelling credit risk and insurance risks;
- Setting frameworks for drawing up models and techniques used and independent implementation of model validation;
- Implementing the reinsurance policy;
- Coordinating strategic projects related to the management of financial risks, including stress test 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 providing recommendations for ethical and controlled business conduct, and coordinating and promoting operational risk management, security risk management and integrity risk management, formulating policies, monitoring the functioning of processes and reporting in this respect.

The scope of non-financial risks is divided into seven themes: employee, client, business process, product, information, risk control, 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 operational support of credit risk management and report to the CFROs of the business units SNS Retail Bank and Property Finance. In addition, 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 SNS Bank Credit Committee;
- Serving as a voting member on the credit committee.

*Mid Office Mortgages and Corporate Credits:*

- A separate mid-office has been established for credit facilities for residential mortgages and the SME 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 for loans in arrears and in default*

The Special Credits department for loans in arrears and in default 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 REAAL 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 credit risk.

***Group Audit***

Group Audit (GA) 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 REAAL.

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 in accordance with the Banking Code and the Insurers' 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 boards 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.

## 20.6 Risk classification

| Financial risks | |
|---|---|
| **Credit risk** | The risk that a borrower and/or counterparty does not comply with a financial or other contractual obligation. Credit risk is split into default risk, counterparty risk and transfer risk. |
| **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 time of stress, without this leading to unaccepted costs or losses. |
| **Market risk** | The risk of movements in the level and/or volatility of market prices. Market risk is split into price risk, interest rate risk and currency risk. |
| **Insurance risk** | The risk of abnormalities occurring in timing and extent of the cash flows resulting from assumed mortality, disability insurance claims or behavior of policyholders, or due to the impact of catastrophes on mortality, disability, insurance claims and policyholder behavior. |

| 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 and business climate. |
| **Integrity risk** | The risk that the codes of conduct emanating from SNS REAAL standards, social standards and laws and regulations are insufficiently observed by the Executive Board or employees of the company. |
| **Operational risk** | The risk due to unreliability of information or due to unforeseen losses arising from fraud, inadequate or failed internal processes, external events, systems or security. |

## 20.7 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 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 in order to manage risks with respect to the capital requirements and other laws and regulations applicable to SNS REAAL.
- 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').
- A remuneration structure that gives substance to the mission and the realisation of SNS REAAL's (long term) strategy.
- Requirements for internal processes, to steer predictability of performance, prevent unforeseen losses and ensure the reliability of information.
- Requirements set by regulators.

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, but 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 for the purpose of controlling these risks. Key input for this procedure are the regular in-control statements per business unit. The outcome of this procedure contributes to the management statement that is included in the SNS REAAL annual report.

***Framework for business control***

**Assigning accountability**

| | | |
|---|---|---|
| • Strategic goals and plan<br>• Strategic risk analysis<br>• Executive Board framework<br>• Policy framework | **Strategic**<br>• Executive Board provides direction<br>• Group staff departments develop frameworks<br>• Executive Board authorises<br>• Supervisory Board monitors | • Annual Report<br>• Executive Board risk reports<br>• In Control Statement |
| • Business plans<br>• Control objectives<br>• Risk analyses | **Tactical**<br>• Management is given overall responsibility and can be held accountable | • Management reports<br>• Quarterly reports business units<br>• Quarterly reports Group Audit<br>• Risk reports<br>• In Control Statement |
| • Business Balanced Scorecard<br>• Administrative Organisation<br>• Performance and Competence Assessment | **Operational**<br>• Management manages own areas<br>• Staff departments offer support | • Risk analyses<br>• Internal control audits<br>• Credit risk management<br>• Compliance audits<br>• Group Audit reports<br>• Other reports |

**Rendering accountability**

In each in-control statement the management board of each business unit states, with due observance of changes to internal and external factors, whether it has identified the main risks and corresponding control measures with a reasonable degree of certainty, 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 board of each business unit states whether it expects 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. This assessment includes a strategic risk analysis. This information forms 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.

## 20.8 Non-financial risk management

As described in the risk classification SNS Bank recognizes, in addition to the financial risks, also non-financial risks, including strategic, integrity and operational risk. The Department of Compliance, Safety & Operational Risk Management (CS&O) advises on the management of these non-financial 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 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 role is 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 functioning of the system as a whole.
- The risk committee structure was adjusted in 2011 in order to achieve an efficient and properly functioning organisational structure. To this end the responsibilities are unequivocally allocated and a clear distinction has been made between the determination of policies (setting frameworks) and the implementation of policies.
  A Group Risk Committee (GRC) was set up, which reports to the Executive Board and is primarily the body setting frameworks within SNS REAAL. This committee's objective is to define the risk appetite regarding financial and non-financial risks, to establish risk policy frameworks and the risk control framework and to monitor those frameworks.
- Every year, CS&O carries out a monitoring programme in coordination with Group Audit. Based on a risk-based analysis, the means to be used for which subjects are annually determined.
- A non-financial risk report is drawn up on a quarterly basis. This quarterly report provides an overview of the main developments in non-financial risks, progress in the follow-up of action points and the implementation of new/amended laws and regulations, and an analysis of the developments in incidents. After consultation with the Governance Operational Risk & Compliance Committee (GORCC) and the Executive Board, this report will be sent to the Risk Committee of the Supervisory Board. In addition, the Director of CS&O will consult with the chairman of the Risk Committee.
- In addition to other staff departments, the CS&O department provides advice in the processes for the development, approval and periodic review of products by the business units.
- The training & awareness programme includes information meetings, e-learnings, presentations and "train-the-trainer" workshops, and its purpose is to promote ethical business conduct by influencing conduct and culture and by taking the specific know-how of groups of employees to the required level and maintaining this level.
- With KPMG's support, an assessment is annually performed among the management and employees in respect of the integrity and compliance climate at SNS Bank. The 2011 results of this assessment show that the integrity and compliance climate at SNS Bank (including Property Finance) as a whole has further strengthened compared to the measurement in 2010. The employees have a great level of commitment with regard to the subject of integrity and compliance. On all points, SNS Bank's scores are higher compared to the respondents in the Benchmark Financial Sector 2011. Actions are formulated based on the results of the assessment, including in the area of training & awareness.
- As the second line, CS&O formulates Group policy or group-wide policy in the field of ethical business conduct as regards non-financial risks. The first line is responsible for the implementation of (and compliance with) this policy and draws up an implementation plan. If desired, CS&O can provide recommendations on the practical translation to the specific application within the business units.
- Every six months, the management board of every business unit issues an in-control statement about controlling essential risks, which is done by providing demonstrable substantiation. In the statement, the management reports on the main risks and corresponding control measures, the improvements made compared to the previous period and the improvement measures in progress. The Executive Board assesses the internal statements by the various

business units and Group staff departments. This assessment includes a strategic risk analysis. This information forms the basis for the internal statement that every Executive Board member prepares.

- To calculate the capital requirement on the basis of operational risk, the standardised approach is used. This means that an amount for pillar 1 capital is allocated on the basis of a fixed percentage of the turnover per business line of the bank. This pillar 1 capital is assessed on the basis of the Internal Capital Adequacy Assessment Process (ICAAP), in which the bank's largest risks are validated as to the chance of occurrence and impact. To this end, the in-control statement of SNS Bank is important input.

## 20.9 Capital management

SNS Bank's capital management is aimed to again obtain 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 various 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 also improving the quality of the capital. SNS Bank actively anticipates these developments within the framework of its capital management.

### 20.9.1 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 REAAL strives for solvency standards as outlined in the table below.

**Internal solvency standards**

| | Target | Realisation | |
|---|---|---|---|
| *in percentages* | | 2011 | 2010 |
| Tier 1 ratio | > 10% | 12.2% | 10.7% |
| core Tier 1 ratio | > 8% | 9.2% | 8.1% |

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. Application of Basel II without a transition floor results in a tier 1 ratio of 13.06%. 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.

SNS Bank NV reported on 30 September 2011, a core Tier 1 ratio of 8.6% based on Basel II, taking into account the 80% limit of Basel I, the calculation of RWA. Using the EBA methodology in which the capital buffer for government securities is included, the core Tier 1 ratio was 8.2% as per 30 September 2011. To achieve a core Tier 1 ratio according to the EBA standard of 9% SNS Bank had to make up a capital deficit of € 159 million.

In the fourth quarter of 2011 SNS Banks' core Tier 1 ratio according to the EBA standard increased already from 8.2% to 8.8% increase due to an increase in available core Tier 1 capital and the aforementioned reduction of the risk-weighted assets. In total, the EBA capital deficit as of December 31, 2011 decreased to € 32 million. SNS Bank will ensure that the remaining deficit end will be made up end of June 2012.

The solvency position of the banking business has improved. The improvement of the Tier 1 ratio was mainly caused by the decrease in risk-weighted assets, as a result of the reduction of credit limits at Property Finance and SNS SME.

In the fourth quarter, SNS Bank effectuated an exchange offer on Tier 2 capital to improve the quality of its capital by the creation of core Tier 1 capital (€ 72 million). SNS REAAL also downstreamed capital for an amount of € 50 million to SNS Bank.

## 20.9.2 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 (ICAAP) and ,maintaining the available capital at the required level.

## 20.9.3 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 possible 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.

The economic capital for SNS Bank as a whole is calculated on a quarterly basis. After these figures have been analysed, the conclusions are discussed in the various allocation committees and with the Supervisory Board. Furthermore, the economic capital is used to determine the value of our customers. Finally, the risk appetite was further fleshed out in 2011, in which process economic capital plays a substantial role.

## 20.9.4 Results of European and Dutch stress tests

***DNB stress test***

In April 2011, SNS Bank performed a macro stress test on SNS Bank NV at the Dutch Central Bank's request. With a view to this stress test, the Dutch Central Bank drew up basic and stress scenarios for the years 2011 and 2012. The calculations are based on the situation as at year-end 2010, and in 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 (40% in 2 years) and rising unemployment rates.

The results show that the solvency drops in the stress scenario due to high impairments on Property Finance's portfolio. This drop falls within the internal solvency targets.

***EBA stress test***

As a new European supervisory authority, the European Banking Authority (EBA) decided to have a stress test performed in 2011. The results of this stress test were published on an individual basis. The purpose of publishing the results was to restore confidence in the European financial industry. In March 2011, the Dutch Central Bank asked, on behalf of EBA, SNS Bank to perform an EBA stress test on SNS Bank NV. The calculations were based on the figures as at year-end 2010. With a view to this stress test, EBA drew up basic and stress scenarios for the years 2011 and 2012, with the stress scenario taking into account continued negative developments in the economy and the financial markets.

The results show that the solvency drops in the stress scenario from 8.4% (based on Basel II without 80% floor) at year-end 2010 to 7.0% at year-end 2012. This drop falls within the standard set by EBA (core Tier 1 ratio at least 5%) for solvency.

***ICAAP stress test***

In the third quarter of 2011, SNS Bank also performed an internal stress test within the context of its Internal Capital Adequacy Assessment Process (ICAAP). For this stress test a thorough analysis of the risks involved was performed. SNS Bank composed its own specific economic scenarios for this stress test. The results of this ICAAP show that SNS Bank NV remain above internal targets in the event of a stress scenario.

## 20.9.5 Going concern capital management

SNS Bank prepares operational plans each year with a three-year horizon. At the same time it prepares the Capitalisation and Funding plan with the same horizon, in which the capital and funding 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 control. 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 the Group to manage any capital surplus, if necessary. For more details on funding, please refer to Chapter 17 'Funding and credit ratings'.

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. 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 2011 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.

***Capital adequacy assessment***

An ICAAP is performed on an annual basis, with close involvement of senior management to determine the capital adequacy.

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.

## 20.9.6 Value creation

Long-term value creation requires activities that generate sufficient return in view of the corresponding risk and required capital. The current new regulations result in more capital being required for the same activities. This leads to tighter decisions regarding the business activities to be performed. For example, SNS Bank took the strategic decision to phase out activities at SNS Property Finance non-core. In addition, every business unit has budgets with a three-year horizon. These budgets also comprise targets with regard to return and required capital.

# 21 Financial risk management

## 21.1 Credit risk - overview

SNS Bank recognise various categories of credit risk. The main categories are loans and advances to customers, loans and advances to banks, and investments. More than 93% 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 portfolios of the retail businesses of SNS Retail Bank and SNS SME focuses on the Dutch market in particular. The portfolio of Property Finance will be phased out in a controlled manner.

The overall credit exposure (before collateral and other credit enhancements) breaks down as follows:

### Credit risk

| | SNS Retail Bank | | SNS SME | | Property Finance | | Total | |
|---|---|---|---|---|---|---|---|---|
| *In € millions* | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| Investments | 4,106 | 4,249 | -- | -- | -- | -- | 4,106 | 4,249 |
| Derivatives | 3,354 | 2,317 | -- | -- | -- | -- | 3,354 | 2,317 |
| Loans and advances to customers | 54,542 | 52,193 | 5,760 | 7,278 | 5,378 | 6,512 | 65,680 | 65,983 |
| Loans and advances to banks | 1,671 | 1,672 | 11 | 11 | -- | -- | 1,682 | 1,683 |
| Other assets, no lending operations | 1,446 | 1,094 | 88 | 120 | 783 | 715 | 2,317 | 1,929 |
| Cash and cash equivalents | 5,110 | 3,813 | -- | - | 19 | 21 | 5,129 | 3,834 |
| **Total** | **70,229** | **65,338** | **5,859** | **7,409** | **6,180** | **7,248** | **82,268** | **79,995** |
| **Off-balance sheet commitments** | | | | | | | | |
| Liabilities from pledges and guarantees given | 33 | 42 | 20 | 27 | 124 | 169 | 177 | 238 |
| Liabilities from irrevocable facilities | 720 | 856 | 39 | 87 | 161 | 418 | 920 | 1,361 |
| **Total** | **70,982** | **66,236** | **5,918** | **7,523** | **6,465** | **7,835** | **83,365** | **81,594** |

The table below gives an indication of the credit risk, 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 an Loan to Foreclosure Value (LtFV) equal to or below 75%) and 100% for the other loans and advances.

### Credit risk based on weighting percentages under Basel II guidelines

| *In € millions* | Risk weighted assets 2011 | Risk weighted assets 2010 | Regulatory capital 2011 | Regulatory capital 2010 |
|---|---|---|---|---|
| **Standardised approach** | | | | |
| Central Government and Central Banks | 20 | 21 | 2 | 2 |
| Institutions | 1,056 | 987 | 85 | 79 |
| Corporates | 9,660 | 12,283 | 773 | 983 |
| Retail | 1,181 | 1,289 | 94 | 103 |
| Shares | 26 | 14 | 2 | 1 |
| Other assets | 1,606 | 927 | 128 | 74 |
| **Internal rating based approach** | | | | |
| Retail mortgages | 2,992 | 3,055 | 239 | 244 |
| Securitisation positions | 763 | 750 | 61 | 60 |
| **Subtotal** | **17,304** | **19,326** | **1,384** | **1,546** |
| Market risk | 107 | 195 | 9 | 16 |
| Operational risk | 1,773 | 1,781 | 142 | 142 |
| Additional transitional Capital requirements | 1,350 | 829 | 108 | 66 |
| **Total** | **20,534** | **22,131** | **1,643** | **1,770** |

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

## 21.2 Credit risk profile and credit risk management

The credit risk management of SNS Retail Bank and SNS SME runs via the Credit Risk Management (CRM) department. The arrears and defaults are managed by the Special Credits department.

The healthy portfolio of PF SME is also managed by the Credit Risk Management (CRM). The arrears and default items of the PF SME portfolio are managed together with Property Finance's items by the Restructuring and Recovery (R&R) department.

### 21.2.1 Credit risk profile and credit risk management SNS Retail Bank and SNS Retail Bank SME

The probability of default (PD) is a 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.

### PD risk classification SNS Retail Bank private residential portfolio

| *Probability of Default %* | 2011 | 2010 |
|---|---|---|
| <= 1 | 83.2% | 87.7% |
| >1 - <= 4 | 5.3% | 4.8% |
| >4 - <= 7 | 3.8% | 0.0% |
| >7 - <= 10 | 0.0% | 0.0% |
| >10 - <= 13 | 4.1% | 4.2% |
| >13 - <= 17 | 0.0% | 0.0% |
| >17 - < 100 | 1.9% | 1.7% |
| 100 | 1.7% | 1.6% |
| **Total** | **100.0%** | **100.0%** |

***Special Credits department SNS Retail Bank and SNS SME***

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 loss given default. 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 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.

The credit rating of SNS Retail Bank's mortgage portfolio deteriorated in 2011 compared to the mortgage portfolio in 2010. 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 a higher share of mortgages covered by the National Mortgage Guarantee.

In 2011, 242 foreclosure sales were made in respect of residential mortgages, which provisional compensated, on average, 64.9% cover for the outstanding loans (2010: 61.8%). 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 1.00% to 1.15% and the contamination rate of the portfolio increased from 1.56% in 2010 to 1.93% in 2011. Contamination rate is defined as arrears plus defaults.

### 21.2.2 Credit risk profile and credit risk management PF SME and Property Finance

SNS Bank's policy is aimed at reducing the exposure to risks of property finance. Property Finance's portfolio will be fully phased out in a controlled manner in the upcoming years. PF SME's portfolio will also be reduced to a lower level. In total, net exposure of both portfolios was reduced by € 2.6 billion, from € 12 billion to € 9.4 billion, in 2011.

The development of the credit risk profiles of PF SME and Property Finance are continuously monitored. This is done on the basis of reports on payments in arrears and overdrafts, periodic reviews and portfolio analyses. In addition, an "early warnings" meeting will be organised. At this meeting, early warning signals such as payments in arrears, renewals and possibly inadequate interest coverage ratio will be discussed and decisions will be made on how to follow up on these signals.

***Valuations***

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 valuation guideline is part of PF SME's and Property Finance's review policy. The collateral values of the Property Finance portfolio are valued at least once a year. In addition, an annual valuation is made of the collateral of PF SME's portfolio exceeding € 10 million and of project loans. Smaller collateral are valued at least once every three years.

The valuation of a property may be performed by an internal expert or by an external appraiser. For Property Finance, only external appraisers are deployed. The valuations are carried out in accordance with the Royal Institution of Chartered Surveyors (RICS) valuation standard. At PF SME, internal values are also used. These internal values are certified values and operate independently.

***Defaults***

Loans with an increased risk profile can be declared in default if there are indications to this effect. The default indicators used in this context include the customer's payment record (arrears), the LtV of the loan, the customer's financial position, the building progress, the lease or sale rate, the performance of obligations and external signals. The loans declared in default will be transferred to the Restructuring & Recovery (R&R) department.

***Provisions***
For the loans declared in default, a scenario analysis is drawn up periodically, in which an optimistic, a realistic and a pessimistic scenario is fleshed out. Loans are valued on the basis of the realistic scenario, using prognoses and discounting of future cash flows and the most recent (external) valuation report. If, according to the realistic scenario, the value of the loan is lower than the outstanding balance, a provision will be made.

The departments R&R, Project Control (for project loans), Risk Management and Finance & Control are involved in the valuation of loans and property projects. R&R's proposals, including comments by Risk Management and Finance & Control, are discussed and approved by Management Board meetings and then submitted to the Group Credit Committee for ratification. Once every quarter, the scenarios are reassessed and approved in accordance with the same procedure.

***Property projects***
Due to the unfavourable developments on the (international) property markets, it was necessary to recover collateral provided to Property Finance under a number of loans. As a result, Property Finance gained effective control over a few property projects, which have thus been included in SNS Bank's balance sheet.

The property on SNS Bank's balance sheet is valued at the lower of cost or 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.

***Impairments***
The impairments on PF SME's and Property Finance's loans and property projects 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. In the estimation of future cash flows, transactions are used which can be observed in the market and which are comparable to the extent possible. Due to the lack of liquidity in the market, it is not always possible to test against recent comparable transactions. This means that the estimates made by PF SME and Property Finance in the valuation of loans are exposed to uncertainties greater than under normal market conditions, which results in broader bandwidth for the valuations.

## 21.3 Credit risk SNS Retail Bank

### 21.3.1 Loans and advances to customers
A distinction has been made in 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 securities provided by the collateral and the National Mortgage Guarantee (NHG) are important risk indicators 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. If a loan is granted pursuant to NHG, there is no additional security.

### Loans and advances to customers SNS Retail Bank by security type

| *In € millions* | 2011 | 2010 |
|---|---|---|
| Mortgages < 75% of foreclosure value | 18,447 | 18,464 |
| Mortgages > 75% of foreclosure value | 4,116 | 4,175 |
| Mortgages with National Mortgage Guarantee | 7,816 | 6,562 |
| Securitised mortgages | 20,900 | 19,998 |
| **Residential property in the Netherlands** | **51,279** | **49,199** |
| | | |
| Residential property outside of the Netherlands | 100 | 113 |
| **Residential property outside of the Netherlands** | **100** | **113** |
| | | |
| Mortgage-backed loans | 144 | 139 |
| Issued to government | 1,204 | 1,176 |
| Unsecured loans | 1,660 | 1,459 |
| **Non-residential property in the Netherlands** | **3,008** | **2,774** |
| | | |
| Other collateral and unsecured loans | 155 | 107 |
| **Non-residential property outside of the Netherlands** | **155** | **107** |
| | | |
| Specific provisions | (194) | (150) |
| IBNR provision | (10) | (13) |
| **Provisions for bad debt** | **(204)** | **(163)** |
| **Total** | **54,338** | **52,030** |

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 for own account (€ 9.0 billion, 2010: € 8.8 billion) are included in mortgages.

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 (€ 64 million was sold to the Insurance activities). The sum of the deferred purchase prices was € 6 million as at year-end 2011 (2010: € 12 million).

### Loans and advances to customers SNS Retail Bank by industry

| *In € millions* | **2011** | 2010 |
|---|---|---|
| Retail | 53,134 | 50,800 |
| Public sector | 1,204 | 1,230 |
| **Total** | **54,338** | **52,030** |

### Loans and advances to customers SNS Retail Bank by region

| *In € millions* | **2011** | 2010 |
|---|---|---|
| The Netherlands | 54,202 | 51,926 |
| EMU | 134 | 98 |
| United Kingdom | 1 | -- |
| United States | 1 | 4 |
| Other | -- | 2 |
| **Total** | **54,338** | **52,030** |

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

### Financial assets in arrears SNS Retail Bank 2011

| *In € millions* | **No arrears** | **< 3 months** | **3 - 6 months** | **6 months - 1 year** | **> 1 year** | **Provision** | **Total** |
|---|---|---|---|---|---|---|---|
| Investments | 4,106 | -- | -- | -- | -- | -- | 4,106 |
| Derivatives | 3,321 | -- | -- | -- | -- | -- | 3,321 |
| Loans and advances to customers | 52,750 | 1,153 | 206 | 175 | 258 | (204) | 54,338 |
| Loans and advances to banks | 1,671 | -- | -- | -- | -- | -- | 1,671 |
| Other assets | 6,226 | -- | -- | -- | -- | -- | 6,226 |
| **Total** | **68,074** | **1,153** | **206** | **175** | **258** | **(204)** | **69,662** |

### Financial assets in arrears SNS Retail Bank 2010

| *In € millions* | No arrears | < 3 months | 3 - 6 months | 6 months - 1 year | > 1 year | Provision | Total |
|---|---|---|---|---|---|---|---|
| Investments | 4,249 | -- | -- | -- | -- | -- | 4,249 |
| Derivatives | 2,317 | -- | -- | -- | -- | -- | 2,317 |
| Loans and advances to customers | 50,577 | 1,029 | 183 | 187 | 217 | (163) | 52,030 |
| Loans and advances to banks | 1,672 | -- | -- | -- | -- | (1) | 1,671 |
| Other assets | 4,278 | -- | -- | -- | -- | -- | 4,278 |
| **Total** | **63,093** | **1,029** | **183** | **187** | **217** | **(164)** | **64,545** |

### Provisions loans and advances to customers SNS Retail Bank

| *In € millions* | 2011 | 2010 |
|---|---|---|
| Book value non provisioned loans | 52,750 | 50,577 |
| Book value provisioned loans (gross value) | 1,792 | 1,616 |
| Specific provisions | (194) | (155) |
| IBNR provision | (10) | (8) |
| **Total book value non provisioned and provisioned loans** | **54,338** | **52,030** |
| Fair value collateral provisioned loans | 1,784 | 1,655 |

### *Loan to Foreclosure Value*

The weighted average LtFV at year-end 2011 of the mortgage portfolio of SNS Retail Bank was 92% (2010: 93%); based on an indexed LtFV it was 92% (2010: 90%). 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, semi-detached or detached houses. SNS Retail Bank follows this breakdown. The national index for all types of residence decreased by 4% from December 2010 to December 2011. The development of the index varies per region and type of residence. Generally, no new valuation reports are requested for existing residential mortgages.

A majority of the loans and advances to customers at SNS Retail Bank consists of mortgage loans where the collateral (partly) mitigates credit risk. The table below shows the mortgage loans, divided into different LtFV classes. This creates insight into the volumes in which credit risk is completely mitigated by the existing mortgage collateral (LtFV ≤ 100%) and additionally the volumes where there is a collateral shortfall (LtFV> 100%). The classification is based on mortgage collateral, no account has been taken of other guarantees and accrued saving components.

### Breakdown loans and advances to customers SNS Retail Bank by LtFV buckets

| *In € millions* | | 2011 | | 2010 |
|---|---|---|---|---|
| Mortgage loans | 50,319 | 93% | 48,177 | 93% |
| Other | 4,019 | 7% | 3,853 | 7% |
| **Total loans and advances to customers** | **54,338** | **100%** | **52,030** | **100%** |
| **Loans and advances to customers SNS Retail Bank by LtFV buckets** | | | | |
| NHG | 10,068 | 20% | 7,694 | 16% |
| LtFV <= 75% | 14,800 | 30% | 15,745 | 33% |
| LtFV >75 <=100% | 9,277 | 18% | 9,037 | 19% |
| LtFV >100 <=125% | 10,672 | 21% | 12,212 | 25% |
| LtFV > 125% | 5,502 | 11% | 3,489 | 7% |
| **Total** | **50,319** | **100%** | **48,177** | **100%** |

## 21.3.2 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 exchange transactions, which are 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 one 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 to manage and/or limit SNS Bank's interest rate risk. The terms to maturity of these derivatives range from two to thirty 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.

### 21.3.3 Investments

In response to the eurozone crisis the exposure to risks in investments was reduced by further reducing investments in government loans from peripheral countries during 2011. See tables below for more information.

#### Fixed income investments SNS Retail Bank by industry 2011

| | Fair value through profit or loss | | | |
|---|---|---|---|---|
| *In € millions* | **Held for trading** | **Designated** | **Available for sale** | **Total** |
| Sovereign | 39 | 79 | 3,404 | 3,522 |
| Banks | 55 | 14 | 190 | 259 |
| Trade, industry and other services | 6 | -- | 63 | 69 |
| Other | 23 | 5 | 210 | 238 |
| **Total** | **123** | **98** | **3,867** | **4,088** |

#### Fixed income investments SNS Retail Bank by industry 2010

| | Fair value through profit or loss | | | |
|---|---|---|---|---|
| *In € millions* | Held for trading | Designated | Available for sale | Total |
| Sovereign | 24 | 68 | 3,476 | 3,568 |
| Banks | 91 | 19 | 307 | 417 |
| Trade, industry and other services | 23 | -- | 55 | 78 |
| Other | 6 | 5 | 152 | 163 |
| **Total** | **144** | **92** | **3,990** | **4,226** |

#### Fixed income investments SNS Retail Bank by rating 2011

| | Fair value through profit or loss | | | |
|---|---|---|---|---|
| *In € millions* | **Held for trading** | **Designated** | **Available for sale** | **Total** |
| AAA | 34 | 93 | 3,105 | 3,232 |
| AA | 16 | 5 | 204 | 225 |
| A | 25 | -- | 346 | 371 |
| BBB | 41 | -- | 186 | 227 |
| Below BBB | -- | -- | 26 | 26 |
| Unrated | 7 | -- | -- | 7 |
| **Total** | **123** | **98** | **3,867** | **4,088** |

## Fixed income investments SNS Retail Bank by rating 2010

| In € millions | Fair value through profit or loss | | Available for sale | Total |
|---|---|---|---|---|
| | Held for trading | Designated | | |
| AAA | 29 | 73 | 2,446 | 2,548 |
| AA | 12 | 5 | 274 | 291 |
| A | 47 | -- | 1,012 | 1,059 |
| BBB | 13 | 9 | 190 | 212 |
| Below BBB | -- | -- | 51 | 51 |
| Unrated | 43 | 5 | 17 | 65 |
| **Total** | **144** | **92** | **3,990** | **4,226** |

## Breakdown fixed income investment portfolio available for sale (geography)

| In € millions | | 2011 | | 2010 |
|---|---|---|---|---|
| Ireland | 165 | 4% | 166 | 4% |
| Greece | 26 | 1% | 47 | 1% |
| Italy | 271 | 7% | 804 | 20% |
| Spain | 29 | 1% | 57 | 1% |
| | | | | |
| Germany | 1,548 | 39% | 767 | 19% |
| France | 213 | 5% | 473 | 11% |
| The Netherlands | 1,138 | 29% | 1,058 | 26% |
| Austria | 309 | 8% | 437 | 11% |
| Belgium | 164 | 4% | 200 | 5% |
| Other | 102 | 2% | 74 | 2% |
| **Total** | **3,965** | **100%** | **4,083** | **100%** |

## Breakdown fixed income investment portfolio available for sale (industry)

| In € millions | | 2011 | | 2010 |
|---|---|---|---|---|
| Sovereign | 3,483 | 87% | 3,544 | 87% |
| Financials | 141 | 4% | 290 | 7% |
| Mortgages | -- | 0% | -- | 0% |
| Corporates | 22 | 1% | 42 | 1% |
| Mortgage backed securities | 273 | 7% | 161 | 4% |
| Other | 46 | 1% | 46 | 1% |
| **Total** | **3,965** | **100%** | **4,083** | **100%** |

## Breakdown fixed income investment portfolio available for sale (maturity)

| In € millions | | 2011 | | 2010 |
|---|---|---|---|---|
| < 3 Months | 74 | 2% | 96 | 2% |
| < 1 Year | 35 | 1% | 15 | 0% |
| < 3 Years | 1,185 | 30% | 327 | 8% |
| < 5 Years | 261 | 7% | 807 | 20% |
| < 10 Years | 1,480 | 37% | 1,033 | 26% |
| < 15 Years | 232 | 6% | 447 | 11% |
| > 15 Years | 698 | 17% | 1,358 | 33% |
| No maturity | -- | 0% | -- | 0% |
| **Total** | **3,965** | **100%** | **4,083** | **100%** |

### Breakdown fixed income investment portfolio available for sale (rating)

| In € millions | | 2011 | | 2010 |
|---|---|---|---|---|
| AAA | 3,199 | 80% | 2,519 | 61% |
| AA | 208 | 5% | 280 | 7% |
| A | 346 | 9% | 1,011 | 25% |
| BBB | 186 | 5% | 199 | 5% |
| < BBB | 26 | 1% | 51 | 1% |
| No rating | -- | 0% | 23 | 1% |
| **Total** | **3,965** | **100%** | **4,083** | **100%** |

### Sovereign exposure fixed-income investment portfolio (geography)

| In € millions | | 2011 | | 2010 |
|---|---|---|---|---|
| Ireland | 165 | 5% | 156 | 4% |
| Greece | 26 | 0% | 47 | 1% |
| Italy | 266 | 8% | 762 | 2% |
| Spain | 29 | 1% | 57 | 22% |
| **Subtotal GIIPS** | **486** | **14%** | **1,022** | **29%** |
| Germany | 1,548 | 44% | 728 | 21% |
| France | 195 | 6% | 390 | 11% |
| The Netherlands | 733 | 21% | 791 | 22% |
| Austria | 309 | 9% | 405 | 11% |
| Belgium | 164 | 5% | 200 | 6% |
| Other | 48 | 1% | 8 | 0% |
| **Total** | **3,483** | **100%** | **3,544** | **100%** |

## 21.4 Credit risk SNS SME

### 21.4.1 General

SNS SME distinguishes between SNS Retail Bank SME and PF SME. SNS Retail Bank SME consists of an SME loan portfolio while PF SME consists of a loan portfolio primarily related to investment finance activities in commercial property.

The portfolio of SNS SME is considerably reduced in 2011. Net exposure was reduced by € 1.6 billion (22%) to € 5.7 billion in 2011. The credit limits also declined by € 1.6 billion. This sharp reduction was mainly effected at PF SME and involved a limited amount of discounts and compensations given (€ 6 million).

## Breakdown portfolio SNS SME

| | PF SME | | SNS Retail Bank SME | | SNS SME | |
|---|---|---|---|---|---|---|
| *In € millions* | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| Commitments | 4,144 | 5,714 | 1,613 | 1,673 | 5,757 | 7,387 |
| Undrawn commitments | (14) | 97 | -- | -- | (14) | 97 |
| **Outstanding loan portfolio (gross)** | **4,158** | **5,617** | **1,613** | **1,673** | **5,771** | **7,290** |
| Loan provision | 42 | 11 | 62 | 68 | 104 | 79 |
| **Outstanding loan portfolio** | **4,116** | **5,606** | **1,551** | **1,605** | **5,667** | **7,211** |
| Property projects | 7 | 11 | -- | -- | 7 | 11 |
| Held for sale | -- | 27 | -- | -- | -- | 27 |
| **Total exposure** | **4,123** | **5,644** | **1,551** | **1,605** | **5,674** | **7,249** |
| Non performing loans | 41 | 12 | 208 | 205 | 249 | 217 |
| Non performing loans as % of loans outstanding | | | | | 4.3% | 3.0% |
| Coverage ratio | | | | | 41.8% | 36.4% |

*€ 11 million of outstanding loan portfolio is enclosed in loan and advances to banks (2010: € 12 million).*

## Loans and advances to customers SNS SME by security type

| *In € millions* | **2011** | 2010 |
|---|---|---|
| Mortgages < 75% of foreclosure value | 368 | 497 |
| Mortgages > 75% of foreclosure value | 1,037 | 1,369 |
| **Residential property in the Netherlands** | **1,405** | **1,866** |
| | | |
| Residential property outside of the Netherlands | -- | -- |
| **Residential property outside of the Netherlands** | **--** | **--** |
| | | |
| Mortgage-backed loans | 3,938 | 4,901 |
| Issued to government | 24 | 55 |
| Unsecured loans | 371 | 434 |
| **Non-residential property in the Netherlands** | **4,333** | **5,390** |
| | | |
| Other collateral and unsecured loans | 22 | 22 |
| **Non-residential property outside of the Netherlands** | **22** | **22** |
| | | |
| Specific provisions | (92) | (73) |
| IBNR provision | (12) | (6) |
| **Provisions for bad debt** | **(104)** | **(79)** |
| **Total** | **5,656** | **7,199** |

## Loans and advances SNS SME by region

| *In € millions* | **2011** | 2010 |
|---|---|---|
| The Netherlands | 5,645 | 7,166 |
| EMU | 8 | 29 |
| United States | 1 | 2 |
| Other | 2 | 2 |
| **Total** | **5,656** | **7,199** |

The standardised products also entail a standardisation of the management processes. The standardised process with standard products corresponds with the other retail processes at SNS Bank.

The SNS Retail Bank SME portfolio is broken down into homogeneous pools of customers based on equal risk characteristics. In the current process, this breakdown is based on exposure and risk classification. Based on these pools, products are approved, priced and managed.

### *Loan to value*

A majority of the loans and advances to customers at SNS SME consists of mortgage loans where the collateral (partly) mitigates credit risk. The table below shows the mortgage loans, divided into different LTV classes. This creates insight into the volumes in which credit risk is completely mitigated by the existing mortgage collateral (LtFV ≤ 100%) and additionally the volumes where there is a collateral shortfall (LtFV> 100%). The classification is based on mortgage collateral, no account has been taken of other guarantees and accrued saving components.

### Breakdown loans and advances to customers SNS SME by LtV buckets

| *In € millions* | 2011 | | 2010 | |
|---|---|---|---|---|
| Mortgage loans | 5,544 | 98% | 7,042 | 98% |
| Other | 112 | 2% | 157 | 2% |
| **Total loans and advances to customers** | **5,656** | **100%** | **7,199** | **100%** |
| **Loans and advances to customers SNS SME by LtV buckets** | | | | |
| LtV <= 75% | 2,008 | 36% | 3,158 | 45% |
| LtV >75 <=100% | 2,116 | 38% | 2,734 | 39% |
| LtV >100 <=125% | 861 | 16% | 644 | 9% |
| LtV > 125% | 559 | 10% | 506 | 7% |
| **Total** | **5,544** | **100%** | **7,042** | **100%** |

## 21.4.2 Credit risk SNS Retail Bank SME

### *SME loan portfolio*

The size of the total SME loan portfolio is € 1.6 billion. The SME loan portfolio consists of a retail and a corporate portfolio. Within these two portfolios, SNS Retail Bank SME carries two propositions, i.e. 'Bedrijven Advies Eigen Gebruik' and 'Verhuurd Vastgoed' (Business Advice Buildings in Own Use and Leased Property). Both propositions provide for mortgage-backed loans being granted. 94% of the commitments of this portfolio is backed by mortgage collateral. The size of the portfolio is stable compared to previous years. The lending operations are only aimed at the Netherlands.

With 65.8%, the retail portfolio has the largest share in the SME loan portfolio of the outstanding corporate commitments. These corporate clients have a maximum commitment of € 1 million. The corporates have a maximum commitment of € 5 million.

### Loans and advances to customers SNS Retail Bank SME by industry

| *In € millions* | 2011 | 2010 |
|---|---|---|
| Retail | 793 | 674 |
| Service sector companies | 351 | 472 |
| Industry | 205 | 205 |
| Agriculture | 36 | 64 |
| Other commercial | 167 | 190 |
| **Total** | **1,551** | **1,605** |

The Business Advice Buildings in Own Use & Leased Property portfolios are characterised by customers that can independently facilitate themselves by means of the self-service concept. Based on specific needs, this target group calls in incidental support when purchasing standardised products. The basic principle of a standardised product is that this product meets the pre-set product and production criteria, including the margin to be charged, and that this product is provided via a uniform, clear and pre-programmed, partly automated process.

### Loan and advances to customers in arrears SNS Retail Bank SME

| *In € millions* | 2011 | 2010 |
|---|---|---|
| No arrears | 1,405 | 1,469 |
| < 3 months | 37 | 26 |
| 3 - 6 months | 9 | 21 |
| 6 months - 1 year | 21 | 37 |
| > 1 year | 141 | 120 |
| Provision | (62) | (68) |
| **Total** | **1,551** | **1,605** |

### Provisions loans and advances to customers SNS Retail Bank SME

| *In € millions* | 2011 | 2010 |
|---|---|---|
| Book value non provisioned loans | 1,405 | 1,468 |
| Book value provisioned loans (gross value) | 208 | 205 |
| Specific provisions | (62) | (68) |
| IBNR provision | -- | -- |
| **Total book value non provisioned and provisioned loans** | **1,551** | **1,605** |

## 21.4.3 Credit risk PF SME

### Breakdown loans and advances PF SME by assets

| *In € millions* | 2011 | 2010 |
|---|---|---|
| Residential | 1,475 | 1,962 |
| Offices | 790 | 979 |
| Retail | 721 | 1,210 |
| Industrial | 794 | 831 |
| Other | 378 | 635 |
| **Total** | **4,158** | **5,617** |

Of the € 1.5 billion reduction in 2011, 33% pertained to residential property and 34% to shops.

***Impairments***

Increasing vacancy rates and decreasing revenues from commercial property, as well as the downward price trend for residential property, had a negative impact on the collateral values. This development is also reflected in the level of impairments at PF SME, which amounted to € 33 million in 2011 (2010: € 6 million).

The fact that there is no recovery yet in the property market constitutes an important factor of uncertainty with regard to the valuation of the portfolio.

***Loans***

93.6% of the € 4.2 billion gross loan portfolio pertains to investment loans (2010: 93.5%). The Loan-to-Value (LtV) of PF SME's loan portfolio was 74,4% as at year-end 2011, the average LtV of the provisioned loans is 150.9% (2010: 129.5%).

***Probability of default (PD)***

The average probability of default (PD) in PF SME’s non-default portfolio increased from 1.05% to 4.20% in 2011. This means that as at year-end 2011, assuming that the portfolio stays the same, a number of new defaults is expected during the next 12 months that is substantially higher than the number that was expected as at year-end 2010. This increase was mainly caused by a recalibration of the PD rating model in 2011 in response to the changing market conditions. The increase also reflects the increased risks in the portfolio. The PD percentage of 4.20% end of 2011 is in line with what is usual in the market.

***Credit quality of loans***

The table below breaks down the gross outstanding loans of PF SME into non-default, non-provisioned default and provisioned default. The procedure for declaring loans in default is described in chapter 25.2.2 ‘Credit risk profile and credit risk management PF SME and Property Finance’.

## Defaults PF SME

| | Outstanding | | Loan to Value | |
|---|---|---|---|---|
| *In € millions* | **2011** | 2010 | **2011** | 2010 |
| Not in default | 3,982 | 5,574 | 74.1% | 70.0% |
| Default, not impaired | 135 | 31 | 72.3% | 93.9% |
| Default, impaired | 41 | 12 | 150.9% | 129.5% |
| **Total in default** | **176** | **43** | **82.3%** | **102.0%** |
| **Total** | **4,158** | **5,617** | **74.4%** | **70.2%** |

The outstanding balance of the loans in default (provisioned and non-provisioned) was € 176 million as at year-end 2011. Expressed as a percentage of the total portfolio, the defaults rose from 0.8% to 4.2% due to the increase of the loans in default and the reduction of the portfolio. Although the loans in default constitute a minor part of PF SME’s total portfolio in absolute terms, the rise in the default percentage also shows that the portfolio’s risk profile is increasing.

The following table provides information on payments in arrears. The payment record of customers is one of the default indicators used by PF SME. However, payment in arrears does not necessarily automatically result in default. Vice versa it is possible that loans without any arrears are nevertheless declared in default. This may particularly happen with project loans.

## Arrears in loans and advances PF SME

| | Outstanding | | Loan to Value | |
|---|---|---|---|---|
| *In € millions* | **2011** | 2010 | **2011** | 2010 |
| Neither past due nor impaired | 3,888 | 5,332 | 73.8% | 70.0% |
| Past due but not impaired | 229 | 273 | 77.6% | 71.5% |
| Impaired | 41 | 12 | 150.9% | 129.5% |
| **Total** | **4,158** | **5,617** | **74.4%** | **70.2%** |

The decline in the non-provisioned loans in arrears of € 44 million is caused by portfolio reduction (€ 153 million), partly compensated by new arrears.

### Ageing analysis past due but not impaired loans and advances PF SME

| | Outstanding | | Loan to Value | |
|---|---|---|---|---|
| *In € millions* | **2011** | 2010 | **2011** | 2010 |
| < 30 days | 60 | 125 | 68.3% | 67.3% |
| 30 - 60 days | 38 | 49 | 73.8% | 71.1% |
| 60 - 90 days | 18 | 38 | 93.9% | 83.1% |
| > 90 days | 113 | 61 | 83.6% | 74.6% |
| **Total** | **229** | **273** | **77.6%** | **71.5%** |

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 still lead to the decision that a specific provision is not necessary. Reasons for such a decision include:

- 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 for interest and redemption to reduce the collateral shortfall
- the collateral shortfall or arrears are mitigated by means of restructuring

### Provisions loans and advances PF SME

| *In € millions* | **2011** | 2010 |
|---|---|---|
| Book value provisioned loans (gross value) | 41 | 12 |
| Specific provisions | (30) | (5) |
| IBNR provision | (12) | (6) |
| **Book value provisioned loans (net value)** | **(1)** | **1** |
| Coverage ratio | 103.2% | 90.6% |
| Fair value collateral provisioned loans | 27 | 9 |
| Loan to Value loans and advances | 150.9% | 129.5% |

## *21.5* Credit risk Property Finance

Property Finance’s portfolio will be fully phased out in a controlled manner in accordance with the strategic objectives in the upcoming years. Net exposure was reduced by € 1.0 billion (16%) to € 5.3 billion in 2011. The credit limits declined by € 1.4 billion (20%).

### Breakdown portfolio Property Finance

| *In € millions* | **2011** | 2010 |
|---|---|---|
| Commitments | 5,480 | 6,840 |
| Undrawn commitments | 102 | 328 |
| **Outstanding loan portfolio (gross)** | **5,378** | **6,512** |
| Loan provision | 595 | 728 |
| **Outstanding loan portfolio** | **4,783** | **5,784** |
| Property projects | 505 | 456 |
| Held for sale | -- | 94 |
| **Total exposure** | **5,288** | **6,334** |

## Breakdown portfolio Property Finance by region

| *In € millions* | 2011 | 2010 |
|---|---|---|
| The Netherlands | 2,953 | 3,327 |
| Other Europe | 1,904 | 2,245 |
| **North-America** | **431** | **762** |
| **Total** | **5,288** | **6,334** |

The € 1.0 billion reduction in 2011 has been equally divided among the three regions in absolute terms. Relatively speaking, the reduction was strongest in North-America.

### *Impairments*

The unfavourable market conditions and outlook translate into lower rental income for real estate investors and challenges for project developers in selling projects. These trends, increased risks and uncertainties are reflected in high impairments on loans and property projects.

## Impairments Property Finance

| *In € millions* | 2011 | 2010 |
|---|---|---|
| The Netherlands | 126 | 176 |
| Other Europe | 17 | 78 |
| North-America | 20 | 368 |
| **Loans and advances** | **163** | **622** |
| | | |
| Other Europe | 68 | 83 |
| North-America | 23 | 34 |
| **Property projects** | **91** | **117** |
| | | |
| Goodwill | -- | 68 |
| Associates and joint ventures | (3) | 45 |
| **Total** | **251** | **852** |

In the second half of 2010, the full Property Finance portfolio was critically scrutinised, which resulted in considerable additional impairments. Although the impairments in 2011 are almost 70% lower than in 2010, they are still considerable. The impairments in the Netherlands decreased in absolute terms, but currently represent approximately two thirds of the total impairments.

The negative impairments in participating interests in 2011 are caused by the transfer of provisions on participating interests to provisions on loans. The negative other impairment charges relate to income in respect of a lawsuit regarding a property project.

## *Loans and advances Property Finance*

### Loans and advances Property Finance by security type

| *In € millions* | 2011 | 2010 |
|---|---|---|
| Mortgages < 75% of foreclosure value | -- | 7 |
| Mortgages > 75% of foreclosure value | 226 | 245 |
| **Residential property in the Netherlands** | **226** | **252** |
| | | |
| Residential property outside of the Netherlands | 836 | 1,439 |
| **Residential property outside of the Netherlands** | **836** | **1,439** |
| | | |
| Mortgage-backed loans | 2,688 | 3,030 |
| Other securities and unsecured loans | 346 | 283 |
| **Non-residential property in the Netherlands** | **3,034** | **3,313** |
| | | |
| Mortgage-backed loans | 1,282 | 1,508 |
| Other collateral and unsecured loans | -- | -- |
| **Non-residential property outside of the Netherlands** | **1,282** | **1,508** |
| | | |
| Specific provisions | (595) | (722) |
| IBNR provision | -- | (6) |
| **Provisions for bad debt** | **(595)** | **(728)** |
| **Total** | **4,783** | **5,784** |

### Breakdown loans and advances Property Finance by assets

| *In € millions* | 2011 | 2010 |
|---|---|---|
| Residential | 1,392 | 2,015 |
| Offices | 1,721 | 1,977 |
| Retail | 1,273 | 1,454 |
| Industrial | 325 | 396 |
| Other | 667 | 670 |
| **Total** | **5,378** | **6,512** |

The € 1.1 billion reduction in 2011 mainly pertains to residential property (55%) and offices (23%).

### *Loan to value*

The Loan-to-Value (LtV) of the loan portfolio was 103.3% as at year-end 2011. As at year-end 2011, the average LtV of the provisioned loans is 140.9% (2010: 135.7%). In case the loans and advances of Property Finance are backed by mortgage collateral, this will (partly) mitigate credit risks.

The table below shows the mortgage loans, divided into different LTV classes. This creates insight into the volumes in which credit risk is completely mitigated by the existing mortgage collateral (LtFV ≤ 100%) and additionally the volumes where there is a collateral shortfall (LtFV> 100%). The classification is based on mortgage collateral, no account has been taken of other guarantees.

## Breakdown loans and advances to customers Property Finance by LtV buckets

| In € millions | | 2011 | | 2010 |
|---|---|---|---|---|
| Loans and advances to customers | 5,378 | 112% | 6,512 | 113% |
| Provision loans and advances to customers | (595) | (12%) | (728) | (13%) |
| **Total loans and advances to customers** | **4,783** | **100%** | **5,784** | **100%** |
| **Loans and advances to customers Property Finance by LtV buckets** | | | | |
| LtV <= 75% | 572 | 11% | 1,019 | 16% |
| LtV >75 <=100% | 1,927 | 36% | 2,733 | 42% |
| LtV >100 <=125% | 1,558 | 29% | 1,539 | 23% |
| LtV > 125% | 1,321 | 24% | 1,221 | 19% |
| **Total** | **5,378** | **100%** | **6,512** | **100%** |

### *Credit quality of loans*

The table below breaks down the gross outstanding loans of Property Finance into non-default, non-provisioned default and provisioned default. The procedure for declaring loans in default is described in chapter 25.2.2 ‘Credit risk profile and credit risk management PF SME and Property Finance’.

## Defaults Property Finance

| | Outstanding | | Loan to Value | |
|---|---|---|---|---|
| In € millions | 2011 | 2010 | 2011 | 2010 |
| Not in default | 2,807 | 3,522 | 87.7% | 81,8% |
| Default, not impaired | 843 | 1,229 | 110.1% | 108.5% |
| Default, impaired | 1,728 | 1,761 | 140.9% | 135.7% |
| **Total in default** | **2,571** | **2,990** | **128.9%** | **123.0%** |
| **Total** | **5,378** | **6,512** | **103.3%** | **96.4%** |

The outstanding balance of the loans in default (provisioned and non-provisioned) was € 2,571 million as at year-end 2011. Expressed as a percentage of the total portfolio, the defaults rose to a limited extent from 45.9% to 47.8%. New defaults are largely compensated by redemptions or the sale of existing default items.

The following table provides information on payments in arrears. The payment record of customers is one of the default indicators used by Property Finance. However, payment in arrears does not necessarily automatically result in default. Vice versa it is possible that loans without any arrears are nevertheless declared in default. This may particularly happen with project loans.

## Arrears in loans and advances Property Finance

| | Outstanding | | Loan to Value | |
|---|---|---|---|---|
| In € millions | 2011 | 2010 | 2011 | 2010 |
| Neither past due nor impaired | 2,257 | 3,184 | 89.9% | 85.8% |
| Past due but not impaired | 1,393 | 1,567 | 95.7% | 90.5% |
| Impaired | 1,728 | 1,761 | 140.9% | 135.7% |
| **Total** | **5,378** | **6,512** | **103.3%** | **96.4%** |

The decline in the non-provisioned loans in arrears of € 174 million is mainly caused by the achieved reduction of these loans.

### Ageing analysis past due but not impaired loans and advances Property Finance

| | Outstanding | | Loan to Value | |
|---|---|---|---|---|
| *In € millions* | **2011** | 2010 | **2011** | 2010 |
| < 30 days | 276 | 436 | 83.3% | 82.6% |
| 30 - 60 days | 309 | 165 | 108.5% | 87.6% |
| 60 - 90 days | 143 | 127 | 70.0% | 95.5% |
| > 90 days | 665 | 839 | 105.6% | 94.9% |
| **Total** | **1,393** | **1,567** | **95.7%** | **90.5%** |

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 still lead to the decision that a specific provision is not necessary. Reasons for such a decision include:

- 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 for interest and redemption to reduce the collateral shortfall;
- the collateral shortfall or arrears is/are mitigated by means of restructuring.

### Provisions loans and advances Property Finance 2011

| *In € millions* | Netherlands | Other Europe | North-America | Total |
|---|---|---|---|---|
| Book value provisioned loans (gross value) | 1,130 | 337 | 261 | 1,728 |
| Provision | (324) | (129) | (142) | (595) |
| **Book value provisioned loans (net value)** | **806** | **208** | **119** | **1,133** |
| Coverage ratio | 28.7% | 38.3% | 54.4% | 34.4% |
| Fair value collateral provisioned loans | 839 | 254 | 125 | 1,218 |
| Loan to Value provisioned loans | 132.9% | 135.0% | 206.2% | 140.9% |

### Provisions loans and advances Property Finance 2010

| *In € millions* | Netherlands | Other Europe | North-America | Total |
|---|---|---|---|---|
| Book value provisioned loans (gross value) | 787 | 394 | 580 | 1,761 |
| Provision | (222) | (193) | (313) | (728) |
| **Book value provisioned loans (net value)** | **565** | **201** | **267** | **1,033** |
| Coverage ratio | 28.2% | 49.0% | 54.0% | 41.3% |
| Fair value collateral provisioned loans | 738 | 270 | 325 | 1,333 |
| Loan to Value provisioned loans | 115.6% | 139.6% | 178.2% | 135.7% |

The coverage ratio (= provisions as a percentage of the balance of the provisioned loans) is 34.4%. The coverage ratio in the Netherlands and North America as at year-end 2011 is almost equal to 2010. The coverage ratio in Europe excluding the Netherlands is considerably lower due to the inflow of several major German items.

***Property projects Property Finance***

The total sum of property projects on the balance sheet of Property Finance amounted to € 505 million as at 31 December 2011 (year-end 2010: € 456 million). Of this sum, € 29 million is related to the Netherlands (2010: nil), € 451 million is related to Europe excluding the Netherlands (2010: € 456 million), and € 25 million is related to North America (2010: nil).

The book value at year-end 2011 is fully based on the lower net realisable value.

### Accumulated impairments on property projects and assets held for sale

| | Property projects | | Assets held for sale | |
|---|---|---|---|---|
| *In € millions* | **2011** | 2010 | **2011** | 2010 |
| Gross value | 979 | 756 | -- | 266 |
| Accumulated impairments | (474) | (300) | -- | (172) |
| **Book value (net realisable value)** | **505** | **456** | **--** | **94** |

The increase of the gross value is mainly caused by foreclosures of property in the Netherlands (€ 29 million), Spain (€ 82 million) and North America (€ 35 million).

## 21.6 Market risk

The market risk is managed by SNS Bank's ALM Committee. Interest rate risk is a significant component within the market risk. Interest rate risks arise due to the fact that there are differences in the interest rate sensitivity of the assets and liabilities in the balance sheet. When managing the interest rate risk, assessments are made to establish whether the risk indicators 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, the total of interest-bearing assets and liabilities, including interest rate swaps, is examined. These interest rate swaps are used to lower the interest rate sensitivity. See paragraphs 22.2.1 Hedging and 22.2.2 Hedge accounting for more information.

In addition to interest rate risk, the market risk also comprises spread risk, exchange rate risk and trading risk. These risks are explained in the following paragraphs.

### 21.6.1 Interest rate risk

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

The duration of shareholders' equity is the primary indicator for interest rate risk. During 2011, the strategic bandwidth for the duration of shareholders' equity was 0 to 10. The Group ALCO re-sets the strategic bandwidth each year. Due to the volatility in interest rates, the duration was kept at a low level in 2011, between 2 and 5. The duration of shareholders' equity amounted to 3.8 as at year-end 2011 (year-end 2010: 2.3).

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. 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 outcomes of changes in the fair value of shareholders' equity. The EaR measures under several understandable interest rate scenarios of large interest rate shocks 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 those interest rate scenarios. The VaR figures are before taxation and the EaR figures are after taxation.

During 2011, the VaR was € 210 million on average, with a maximum of € 264 million at the end of April 2011, and a minimum of € 104 million at the end of September 2011. At year-end 2011, the VaR was € 227 million. In 2011, the EaR averaged € 10 million. At its highest point in May 2011 the EaR was € 14 million. At year-end 2011, the EaR was € 7 million.

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 gap profile is used to determine which maturities should be used for the interest rate swaps to steer the interest rate position to the desired level.

The table below illustrates the term to maturity gap profile on the basis of the expected remaining term to maturity. This includes the estimates for early redemption behaviour in the mortgage and loan portfolios. An estimate is also made of the interest maturity of savings and loans.

## Term to maturity gap profile 2011

| *In € millions* | < 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | > 5 years | Provision | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Investments (interest bearing) | 696 | 772 | 463 | 533 | 1,624 | -- | 4,088 |
| Derivatives | 650 | 1,069 | 557 | 409 | 669 | -- | 3,354 |
| Loans and advances to customers | 19,620 | 5,558 | 7,738 | 19,321 | 13,444 | (903) | 64,778 |
| Loans and advances to banks | 1,681 | 2 | -- | -- | -- | (1) | 1,682 |
| Other assets | 2,352 | -- | -- | -- | -- | (110) | 2,242 |
| Cash and cash equivalents | 5,128 | -- | -- | -- | -- | -- | 5,128 |
| **Subtotal** | **30,126** | **7,402** | **8,757** | **20,263** | **15,737** | **(1,014)** | **81,272** |
| Off-balance sheet products | 10,610 | 17,465 | 9,093 | 6,684 | 10,935 | -- | 54,787 |
| **Total assets** | **40,736** | **24,867** | **17,850** | **26,947** | **26,672** | **(1,014)** | **136,059** |
| **Liabilities** | | | | | | | |
| Participation certificates and subordinated debt | 492 | 429 | 87 | 78 | 35 | -- | 1,121 |
| Debt certificates | 8,642 | 15,943 | 1,211 | 1,080 | 485 | -- | 27,361 |
| Derivatives | 872 | 623 | 680 | 714 | 717 | -- | 3,606 |
| Savings | 2,535 | 677 | 3,282 | 14,842 | 9,006 | -- | 30,342 |
| Other amounts due to customers | 5,034 | 919 | 476 | 1,250 | 2,536 | -- | 10,215 |
| Amounts due to banks | 4,713 | 4 | -- | -- | -- | -- | 4,717 |
| Other liabilities | 2,032 | -- | -- | -- | -- | -- | 2,032 |
| **Subtotal** | **24,320** | **18,596** | **5,736** | **17,962** | **12,779** | **--** | **79,394** |
| Off-balance sheet products | 7,735 | 9,558 | 13,093 | 13,218 | 11,183 | -- | 54,787 |
| **Total liabilities** | **32,055** | **28,154** | **18,829** | **31,181** | **23,962** | **--** | **134,181** |
| **Interest rate sensitivity gap (assets - liabilities)** | **8,682** | **(3,287)** | **(978)** | **(4,233)** | **2,710** | **(1,014)** | **1,878** |

### Term to maturity gap profile 2010

| *In € millions* | < 1 month | 1 - 3 months | 3 months - 1 year | 1 - 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 |
| **Subtotal** | **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 |
| **Subtotal** | **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** |

#### *Quotation risk*

Quotation risk is the risk of 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 quotation risk. The quotation risk on fixed-rate mortgages is limited by a VaR limit of € 16.1 million (2% of the estimated gross interest margin). The average quotation VaR for fixed-rate mortgages was € 4.5 million in 2011. At year-end 2011, the quotation VaR was € 1,5 million. The quotation VaR remained within the limit throughout 2011.

In 2011, the new mortgages concluded were mainly capped-rate mortgages. During the year, the embedded options in the capped-rate mortgages were systematically hedged with interest rate caps. As at year-end 2011, 68% of these embedded options in both offered and financed mortgages were hedged with interest rate caps.

## 21.6.2 Spread risk GIIPS countries

In 2011, driven by increased credit risks, spreads on the so-called GIIPS countries (Greece, Ireland, Italy, Portugal and Spain) further widened compared to 2010. Investments in government bonds in these countries were further reduced in 2011. The position and spread development are monitored on a highly frequent basis. At year-end 2011, SNS Bank's nominal position in GIIPS government bonds was € 610 million (2010: € 1,075 million).

## 21.6.3 Exchange rate risk

### Exchange rate position (net exposure)

| In € millions | Balance | | Hedge derivatives | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| US dollar | (520) | (27) | 535 | 125 |
| Japanese yen | (79) | 20 | 84 | (26) |
| Pound Sterling | (559) | (581) | 555 | 572 |
| Swiss franc | (14) | (12) | (2) | 12 |
| Canadian dollar | 135 | 214 | (123) | (205) |
| Australian dollar | (1) | (335) | 2 | 336 |
| Hongkong dollar | (204) | (221) | 196 | 194 |
| Danish krone | 57 | 110 | (65) | (112) |
| Other | (85) | (990) | 88 | 926 |
| **Total** | **(1,270)** | **(1,822)** | **1,270** | **1,822** |

All of the 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.

## 21.6.4 Sensitivity test for interest rate risks and shares

The interest rate risks 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 results are after taxation.

### Sensitivity interest rates and shares

| In € millions | Fair value equity | | Result | | Shareholders' equity | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| Interest rate + 1% | (195) | (18) | 36 | (8) | (72) | (233) |
| Interest rate - 1% | 128 | (66) | (15) | 15 | 81 | 233 |
| Shares +10% | 1 | 1 | -- | -- | 1 | 1 |
| Shares -10% | (1) | (1) | -- | -- | (1) | (1) |

The column 'Fair value equity' shows the sensitivity of an immediate parallel interest rate shift at year-end 2011 had on the fair value of shareholders' equity, including embedded options. The duration of shareholders' equity at year-end 2011 is higher than at year-end 2010 and this has increased the sensitivity. The sensitivity is also higher due to improvements in the model for valuing the option to move which is embedded in residential mortgages. The weight of this option in the results has become lower.

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 2012, the changes in net interest income are calculated in the event that interest rates immediately rise or fall by 1% (parallel shift). Unlike last year, the cash position and the bank balances held for collateral are included in the results listed in the table.

The column 'Shareholders' equity' shows the sensitivity of the available-for-sale investment portfolios to an immediate parallel 1% interest rate increase or decrease. The sensitivity of the investment portfolios and hence the direct impact on shareholders equity has declined because of the reduction and restructuring of these portfolios.

## 21.6.5 Effective interest rates

The table below gives an indication of the average effective interest rates throughout the year with respect to monetary financial instruments not held for trading.

### Effective interest rates

| *In percentages* | 2011 | 2010 |
|---|---|---|
| **Assets** | | |
| Investments held for sale (interest bearing) | 2.9% | 3.6% |
| Mortgages | 4.7% | 4.6% |
| Property finance | 3.8% | 3.5% |
| Other loans and advances to customers | 3.9% | 3.6% |
| Loans and advances to banks | 1.0% | 0.4% |
| **Liabilities** | | |
| Participation certificates and subordinated debt | 7.5% | 6.1% |
| Debt certificates | 2.8% | 2.3% |
| Savings | 3.0% | 2.9% |
| Other amounts due to customers | 2.3% | 2.1% |
| Amounts due to banks | 0.2% | 0.6% |

## 21.6.6 Market risk trading portfolio

The main trading portfolio, the financial institutions credit portfolio, mostly comprises bonds from financial institutions.

The market risk of SNS Bank's trading portfolio is measured on a daily basis in terms of Value-at-Risk (VaR) (99% reliability) and stress testing, both with a one-day horizon. The total limit in terms of VaR for the trading portfolio amounted to € 2.4 million (2010: € 2.4 million).The permitted limit was used to only a moderate extent in 2011. The VaR methodology is based on Monte Carlo simulations. The underlying probability distributions are based on historical data. Stress tests are carried out on a regular basis by all trading desks. These, too, have defined limits.

The following table shows the limits for the different trading portfolios.

### Market risk trading portfolio (limit)

| | Value-at-risk (99% on daily basis) | | Stress test | |
|---|---|---|---|---|
| *In € thousands* | 2011 | 2010 | 2011 | 2010 |
| **Limit** | | | | |
| Customer desk | 100 | 100 | 300 | 300 |
| Money market desk foreign currency | 500 | 500 | 1,500 | 1,500 |
| Money market desk euro | 75 | 75 | 225 | 225 |
| Capital market desk | 300 | 150 | 900 | 450 |
| Credit book financials | 400 | 600 | 1,200 | 1,800 |
| Interest rate desk | 250 | 250 | 750 | 750 |
| Off-balance desk | 200 | 100 | 600 | 300 |
| Equity desk | 250 | 250 | 750 | 750 |
| Bond desk | 350 | 350 | 1,050 | 1,050 |
| **Total** | **2,425** | **2,375** | **7,275** | **7,125** |

## 21.7 Liquidity risk

SNS Bank pays intensive attention to the management of its exposure to liquidity risk to the extent that it has sufficient liquidity 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. Under normal circumstances the bank has a broad investor base, an extensive range of financing instruments and easy access to the international capital market. Currently however, the market conditions are difficult. For a number of years now, SNS Bank has pursued a policy of reducing its dependence on wholesale financing. In 2011, the new wholesale financing activities were therefore negligible as SNS Bank was able to almost fully finance its activities through the retail market. In addition, SNS Bank registered in the 3-year ECB lending facility (also called LTROs) in December 2011 for a volume € 1.5 billion).

Savings deposits increased by € 2.9 billion (+11%) compared with year-end 2010 due to a large inflow of new deposits, while the retention level remained high. The loan-to-deposit ratio improved from 172% as at year-end 2010 to 159%. The total liquidity remained at a high level. For more details, please refer to the chapter 12 on Funding and credit ratings.

The **liquidity risk policy** of SNS Bank has four elements:

a Liquidity management on a going concern basis
b Diversification in the funding portfolio
c Liquidity of assets
d Planning for unforeseen events (contingency planning).

The liquidity risk management 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 and take place in accordance with the regulatory guidelines in this field.

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 Dutch and German government bonds.

Total liquidity remained high. At year-end 2011, liquidity stood at € 11.1 billion, compared to € 11.9 billion at the end of 2010. The cash position was positively impacted by the increase in savings in combination with a limited growth in mortgages and the reduction of commitments at SNS SME and Property Finance. This was partly reversed because of loan redemptions. In the fourth quarter of 2011, € 1.5 billion was drawn on ECB credit facilities, as a result of which the liquidity position rose with the same amount and the quantity of underlying assets which are ECB eligible decreased.

### Development liquidity position SNS Bank

| *In € millions* | **2011** | 2010 |
|---|---|---|
| Cash | 4,217 | 2,980 |
| Liquid assets | 6,861 | 8,939 |
| **Total liquidity position** | **11,078** | **11,919** |

*Definition of liquid assets has been changed to assets which are ECB eligible and readily available. Comparative figures have been adjusted accordingly.*

Planning for unforeseen events is part of the annual recurring ILAAP process (see section 'ILAAP). SNS Bank has tightened the methodology for this liquidity contingency planning. SNS Bank has joined the existing crisis management structure.

SNS Bank has a potential liquidity requirement caused by margin requirements on derivatives. This is because SNS Bank, in the context of credit risk mitigation with its main counterparts, has agreed to settle changes in the fair value of derivatives periodically. As a result there may well be amounts received as amounts paid. At year-end 2011, SNS bank paid a net amount of € 1.1 billion. In relation to the total financing needs this risk is limited.

### 21.7.1 ILAAP

In the ILAAP (Internal Liquidity Adequacy Assessment Process), the required amount of liquidity is determined by the statutory directors of SNS Bank and the Executive Board of SNS REAAL. The Dutch Central Bank introduced the ILAAP in 2011 and SNS Bank ran the ILAAP for the first time in 2011. Points of departure are the balance sheet, (intended) strategy, risk appetite and existing risks. The assessment includes the questions of how risks are dealt with and whether the liquidity of SNS Bank in current and possibly future circumstances is sufficiently robust to absorb the risks. The ILAAP also comprises a liquidity stress test. This liquidity stress test takes into account, among other things, the drying-up of funding on the money and capital markets.

### 21.7.2 Management of liquidity risks

Liquidity risks are managed on the basis of the net (assets less liabilities) nominal amounts due per contractual maturity in a liquidity gap profile. The following table represents the gap profile at year-end 2010 and 2011 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.

#### Liquidity risk Banking activities 2011

| *In € millions* | < 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | > 5 years | Provision | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Investments (interest bearing) | 40 | 42 | 48 | 1,510 | 2,448 | -- | 4,088 |
| Derivatives | 17 | 16 | 95 | 1,108 | 2,119 | -- | 3,354 |
| Loans and advances to customers | 5,418 | 1,280 | 1,391 | 2,541 | 55,051 | (903) | 64,778 |
| Loans and advances to banks | 1,670 | -- | -- | 13 | -- | (1) | 1,682 |
| Other assets | 6,590 | 1 | 3 | 10 | 878 | (110) | 7,371 |
| **Total assets** | **13,735** | **1,338** | **1,536** | **5,183** | **60,496** | **(1,014)** | **81,273** |
| **Liabilities** | | | | | | | |
| Shareholders' equity | -- | -- | -- | -- | 1,879 | -- | 1,879 |
| Participation certificates and subordinated debt | -- | - | 242 | 57 | 821 | -- | 1,121 |
| Debt certificates | 2,132 | 958 | 1,821 | 7,597 | 14,853 | -- | 27,361 |
| Derivatives | 8 | 51 | 131 | 1,117 | 2,298 | -- | 3,606 |
| Savings | 24,419 | 141 | 2,543 | 2,599 | 640 | -- | 30,342 |
| Other amounts due to customers | 6,337 | 61 | 205 | 463 | 3,149 | - | 10,215 |
| Amounts due to banks | 1,324 | 10 | 247 | 3,005 | 130 | -- | 4,717 |
| Other liabilities | 2,027 | -- | - | - | 6 | -- | 2,033 |
| **Total equity and liabilities** | **36,247** | **1,222** | **5,190** | **14,838** | **23,776** | **-** | **81,273** |
| **Net liquidity gap** | **(22,512)** | **116** | **(3,654)** | **(9,655)** | **36,720** | **(1,014)** | **-** |

## Liquidity risk Banking activities 2010

| *In € millions* | < 1 month | 1 - 3 months | 3 months - 1 year | 1 - 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** |
| **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)** | **--** |

# 22 Financial instruments and hedge accounting

## 22.1 Disclosures on financial instruments

### 22.1.1 Fair value accounting 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.

**Fair value of financial assets and liabilities 2011**

| *In € millions* | Fair value | Book value |
|---|---|---|
| **Financial assets** | | |
| Investments | | |
| - Fair value through profit or loss: held for trading | 130 | 130 |
| - Fair value through profit or loss: designated | 98 | 98 |
| - Available for sale | 3,878 | 3,878 |
| Derivatives | 3,354 | 3,354 |
| Loans and advances to customers | 64,637 | 64,778 |
| Loans and advances to banks | 1,682 | 1,682 |
| Other assets | 1,111 | 1,111 |
| Cash and cash equivalents | 5,128 | 5,128 |
| **Total financial assets** | **80,018** | **80,159** |
| **Financial liabilities** | | |
| Participation certificates and subordinated debt | 944 | 1,121 |
| Debt certificates | 27,035 | 27,361 |
| Derivatives | 3,606 | 3,606 |
| Savings | 30,151 | 30,342 |
| Other amounts due to customers | 9,703 | 10,215 |
| Amounts due to banks | 4,654 | 4,717 |
| Other liabilities | 1,694 | 1,694 |
| **Total financial liabilities** | **77,787** | **79,056** |

### 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** |

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. The main assumptions for each balance sheet category are explained in the section below.

For financial assets and liabilities valued at amortised cost, the fair value is shown excluding accrued interest. The accrued interest form these investments is recorded in other assets of liabilities.

## 22.1.1.1 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 valuation of loans and advances to customers to fair value has been made to the best estimate of management. In the current volatile market environment, the bandwidth in the valuation is large due to wide variations in interest rates and risk premiums and limited availability of market transactions.

The fair value of loans and advances to customers has been established by determining the present value of the expected future cash flows and extensive market research. 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.

- ***Mortgages***
  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. The effect of very low interest rates at year-end 2011 exceeds the impact of increased risk premiums.
- ***Property finance***
  In calculating the present value of cash flows from property finance, higher risk surcharges are applied. These risk premiums are based on observable market spreads. In addition, a large part of the portfolio was valued with help from external experts on the basis of exit strategies.

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.

### 22.1.1.2 Financial liabilities

***Participation certificates and subordinated debt***

The fair value of the participation certificates 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. 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 converted into cash at the current swap rate, plus the risk surcharge applicable specifically to SNS Bank.

***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.

***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.

## 22.1.2 Hierarchy in determining the fair value of 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).

### Hierarchy financial instruments

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| *In € millions* | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| **Financial assets** | | | | | | | | |
| Investments | | | | | | | | |
| - Fair value through profit or loss: held for trading | 16 | 35 | 97 | 120 | -- | -- | 113 | 155 |
| - Available for sale | 3,381 | 3,478 | 497 | 508 | 17 | 14 | 3,895 | 4,000 |
| Derivatives | (39) | 13 | 3,393 | 2,305 | -- | -- | 3,354 | 2,318 |
| Loans and advances to customers | -- | -- | 2,329 | -- | -- | -- | 2,329 | -- |
| **Financial liabilities** | | | | | | | | |
| Fair value through profit or loss: debt certificates | -- | -- | 1,701 | -- | -- | -- | 1,701 | -- |
| Derivatives | -- | 42 | 3,606 | 2,838 | -- | -- | 3,606 | 2,880 |

***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.

The loans and advances to customers relate to the mortgages of the Holland HomesMBSsecuritisation programme. The fair value is calculated on the basis of the current swap curve increased by risk surcharges that have been derived from the development in mortgage rates compared to the swap rate. In addition, estimates of early redemption are taken into account.

***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.

## Changes in level 3 financial instruments

| | Fair value through profit and loss: held for trading | |
|---|---|---|
| *In € millions* | **2011** | **2010** |
| Balance as at 1 January | 14 | 12 |
| Total gains or losses recognised in profit or loss | 3 | 2 |
| **Balance as at 31 December** | **17** | **14** |

## Breakdown level 3 financial instruments

| *In € millions* | **2011** | 2010 |
|---|---|---|
| Bonds issued by financial institutions | 17 | 14 |
| **Total** | **17** | **14** |

The fair value of financial instruments classified in level 3 is partly based on non-observable market data. The fair values of CDO's and CLO's classified in level 3 are determined by calculating scenarios with the use of best estimates of the 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.

## Impairments on financial instruments by category

| | 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 | Total |
|---|---|---|---|---|---|---|---|---|
| *In € millions* | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| Bonds issued by financial institutions | - | - | 27 | - | - | - | 27 | - |
| **Total** | **-** | **-** | **27** | **-** | **-** | **-** | **27** | **-** |

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

## Reclassifications between categories 2011

| *In € millions To:* | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| From: | | | | |
| Based on published stock prices in an active market (Level 1) | -- | 26 | -- | 26 |

### *Reclassifications between levels 1, 2 and 3*

Compared to the previous financial year, a movement occurred of Greek government bonds moving from level 1 to level 2 due to the sharp decline in liquidity in the market for Greek government bonds.

## 22.1.3 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.

### Liquidity calendar financial liabilities 2011

| *In € millions* | < 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| Participation certificates and subordinated debt | (1) | (1) | (317) | (172) | (1,191) | (1,682) |
| Debt certificates | (2,250) | (1,412) | (4,766) | (8,975) | (19,023) | (36,426) |
| Savings | (24,494) | (188) | (2,740) | (2,801) | (659) | (30,882) |
| Other amounts due to customers | (7,226) | (91) | (324) | (1,251) | (5,138) | (14,030) |
| Amounts due to banks | (1,330) | (41) | (348) | (3,031) | (142) | (4,892) |
| **Total** | **(35,301)** | **(1,733)** | **(8,495)** | **(16,230)** | **(26,153)** | **(87,912)** |

### Liquidity calendar financial liabilities 2010

| *In € millions* | < 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| 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)** |

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

### Liquidity calendar derivatives 2011

| *In € millions* | < 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| Interest rate derivatives | (3) | (43) | (104) | (1,107) | (2,362) | (3,619) |
| Currency contracts | (5) | (8) | (27) | (15) | (33) | (88) |
| **Total** | **(8)** | **(51)** | **(131)** | **(1,122)** | **(2,395)** | **(3,707)** |

### Liquidity calendar derivatives 2010

| *In € millions* | < 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| 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)** |

For a further explanation with regard to the management of the liquidity risk SNS Bank we refer to chapter 21.7 (Liquidity risk).

## 22.2 Hedging and hedge accounting

The hedging strategies of SNS Bank are mostly aimed at controlling the interest rate risk. 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.

### Derivatives for hedging purposes 2011

| | Notional amounts | | | | Fair value | |
|---|---|---|---|---|---|---|
| *In € millions* | **< 1 year** | **1 - 5 years** | **> 5 years** | **Total** | **Positive** | **Negative** |
| Interest rate contracts | | | | | | |
| - Swaps and FRAs | 11,221 | 68,674 | 54,189 | 134,083 | 2,834 | (3,336) |
| - Options | 42 | 5,035 | 1,340 | 6,417 | 109 | (2) |
| Currency contracts | | | | | | |
| - Swaps | 159 | 950 | 230 | 1,339 | 176 | (42) |
| **Total** | **11,422** | **74,659** | **55,759** | **141,839** | **3,119** | **(3,380)** |

### Derivatives for hedging purposes 2010

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

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.

### 22.2.1 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.

## 22.2.2 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 € 8.9 million negative as at 31 December 2011.

**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 2011 was € 91.2 million, of which € 22.1 million related to the basis swaps entered into.

# 23 Notes to the consolidated financial statements

## 23.1 Cash and cash equivalents

### Specification cash and cash equivalents

| in € millions | 2011 | 2010 |
|---|---|---|
| Non-restricted demand deposits at Dutch Central Bank | 2,294 | 1,471 |
| Restricted demand deposits at Dutch Central Bank | 2,000 | 1,500 |
| Short-term bank balances | 764 | 802 |
| Cash | 70 | 60 |
| **Total** | **5,128** | **3,833** |

Restricted demand deposits at Dutch Central Bank are not available for use in SNS Bank's day-to-day operations.

## 23.2 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 as collateral to third parties due to collective contracts regarding the separate deposits for the account and risk of policyholders. The book value of the collateral is € 1.6 billion (2010: € 1.6 billion).

## 23.3 Loans and advances to customers

### Loans and advances to customers

| | Loans | | Provision | | Net amount | |
|---|---|---|---|---|---|---|
| in € millions | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Mortgages | 52,920 | 50,888 | (158) | (121) | 52,762 | 50,767 |
| Property finance | | | | | | |
| - Project finance | 4,008 | 4,326 | (515) | (683) | 3,493 | 3,643 |
| - Investment finance | 4,963 | 7,082 | (120) | (55) | 4,843 | 7,027 |
| Financial leases | 468 | 608 | (3) | (1) | 465 | 607 |
| Other | 3,323 | 3,079 | (108) | (110) | 3,215 | 2,969 |
| **Total** | **65,682** | **65,983** | **(904)** | **(970)** | **64,778** | **65,013** |

A part of the loans secured by mortgages of € 18.2 billion (2010: € 18.8 billion) has been provided as collateral to third parties under the securitisation programmes Hermes, Pearl and Holland Homes. The collateral transactions occurred under normal market conditions.

In addition, € 6.2 billion (2010: € 6.2 billion) of mortgages was provided as collateral to third parties upon the bond issue under the SNS Bank Covered Bond programme.

An amount of € 9.0 billion (2010: € 11.6 billion) of the property finance concerns mortgage secured loans.

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.

## Financial leases

| *in € millions* | Gross 2011 | Gross 2010 | Unearned interest 2011 | Unearned interest 2010 | Net 2011 | Net 2010 |
|---|---|---|---|---|---|---|
| **Overview maturities** | | | | | | |
| - Shorter than one year | 132 | 73 | (18) | (20) | 114 | 53 |
| - From one to five years | 282 | 240 | (37) | (38) | 245 | 202 |
| - Longer than five years | 122 | 365 | (16) | (13) | 106 | 352 |
| **Total** | **536** | **678** | **(71)** | **(71)** | **465** | **607** |

## Statement of change in loans and advances to customers 2011 (gross)

| *in € millions* | Mortgages | Property finance | Financial leases | Other | Total |
|---|---|---|---|---|---|
| Balance as at 1 January | 50,888 | 11,408 | 608 | 3,079 | 65,983 |
| Foreclosure | -- | (372) | -- | -- | (372) |
| Purchases | 2,260 | -- | -- | -- | 2,260 |
| Reclassifications | 164 | (169) | -- | 1 | (4) |
| Advances | 3,631 | 290 | -- | 492 | 4,413 |
| Redemptions | (3,376) | (2,166) | (140) | (406) | (6,088) |
| Disposals | (526) | -- | -- | -- | (526) |
| Change in fair value as a result of hedge accounting | (88) | -- | -- | -- | (88) |
| Exchange rate differences | -- | (20) | -- | -- | (20) |
| Movement in current accounts | -- | -- | -- | 122 | 122 |
| Other movements | (33) | -- | -- | 35 | 2 |
| **Balance as at 31 December** | **52,920** | **8,971** | **468** | **3,323** | **65,682** |

## Statement of change in loans and advances to customers 2010 (gross)

| *in € millions* | Mortgages | Property finance | Financial leases | Other | Total |
|---|---|---|---|---|---|
| Balance as at 1 January | 50,977 | 12,806 | 629 | 3,502 | 67,914 |
| Changes in the composition of group companies | (855) | -- | -- | 14 | (841) |
| Reclassifications | -- | (206) | -- | 204 | (2) |
| Advances | 3,601 | 921 | 4 | 129 | 4,655 |
| Redemptions | (2,841) | (2,196) | (25) | (612) | (5,674) |
| Change in fair value as a result of hedge accounting | 26 | -- | -- | -- | 26 |
| Exchange rate differences | -- | 123 | -- | -- | 123 |
| Movement in current accounts | -- | -- | -- | (40) | (40) |
| Other movements | (20) | (40) | -- | (118) | (178) |
| **Balance as at 31 December** | **50,888** | **11,408** | **608** | **3,079** | **65,983** |

### Statement of change in provision loans and advances to customers specific 2011

| in € millions | Mortgages | Property finance | Financial leases | Other | Total |
|---|---|---|---|---|---|
| Balance as at 1 January | 113 | 726 | 2 | 105 | 946 |
| Reclassifications | -- | (18) | -- | -- | (18) |
| Foreclosure | -- | (212) | -- | -- | (212) |
| Withdrawal | (42) | (59) | -- | (22) | (123) |
| Addition | 103 | 343 | 1 | 36 | 483 |
| Release | (26) | (149) | -- | (14) | (189) |
| Other movements | -- | (2) | -- | -- | (2) |
| **Balance as at 31 December** | **148** | **629** | **3** | **105** | **885** |

### Statement of change in provision loans and advances to customers specific 2010

| in € millions | Mortgages | Property finance | Financial leases | Other | Total |
|---|---|---|---|---|---|
| Balance as at 1 January | 90 | 223 | 2 | 91 | 406 |
| Withdrawal | (26) | (150) | -- | (15) | (191) |
| Addition | 63 | 692 | -- | 40 | 795 |
| Release | (14) | (63) | -- | (11) | (88) |
| Other movements | -- | 24 | -- | -- | 24 |
| **Balance as at 31 December** | **113** | **726** | **2** | **105** | **946** |

### Statement of change in provision loans and advances to customers IBNR 2011

| In € millions | Mortgages | Property finance | Financial leases | Other | Total |
|---|---|---|---|---|---|
| Balance as at 1 January | 8 | 13 | -- | 6 | 27 |
| Addition | -- | 6 | -- | -- | 6 |
| Release | (2) | (6) | -- | (3) | (11) |
| Other movements | 4 | (7) | -- | -- | (3) |
| **Balance as at 31 December** | **10** | **6** | **--** | **3** | **19** |

### Statement of change in provision loans and advances to customers IBNR 2010

| In € millions | Mortgages | Property finance | Financial leases | Other | Total |
|---|---|---|---|---|---|
| Balance as at 1 January | 9 | 14 | -- | 6 | 29 |
| Addition | -- | 1 | -- | -- | 1 |
| Release | (1) | (2) | -- | -- | (3) |
| **Balance as at 31 December** | **8** | **13** | **--** | **6** | **27** |

Through foreclosure of a part of the property finance portfolio, SNS Property finance has acquired control over a number of international property projects. The relevant items and the related provisions are included in the tables above under ‘foreclosure’ and have been recognised in the balance sheet under property projects. For more information, please refer to the notes on property projects.

## 23.4 Derivatives

### Specification derivatives

| *in € millions* | Positive value 2011 | Positive value 2010 | Negative value 2011 | Negative value 2010 | Balance 2011 | Balance 2010 |
|---|---|---|---|---|---|---|
| Derivatives held for cash flow hedge accounting | 135 | 64 | 19 | -- | 116 | 64 |
| Derivatives held for fair value hedge accounting | 2,038 | 1,301 | 2,385 | 1,905 | (347) | (604) |
| Derivatives held in the context of asset and liability management that do not qualify for hedge accounting | 946 | 714 | 976 | 746 | (30) | (32) |
| Derivatives held for trading | 235 | 238 | 226 | 229 | 9 | 9 |
| **Total** | **3,354** | **2,317** | **3,606** | **2,880** | **(252)** | **(563)** |

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 the transfer have to take place when the agreement expires. Most derivatives are held to hedge against undesired markets risks. This is explained in Risk management's paragraph 22.2 (Hedging and hedge accounting).

### Statement of change in derivatives

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | (563) | (1,078) |
| Purchases | 42 | (1) |
| Changes in the composition of group companies | -- | -- |
| Disposals | (161) | 145 |
| Revaluations | 386 | 133 |
| Exchange rate differences | 33 | 238 |
| Other | 11 | -- |
| **Balance as at 31 December** | **(252)** | **(563)** |

## 23.5 Investments

### Investments: overview

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Fair value through profit or loss (held for trading) | 130 | 156 |
| Fair value through profit or loss (designated) | 98 | 93 |
| Available for sale | 3,878 | 4,000 |
| **Total** | **4,106** | **4,249** |

Part of the investments is lent or pledged to third parties. The carrying amount of the investments in collateral to the European System of Central Banks (ESCB) is € 10.1 billion (2010: € 9.5 billion).

## Fair value through profit or loss: listing

| | Held for trading | | | | Designated | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares and similar investments | | Fixed income investments | | Shares and similar investments | | Fixed income | | Total | |
| *in € millions* | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| Listed | 7 | 12 | 123 | 144 | -- | -- | 98 | 93 | 228 | 249 |
| Unlisted | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| **Total** | **7** | **12** | **123** | **144** | **--** | **--** | **98** | **93** | **228** | **249** |

## Fair value through profit or loss: statement of change

| | Held for trading: | | | | Designated | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares and similar investments | | Fixed income investments | | Shares and similar investments | | Fixed income | | Total | |
| *in € millions* | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| Balance as at 1 January | 12 | 9 | 144 | 131 | -- | -- | 93 | 107 | 249 | 247 |
| Purchases and advances | -- | -- | -- | -- | -- | -- | 114 | 158 | 114 | 158 |
| Disposals and redemptions | -- | -- | -- | -- | -- | -- | (103) | (169) | (103) | (169) |
| Revaluations | -- | 1 | 25 | 56 | -- | -- | (4) | (2) | 21 | 55 |
| Change in investments held for trading | (5) | 2 | (47) | (43) | -- | -- | -- | -- | (52) | (41) |
| Other | -- | -- | 1 | -- | -- | -- | (2) | (1) | (1) | (1) |
| **Balance as at 31 December** | **7** | **12** | **123** | **144** | **--** | **--** | **98** | **93** | **228** | **249** |

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 2011 this portfolio has a value of € 52 million (2010: € 220 million; 2009: € 341 million; 2008: € 562 million) as a consequence of disposals and revaluations. The change in fair value over the year 2011 amounts to € 1 million negative (2010: € 3 million positive; 2009: € 5 million negative; 2008: € 23 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.

## Investments available for sale: listing

| | Shares and similar investments | | Fixed income investments | | Total | |
|---|---|---|---|---|---|---|
| *in € millions* | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| Listed | 2 | 2 | 3,867 | 3,990 | 3,869 | 3,992 |
| Unlisted | 9 | 8 | -- | -- | 9 | 8 |
| **Total** | **11** | **10** | **3,867** | **3,990** | **3,878** | **4,000** |

### Investments available for sale: statement of change

| in € millions | Shares and similar investments | | Fixed income investments | | Total | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Balance as at 1 January | 10 | 8 | 3,990 | 4,262 | 4,000 | 4,270 |
| Reclassifications | -- | -- | -- | (4) | -- | (4) |
| Purchases and advances | 2 | 2 | 3,770 | 1,423 | 3,772 | 1,425 |
| Disposals and redemptions | -- | -- | (3,895) | (1,594) | (3,895) | (1,594) |
| Revaluations | (1) | -- | 33 | (89) | 32 | (89) |
| Amortisation | -- | -- | (8) | (9) | (8) | (9) |
| Other | -- | -- | (23) | 1 | (23) | 1 |
| **Balance as at 31 December** | **11** | **10** | **3,867** | **3,990** | **3,878** | **4,000** |

### Investments available for sale: valuation

| In € millions | Shares and similar investments | | Fixed income investments | | Total | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| (Amortised) cost price | 11 | 9 | 3,878 | 3987 | 3,889 | 3,996 |
| Unrealised gains in value | -- | 1 | (11) | 3 | (11) | 4 |
| | **11** | **10** | **3,867** | **3,990** | **3,878** | **4,000** |

## 23.6 Investment properties

### Specification investment in properties

| in € millions | 2011 | 2010 |
|---|---|---|
| Land and buildings used by third parties | 1 | 1 |

## 23.7 Property projects

### Specification property under development

| in € millions | 2011 | 2010 |
|---|---|---|
| Property under development | 622 | 571 |
| Cumulative impairments / (reversals) as at 31 December | (110) | (104) |
| **Total** | **512** | **467** |

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

### Statement of change in property projects

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Balance property under development as at 1 January | 467 | 599 |
| Reclassifications | 22 | (79) |
| Foreclosure | 160 | -- |
| Additions | -- | 30 |
| Disposals | (61) | (7) |
| Impairments | (91) | (117) |
| Exchange rate differences | 8 | 6 |
| Other changes | 7 | 35 |
| **Balance property under development as at 31 December** | **512** | **467** |

In 2010 € 79 million of the item property projects is reclassified to assets held for sale. In 2011 an amount of € 22 million of these assets is not sold and this amount is reclassified to the property projects.

The bulk of the portfolio has been valued by independent appraisers in the second half of 2011. The valuation of property projects is based on the best estimates of management. Due to the uncertainty in the market, valuation ranges are wide. However, the construction phases of the property projects have been completed, which led to a decrease in construction cost risk.

## *23.8* Investments in associates and joint ventures

€ 11 million (2010: € 14 million) of the investments in associates and joint ventures concerns associated companies, € 6 million (2010: € 8 million negative) concerns joint ventures.

### Statement of change in associates and joint ventures

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 6 | 33 |
| Purchases and expansions | 6 | 10 |
| Disposals and divestments | (4) | -- |
| Reclassifications | 12 | 2 |
| Share in result of associates | (1) | (9) |
| Impairments | 3 | (45) |
| Other movements | (5) | 15 |
| **Balance as at 31 December** | **17** | **6** |

The reporting dates of all material associates are consistent with the reporting date of SNS Bank.

The impairments recognised in associates and joint ventures mainly relate to the reversal of impairments of € 3 million (2010: € 45 million loss).

### Overview most significant investments in associates in 2011

| *in € millions* | Country | Interest | Share in equity | Share in result | Assets | Liabilities | Income |
|---|---|---|---|---|---|---|---|
| Überseequartier Betelingungs GmbH | DE | 45% | 5 | -- | 20 | 23 | 28 |
| Prospect Village LP | US | 30% | 3 | -- | 41 | 31 | -- |
| Other | Divers | 20-50% | 3 | 1 | 178 | 155 | 22 |
| **Total** | | | **11** | **1** | **239** | **209** | **50** |

### Overview most significant investments in associates in 2010

| *in € millions* | Country | Interest | Share in equity | Share in result | Assets | Liabilities | Income |
|---|---|---|---|---|---|---|---|
| Tarpon Point Associates LLC | US | 10% | -- | -- | 163 | 186 | 5 |
| Überseequartier Betelingungs GmbH | DE | 45% | 4 | (3) | 283 | 286 | 28 |
| Prospect Village LP | US | 30% | 3 | -- | 41 | 30 | -- |
| Other | Various | 20-50% | 7 | -- | 316 | 300 | 18 |
| **Total** | | | **14** | **(3)** | **803** | **802** | **51** |

A total of € 113 million (2010: € 401 million) of loans was granted to associates. These have been included under loans and advances to customers. At year end 2011, the associates have no investment commitments (2010: 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.

### Overview most significant joint ventures 2011

| | | | | | Assets | Assets | Liabilities | Liabilities | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *in € millions* | Country | Interest | Share in equity | Share in result | Current | Fixed | Current | Long-term | Income | Expenses |
| Homburg LP | CA | 50% | -- | -- | 141 | -- | 128 | -- | 4 | 10 |
| Heyen VG Beleggingen BV | NL | 50% | 5 | -- | -- | 40 | 1 | 30 | 2 | 1 |
| Other | Divers | 15-75% | 1 | (2) | 373 | 278 | 353 | 311 | 29 | 36 |
| **Total** | | | **6** | **(2)** | **514** | **318** | **482** | **341** | **35** | **47** |

### Overview most significant joint ventures 2010

| | | | | | Assets | | Liabilities | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *in € millions* | Country | Interest | Share in equity | Share in result | Current | Fixed | Current | Long-term | Income | Expenses |
| Homburg LP | CA | 50% | (1) | -- | 168 | -- | 5 | 137 | 5 | 10 |
| Heyen VG Beleggingen BV | NL | 50% | 5 | -- | -- | 40 | -- | 31 | 2 | 1 |
| UDC / SNSPF Retail Development Fund | US | 25% | -- | 1 | 5 | 45 | -- | 36 | 3 | 2 |
| Other | Divers | 15-75% | (12) | (7) | 342 | 275 | 367 | 270 | 24 | 33 |
| **Total** | | | **(8)** | **(6)** | **515** | **360** | **372** | **474** | **34** | **46** |

The joint ventures have been granted a total amount of € 1,017 million (2010: € 1,145 million) of loans and advances. These loans and advances were reported under the loans and advances to customers. At year end 2011, the joint ventures have no investment commitments (2010: likewise). SNS Bank exercises joint control of the joint ventures together with participants, without any unilateral control by one of the participants.

## 23.9 Property and equipment

### Specification property and equipment 2011

| in € millions | 2011 | 2010 |
|---|---|---|
| Land and buildings in own use | 55 | 73 |
| IT equipment | 7 | 15 |
| Other assets | 28 | 22 |
| **Total** | **90** | **110** |

In 2011 an amount of € 7 million is under construction regarding new office buildings.

### Statement of change in property and equipment 2011

| in € millions | Land and buildings | IT equipment | Other assets | Total |
|---|---|---|---|---|
| Accumulated acquisitions costs | 79 | 34 | 56 | 169 |
| Accumulated revaluations | (6) | -- | -- | (6) |
| Accumulated amortisation and impairments | (18) | (27) | (28) | (73) |
| **Balance as at 31 December** | **55** | **7** | **28** | **90** |
| Balance as at 1 January | 73 | 15 | 22 | 110 |
| Revaluations | (3) | -- | -- | (3) |
| Investments | -- | -- | 18 | 18 |
| Divestments | (12) | -- | (5) | (17) |
| Depreciation | (1) | (8) | (7) | (16) |
| Impairments | (2) | -- | -- | (2) |
| **Balance as at 31 December** | **55** | **7** | **28** | **90** |

### Statement of change in property and equipment 2010

| in € millions | Land and buildings | IT equipment | Other assets | Total |
|---|---|---|---|---|
| Accumulated acquisitions costs | 94 | 46 | 57 | 197 |
| Accumulated revaluations | 1 | -- | -- | 1 |
| Accumulated amortisation and impairments | (22) | (31) | (35) | (88) |
| **Balance as at 31 December** | **73** | **15** | **22** | **110** |
| Balance as at 1 January | 66 | 26 | 22 | 114 |
| Revaluations | 1 | -- | -- | 1 |
| Investments | 11 | 1 | 5 | 17 |
| Divestments | (4) | (1) | -- | (5) |
| Depreciation | (1) | (11) | (7) | (19) |
| Impairments | -- | -- | 2 | 2 |
| **Balance as at 31 December** | **73** | **15** | **22** | **110** |

## 23.9.1 Valuation of land and buildings in own use

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

### Valuation of land and buildings in own use

| *in € millions* | Assessed | Book value | In percentages |
|---|---|---|---|
| 2011 | 39 | 55 | 71% |
| 2010 | 48 | 73 | 66% |
| 2009 | 57 | 66 | 86% |

## 23.10 Intangible assets

### Specification intangible assets

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Goodwill | 114 | 114 |
| Software | 21 | 27 |
| Other intangible fixed assets | 18 | 23 |
| **Total** | **153** | **164** |

Internal developed and capitalised software amount to € 21 (2010: € 27 million).

### Statement of change in intangible assets 2011

| *in € millions* | Goodwill | Software | Other intangible fixed assets | Total |
|---|---|---|---|---|
| Accumulated acquisition costs | 239 | 49 | 33 | 321 |
| Accumulated amortisation and impairments | (125) | (28) | (15) | (168) |
| **Balance as at 31 December** | **114** | **21** | **18** | **153** |
| Balance as at 1 January | 114 | 27 | 23 | 164 |
| Capitalised costs | -- | 4 | -- | 4 |
| Purchases | -- | 2 | -- | 2 |
| Depreciation capitalised costs | -- | (11) | -- | (11) |
| Depreciation purchases | -- | -- | (5) | (5) |
| Impairments | -- | (1) | -- | (1) |
| **Balance as at 31 December** | **114** | **21** | **18** | **153** |

### Statement of change in intangible assets 2010

| *in € millions* | Goodwill | Software | Other intangible fixed assets | Total |
|---|---|---|---|---|
| Accumulated acquisition costs | 239 | 48 | 41 | 328 |
| Accumulated amortisation and impairments | (125) | (21) | (18) | (164) |
| **Balance as at 31 December** | **114** | **27** | **23** | **164** |
| Balance as at 1 January | 184 | 31 | 28 | 243 |
| Investments | -- | 9 | -- | 9 |
| Depreciation | -- | (11) | (5) | (16) |
| Impairments | (70) | (2) | -- | (72) |
| **Balance as at 31 December** | **114** | **27** | **23** | **164** |

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

## *23.10.1* Recoverable amount of goodwill

Goodwill is not amortised. Instead, an impairment test is performed annually and 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 unit is determined by value-in-use calculations. The double leverage at SNS REAAL level is not allocated to the cash generating units.

### Goodwill cash flow generating units

| *in € millions* | **2011** | 2010 |
|---|---|---|
| SNS Retail Bank | 67 | 67 |
| SNS SME | 47 | 47 |
| **Total** | **114** | **114** |

The goodwill impairment tests on the other cash generating units do not lead to an impairment.

## *23.10.2* Principles value-in-use calculations

### Specification principles value-in-use calculations

| | **SNS Retail Bank** | **SNS SME** |
|---|---|---|
| Terminal growth rate | 2.00% | 2.00% |
| Available solvency | 10.00% | 10.00% |
| Pre-tax discount rate 2011 | 12.80% | 13.60% |
| Pre-tax discount rate 2010 | 12.80% | 13.40% |

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, tax rates and inflation forecasts. These variables are determined by the 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 and return on (re)investments.
- Long-term net interest income on property finance loan portfolio.
- (Credit) provisions and risk-weighted assets.
- (Operating) expenses.

- Discount rate.

The assessment 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 2012-2014 and a steady state growth to normalised returns. The assumptions are based on expected future market developments and past experience and on the long term characteristics of the markets in which the various cash generating units of SNS Bank operate.

A deterioration within reasonable limits on one of the abovementioned drivers in isolation would not lead to an impairment. The buffer is large and is capable of absorbing a combination of negative factors also. However, should circumstances on multiple factors deteriorate significantly, it could lead to a negative outcome for the buffer (the difference between the recoverable value and the bookvalue).

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.

## 23.11 Deferred tax assets and liabilities

### Specification deferred tax assets and liabilities

| *in € millions* | **2011** | 2010 |
|---|---|---|
| - Deferred tax assets | 225 | 267 |
| - Deferred tax liabilities | (303) | (323) |
| **Total (liability)** | **(78)** | **(56)** |

### Origin of deferred tax assets and tax liabilities 2011

| *in € millions* | 1 January | Change through profit or loss | Change through shareholders' equity | Other movements | 31 December |
|---|---|---|---|---|---|
| Intangible assets | 4 | -- | -- | -- | 4 |
| Property and equipment | (2) | (1) | 1 | -- | (2) |
| Investments | 20 | 30 | (26) | -- | 24 |
| Derivatives | 189 | (107) | (12) | 3 | 73 |
| Loans and advances to customers | (320) | 19 | -- | -- | (301) |
| Debt certificates | 36 | 72 | -- | -- | 108 |
| Provisions | 13 | (3) | -- | -- | 10 |
| Tax-deductible losses | 1 | -- | -- | -- | 1 |
| Other | 3 | 4 | -- | (2) | 5 |
| **Total liabilities** | **(56)** | **14** | **(37)** | **1** | **(78)** |

### Origin of deferred tax assets and tax liabilities 2010

| *in € millions* | 1 January | Change through profit or loss | Change through shareholders' equity | Other movements | 31 December |
|---|---|---|---|---|---|
| Intangible 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 liabilities** | **(23)** | **(83)** | **53** | **(3)** | **(56)** |

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

### Tax-deductible losses

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Total tax-deductible losses | 3 | 3 |
| Deferred tas assets calculated on tax-deductible losses | 1 | 1 |
| Average tax rate | 25.0% | 25.5% |

## 23.12 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.

## 23.13 Other assets

### Specification other assets

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Accrued interest | 257 | 261 |
| Other accrued assets | 657 | 151 |
| **Accrued assets** | **914** | **412** |
| Other advances | 197 | 175 |
| **Total** | **1,111** | **587** |

The other advances include the offset of the advanced contribution of SNS Bank to the Dutch Central Bank of € 183 million (2010: € 219 million) under the deposit guarantee scheme (DGS) in relation to its share related to the bankruptcy of DSB Bank minus the recognised 2009 provision of € 38 million, and minus the recognised 2011 provision of € 2 million due to the verdict of the College van Beroep that subordinated deposits are part of the Guarantee- and Compensation systems.

## 23.14 Assets held for sale

### Specification assets held for sale

| in € millions | 2011 | 2010 |
|---|---|---|
| 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 has sold € 251 million of property finance and property projects in 2011 and has reclassified € 22 million to property projects.

## 23.15 Savings

### Specification savings

| in € millions | 2011 | 2010 |
|---|---|---|
| Due on demand | 22,289 | 23,293 |
| Other savings | 8,053 | 4,105 |
| **Total** | **30,342** | **27,398** |

The savings item comprises balances of saving accounts, saving deposits and term deposits of retail clients. The interest payable on savings is included under other liabilities.

The bank savings accounts amounts to € 1.297 million (2010: € 703 million). The life-course savings accounts amounts to € 298 million (2010: € 257 million).

## 23.16 Other amounts due to customers

### Specification other amounts due to customers

| in € millions | 2011 | 2010 |
|---|---|---|
| Non-current debt | 2,229 | 2,308 |
| Available on demand | 6,351 | 6,834 |
| Mortgage deposits | 167 | 216 |
| Savings deposits | 1,468 | 1,124 |
| **Total** | **10,215** | **10,482** |

## 23.17 Amounts due to banks

### Specification amounts due to banks

| in € millions | 2011 | 2010 |
|---|---|---|
| Due on demand | 935 | 394 |
| Deposits and certificates | 3,781 | 2,702 |
| **Total** | **4,716** | **3,096** |

The amounts due to banks comprise liabilities ensuing from repo agreements and structured transactions. These liabilities are offset by investments, mainly including government bonds with the highest rating. These debts will be settled at the same time as the corresponding investments.

## 23.18 Debt certificates

### Specification debt certificates

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Medium Term Notes | 15,425 | 17,419 |
| Certificates of Deposit | 163 | 564 |
| Debt certificates issued under Hermes and Pearl Securitisation programmes | 10,072 | 11,540 |
| Debt certificates classified at fair value through profit or loss (Holland Homes securitisation programme) | 1,701 | -- |
| **Balance as at 31 December** | **27,361** | **29,523** |

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 € 5.4 billion (2010: € 5.6 billion).

### 23.18.1 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 of 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. An overview of the securitisations as at 31 December is provided below:

### Overview debt certificates issued under Hermes and Pearl securitisation programmes

| in € millions | Initial principal | Start of securitisation | Book value 2011 | Book value 2010 | First call-option date | Contractual expiration |
|---|---|---|---|---|---|---|
| Hermes II | 665 | 11-2000 | -- | 5 | n,a, | 01-04-2012 |
| Hermes V | 1,118 | 11-2002 | -- | 222 | 18-01-2011 | 01-10-2034 |
| Hermes VIII | 1,269 | 05-2004 | 493 | 538 | 18-11-2013 | 01-05-2038 |
| Hermes IX | 1,529 | 05-2005 | 878 | 959 | 18-02-2014 | 01-02-2039 |
| Hermes X | 1,528 | 09-2005 | 987 | 1,087 | 18-03-2015 | 01-09-2039 |
| Hermes XI | 1,528 | 02-2006 | 1,123 | 1,243 | 18-09-2015 | 01-09-2040 |
| Hermes XII | 2,241 | 10-2006 | 1,429 | 1,594 | 18-03-2016 | 01-12-2038 |
| Hermes XIII | 2,800 | 02-2007 | 1,878 | 2,044 | 18-08-2012 | 01-08-2039 |
| Hermes XIV | 2,000 | 09-2007 | 1,489 | 1,599 | 18-02-2013 | 01-11-2039 |
| Hermes XV* | 1,618 | 04-2008 | 1,481 | 1,587 | 18-04-2013 | 01-04-2045 |
| Hermes XVI | 3,000 | 09-2008 | 3,000 | 3,000 | 18-10-2013 | 01-10-2045 |
| Hermes XVII* | 2,844 | 05-2009 | 2,670 | 2,844 | 18-01-2013 | 01-07-2046 |
| Pearl I* | 1,014 | 09-2006 | 1,014 | 1,014 | 18-09-2026 | 01-09-2047 |
| Pearl II* | 852 | 05-2007 | 808 | 808 | 18-06-2014 | 01-06-2046 |
| Pearl III* | 859 | 02-2008 | 807 | 807 | 18-03-2013 | 01-03-2045 |
| Pearl IV | 1,000 | 07-2010 | 1,000 | 1,000 | 18-07-2015 | 01-07-2047 |
| **Total** | **30,104** | | **19,057** | **20,351** | | |
| On own book | | | 8,985 | 8,811 | | |
| **Total** | | | **10,072** | **11,540** | | |

** After restructuring*

SNS Bank has purchased bonds, issued by different Hermes companies, with an amortised cost of € 8.9 billion (2010: € 8.7 billion). SNS Bank has purchased subordinated bonds issued by various Pearl companies with a amortised cost of € 98 million (2010: € 98 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.

## 23.18.2 Debt certificates classified at fair value with value movements recognised through profit or loss (Holland Homes securitisation programmes)

Through DBV Finance, SNS Bank also securitised part of its mortgages by means of the Holland Homes transactions. The companies formed under these transactions (special purpose entities) were funded by long-term notes issued by these companies. The obligations to noteholders and income from the mortgages were matched using interest rate swaps. As these derivative contracts were concluded with parties outside SNS Bank, an accounting mismatch would have arisen after consolidation of the companies given that the derivatives are recognised at fair value through profit or loss, unlike the notes and mortgages. This mismatch is removed by recognising both the derivatives and the notes and mortgages at fair value through profit or loss.

The securitisation transactions include a call + step-up construction, to the effect that, when the amount of outstanding notes falls below 10% of the initially outstanding notes (notional), the issuer has the option of redeeming the notes.

As of 2003, a number of this securitisation transactions include not only the above call + step-up construction, but also a put + step-down construction, to the effect that the noteholder is entitled to early repayment of the note as from a pre-determined date (put). The interest rate of the coupon is increased if both SNS Bank which, being the initiating party, is offered the notes first, and any third party does not repurchase the notes when the noteholder exercises this right. The coupon rate on the note will also be lowered after this date in case the noteholders do not avail themselves of this right. Under normal circumstances, the company and the noteholder will then be financially motivated to repay the bonds prior to maturity.

***Overview Holland Homes securitisation programme***

### Specification Holland Homes securitisation programme

| in € millions | Initial principal | Date of securitisation | Book value 2011 | Book value 2010 | Date put-option | Contractual date of expiry |
|---|---|---|---|---|---|---|
| Holland Homes (MBS 2000-1) | 350 | 11-2000 | 133 | -- | n,a, | 24-09-2030 |
| Holland Homes (MBS 2003-1) | 435 | 12-2003 | 216 | -- | 30-12-2013 | 31-12-2080 |
| Holland Homes (MBS 2005-1) | 757 | 11-2005 | 568 | -- | 20-12-2015 | 31-12-2083 |
| Holland Homes (MBS (Oranje) 2005-1) | 1,601 | 04-2006 | 784 | -- | 20-01-2018 | 31-12-2083 |
| **Total** | **3,143** | | **1,701** | **--** | | |
| On own book | | | -- | -- | | |
| **Total** | | | **1,701** | **--** | | |

The contractual non-discounted amount that will have to be paid at the end of the maturity of the bonds mentioned above amounts to € 1,662 million (2010: € 1,833 million).

## 23.19 Other provisions

### Specification other provisions

| in € millions | Total 2011 | Total 2010 |
|---|---|---|
| Restructuring provision | 22 | 30 |
| Other provisions | 13 | 11 |
| **Total** | **35** | **41** |

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 the coming years.

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.

### Statement of change in other provisions

| | Restructuring provision | | Other provisions | | Total | |
|---|---|---|---|---|---|---|
| *in € millions* | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| Balance as at 1 January | 30 | 33 | 11 | 20 | 41 | 53 |
| Additions / release | 5 | 9 | 3 | (2) | 8 | 7 |
| Withdrawal | (12) | (13) | (1) | (7) | (13) | (20) |
| Other movements | (1) | 1 | -- | -- | (1) | 1 |
| **Balance as at 31 December** | **22** | **30** | **13** | **11** | **35** | **41** |

## 23.20 Participation certificates and subordinated debt

### Specification participation certificates and subordinated debt

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Participation certificates | 298 | 298 |
| Subordinated debt | 823 | 1,724 |
| **Balance as at 31 December** | **1,121** | **2,022** |

## 23.20.1 Participation certificates

This item includes subordinated 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 granted 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).

## 23.20.2 Subordinated debt

### Specification subordinated debt

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Bonds | 669 | 1,466 |
| Private loans | 154 | 258 |
| **Total** | **823** | **1,724** |

### 23.20.2.1 Bonds

The subordinated bonds from SNS Bank form part of the qualifying capital used in determining the solvency position of SNS Bank.

### Bonds

| | Coupon rate | Period | Book value | Nominal Value | Book value | Nominal value |
|---|---|---|---|---|---|---|
| *in € millions* | | | 2011 | 2011 | 2010 | 2010 |
| SNS Bank | 5.125% | 1999-2011 | -- | -- | 122 | 122 |
| SNS Bank | 4.238% | 1999-2019 | 6 | 5 | 5 | 5 |
| SNS Bank | 5.750% | 2003-2049 | 10 | 10 | 11 | 11 |
| SNS Bank | 5.500% | 2006-2016 | -- | -- | 36 | 35 |
| SNS Bank | 6.750% | 2006-2016 | -- | -- | 153 | 152 |
| SNS Bank | Floating | 2006-2016 | -- | -- | 152 | 152 |
| SNS Bank | 6.625% | 2008-2018 | 36 | 37 | 190 | 192 |
| SNS Bank | 11.250% | 2009-2049 | 347 | 320 | 325 | 320 |
| SNS Bank | 6.250% | 2010-2020 | 270 | 262 | 472 | 500 |
| **Total** | | | **669** | **634** | **1,466** | **1,489** |

In 2011, SNS Bank conducted a transaction offering early redemption of two subordinated loans issued by SNS Bank in exchange for a new issuance of debt certificates under the Medium-Term Note programme. The decrease in outstanding volume of the 6,625% SNS Bank notes and the 6,25% SNS Bank notes is the result of bondholders making use of this exchange offer

#### 23.20.2.2 Private loans

The subordinated private loans have been concluded by SNS Bank and form part of the regulatory capital used in determining the solvency position of SNS Bank.

## 23.21 Equity attributable to shareholders and securityholders

### Specification equity

| in € millions | 2011 | 2010 |
|---|---|---|
| Equity attributable to shareholders | 1,723 | 1,580 |
| Equity attributable to securityholders | 156 | 256 |
| **Balance as at 31 December** | **1,879** | **1,836** |

For further information on total equity, see paragraph 16.4 (Consolidated statement of changes in equity).

## 23.22 Off balance sheet commitments

### 23.22.1 Contingent liabilities

### Specification contingent liabilities

| in € millions | 2011 | 2010 |
|---|---|---|
| Liabilities from pledges and guarantees given | 177 | 238 |
| Liabilities from (ir)revocable facilities | 920 | 1,361 |
| Repurchase commitments | 1,713 | -- |

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.

Part of the collateralised loans and advances that were sold or securitised under the Holland Homes programme includes a repurchase obligation of the loans and advances on the interest review date. The determination of the maturity schedule below takes account of an early repayment risk on mortgages of 7% per annum (2010: likewise). Besides a repurchase obligation on the interest review date of the loans and advances, the Holland Homes transactions are also expected to be repurchased on the date of expiration of the put-option, which is included in the maturity calendar.

### Maturity calender repurchase commitments

| In € millions | 2011 | 2010 |
| --- | --- | --- |
| < 1 year | 221 | -- |
| 1 - 5 year | 623 | -- |
| > 5 year | 869 | -- |
| **Total** | **1,713** | **--** |

## 23.22.2 Guarantee- and compensation systems

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 scheme (DGS), 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.

With the enforcement of the Financial Supervision Act (Wft) the investor compensation scheme 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.

## 23.22.3 Lease commitments

### Maturity calender future minimum payments based on irrevocable operational leases

| in € millions | 2011 | 2010 |
| --- | --- | --- |
| Less than one year | 8 | 11 |
| From one year until five year | 14 | 19 |
| More than five years | -- | 1 |
| **Total** | **22** | **31** |

## 23.22.4 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 Executive 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). As already reported in the 2009 annual report and 2010 interim financial report, where appropriate, clients will be compensated in a suitable manner for which provisions have been taken. In the proceedings before the court SNS Bank awaits the verdict.

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 similar 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. In line with these lawsuits the trustee of Madoff started proceedings against SNS Bank and SNS Global Custody. The aforementioned proceedings, in which many financial institutions worldwide are sued in similar proceeding, are in an early stage. SNS Bank will defend itself vigorously and is currently not able to make a reliable estimate for a provision for these claims, if any.

Besides legal procedures, an investigation is currently underway into the possible irregularities in the past in relation to the property finance portfolio of Property Finance. The interim results from this investigation have been incorporated in the financial statements. It is a possibility that upon completion of the investigation, things have come to light that could have a (both positive and negative) influence on the valuation of assets and liabilities.

## 23.23 Related parties

### 23.23.1 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 a part of its ordinary operations, SNS Bank maintains various sorts of ordinary business relations with related companies and parties, particularly in the areas of insurance, 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 managers.

Transactions with related parties are conducted at arm’s length. The Responsible living (Verantwoord Wonen) transaction is based on market rates, with adjustments made based on agreements between SRLEV NV and SNS Bank NV. This transaction is explained below in detail. In the transactions with related parties, Best Practices provisions II.3.2, II.3.3, II.3.4, III.6.1, III.6.3 and III.6.4 of the Dutch Corporate Governance Code were complied with

### 23.23.2 Positions and transactions between SNS Bank NV, SNS REAAL NV, associated companies and joint ventures

**Positions and transactions between SNS Bank NV, SNS REAAL NV, associated companies and joint ventures**

| | SNS REAAL NV | | Sister companies | | Joint ventures | | Non-consolidated associated companies | |
|---|---|---|---|---|---|---|---|---|
| *in € millions* | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| **Positions** | | | | | | | | |
| Loans and advances | 219 | 422 | 1,040 | 1,317 | 1,017 | 1,145 | 113 | 401 |
| Provisions for doubtful debt | -- | -- | -- | -- | 3 | 11 | -- | -- |
| Subordinated debt | 147 | 240 | -- | -- | -- | -- | -- | -- |
| Other liabilities | 140 | 437 | 2,827 | 2,726 | -- | -- | -- | -- |
| **Transactions** | | | | | | | | |
| Mutation loans and advances | (203) | (311) | (277) | 161 | (128) | 105 | (288) | (87) |
| Mutation Subordinated debt | (93) | 40 | -- | -- | -- | -- | -- | -- |
| Mutation Other liabilities | (297) | | 101 | 395 | -- | -- | -- | -- |
| Income | 4 | 12 | -- | -- | (1) | (6) | 1 | (3) |
| Other expenses | 166 | 177 | -- | -- | -- | -- | -- | -- |

The main related-party transactions for this reporting period are the transfer of part the core Tier 1 capital securities held by SNS REAAL NV as a contribution of share premium in the equity of SNS Bank NV and REAAL NV. The transfer concerns the core Tier 1 securities capital of Stichting Beheer SNS REAAL NV pushed through to SNS Bank NV and REAAL NV. The transaction took place on 1 January 2011.

In 2011 an amount of € 518 million of mortgages (face value € 504 million) was sold by SNS Bank NV to SRLEV NV.

They concern mortgages issued in the first half of 2011 by SNS Bank as part of the Responsible living program. In this program mortgages were sold through the distribution channels of REAAL that were temporarily financed by SNS Bank NV.

The sales price between SRLEV NV and SNS Bank NV is based on arm's length rates. Hereby, some normal cost surcharges on the one hand, like servicing costs, are excluded since they were expensed already by SRLEV NV upon issue of the mortgages. On the other hand SNS Bank NV has been compensated for the cost of hedge positions that resulted from taking this temporary position on balance.

SNS Bank sold € 0 million (2010: € 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 € 0 billion (2010: € 1.1 billion) at SNS Bank.

In 2011, SNS Bank NV received a capital contribution (share premium) from SNS REAAL NV of € 50 million.

In a transaction between SNS Bank NV and ASN Bank NV bond investments of ASN Bank were sold  to SNS Bank NV. The transaction amounted to € 702 million and did not lead to results at SNS Bank NV and ASN Bank NV.

All shares in DBV Finance BV were sold by SRLEV NV to SNS Bank NV on 28 January 2011 for an amount of€ 16 million. The result on this transaction amounts to € 15 million. DBV Finance BV legally merged with SNS Bank NV and is included in the segment SNS Retail Bank.

### 23.23.3 Transactions and positions with managers in key positions of SNS REAAL

Managers in key positions with SNS Bank comprise the members of the Executive Board of SNS REAAL NV and the board of the business unit SNS Retail Bank, in total 24 persons (2010: 27 persons).

The remuneration of the members of the Management Board of SNS Bank (regular payments, deferred payments and profit-sharing & bonuses) amounted to € 3.9 million in 2011 (2010: € 6.2 million). The Management Board of SNS Bank consists of 9 members (2010: 12).

#### Specification remuneration managers in key positions

| | Statutory | | Other | | Total | |
|---|---|---|---|---|---|---|
| *in € thousands* | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| Short-term employee benefits | 1,829 | 1,854 | 1,127 | 3,123 | 2,956 | 4,977 |
| Post-employment benefits | 297 | 298 | 188 | 254 | 485 | 552 |
| Other long-term benefits | 1 | 2 | 4 | 12 | 5 | 14 |
| Termination benefits | 448 | -- | -- | 634 | 448 | 634 |
| **Total** | **2,575** | **2,154** | **1,319** | **4,023** | **3,894** | **6,177** |

The balance of loans to managers in key positions amounted to € 4.8 million as at year-end 2011 (2010: € 1.9 million).

### Specification loans to managers in key positions

| in € thousands | Outstanding as at 31 December | | Average interest rate | | Redemptions | | Advances | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| Mortgage loans | 4,842 | 1,933 | 3.94% | 4.00% | 14 | 20 | 1,477 | 682 |

Transactions with individual members of the Executive Board and the Supervisory Board of REAAL are explained in Chapter 19.7 (Remuneration report) of the Report of the Supervisory Board of the Annual Report of SNS REAAL.

## *23.24* Subsequent events

On 24 February 2012, the Greek government approved the terms of invitations to be made to banks and insurers to (voluntarily) participate in an exchange offer of selected Greek government bonds for a combination of newly issued financial instruments. The exchange offer applies to the government bond held by SNS Bank. It is currently not possible for SNS Bank to reliably estimate the value of the newly issued financial instruments in the event of a successful exchange transaction, or the value of the Greek bond if Greece defaults and interest and redemption is not timely and fully paid. If the exchange transaction is successfully performed and we choose to participate, we expect an additional loss of approximately € 10 million, taking into account the currently known conditions.

## *23.25* Net interest income

### Specification net interest income

| *in € millions* | **2011** | 2010 |
|---|---|---|
| Interest income | 2,761 | 2,489 |
| Interest expense | 1,958 | 1,618 |
| **Net interest income** | **803** | **871** |

*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 expense includes costs incurred from borrowing and related transactions, as well as other interest-related charges.

The interest income and expenses also includes the interest results from derivative positions that are established with the aim of limiting interest rate risk on hedged financial instruments.

### Specification interest income

| *in € millions* | **2011** | 2010 |
|---|---|---|
| Mortgages | 2,065 | 1,723 |
| Property finance | 395 | 445 |
| Other loans and advances | 125 | 142 |
| Loans and advances to banks | 57 | 26 |
| Investments | 115 | 153 |
| Other | 4 | -- |
| **Total** | **2,761** | **2,489** |

The interest income for financial assets not at fair value through profit or loss amounts to € 3.073 million (2010: € 3.023 million).

The recognised interest income on provisioned loans amounts to € 72 million (2010: € 47 million).

*Interest expenses*

### Specification interest expenses

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Debt certificates | 672 | 488 |
| Participation certificates and subordinated debt | 111 | 100 |
| Savings | 916 | 779 |
| Other amounts due to customers | 194 | 219 |
| Amounts due to banks | 65 | 32 |
| Derivatives | (117) | -- |
| **Total** | **1,958** | **1,618** |

## 23.26 Net fee and commission income

This item includes fees from services provided, insofar as not interest-related.

### Specification net fee and commission income

| *in € millions* | 2011 | 2010 |
|---|---|---|
| **Fee and commission income:** | | |
| Money transfer and payment charges | 37 | 38 |
| Securities activities | 19 | 21 |
| Insurance agency activities | 20 | 22 |
| Management fees | 69 | 58 |
| Other activities | (6) | (1) |
| **Total fee and commission income:** | **139** | **138** |
| Fee and commission expense | 53 | 46 |
| **Total** | **86** | **92** |

## 23.27 Share in result of associates

This item represents the share in result of associated companies. In 2011 the negative result of € 1 million (2010: € 9 million negative) over the financial year relates to the impact of the losses of associates of € 2 million (2010: € 6 million losses) and profits of joint ventures worth € 1 million (2010: € 3 million losses).

## 23.28 Investment income

### Specification investment income

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Fair value through profit or loss | (31) | 28 |
| Available for sale | 69 | 19 |
| Loans and receivables | 7 | -- |
| **Total** | **45** | **47** |

### Composition of investment income 2011

| in € millions | Fair value through profit or loss: Held for trading | Fair value through profit or loss: Designated | Available for sale | Loans and receivables | Total |
|---|---|---|---|---|---|
| Dividend | -- | -- | 1 | -- | 1 |
| Interest | -- | -- | -- | 7 | 7 |
| Realised revaluations | (31) | -- | 45 | -- | 14 |
| Unrealised revaluations | -- | -- | 23 | -- | 23 |
| **Total** | **(31)** | **--** | **69** | **7** | **45** |

### Composition of investment income 2010

| in € millions | Fair value through profit or loss: Held for trading | Fair value through profit or loss: Designated | Available for sale | Loans and receivables | Total |
|---|---|---|---|---|---|
| Realised revaluations | 28 | -- | 19 | -- | 47 |
| **Total** | **28** | **--** | **19** | **--** | **47** |

## *23.29* Result on financial instruments

### Specification result on financial instruments

| in € millions | 2011 | 2010 |
|---|---|---|
| Fair value movements in hedging instruments | 376 | 632 |
| Fair value movements in hedged item attributable to hedged risks | (34) | 53 |
| **Fair value movements in derivatives held for fair value hedge accounting** | **342** | **685** |
| Fair value movements of derivatives maintained for ALM not classified for hedge accounting | 7 | 6 |
| Fair value movements in derivatives held for trading | (6) | (6) |
| Fair value movements in other derivatives | (195) | (675) |
| Loans sold | (37) | (30) |
| Repurchase debt instruments | 8 | -- |
| **Total** | **119** | **(20)** |

Property Finance has sold loans to third parties resulting in a loss of € 31 million (2010: € 30 million) and PF SME has sold loans to third parties resulting in a loss of € 6 million (2010: nil).

In 2011, an exchange offer took place in which subordinated notes issued by SNS Bank that qualify as lower Tier 2 capital were exchanged for new notes issued by SNS Bank under the regular Medium-Term Note programme. This led to a positive transaction result of € 112 million (gross).

## *23.30* Other operating income

The other operating income amount to a loss of € 6 million. This amount is mainly caused by a loss of € 8 million on property projects.

## 23.31 Result assets and liabilities held for sale

The result assets and liabilities held for sale contains a loss of € 4 million due to the sale of assets of Property Finance.

## 23.32 Staff costs

### Specification staff costs

| in € millions | 2011 | 2010 |
|---|---|---|
| Salaries | 144 | 163 |
| Pension costs | 25 | 25 |
| Social security | 17 | 19 |
| Other staff costs | 72 | 49 |
| **Total** | **258** | **256** |

The average number of employees calculated on the basis of full-time equivalents is 2.426 (2010: 2.639). The other staff costs related to lease and sublease commitments of the fleet, amount to € 6 million (2010: € 6 million).

All staff are employed by SNS REAAL NV. The staff costs are charged to SNS Bank by SNS REAAL.

Transactions with individual members of the Executive Board and the Supervisory Board of REAAL are explained in paragraph 19.7 (Remuneration report) of the Report of the Supervisory Board of the Annual Report of SNS REAAL.

## 23.33 Other operating expenses

### Specification other operating expenses

| in € millions | 2011 | 2010 |
|---|---|---|
| Housing | 39 | 46 |
| IT systems | 101 | 107 |
| Marketing and public relations | 31 | 30 |
| External advisors | 47 | 39 |
| Other costs | 67 | 63 |
| **Total** | **285** | **285** |

The other operating expenses include costs related to lease commitments, which amount to € 1 million (2010: € 1 million).

## 23.34 Impairment charges / (reversals)

## Specification impairment charges / (reversals) by class of asset

| in € millions | Impairments | | Reversals | | Total | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| **Through profit or loss** | | | | | | |
| Loans and advances to customers | 492 | 797 | 200 | 90 | 292 | 707 |
| Property projects | 91 | 117 | -- | -- | 91 | 117 |
| Associated companies | 3 | 45 | 6 | -- | (3) | 45 |
| Investments | 27 | -- | -- | -- | 27 | -- |
| Property and equipment | 2 | -- | -- | -- | 2 | -- |
| Intangible assets | 1 | 72 | -- | -- | 1 | 72 |
| **Total through profit or loss** | **616** | **1,031** | **206** | **90** | **410** | **941** |
| **Through equity** | | | | | | |
| Investments | 20 | -- | -- | -- | 20 | -- |
| **Total through equity** | **20** | **--** | **--** | **--** | **20** | **--** |

## 23.35 Taxation

### Specification taxation

| *in € millions* | 2011 | 2010 |
|---|---|---|
| In financial year | (50) | (199) |
| Prior year adjustments | -- | -- |
| **Corporate income tax due** | **(50)** | **(199)** |
| Due to temporary differences | 71 | 98 |
| **Deferred tax** | **71** | **98** |
| **Total** | **21** | **(101)** |

### Reconciliation between the statutory and effective tax rate

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Statutory income tax rate | 25.0% | 25.5% |
| Result before tax | 59 | (532) |
| **Statutory corporate income tax amount** | **15** | **(136)** |
| Effect of participation exemption | (2) | 12 |
| Prior year adjustments (including tax provision release) | (4) | -- |
| Non-deductible goodwill imparments | -- | 18 |
| **Total** | **21** | **(101)** |
| Effective tax rate | 35.2% | 19.0% |

Utrecht, 5 March 2012

**Supervisory Board**
R. Zwartendijk (Chairman)
P.S. Overmars (Vice Chairman)
C.M. Insinger
R.J. van de Kraats
J.E. Lagerweij
J.A. Nijhuis
J.A. Nijssen
H.W.P.M.A. Verhagen
L.J. Wijngaarden

**Management Board**
E.J.G.V. Boers (Chairman)
F.K.V. Lamp
D.J. Okhuijsen
W.H. Steenpoorte

# 24 Company financial statements

## 24.1 Company balance sheet

### Company balance sheet

| *in € millions* | *Notes* | 2011 | 2010 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 5,607 | 3,210 |
| Loans and advances to banks | 1 | 11,817 | 15,803 |
| Loans and advances to customers | 2 | 34,182 | 33,413 |
| Loans and advances to group companies | 3 | 1,891 | 1,552 |
| Derivatives | | 3,428 | 2,368 |
| Investments | 4 | 1,146 | 861 |
| Investment properties | | -- | 1 |
| Subsidiaries | 5 | 102 | 370 |
| Property and equipment | 6 | 67 | 87 |
| Intangible assets | 7 | 135 | 141 |
| Deferred tax assets | | 219 | 238 |
| Corporate income tax | | 127 | 96 |
| Other assets | | 1,454 | 2,129 |
| Assets held for sale | | -- | -- |
| **Total assets** | | **60,175** | **60,269** |
| **Equity and liabilities** | | | |
| Savings | | 14,452 | 13,280 |
| Other amounts due to customers | | 7,989 | 8,766 |
| **Amounts due to customers** | **8** | **22,441** | **22,046** |
| Amounts due to banks | 9 | 11,280 | 8,160 |
| Debt certificates | | 15,625 | 17,987 |
| Derivatives | | 2,637 | 2,114 |
| Deferred tax liabilities | | 301 | 319 |
| Other liabilities | | 4,866 | 5,747 |
| Provisions | 10 | 25 | 33 |
| Participation certificates and subordinated debts | | 1,121 | 2,027 |
| Share capital | | 381 | 381 |
| Share premium reserves | | 967 | 838 |
| Revaluation reserves | | 6 | 6 |
| Cash flow hedge reserves | | 64 | 27 |
| Fair value reserve | | (189) | (18) |
| Statutory reserves associates | | (44) | (131) |
| Other statutory reserves | | 44 | 131 |
| Other reserves | | 456 | 777 |
| Retained earnings | | 38 | (431) |
| **Equity attributable to shareholders** | **11** | **1,723** | **1,580** |
| Securities capital | | 156 | 256 |
| **Equity attributable to securityholders** | **11** | **156** | **256** |
| **Total equity** | | **1,879** | **1,836** |
| **Total equity and liabilities** | | **60,175** | **60,269** |

## 24.2 Company income statement

### Company income statement

| in € millions | 2011 | 2010 |
|---|---|---|
| Result on subsidiaries after taxation | (294) | (1,034) |
| Other results after taxation | 332 | 603 |
| **Net result** | **38** | **(431)** |

## 24.3 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 chapter 17 (Accounting principles for the consolidated financial statements).

For additional information on items not explained further in the notes to the company balance sheet, reference is made to chapter 23 (Notes to the consolidated financial statements).

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, fair value and profit sharing 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 reserve 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.

# 25 Notes to the company financial statements

## 25.1 Loans and advances to banks

### Specification loans and advances to banks

| in € millions | 2011 | 2010 |
|---|---|---|
| **Breakdown by remaining maturity:** | | |
| Payable on demand | 6,387 | 12,375 |
| **Not payable on demand:** | | |
| > 1 month < 3 months | 181 | 1,023 |
| > 3 months < 1 year | 96 | 475 |
| > 1 year < 5 years | 658 | 1,259 |
| > 5 years | 4,495 | 671 |
| **Total** | **11,817** | **15,803** |

## 25.2 Loans and advances to customers

### Specification loans and advances to customers

| in € millions | 2011 | 2010 |
|---|---|---|
| **Breakdown by remaining maturity:** | | |
| Payable on demand | 2,947 | 2,882 |
| **Not payable on demand:** | | |
| > 1 month < 3 months | 36 | 37 |
| > 3 months < 1 year | 159 | 364 |
| > 1 year < 5 years | 760 | 708 |
| > 5 years | 30,280 | 29,422 |
| **Total** | **34,182** | **33,413** |

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 € 6.7 billion (2010: € 6.9 billion). These bonds are included in the bucket > 5 years.

## 25.3 Loans and advances to group companies

Loans and advances to group companies of € 1.9 billion (2010: € 1.6 billion) concern Hermes and Pearl bonds repurchased by SNS Bank.

## 25.4 Investments

### Specification investments

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Fair value through profit or loss trade | 43 | 27 |
| Available for sale | 1,103 | 834 |
| **Total** | **1,146** | **861** |

### Statement of change in investments

| | Fair value through profit or loss | | Available for sale | | Total | |
|---|---|---|---|---|---|---|
| *in € millions* | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Balance as at 1 January | 27 | 40 | 834 | 983 | 861 | 1,023 |
| Purchases and advances | -- | -- | 886 | 587 | 886 | 587 |
| Disposals and redemptions | -- | -- | (1,285) | (737) | (1,285) | (737) |
| Intercompany transactions | -- | -- | 796 | -- | 796 | -- |
| Depreciation of premiums and discounts | -- | -- | (3) | -- | (3) | -- |
| Revaluations | -- | -- | (132) | -- | (132) | -- |
| Change in investments through profit and loss | 16 | (13) | 6 | 1 | 22 | (12) |
| Other | -- | -- | 1 | -- | 1 | -- |
| **Balance as at 31 December** | **43** | **27** | **1,103** | **834** | **1,146** | **861** |

## 25.5 Subsidiaries

### Statement of change in subsidiaries

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 370 | 1,648 |
| Acquisitions | 1 | 1 |
| Capital contribution | -- | 610 |
| Changes in the composition of group companies | -- | (507) |
| Disposals and terminations | -- | (127) |
| Revaluations | 85 | (161) |
| Result | (294) | (1,034) |
| Dividend received | (60) | (60) |
| **Balance as at 31 December** | **102** | **370** |

## 25.6 Property and equipment

### Specification property and equipment

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Land and buildings in own use | 37 | 54 |
| IT equipment | 7 | 14 |
| Other tangible fixed assets | 23 | 19 |
| **Total** | **67** | **87** |

### Statement of change in property and equipment 2011

| *in € millions* | Land and buildings | IT equipment | Other assets | Total |
|---|---|---|---|---|
| Accumulated acquisitions costs | 49 | 33 | 49 | 131 |
| Accumulated revaluations | 4 | -- | -- | 4 |
| Accumulated amortisation and impairments | (16) | (26) | (26) | (68) |
| **Balance as at 31 December** | **37** | **7** | **23** | **67** |
| Balance as at 1 January | 54 | 14 | 19 | 87 |
| Revaluations | 1 | -- | -- | 1 |
| Investments | -- | -- | 9 | 9 |
| Divestments | (12) | -- | -- | (12) |
| Depreciation | (1) | (7) | (5) | (13) |
| Impairments | (5) | -- | -- | (5) |
| **Balance as at 31 December** | **37** | **7** | **23** | **67** |

### Statement of change in property and equipment 2010

| *in € millions* | Land and buildings | IT equipment | Other assets | Total |
|---|---|---|---|---|
| Accumulated acquisitions costs | 69 | 43 | 51 | 163 |
| Accumulated revaluations | 6 | -- | -- | 6 |
| Accumulated amortisation and impairments | (21) | (29) | (32) | (82) |
| **Balance as at 31 December** | **54** | **14** | **19** | **87** |
| Balance as at 1 January | 52 | 25 | 19 | 96 |
| Revaluations | 1 | -- | -- | 1 |
| Investments | 5 | -- | 4 | 9 |
| Divestments | (3) | -- | -- | (3) |
| Depreciation | (1) | (11) | (7) | (19) |
| Impairments | -- | -- | 3 | 3 |
| **Balance as at 31 December** | **54** | **14** | **19** | **87** |

## *25.7* Intangible assets

### Specification intangible assets

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Goodwill | 114 | 114 |
| Software | 21 | 27 |
| **Total** | **135** | **141** |

### Statement of change in intangible assets

| in € millions | Goodwill 2011 | Goodwill 2010 | Software 2011 | Software 2010 | Total 2011 | Total 2010 |
|---|---|---|---|---|---|---|
| Accumulated acquisition costs | 239 | 239 | 49 | 41 | 288 | 280 |
| Accumulated amortisation and impairments | (125) | (125) | (28) | (14) | (153) | (139) |
| **Balance as at 31 December** | **114** | **114** | **21** | **27** | **135** | **141** |
| Balance as at 1 January | 114 | 184 | 27 | 31 | 141 | 215 |
| Investments | -- | -- | 6 | 3 | 6 | 3 |
| Amortisation | -- | -- | (11) | (5) | (11) | (5) |
| Impairments | -- | (70) | (1) | (2) | (1) | (72) |
| **Balance as at 31 December** | **114** | **114** | **21** | **27** | **135** | **141** |

## 25.8 Amounts due to customers

### Specification amounts due to customers

| in € millions | 2011 | 2010 |
|---|---|---|
| Savings | 14,452 | 13,280 |
| Other amounts due to customers | 7,989 | 8,766 |
| **Total** | **22,441** | **22,046** |

### Time to maturity amounts due to customers

| in € millions | 2011 | 2010 |
|---|---|---|
| **Breakdown by remaining maturity:** | | |
| Payable on demand | 15,889 | 16,818 |
| **Not payable on demand:** | | |
| > 1 month < 3 months | 156 | 147 |
| > 3 months < 1 year | 1,510 | 723 |
| > 1 year < 5 years | 1,984 | 1,737 |
| > 5 years | 2,902 | 2,621 |
| **Total** | **22,441** | **22,046** |

## *25.9* Amounts due to banks

### Time to maturity amounts due to banks

| *in € millions* | 2011 | 2010 |
|---|---|---|
| **Breakdown by remaining maturity:** | | |
| Payable on demand | 4,137 | 2,970 |
| **Not payable on demand:** | | |
| > 1 month < 3 months | 210 | 36 |
| > 3 months < 1 year | 767 | 570 |
| > 1 year < 5 years | 5,956 | 2,615 |
| > 5 years | 210 | 1,969 |
| **Total** | **11,280** | **8,160** |

## *25.10* Other provisions

### Specification other provisions

| *in € millions* | 2011 | 2010 |
|---|---|---|
| Restructuring provision | 14 | 24 |
| Other provisions | 11 | 9 |
| **Total** | **25** | **33** |

## *25.11* Equity

### Statement of changes in equity 2011

| *in € millions* | Issued capital ordinary | 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 2011 | 381 | 838 | 6 | 27 | (18) | (131) | 131 | 777 | (431) | 1,580 | 256 |
| Transfer of 2010 net result | -- | -- | -- | -- | | -- | -- | (410) | 431 | 21 | (21) |
| **Transfers 2010** | -- | -- | -- | -- | -- | -- | -- | (410) | 431 | 21 | (21) |
| Unrealised revaluations | -- | -- | -- | 37 | (195) | 125 | -- | -- | -- | (33) | -- |
| Realised revaluations through profit or loss | -- | -- | -- | -- | 4 | (38) | -- | -- | -- | (34) | -- |
| Suppletion negative revaluation reserves associates | -- | -- | -- | -- | -- | -- | (87) | 87 | -- | -- | -- |
| Other changes | -- | -- | -- | -- | -- | -- | -- | 2 | -- | 2 | -- |
| Impairments | -- | -- | -- | -- | 20 | -- | -- | -- | -- | 20 | -- |
| Capital issue | -- | 129 | -- | -- | -- | -- | -- | -- | -- | 129 | -- |
| Securities issue / repurchase | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | (79) |
| **Amounts charged directly to equity** | -- | 129 | -- | 37 | (171) | 87 | (87) | 89 | -- | 84 | (79) |
| **Net result 2011** | -- | -- | -- | -- | -- | | -- | -- | 38 | 38 | -- |
| **Total result 2011** | -- | 129 | -- | 37 | (171) | 87 | (87) | 89 | 38 | 122 | (79) |
| **Total changes in equity 2011** | -- | 129 | -- | 37 | (171) | 87 | (87) | (321) | 469 | 143 | (100) |
| **Balance as at 31 December 2011** | 381 | 967 | 6 | 64 | (189) | (44) | 44 | 456 | 38 | 1,723 | 156 |

## Statement of changes in equity 2010

| *in € millions* | Issued capital ordinary | 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 result | -- | -- | -- | -- | -- | -- | -- | (95) | 99 | 4 | (4) |
| **Transfers 2009** | **--** | **--** | **--** | **--** | **--** | **--** | **--** | **(95)** | **99** | **4** | **(4)** |
| Unrealised revaluations | -- | -- | (1) | 3 | -- | (143) | -- | -- | -- | (141) | -- |
| Realised revaluations through profit or loss | -- | -- | -- | (1) | (12) | (2) | -- | -- | -- | (15) | -- |
| Suppletion negative revaluation reserves associates | -- | -- | -- | -- | -- | -- | 131 | (131) | -- | -- | -- |
| Other changes | -- | -- | -- | -- | -- | -- | -- | (2) | -- | (2) | -- |
| Impairments | | | | | | | | | | | |
| **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** |

## *25.11.1* Issued shares and securities capital

The share capital issued is fully paid and comprises ordinary shares.

The nominal value of the ordinary shares is € 453.79. The number of issued shares as at 31 December 2011 is 840,008 ordinary shares.

## Specification issued shares / securities

| | Shares | | State-like' | | Foundation-like' | |
|---|---|---|---|---|---|---|
| *in numbers* | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| Outstanding as at 1 January | 840,008 | 840,008 | 29,714,286 | 29,714,286 | 1,040,000 | 1,040,000 |
| Issues 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 |

## Specification capital securities

| *in € millions* | **2011** | 2010 |
|---|---|---|
| Securities capital 'State-like' | 156 | 156 |
| Securities capital 'Foundation-like' | -- | 100 |
| **Total** | **156** | **256** |

### Statement of change in capital securities

| in € millions | Securities capital 'State-like' 2011 | Securities capital 'State-like' 2010 | Securities capital 'Foundation-like' 2011 | Securities capital 'Foundation-like' 2010 |
|---|---|---|---|---|
| Balance as at 1 January | 156 | 156 | 100 | 104 |
| Loss absorbtion | -- | -- | (21) | (4) |
| Securities repurchase | -- | -- | (79) | -- |
| **Balance as at 31 December** | **156** | **156** | **--** | **100** |

## 25.12 Guarantees

SNS Bank NV has provided guarantees as meant in Book 2, section 403 of the Dutch Civil Code for ASN Bank NV, RegioBank NV and several other subsidiaries of SNS Bank. SNS REAAL NV has provided guarantees as meant in Book 2, section 403 of the Dutch Civil Code for SNS Bank NV, ASN Groenbank NV, SNS Securities NV and SNS Property Finance BV.

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.

## 25.13 Audit fees

Based on Book 2, Section 382A (3) of the Dutch Civil Code, reference is made to the Financial Statements 2011 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, 5 March 2012

**Supervisory Board**
R. Zwartendijk (Chairman)
P.S. Overmars (Vice Chairman)
C.M. Insinger
R.J. van de Kraats
J.E. Lagerweij
J.A. Nijhuis
J.A. Nijssen
H.W.P.M.A. Verhagen
L.J. Wijngaarden

**Management Board**
E.J.G.V. Boers (Chairman)
F.K.V. Lamp
D.J. Okhuijsen
W.H. Steenpoorte

# 26 Overview of principal subsidiaries

An overview is provided below of the main subsidiaries of SNS Bank. Participation in the subsidiaries is 100%.

### Overview of principal subsidiaries SNS Bank NV

| | |
|---|---|
| ASN Bank NV | Den Haag |
| ASN Groenbank NV | Den Haag |
| SNS Securities NV | Amsterdam |
| SNS Property Finance BV | Leusden |
| RegioBank NV | Utrecht |

During 2011 SNS Bank NV bought subsidiary DBV Finance BV from SRLEV NV.

**Other capital interests**

For information on the most significant other capital interests, reference is made to the notes to the consolidated balance sheet in chapter 23.8 (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.

# 27 Other information

## 27.1 Provision regarding profit or loss appropriation

### 27.1.1 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.

### 27.1.2 Provisions regarding profit or loss appropriation for core Tier 1 capital securities

The distribution of a coupon to the holders of the core Tier 1 capital securities issued on 22 December 2008 (to SNS REAAL NV, also called the ‘State-like’ securities) is dependent on distribution of (interim) dividend to the ordinary shareholders of SNS REAAL. If no dividend is declared on SNS REAAL ordinary shares, no coupon will be distributed on the State-like securities.

The core Tier 1 capital securities ‘State-like’ are not subject to a loss absorption clause.

The Executive Board of SNS REAAL has resolved, with the approval of the Supervisory Board of SNS REAAL, to pass over the dividend for 2011 and to fully reserve the distributable profit of SNS REAAL.

The profit for the financial year 2011 is debited to the profit reserves of SNS Bank NV.

## 27.1.3 Profit appropriation

The profit for the financial year 2011 is credited to the profit reserves of SNS Bank NV and the nominal value of the capital securities 'Foundation-like'.

## 27.2 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 2011 of SNS Bank NV in Utrecht, as included in chapters 16 to 25 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 2011, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement 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 2011, 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 2011 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 2011 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, as included in chapter 1 through 15, 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, 5 March 2012
**KPMG ACCOUNTANTS NV**

P.A.M. de Wit RA

# 28 Pillar III

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. The Pillar 3 report is 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.

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.

## 28.1 Risk management SNS Bank

A major cause for the rising risk level in 2011 was the increasing uncertainties in Europe - particularly regarding the euro. Risk in the investment portfolio of government bonds increased substantially, because bankruptcies of sovereign European States are no longer considered impossible.

During the year 2011, SNS Bank's new wholesale funding activities were negligible, as funding needs were wholly met by the increase in retail funding. Savings deposits rose by € 2.9 billion (+11%) compared to year-end 2010 due to a strong inflow of new deposits, while retention rates remained high. Bank savings, part of the total savings deposits, grew by € 628 million to € 1.3 billion. As a result, the loan-to-deposit ratio of the Banking activities improved from 172% at year-end 2010 to 159%.

Total liquidity of the Banking activities remained high. The cash position was influenced by the increase in savings in combination with a limited growth in mortgages and the reduction of commitments at SNS SME and Property Finance.

The Dutch economy slowly recovered in the first half of 2011, but the sentiment turned down in the second half of 2011. The unemployment rate increased in this period and the growth prospects were downward revised. The developments on the property markets remain fragile.

SNS Bank emphasises its commitment to a moderate risk profile. This means that the balance sheet risks will be further limited and 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 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, has been transferred to SNS 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 in the annual report, and the chapter on Risk and Capital Management in the Financial Statements.

## 28.2 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 17.4.

The following tables show the IFRS consolidation scope of only major subsidiaries that are currently active.

### Investments in subsidiaries

#### Group undertakings included in the capital base

| Subsidiary | Voting power | Domicile | Consolidation method |
|---|---|---|---|
| ASN Bank NV* | 100% | The Hague | Purchase method |
| ASN Bank Groenbank NV* | 100% | The Hague | Purchase method |
| SNS Securities NV* | 100% | Amsterdam | Purchase method |
| SNS Property Finance BV* | 100% | Leusden | Purchase method |
| RegioBank NV* | 100% | Utrecht | Purchase method |
| Hermes I to XVII | 100% | Utrecht | Purchase method |
| Other | 100% | Various | Purchase method |

** Exemption from solo supervision*

### Investments in associated companies

#### Overview of the most significant investments in associated companies

| Subsidiary | Voting power | Domicile | Consolidation method |
|---|---|---|---|
| Überseequartier Betelingungs 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:

**Overview of investments in joint ventures**

| Subsidiary | Voting power | Domicile | Consolidation method |
|---|---|---|---|
| Homburg LP | 50% | CA | Proportionate method |
| Heyen VG Beleggingen BV | 50% | NL | Proportionate method |
| Other | 15-75% | Various | Proportionate method |

## 28.3 Regulatory capital requirements

### 28.3.1 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 24.1 of the chapter on Risk Management, an overview of the capital requirements and the risk weighted assets (RWA) as of 31 December 2011 divided on the different risk types is presented. The credit risk comprises 84.2% (2010: 87.3%) of the risk in SNS Bank. Operational risk accounts for 8.6% (2010: 8.0%) of the capital requirements and market risk comprises 0.5% (2010: 0.9%) 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, 21.7% (2010: 19.7%) have been calculated with the internal rating based approach (IRB) and 78.3% (2010: 80.3%) with the standardised approach.

The capital requirement for credit, market and operational risk is adjusted with € 108 million (2010: € 66 million) due to the transitional rules (known as the capital floor). In 2011, the capital requirements could not be lower than 80% of the capital requirements calculated under Basel I regulations.

### Capital requirements and risk weighted assets

| in € millions | Basel II RWA 2011 | Basel II RWA 2010 | Capital requirement 2011 | Capital requirement 2010 |
|---|---|---|---|---|
| **Credit risk** | | | | |
| Standardised exposure classes: | | | | |
| - Central governments and central banks | 20 | 21 | 2 | 2 |
| - Institutions | 1,056 | 987 | 85 | 79 |
| - Corporate | 9,660 | 12,283 | 773 | 983 |
| - Retail | 1,181 | 1,290 | 94 | 103 |
| - Equity | 26 | 14 | 2 | 1 |
| | | | | |
| IRB exposure classes: | | | | |
| - Retail | 2,992 | 3,055 | 239 | 244 |
| - Securitisation | 763 | 750 | 61 | 60 |
| | | | | |
| Other | 1,606 | 926 | 128 | 74 |
| | **17,304** | **19,326** | **1,384** | **1,546** |
| **Market risk** | | | | |
| - Standardised | 107 | 195 | 9 | 16 |
| | | | | |
| **Operational risk** | | | | |
| - Standardised | 1,773 | 1,781 | 142 | 142 |
| | | | | |
| **Other and transitional Capital requirements** | | | | |
| Other and transitional Capital requirements | 1,350 | 829 | 108 | 66 |
| **Total** | **20,534** | **22,131** | **1,643** | **1,770** |

## 28.3.2 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 and the securitisation portfolio. 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.

### Capital requirement for credit risk 2011

| *in € millions* | EAD | Average risk weight | RWA | Capital requirement |
|---|---|---|---|---|
| **Standardised exposure classes** | | | | |
| Central governments and central banks | 10,030 | 0% | 20 | 2 |
| Institutions | 2,873 | 37% | 1,056 | 85 |
| Corporate | 10,192 | 95% | 9,660 | 773 |
| Retail | 1,658 | 71% | 1,181 | 94 |
| Equity | 26 | 100% | 26 | 2 |
| Total standardised approach | 24,779 | 48% | 11,943 | 956 |
| | | | | |
| **IRB exposure classes** | | | | |
| Retail | 21,054 | 14% | 2,992 | 239 |
| Securitisation | 7,778 | 10% | 763 | 61 |
| Total IRB approach | 28,832 | 13% | 3,755 | 300 |
| | | | | |
| Other | 1,952 | 82% | 1,606 | 128 |
| | | | | |
| **Total** | **55,563** | | **17,304** | **1,384** |

### Capital requirement for credit risk 2010

| *in € millions* | EAD | Average risk weight | RWA | Capital requirement |
|---|---|---|---|---|
| **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% | 1,290 | 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 | 28,614 | 13% | 3,805 | 304 |
| Other | 930 | 100% | 926 | 74 |
| | | | | |
| **Total** | **55,797** | | **19,326** | **1,546** |

## *28.3.3* 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.

### 28.3.4 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 institutions 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.

## 28.4 Credit risk

### 28.4.1 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.

### 28.4.2 Exposure classes

SNS Bank has a credit portfolio, which can be divided into retail and corporate portfolios. As of 1 January 2008, SNS Bank has obtained approval from DNB, to use the IRB advanced approach for the calculation of regulatory capital for its retail mortgage portfolio and the securitisation 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 approach. The SNS SME and PF SME portfolio are the major portfolios in this roll-out plan. The Property Finance portfolio that will be phased out, loans to institutions, governments as well as equities are, and will remain, based on the Standardised Approach for the calculation of regulatory capital.

#### 28.4.2.1 *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 multilateral development banks are classified as exposures to institutions.

**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 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 and other assets.

### 28.4.2.2 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 81%(2010: 72%) of the bank's total credit portfolio.

**Securitisation positions**

The securitised mortgages comprise only securitised mortgages of which the notes issued by the SPV have been sold to investors.

## 28.4.3 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 93% of the loans and advances to customers are backed by mortgage collateral.

Approximately 80% (2010: 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 2011. 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 2011, 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:

### Fixed income investments SNS Retail Bank by rating 2011

| in € millions | 2011 | 2010 |
|---|---|---|
| AAA | 3,232 | 2,548 |
| AA | 225 | 292 |
| A | 371 | 1,058 |
| BBB | 227 | 212 |
| Below BBB | 26 | 51 |
| Non-rated | 7 | 65 |
| **Total** | **4,088** | **4,226** |

## 28.4.3.1 Information about exposure type by exposure class

In the following table the exposures are split by exposure classes and exposure types as of 31 December 2011 and 2010. 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.

### Exposure classes split by exposure type 2011

| in € millions | On-balance sheets items | Off-balance sheet items | Derivatives | Total exposure |
|---|---|---|---|---|
| **Standardised exposure classes** | | | | |
| Central governments and central banks | 9,027 | -- | -- | 9,027 |
| Institutions | 1,992 | 1 | 2,588 | 4,581 |
| Corporate | 11,664 | 4,181 | 187 | 16,032 |
| Retail | 1,706 | 1,191 | -- | 2,897 |
| Equity | 26 | -- | -- | 26 |
| **Total standardised approach** | **24,415** | **5,373** | **2,775** | **32,563** |
| | | | | |
| **IRB exposure classes** | | | | |
| Retail | 31,455 | 503 | -- | 31,958 |
| Securitisation | 17,733 | 969 | -- | 18,702 |
| **Total IRB approach** | **49,188** | **1,472** | **--** | **50,660** |
| | | | | |
| Other | 1,952 | -- | -- | 1,952 |
| | | | | |
| **Total exposure** | **75,555** | **6,845** | **2,775** | **85,175** |

## Exposure classes split by exposure type 2010

| *in € millions* | On-balance sheets items | Off-balance sheet items | Derivatives | **Total exposure** |
|---|---|---|---|---|
| **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** |

In the following table the exposures are presented as an average during the previous time period.

## Exposure classes split by exposure type, average exposure 2011

| *in € millions* | On-balance sheets items | Off-balance sheet items | Derivatives | **Total exposure** |
|---|---|---|---|---|
| **Standardised exposure classes** | | | | |
| Central governments and central banks | 8,430 | 4 | -- | 8,434 |
| Institutions | 2,462 | 1 | 2,841 | 5,304 |
| Corporate | 12,321 | 3,902 | 178 | 16,401 |
| Retail | 1,838 | 1,365 | -- | 3,203 |
| Equity | 26 | -- | -- | 26 |
| **Total standardised approach** | **25,077** | **5,272** | **3,019** | **33,368** |
| **IRB exposure classes** | | | | |
| Retail | 31,306 | 627 | -- | 31,933 |
| Securitisation | 18,886 | 589 | -- | 19,475 |
| **Total IRB approach** | **50,192** | **1,216** | **--** | **51,408** |
| Other | 1,751 | -- | -- | 1,751 |
| **Total exposure** | **77,020** | **6,488** | **3,019** | **86,527** |

### Exposure classes split by exposure type, average exposure 2010

| *in € millions* | On-balance sheets items | Off-balance sheet items | Derivatives | Total exposure |
|---|---|---|---|---|
| **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** |

## 28.4.3.2 *Information about exposure type 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.

### On-balance exposure split by geography and exposure classes 2011

| *in € millions* | Central government and central banks | Institutions | Corporate | Other retail and Equity | IRB Retail | Securitisation | Other | Total exposure |
|---|---|---|---|---|---|---|---|---|
| The Netherlands | 6,277 | 281 | 9,105 | 1,732 | 31,455 | 17,733 | 1,476 | 68,059 |
| EMU | 2,750 | 270 | 1,834 | -- | -- | -- | 427 | 5,281 |
| Outside EMU | -- | 1,441 | 725 | -- | -- | -- | 49 | 2,215 |
| **Total exposure** | **9,027** | **1,992** | **11,664** | **1,732** | **31,455** | **17,733** | **1,952** | **75,555** |

### On-balance exposure split by geography and exposure classes 2010

| *in € millions* | Central government and central banks | Institutions | Corporate | Other retail and Equity | IRB Retail | Securitisation | Other | Total exposure |
|---|---|---|---|---|---|---|---|---|
| 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** |

### 28.4.3.3 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 84.4% (2010: 85.5%) of the total exposure in the portfolio.

#### On-balance exposure split by industry and exposure classes 2011

| *in € millions* | Central government and central banks | Institutions | Corporate | Other retail and Equity | IRB Retail | Securitisation | Other | **Total exposure** |
|---|---|---|---|---|---|---|---|---|
| Construction and property | -- | -- | 9,394 | 17 | -- | -- | 512 | 9,923 |
| Public sector | 9,027 | -- | -- | -- | -- | -- | -- | 9,027 |
| Agriculture, horticulture, forestry and fishery | -- | -- | 35 | -- | -- | -- | -- | 35 |
| Industry | -- | -- | 204 | -- | -- | -- | -- | 204 |
| Service sector companies | -- | -- | 350 | -- | -- | -- | -- | 350 |
| Financial institutions | -- | 1,992 | -- | 9 | -- | -- | -- | 2,001 |
| Other commercial | -- | -- | 166 | -- | -- | -- | -- | 166 |
| Private clients/SME | -- | -- | 1,515 | 1,706 | 31,455 | 17,733 | 1,440 | 53,849 |
| **Total exposure** | **9,027** | **1,992** | **11,664** | **1,732** | **31,455** | **17,733** | **1,952** | **75,555** |

#### On-balance exposure split by industry and exposure classes 2010

| *in € millions* | Central government and central banks | Institutions | Corporate | Other retail and Equity | IRB Retail | Securitisation | Other | **Total exposure** |
|---|---|---|---|---|---|---|---|---|
| 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** |

## 28.4.3.4 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.

### On-balance exposure by maturity 2011

| *in € millions* | < 1 Month | > 1 Month < 3 Months | > 3 Months < 1 Year | > 1 Year < 5 Years | > 5 Years | Total exposure |
|---|---|---|---|---|---|---|
| **Standardised exposure classes** | | | | | | |
| Central governments and central banks | 4,506 | 48 | 64 | 1,457 | 2,952 | 9,027 |
| Institutions | 1,716 | 12 | 14 | 196 | 54 | 1,992 |
| Corporate | 750 | 1,399 | 1,423 | 1,600 | 6,492 | 11,664 |
| Retail | 491 | -- | 4 | 37 | 1,174 | 1,706 |
| Equity | 9 | -- | -- | -- | 17 | 26 |
| **Total standardised approach** | **7,472** | **1,459** | **1,505** | **3,290** | **10,689** | **24,415** |
| **IRB exposure classes** | | | | | | |
| Retail | 444 | 16 | 65 | 211 | 30,719 | 31,455 |
| Securitisation | -- | -- | -- | -- | 17,733 | 17,733 |
| **Total IRB approach** | **444** | **16** | **65** | **211** | **48,452** | **49,188** |
| Other | 1,952 | -- | -- | -- | -- | 1,952 |
| **Total exposure** | **9,868** | **1,475** | **1,570** | **3,501** | **59,141** | **75,555** |

### On-balance exposure by maturity 2010

| *in € millions* | < 1 Month | > 1 Month < 3 Months | > 3 Months < 1 Year | > 1 Year < 5 Years | > 5 Years | Total exposure |
|---|---|---|---|---|---|---|
| **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 exposure** | **8,543** | **1,189** | **1,811** | **4,718** | **58,766** | **75,027** |

### 28.4.3.5 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.

**Exposure of equity outside trading book 2011**

| *in € millions* | Book value | Fair value | Fair value of listed shares | Quoted share value | Unrealised gains/loss | Realised gains/losses period YTD | Capital requirement |
|---|---|---|---|---|---|---|---|
| Associates | 11 | 11 | -- | -- | -- | 1 | 1 |
| Joint ventures | 6 | 6 | -- | -- | -- | (2) | - |
| Investments available for sale | 11 | 11 | -- | -- | -- | -- | 1 |
| **Total** | **28** | **28** | **--** | **--** | **--** | **(1)** | **2** |

**Exposure of equity outside trading book 2010**

| *in € millions* | Book value | Fair value | Fair value of listed shares | Quoted share value | Unrealised gains/loss | Realised gains/losses period YTD | Capital requirement |
|---|---|---|---|---|---|---|---|
| Associates | 14 | 14 | -- | -- | -- | (3) | 1 |
| Joint ventures | (8) | (8) | -- | -- | -- | (6) | -- |
| Investments available for sale | 10 | 10 | -- | -- | -- | -- | 1 |
| **Total** | **16** | **16** | **--** | **--** | **--** | **(9)** | **2** |

## 28.4.4 Calculation of RWA

### 28.4.4.1 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 2011. 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.

### 28.4.4.2 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 tables below 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 31.7 Disclosure of off-balance items.

The effect of credit risk mitigation is minor. No exposure values are deducted from own funds.

## Exposure classes split by exposure per risk weight 2011

| in € millions | Risk Weight | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 0% | 20% | 35% | 50% | 75% | 100% | 150% | Total |
| **Standardised approach** | | | | | | | | |
| Central Government and Central Banks | 8,925 | 102 | -- | -- | -- | -- | -- | 9,027 |
| Institutions | -- | 2,923 | -- | 1,475 | | 50 | 133 | 4,581 |
| Corporates | 6 | 255 | 1,261 | 33 | -- | 13,784 | 693 | 16,032 |
| Retail | -- | -- | 232 | -- | 2,553 | 110 | 2 | 2,897 |
| Equity | -- | -- | -- | -- | -- | 26 | -- | 26 |
| **Total Standardised** | **8,931** | **3,280** | **1,493** | **1,508** | **2,553** | **13,970** | **828** | **32,563** |

## Exposure classes split by exposure per risk weight 2010

| in € millions | Risk Weight | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 0% | 20% | 35% | 50% | 75% | 100% | 150% | Total |
| **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** |

## Exposure classes split by risk weighted assets and capital requirements per risk weight 2011

| *in € millions* | Risk Weight 0% | 20% | 35% | 50% | 75% | 100% | 150% | Total |
|---|---|---|---|---|---|---|---|---|
| **Standardised approach** | | | | | | | | |
| Central Government and Central Banks | | | | | | | | |
| Risk weighted assets | -- | 20 | -- | -- | -- | -- | -- | 20 |
| Capital requirements | -- | 2 | -- | -- | -- | -- | -- | 2 |
| Institutions | | | | | | | | |
| Risk weighted assets | -- | 269 | -- | 731 | -- | 50 | 6 | 1,056 |
| Capital requirements | -- | 22 | -- | 59 | -- | 4 | -- | 85 |
| Corporates | | | | | | | | |
| Risk weighted assets | -- | 1 | 441 | 14 | -- | 8,290 | 914 | 9,660 |
| Capital requirements | -- | -- | 35 | 1 | -- | 663 | 74 | 773 |
| Retail | | | | | | | | |
| Risk weighted assets | -- | -- | 77 | -- | 1,007 | 93 | 4 | 1,181 |
| Capital requirements | -- | -- | 6 | -- | 81 | 7 | -- | 94 |
| Equity | | | | | | | | |
| Risk weighted assets | -- | -- | -- | -- | -- | 26 | -- | 26 |
| Capital requirements | -- | -- | -- | -- | -- | 2 | -- | 2 |
| **Total risk weighted assets** | **--** | **290** | **518** | **745** | **1,007** | **8,459** | **924** | **11,943** |
| **Total capital requirements** | **--** | **24** | **41** | **60** | **81** | **676** | **74** | **956** |

## Exposure classes split by risk weighted assets and capital requirements per risk weight 2010

| *in € millions* | Risk Weight 0% | 20% | 35% | 50% | 75% | 100% | 150% | Total |
|---|---|---|---|---|---|---|---|---|
| **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** |

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.

## Exposure to central governments and central banks, 31 December 2011

| *in € millions* | Credit quality step | Risk weight | EAD | Basel II RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 0% | 3,027 | -- |
| A+ to A- | 2 | | | |
| - EMU | | 0% | 266 | -- |
| - Outside EMU | | 20% | -- | -- |
| BBB+ to BBB- | 3 | | | |
| - EMU | | 0% | 165 | |
| - Outside EMU | | 50% | -- | -- |
| BB+ to B- | 4 | | | |
| - EMU | | 0% | -- | -- |
| - Outside EMU | | 100% | -- | -- |
| CC | 6 | | | |
| - EMU | | 0% | 26 | -- |
| - Outside EMU | | 100% | -- | -- |

## Exposure to central governments and central banks, 31 December 2010

| *in € millions* | Credit quality step | Risk weight | EAD | Basel II RWA |
|---|---|---|---|---|
| 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% | -- | -- |

## Exposure to institutions, 31 December 2011

| *in € millions* | Credit quality step | Risk weight | EAD | Basel II RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 20% | 134 | 27 |
| A+ to A- | 2 | | | |
| - = 3 months | | 20% | 13 | 3 |
| - > 3 months | | 50% | 97 | 48 |
| BBB+ to BBB- | 3 | | | |
| - = 3 months | | 20% | -- | -- |
| - > 3 months | | 50% | 7 | 4 |
| BB+ to B- | 4 | | | |
| - = 3 months | | 50% | -- | -- |
| - > 3 months | | 100% | -- | -- |

## Exposure to institutions, 31 December 2010

| *in € millions* | Credit quality step | Risk weight | EAD | Basel II RWA |
|---|---|---|---|---|
| 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% | -- | -- |

## Exposure to corporates, 31 December 2011

| *in € millions* | **Credit quality step** | **Risk weight** | **EAD** | **Basel II RWA** |
|---|---|---|---|---|
| AAA to AA- | 1 | 20% | -- | -- |
| A+ to A- | 2 | 50% | 22 | 11 |
| BBB+ to BBB- | 3 | 100% | -- | -- |
| BB+ to B- | 4 | 100% | -- | -- |

## Exposure to corporates, 31 December 2010

| *in € millions* | Credit quality step | Risk weight | EAD | Basel II RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 20% | 13 | 3 |
| A+ to A- | 2 | 50% | -- | -- |
| BBB+ to BBB- | 3 | 100% | -- | -- |
| BB+ to B- | 4 | 100% | -- | -- |

### 28.4.4.3 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.

The credit quality on the retail mortgage portfolio decreases from class 1 to class 11.

#### Exposure split by probability of default class

| Probability of default class | Exposure weighted average LGD | | Exposure weighted average PD | | EAD (in € millions) | | Exposure weighted average risk weight (in € millions) | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| 1 | 9.46% | 9.16% | 0.04% | 0.04% | 7,197 | 5,964 | 84 | 67 |
| 2 | 9.53% | 9.27% | 0.14% | 0.14% | 8,777 | 7,521 | 272 | 227 |
| 3 | 10.84% | 10.48% | 0.25% | 0.25% | 6,023 | 6,356 | 327 | 334 |
| 4 | 13.28% | 11.92% | 0.43% | 0.43% | 3,153 | 3,601 | 311 | 319 |
| 5 | 13.09% | 14.11% | 0.93% | 0.93% | 1,509 | 1,947 | 250 | 348 |
| 6 | 11.99% | 11.99% | 1.35% | 1.35% | 1,167 | 1,024 | 226 | 198 |
| 7 | 10.17% | 10.34% | 1.66% | 1.66% | 893 | 902 | 168 | 172 |
| 8 | 10.43% | 10.28% | 4.51% | 4.51% | 1,044 | 1,253 | 360 | 426 |
| 9 | 10.37% | 10.36% | 12.14% | 12.14% | 1,103 | 1,116 | 592 | 599 |
| 10 | 10.51% | 10.38% | 32.25% | 32.25% | 545 | 493 | 353 | 316 |
| 11 | 12.90% | 12.01% | 100.00% | 100.00% | 547 | 519 | 49 | 49 |
| **Total** | | | | | **31,958** | **30,696** | **2,992** | **3,055** |

## 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.

## 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.

**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 Committee 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 Asset & Liability Committee and as of end 2011 from Group Risk Committee (GRC).

**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 2011 SNS REAAL executed three stress tests for its banking operations.

- **EBA stress test**
  In March, DNB (by order of EBA) requested SNS REAAL to perform an EU-wide stress test on the banking activities of SNS REAAL. The outcome of this stress test indicates that SNS REAAL holds sufficient capital to withstand a severe stress scenario as prescribed by EBA. In the stress scenario, the Tier 1 ratio of the banking activities decreases with 1.4% from 8.4% end of 2010 to 7.0% end of 2012. With this result SNS REAAL meets the capital requirement set out by EBA for the EU-wide stress test. Applying the EBA methodology, SNS Bank had to address a capital shortfall of € 159 million as per the end of September 2011. At the end of 2011, this shortfall was reduced to € 31 million. SNS Bank will ensure that by the end of June 2012 it will have addressed this remaining shortfall.
- **DNB stress test**
  DNB requested SNS REAAL to perform the EBA stress test and a DNB stress test simultaneously. The methodology of this stress test equals that of the EBA stress test. However DNB prescribed a more severe scenario for the decline of residential and commercial property prices. Despite this more severe scenario the results of the stress test indicate that SNS REAAL holds sufficient capital for its banking operations to withstand this severe

stress scenario as prescribed by DNB.

- **ICAAP (internal) stress test**
  In August and September, SNS REAAL executed an internal stress test as part of the ICAAP 2011 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.

### Comparison between expected and actual losses

For retail mortgages, which is the only asset class running IRB advanced approach in 2008, 2009, 2010 and 2011 the expected loss for non-defaulted exposures was € 44,9 million during the year 2011. This is to be compared to the realised loss of €30.4 million. The counterparty weighted probability of default (including defaulted exposure) for 2010 was 3.14% and the corresponding observed default frequency was 1.71%.

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.

### 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 approach 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 approach 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 approach 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.

## 28.4.5 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

## Exposure secured by collaterals, guarantees and credit derivatives 2011

| | Exposure | Of which secured by guarantees | Of which secured by credit derivatives | Of which secured by collateral |
|---|---|---|---|---|
| **Standardised exposure classes** | | | | |
| Central governments and central banks | 9,027 | -- | -- | -- |
| Institutions | 4,581 | 81 | -- | 1,637 |
| Corporate | 16,032 | 921 | -- | 3,802 |
| Retail | 2,897 | 11 | -- | 14 |
| Equity | 26 | -- | -- | -- |
| **Total standardised approach** | **32,563** | **1,013** | **--** | **5,453** |
| | | | | |
| **IRB exposure classes** | | | | |
| Retail | 31,958 | 10,904 | -- | -- |
| Securitisation | 18,702 | -- | | |
| **Total IRB approach** | **50,660** | **10,904** | **--** | **--** |
| | | | | |
| Other | 1,952 | -- | -- | -- |
| **Total exposure** | **85,175** | **11,917** | **--** | **5,453** |

## Exposure secured by collaterals, guarantees and credit derivatives 2010

| | Exposure | Of which secured by guarantees | Of which secured by credit derivatives | Of which secured by collateral |
|---|---|---|---|---|
| **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 exposure** | **83,934** | **10,403** | **--** | **4,756** |

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 the table below a breakdown of collateral type is presented. The percentages are based on the figures in table above.

### Collateral concentration

| | 2011 | 2010 |
|---|---|---|
| Guarantees | 69% | 69% |
| | | |
| Collateral: | | |
| - of which real estate | 22% | 17% |
| - of which financial collateral | 9% | 14% |

## 28.4.6 Information about credit risk management, impaired loans and loan losses

### 28.4.6.1 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 21.3.1 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, SNS SME 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 21.2 Credit Risk, subsections Property Finance Restructuring and Recovery department and SNS Retail Bank Restructuring and Recovery department.

### 28.4.6.2 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 losses may be incurred but not yet reported (IBNR). For this reason arrears from 3-90 days are included in the IBNR provisioning models.

For detailed information on impaired loans and loan losses for SNS Retail Bank, SNS SME and Property Finance we refer to the chapter on Risk management, paragraph 21.2 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 PF SME and 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.

## Financial assets in arrears SNS Bank 2011

| *in € millions* | No arrears | < 3 Months | > 3 Months < 6 Months | > 6 Months < 1 Year | > 1 Year | Provision | **Total** |
|---|---|---|---|---|---|---|---|
| Investments | 4,106 | -- | -- | -- | -- | -- | 4,106 |
| Derivatives | 3,321 | -- | -- | -- | -- | -- | 3,321 |
| Mortgage loans and other loans and advances to customers | 52,750 | 1,153 | 206 | 175 | 258 | (204) | 54,338 |
| Loans and advances to credit institutions | 1,671 | -- | -- | -- | -- | -- | 1,671 |
| Other assets | 6,226 | -- | -- | -- | -- | -- | 6,226 |
| **Total** | **68,074** | **1,153** | **206** | **175** | **258** | **(204)** | **69,662** |

## Financial assets in arrears SNS Bank 2010

| *in € millions* | No arrears | < 3 Months | > 3 Months < 6 Months | > 6 Months < 1 Year | > 1 Year | Provision | **Total** |
|---|---|---|---|---|---|---|---|
| Investments | 4,249 | -- | -- | -- | -- | -- | 4,249 |
| Derivatives | 2,317 | -- | -- | -- | -- | -- | 2,317 |
| Mortgage 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** |

## Provisions

| | Specific | | IBNR | | Total | |
|---|---|---|---|---|---|---|
| *in € millions* | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| Balance as at 1 January | 946 | 406 | 27 | 29 | 973 | 435 |
| Usage | (124) | (191) | -- | -- | (124) | (191) |
| Additions | 481 | 795 | 6 | 1 | 487 | 796 |
| Releases | (187) | (88) | (10) | (3) | (197) | (91) |
| Other changes | (235) | 24 | -- | -- | (235) | 24 |
| **Balance as at 31 December** | **881** | **946** | **23** | **27** | **904** | **973** |

## Loan impairment by geography 2011

| *in € millions* | Book value non-provisioned loans | Book value provisioned loans (gross receivable) | Specific provision | IBNR provision | **Total book value** | Impairment charges |
|---|---|---|---|---|---|---|
| The Netherlands | 60,361 | 3,173 | (611) | (23) | 62,900 | 252 |
| EMU | 1,129 | 325 | (127) | -- | 1,327 | 17 |
| Outside EMU | 423 | 273 | (144) | -- | 552 | 20 |
| **Total** | **61,913** | **3,771** | **(882)** | **(23)** | **64,779** | **289** |

### Loan impairment by geography 2010

| *in € millions* | Book value non-provisioned loans | Book value provisioned loans (gross receivable) | Specific provision | IBNR provision | **Total book value** | Impairment charges |
|---|---|---|---|---|---|---|
| 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** |

### Loan provisions by industry 2011

| *in € millions* | Book value non-provisioned loans | Book value provisioned loans (gross receivable) | Specific provision | IBNR provision | **Total book value** |
|---|---|---|---|---|---|
| Construction and property | 7,734 | 1,769 | (625) | (12) | 8,866 |
| Public sector | 1,228 | -- | -- | -- | 1,228 |
| Agriculture, horticulture, forestry and fishery | 35 | 1 | -- | -- | 36 |
| Industry | 197 | 12 | (4) | -- | 205 |
| Service sector companies | 331 | 35 | (12) | (3) | 351 |
| Other commercial | 114 | 69 | (16) | -- | 167 |
| Private clients | 52,274 | 1,885 | (225) | (8) | 53,926 |
| **Total** | **61,913** | **3,771** | **(882)** | **(23)** | **64,779** |

### Loan provisions by industry 2010

| *in € millions* | Book value non-provisioned loans | Book value provisioned loans (gross receivable) | Specific provision | IBNR provision | **Total book value** |
|---|---|---|---|---|---|
| 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** |

## *28.5* 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 24.2.

## 28.6 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 (12 months average). The beta coefficients differ between business lines and are in 12%, 15% or 18%.

## 28.7 Disclosure of off-balance items

### 28.7.1 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 counterparty 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.

**Exposure, RWA and capital requirements by exposure type 2011**

| *in € millions* | On-balance sheet items | Off-balance sheet items | Derivatives | Total |
|---|---|---|---|---|
| Exposure | 75,555 | 6,845 | 2,775 | 85,175 |
| EAD | 52,063 | 725 | 2,775 | 55,563 |
| RWA | 15,660 | 492 | 1,152 | 17,304 |
| Capital requirement | 1,253 | 39 | 92 | 1,384 |
| Average risk weight | 30% | 68% | 42% | 31% |

### Exposure, RWA and capital requirements by exposure type 2010

| *in € millions* | On-balance sheet items | Off-balance sheet items | Derivatives | **Total** |
|---|---|---|---|---|
| Exposure | 75,027 | 6,051 | 2,856 | 83,934 |
| EAD | 51,840 | 1,101 | 2,856 | 55,797 |
| RWA | 17,654 | 522 | 1,150 | 19,326 |
| Capital requirement | 1,412 | 42 | 92 | 1,546 |
| Average risk weight | 34% | 47% | 40% | 35% |

## 28.7.2 Risk in derivatives

### 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.

### 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. To minimize counterparty risk, CSA (collateral support annex) of the International Swaps and Derivatives Association agreement, are in place with all eligible counterparties.

*Pillar 1 method for counterparty risk*

In 2011 the standardized approach is replaced by the market value approach to calculate the EAD in accordance with the credit risk framework in CRD, i.e. the positive market value of the derivatives and an add-on charge, which is based on the contract type, remaining maturity and the notional value, to cover 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 EAD is multiplied by a risk weight. The size of the risk weight depends on the contract's remaining lifetime and the underlying asset. In the table below, the EAD as well as the RWA and capital requirement split on the exposure classes are available.

### Counterparty risk exposures

| | EAD | | RWA | | Capital requirement | |
|---|---|---|---|---|---|---|
| *in € millions* | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| Institutions | 2,588 | 2,559 | 965 | 853 | 77 | 68 |
| Corporate | 187 | 297 | 187 | 297 | 15 | 24 |

### 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.

**Mitigation of counterparty risk exposure due to closeout netting and collateral agreements 2011**

| *in € millions* | Current exposure (gross) | Impact back-to-back swaps securitisation | Reduction from netting agreements/collateral | **Current exposure (net)** |
|---|---|---|---|---|
| Total | 3,354 | (857) | 1,355 | 2,856 |

**Mitigation of counterparty risk exposure due to closeout netting and collateral agreements 2010**

| *in € millions* | Current exposure (gross) | Impact back-to-back swaps securitisation | Reduction from netting agreements/collateral | **Current exposure (net)** |
|---|---|---|---|---|
| Total | 2,317 | (1,243) | 704 | 2,856 |

### *28.7.3* Hedging

Information about hedging is included in the chapter on Risk Management, paragraph 22.2.

## *28.8* Securitisations

### *28.8.1* General

SNS Bank has securitised €21.0 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.

### *28.8.2* Roles

SNS Bank plays various roles in connection to its securitisation transactions. 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. As arranger and underwriter SNS Bank is active as 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 other financial institutions, responsible for placing the notes issued by the SPV with institutional investors.

SNS Bank has transferred most of the SPV interest rate swaps to third parties; SNS Bank has back-to-back swaps with these third parties and therefore retains the prepayment and interest rate risk on its own book. The Guaranteed Investment Contracts (GIC account) of the SPV's are maintained with Rabobank and the cash advance facilities of the SPV's are maintained with BNP Paribas.

SNS Bank is, as servicer, responsible for the daily management of the mortgage assets. Regarding the collection of principal and interest SNS Bank has set up Stichting Hypotheken Incasso which is a collection foundation. The collection foundation is responsible for collecting the mortgage payments which are passed to the relevant SPV's.

### 28.8.3 Approaches

SNS bank has adopted 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.

### 28.8.4 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.

### 28.8.5 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 € 5.8 million as at year-end 2011; the position in e-notes was € 0 million as at year-end 2011.

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.

#### Outstanding amounts of exposures securitised 2011

| | Traditional | | Synthetic | |
|---|---|---|---|---|
| *in € millions* | **Originator** | **Investor** | **Originator** | **Investor** |
| Residential mortgages | 18,357 | 7,778 | 345 | -- |
| **Total** | **18,357** | **7,778** | **345** | **--** |

#### Outstanding amounts of exposures securitised 2010

| | Traditional | | Synthetic | |
|---|---|---|---|---|
| *in € millions* | Originator | Investor | Originator | Investor |
| Residential mortgages | 18,750 | 7,624 | 377 | -- |
| **Total** | **18,750** | **7,624** | **377** | **--** |

### Outstanding amounts of exposures securitised and impaired 2011

| | Impaired/past due | | Losses | |
|---|---|---|---|---|
| *in € millions* | **Originator** | **Investor** | **Originator** | **Investor** |
| Residential mortgages | 42 | -- | 30 | -- |
| **Total** | **42** | **--** | **30** | **--** |

### Outstanding amounts of exposures securitised and impaired 2010

| | Impaired/past due | | Losses | |
|---|---|---|---|---|
| *in € millions* | Originator | Investor | Originator | Investor |
| Residential mortgages | 31 | -- | 22 | -- |
| **Total** | **31** | **--** | **22** | **--** |

### Exposure and capital charges of securitisation positions retained or purchased per risk weight band

| | Exposure amount | | Capital charges, IRB approach | |
|---|---|---|---|---|
| *in € millions* | **2011** | 2010 | **2011** | 2010 |
| <= 10% | 7,061 | 6,927 | -- | -- |
| > 10% <= 20% | 147 | 124 | -- | -- |
| > 20% <= 50% | 285 | 288 | -- | -- |
| > 50% <= 100% | 285 | 285 | -- | -- |
| **Total** | **7,778** | **7,624** | **--** | **--** |

SNS Bank uses the credit rating agencies to rate its securitisation positions. Just as in 2010, in 2011 no securitisation activities took place.

## *28.9* 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.

## 28.10 Liquidity risk

Information about liquidity risk is included in the chapter Risk Management, paragraph 24.3.

## 28.11 Capital adequacy

### 28.11.1 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 the table in the next paragraph.

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.

### 28.11.2 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 2011, SNS Bank holds € 416 million (2010: € 1.248 million) in dated subordinated debenture loans and € 41 million (2010: € 75 million) in undated subordinated debenture loans.

A summary of items included in the capital base is as follows:

### Calculation of total capital base

| in € millions | 2011 | 2010 |
|---|---|---|
| **Tier 1 capital** | | |
| Paid up capital | 967 | 838 |
| **Share premium** | **1,348** | **1,219** |
| Eligible capital | | |
| Reserves | 500 | 908 |
| Income (positive/negative) from current Year | 38 | (431) |
| **Eligible reserves** | **538** | **477** |
| **Tier 1 capital (before hybrid capital and deductions)** | **1,886** | **1,696** |
| Hybrid capital loans subject to limits | 626 | 594 |
| Intangible assets | (125) | (126) |
| IRB provisions excess (+) / shortfall (-) | (1) | (12) |
| Securities capital | 156 | 256 |
| Other items, net | (37) | (32) |
| - of which eligible reserves SPVs | (20) | (23) |
| - of which result tier 1 exchange | (5) | (9) |
| **Deductions from Tier 1 capital** | **(7)** | **86** |
| **Tier 1 capital including hybrid capital (net after deduction)** | **2,505** | **2,376** |
| - of which hybrid capital | 626 | 594 |
| **Tier 2 capital** | | |
| Subordinate loan capital | 416 | 1,248 |
| Other additional own funds | 41 | 77 |
| **Tier 2 capital (before deductions)** | **457** | **1,325** |
| IRB provisions excess (+) / shortfall (-) | (1) | (7) |
| **Deductions from Tier 2 capital** | **(1)** | **(7)** |
| **Tier 2 capital (net after deductions)** | **456** | **1,318** |
| **Capital base** | **2,961** | **3,694** |

## *28.12* Remuneration

In compliance with the requirements set in the Policy act and Regulation on Sound Remuneration policies pursuant to the Financial Supervision Act (Besluit Beheerst Beloningsbeleid Wft 2011 en Regeling Beheerst Beloningsbeleid Wft 2011), which is the implementation of changes in Pillar III disclosure requirements, SNS Bank will issue a report on remuneration simultaneously with SNS REAALs' Group report on remuneration. This seperate report will be made public on our website when available.

SNS Banks' remuneration policy forms an integral part of SNS REAAL's Group remuneration policy. As such, it is fully derived from and aligned with all the procedures from this Group policy and accompanying actions. The report will display the 2011 remuneration for SNS Banks' senior management and members of staff whose actions have a material impact on the risk profile of SNS Bank (the other Identified Staff).