SNS Bank

Annual report

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Report of the Management Board

1 Key figures

Key figures

In € millions	2012	2011	2010	2009	2008
Balance Sheet					
Total assets	81,341	81,272	78,918	80,251	76,695
Loans and advances to customers	61,768	64,797	65,013	67,479	65,794
Of which mortgage loans	50,841	52,920	50,888	50,878	48,684
Loans and advances to banks	1,927	1,682	1,681	2,715	2,783
Amounts due to customers	42,344	40,557	37,880	34,270	32,043
Of which savings	32,815	30,342	27,398	24,435	21,859
Amounts due to credit institutions	8,686	4,716	3,096	7,119	6,491
Debt certificates	21,990	27,361	29,523	30,739	30,282
Shareholders' equity	1,337	1,723	1,580	2,165	2,134
Capital base	1,908	2,961	3,694	3,590	3,495
Net interest income	803	803	871	672	773
Other income	124	239	114	426	183
Of which net commission and management fees	54	86	92	99	116
Net result	(719)	38	(431)	(99)	144
Net result SNS Retail Bank	94	281	139	120	116
Net result Property Finance	(813)	(243)	(643)	(219)	28
Ratios					
Return on shareholders' equity (ROE)	(53.8%)	2.2%	(27.3%)	(4.6%)	6.7%
Efficiency ratio	57.4%	49.9%	57.8%	57.0%	62.8%
Core Tier 1 ratio	6.1%	9.2%	8.1%	8.3%	8.1%
Tier 1 ratio	7.7%	12.2%	10.7%	10.7%	10.5%
BIS ratio	9.3%	14.4%	16.7%	13.9%	14.0%
Number of branches SNS Bank	162	155	143	133	140
Number of agencies RegioBank	536	529	537	602	672
Number of cash dispensers	519	507	490	516	571
Number of employees (FTE's, average)	2,236	2,426	2,639	3,270	3,212

As of 1 January 2012, the business units SNS Retail Bank and Property Finance have been regrouped. The business segment SNS SME has been reallocated over the business segments Property Finance and SNS Retail Bank Comparative figures are regrouped accordingly.

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

2 Foreword

The period that now lies behind us leaves us with mixed feelings. For, 2012 was a year of contrast for SNS REAAL and thereby its 100% subsidiary SNS Bank NV (SNS Bank). In the first six months, the focus was still on the execution of our strategic priorities. The second half of the year however, SNS REAAL entered into an intensive period of close cooperation with the Dutch Central Bank (DNB) and the Ministry of Finance to arrive at a comprehensive solution for the credit risks of the Property Finance real estate finance portfolio and the capital base of SNS REAAL. In the end, on 1 February 2013, the Dutch Minister of Finance, after consultation with DNB, decided to nationalise SNS REAAL and her 100% subsidiary SNS Bank and expropriate the shareholders of SNS REAAL and the subordinated creditors of SNS REAAL and SNS Bank. The shareholdings of the Foundation SNS REAAL were also expropriated. This was a drastic decision, with far-reaching consequences for society, for our customers and for our shareholders and subordinated creditors. We feel that going forward modesty is a key word for us.

In this report we look back on the year that preceded the nationalisation of SNS REAAL and the expropriation of the subordinated creditors of SNS REAAL and SNS Bank. Much of what has happened in 2012 has meanwhile been caught up by the consequences of this nationalisation. A lot has changed for SNS Bank. Still, we think it is relevant to report on last year's developments. We are, of course, also aware of our responsibility in finding an answer to the question of how the Dutch tax payer will ultimately be compensated for its support of SNS Bank and how SNS Bank can, in turn, make its contribution to society.

LOOKING BACK

SNS REAAL started 2012 with the continued execution of its strategic priorities: 'fixing the foundations' and 'building for the future'. The first strategic priority, 'fixing the foundations', implied the continued run-off of Property Finance's real estate finance portfolio, while at the same time working on the strengthening of our capital base. Under 'building for the future' we grouped our efforts to win, help and retain customers in a cost-efficient manner.

In 2012, we succeeded in reducing the commitments of the real estate finance portfolio of Property Finance by € 1.7 billion, representing an 18% decline compared to year-end 2011. In the first half of 2012 this was still accompanied by a strengthening capital base of SNS Bank as a whole, as measured by the core Tier 1 ratio. The run-off of the real estate finance portfolio could, however, not prevent that increasing impairments and losses at Property Finance led to a substantial deterioration of the capital base of SNS Bank in the second half year of 2012.

In spite of all the turbulence, our core activities remained focussed on the needs and interests of our customers. We found ways to more adequately measure the needs and satisfaction levels of our clients. We reduced the diversity of products, made improvements to existing products, and simplified product specifications. We also introduced new products that meet higher corporate responsibility standards. With the (re)introduction of the so-called Zilvervloot Sparen savings account at SNS Bank and RegioBank we promoted the value of saving money among tens of thousands of children and adolescents. Another example is SNS Bank's promotion of 'Bouwsparen' (a sustainable form of home financing, whereby saving precedes borrowing) in response to the public and political discussion regarding the Dutch housing market.

In 2012, operating expenses of our activities increased with 4%. However, adjusted for one-off items, we succeeded in further reducing our cost base, by 10%, through employing staff more efficiently, standardisation and alignment of IT systems and sharper procurement.

In the second half of 2012, market conditions worsened considerably. Rising unemployment levels, combined with more stringent lending conditions for mortgages, resulted in a weakening housing market. Moreover, the implementation of more prudent risk-assessment models at SNS Bank led to higher risk-weightings for retail mortgages. Commercial real estate markets also worsened and losses at Property Finance subsequently increased, putting pressure on the core Tier 1 ratio of SNS Bank. It became increasingly clear that SNS REAAL would be unable to repay the capital support, obtained from the Dutch State at the end of 2008, before year-end 2013 without creating an unacceptable capital shortage. Although SNS REAAL had explored and discussed alternative scenarios at earlier stages, this meant that it became more and more urgent to find a comprehensive solution to reinforce SNS REAAL's capital base, and for Property Finance's real estate finance portfolio. Also, in May 2012, DNB had prescribed SNS REAAL to continue its efforts to strengthen its capital base and to run off the non-core portfolio of Property Finance. Thus, in July 2012, SNS REAAL informed financial markets that SNS REAAL was examining different scenarios. This examination was done in consultation with DNB, the Ministry of Finance and our external auditor. We reviewed a broad range of scenarios aimed at the strengthening and simplification of the capital base, as well as strategic restructuring scenarios, including the sale of parts of the company. In the process, the interests of all stakeholders were continuously taken into account.

As the second half of 2012 progressed, the urgency to find a comprehensive solution increased. In November 2012, SNS REAAL restated that its previously announced review of strategic restructuring and capital enhancement and simplification measures was ongoing. In response to public speculation on the future of SNS REAAL, retail savings balances became more volatile, although on balance they were flat in the second half year. In January 2013 however, the outflow of savings increased.

SNS Bank ended the year 2012 with a net loss of € 719 million. This included a net loss of Property Finance of € 813 million, driven by sharply higher impairments.

In January 2013, SNS REAAL again informed financial markets that its efforts were still focused on finding a comprehensive solution, including a reduction of credit losses at Property Finance. It was also explained that in all scenario's estimates of parties concerned on future losses at Property Finance played an important role. In the same month, DNB concluded in the so-called SREP (Supervisory Review and Evaluation Process) letter, that SNS Bank had a capital deficit. DNB requested a remedy for this deficit by 31 January, or to ensure through a plan to be submitted by the same date that this deficit would be remedied in the short term. Following months of intensive cooperation with all parties involved, SNS REAAL submitted a public-private proposal to DNB on 31 January 2013. In the media, this proposal was called the CVC scenario. This scenario included a capital injection by private parties, giving current shareholders the possibility to participate, burden-sharing by shareholders and subordinated creditors, and a contribution from the Dutch State in the form of a conversion of capital support provided in 2008, a capital injection and a guarantee for the funding of the Property Finance real estate finance portfolio following the separation of this portfolio from SNS REAAL. However, the Minister of Finance considered that the Dutch State had to make a disproportionately large contribution and the viability and financing were not ensured. Consequently, it was concluded that this scenario offered insufficient certainty to remedy the capital deficit of SNS Bank in the short term. Based on this conclusion, the Minister of Finance nationalised SNS REAAL on 1 February 2013, expropriating the shareholders of SNS REAAL as well as the subordinate creditors of SNS REAAL and SNS Bank.

CORE ACTIVITIES IN 2012

SNS Retail Bank posted a sharply lower profit excluding one-off items of € 130 million in 2012, in part due to lower gains on the buy-back of own debt and higher impairments on loans, reflecting the weak housing market and rising unemployment rates in the Netherlands. One-off items of € 36 million, mainly consisting of a restructuring charge, limited net profit to € 94 million. The efficiency ratio increased from 48% in 2011 to 57% in 2012, due mainly to the lower buy-back results, pressure on commission income and the restructuring charge.

Although as a result of the media attention for SNS Bank the inflow and outflow of retail savings balances became more volatile in the second half of 2012, retail savings did in fact increase by € 2.5 billion for the full year.

NATIONALISATION

The nationalisation encompasses the recapitalisation of SNS Bank, as well as the isolation of the Property Finance real estate finance portfolio in a separate asset management organisation. This will take place through the transfer of Property Finance. The recapitalisation consists of a € 2.2 billion capital injection by the Dutch State in SNS REAAL and the expropriation of subordinated debt totalling € 1 billion of SNS REAAL and SNS Bank. Moreover, the Dutch State provided a bridge loan to SNS REAAL of € 1.1 billion to redeem senior debt and internal loans. SNS REAAL recapitalised SNS Bank subsequently. The recapitalisation consists of 1.9 billion capital injection and the expropriation of subordinated debt totalling € 780 million of SNS Bank.

The transfer of Property Finance to a separate asset management organisation involves € 8.5 billion of gross real estate loans and € 0.5 billion of property assets as per 30 June 2012 (€ 8.3 billion total net exposure after the deduction of loan loss provisions). The bulk of this (over 75%) relates to the Netherlands. As part of the transfer, a write-off of € 2.8 billion is required on the total assets of Property Finance as per 30 June 2012. This € 2.8 billion write-off has been determined by the Dutch State. Therefore, in addition to the € 0.8 billion of impairments at Property Finance in the second half of 2012, an additional provision of € 2.0 billion is taken in the first quarter of 2013. After the additional provisioning, the net exposure of the real estate finance portfolio will amount to € 5 billion. SNS Bank will continue the funding of, this portfolio, also after the intended transfer. The Dutch State intends to provide a guarantee of approximately € 5 billion for the funding of Property Finance. As soon as the guarantee has been obtained, combined with the transfer, SNS Bank will not bear the credit risk on an equivalent amount of funding. Consequently it will not carry the related risk-weighted assets in its capital ratios anymore. In addition, the Dutch State intends to capitalise the asset management organisation.

The above-described structure concerning Property Finance (the separation, the guarantee on the funding and the capitalisation of the asset management organisation) is subject to the approval of the European Commission.

Taking into account the impact of all the nationalisation measures, the pro forma core Tier 1 ratio of SNS Bank shows a strong improvement. The pro forma core Tier 1 ratio of SNS Bank improves to 14.9%, compared to 6.1% at year-end 2012.

OUTLOOK

SNS Retail Bank had a good start of the year. For the first quarter of 2013, SNS Retail Bank reported a net profit of € 107 million, including a one-off positive impact from nationalisation measures of € 24 million. Adjusted for one-off items and nationalisation measures, net profit of the activities for the first quarter was € 83 million, compared to € 32 million for the first quarter of 2012.

Property Finance reported a net loss of € 1.8 billion for the first quarter of 2013, due to a € 1.8 billion net impact of the € 2 billion provision for the real estate finance portfolio. With this provision, the net exposure has been brought in line with the transfer value as determined by the Dutch State and communicated in a letter from the Dutch Minister of Finance to Parliament.

Due to the considerable first quarter loss at Property Finance, SNS Bank will also report a loss for the year 2013 as a whole. In spite of a further weakening of the Dutch housing market, we expect SNS Retail Bank to continue to report satisfactory results in the coming quarters.

At the end of the first quarter of 2013, the factual core Tier 1 ratio of SNS Bank had improved to 11.5%, due mainly to the impact of the nationalisation measures that had already been executed in this quarter. The remaining difference between the factual and the (higher) pro forma core Tier 1 ratio of SNS Bank is mainly due to the impact on risk-weighted assets of SNS Bank related to the intended transfer of Property Finance.

On 22 February 2013, the European Commission (EC) granted temporary approval for the rescue aid by the Dutch State to SNS REAAL, with the exception of the Property Finance measures for which approval was not requested. The EC's temporary approval is conditional on the presentation by the Dutch Ministry of Finance of a restructuring plan within six months from that date and covers all aid measures, including the intended Property Finance aid measures. The EC will take a final decision on the rescue aid on the basis of this plan. The restructuring plan will be drawn up in close consultation between the Ministry of Finance and SNS REAAL. Recognizing market trends and SNS REAAL's specific characteristics, this plan will provide the framework for SNS Bank's future. We intend to provide more clarity on this plan in the course of the year.

The legal and financial implementation of the (consequences) of the nationalisation and the preparations for the isolation of the Property Finance portfolio are important steps towards a return of stabilisation for SNS Bank.

RESPONSIBILITY

The nationalisation of SNS REAAL has far-reaching consequences for society, for the shareholders of SNS REAAL and subordinated creditors, our customers and our organisation, including our staff. We have a responsibility to these parties. Even though this responsibility varies per group, SNS Bank will give meaning to this responsibility to the best of its ability. By pursuing transparency, simplicity and sustainability, or, in other words: by conducting business in a responsible way, in the broadest sense of the word. With our mission of Simplicity in finance and our core value of CARE!, we continue to strive to represent the interests of society, our customers, each other and the result as best as we can.

In this effort, SNS Bank will take its responsibility to restore confidence in its own organisation and contribute to restoring confidence in the financial services industry as a whole. The starting point in this endeavour is the integrity and professionalism of our employees. During 2012, doubts have arisen about the integrity of some of our employees at Property Finance. We deeply regret the integrity issues. We do not tolerate norm-exceeding behaviour and, therefore, took corrective measures and started investigations. This integrity incident does, however, mean that we must work even harder to prove that society and our (prospective) customers can entrust us with their financial future. Moreover, putting customers' interests first should always be paramount in our products, services and processes.

As Management Board, we are convinced there is room in the Dutch financial services sector for a player that supports the Dutch economy with a human touch, offers transparent, simple and fairly priced products, is clear and realistic about expected returns and that delivers on promises. In its 200 years of history, SNS Bank has taken its responsibility in our society. We will strive to continue to do so, especially in the new reality in which we find ourselves. Simplicity, transparency and sustainability remain paramount in this effort.

Dick Okhuijsen

3 Nationalisation of SNS REAAL

3.1 Nationalisation

In January 2013, De Nederlandsche Bank (DNB) informed SNS REAAL, being the holding company of SNS Bank of its conclusion that SNS Bank's capital base was inadequate to guarantee controlled coverage of the company's current and possible future risks. SNS Bank was obliged to present DNB with a final solution by 31 January 2013. DNB required a solution that would provide sufficient assurance of success and supplement the capital deficit in the short term. In DNB's opinion SNS REAAL's proposal offered insufficient certainty that said capital deficit could be supplemented in the short term. DNB subsequently informed the Ministry of Finance that it no longer considered it justified that SNS Bank should continue to carry out its banking operations.

On 1 February 2013 the Minister of Finance decreed on the basis of Articles 6:2 and 6:4 of the Financial Supervision Act to expropriate:

- all issued shares in the share capital of SNS REAAL NV
- all Stichting Beheer SNS REAAL core Tier 1 capital securities issued by SNS REAAL NV (Stichting securities)
- all subordinated bonds of SNS REAAL NV and SNS Bank NV
- subordinated private debts of SNS REAAL NV and SNS Bank NV

In arriving at his decision the Minister set out that he is of the opinion that the stability of the financial system had been placed at serious and imminent risk due to the situation in which SNS REAAL found itself prior to 1 February 2013. SNS REAAL is aware that the decision to expropriate has a profound impact on society, customers, investors and employees.

All shares, Stichting securities and subordinated bonds have been expropriated for the benefit of the Dutch State. The expropriation of subordinated private debts has been effected by expropriating the corresponding debts relating to passive capital components of SNS REAAL NV and SNS Bank for the benefit of Stichting Afwikkeling Onderhandse Schulden SNS REAAL (Private Debt Settlement Foundation SNS REAAL). In the decree the Minister indicated that the capital components of the subordinated private debts had been expropriated on behalf of a separate entity (Foundation) in order to avoid these debts being transferred to the Dutch State. The Foundation is responsible for handling the settlement of these matters (most likely by filing for bankruptcy, according to the decree). In line with urgent provisions under Article 6:1 of the Financial Supervision Act, SNS REAAL has been appointed as sole director of the Foundation.

The decree concerning expropriation came into effect at 08.30 hrs on 1 February 2013. At this moment the expropriated securities and capital components were legally transferred, respectively, to the Dutch State and to the Private Debt Settlement Foundation SNS REAAL.

Two directors of the Executive Board of SNS REAAL, Ronald Latenstein (CEO of SNS REAAL) and Ference Lamp (CFRO of SNS REAAL and also member of the board at SNS Bank) and the Chairman of the Supervisory Board of SNS REAAL and SNS Bank, Rob Zwartendijk, resigned from their positions on 1 February 2013. As of 4 February, the following directors, nominated and appointed by the Dutch State, entered office: Gerard van Olphen as Chairman of the Executive Board of SNS REAAL and Maurice Oostendorp as CFRO of SNS REAAL. Maurice Oostendorp also became member of the Management Board at SNS Bank on 26 April 2013.

For the time being, the Vice Chairman of the Supervisory Board, Piero Overmars, has taken on the role of Chairman of the Supervisory Board of SNS REAAL and SNS Bank.

In addition to the aforementioned expropriation of the shares, securities, subordinated bonds and private debts, the Minister also decided on the following measures. The financial impact of these measures for SNS Bank NV is explained in section 3.2 Pro forma figures.

- Transferring Property Finance to a separate asset management organisation in combination with a State guarantee of around € 5 billion on the temporary loan that SNS Bank will provide to this asset management organisation.
- The conversion of core Tier 1 securities issued to the State and the Stichting Beheer into share premium on ordinary shares SNS REAAL.
- The expropriation and conversion into equity of subordinated debt of SNS Bank NV and SNS REAAL NV.
- A paid-in share premium of € 2.2 billion by the Dutch State in SNS REAAL, € 1.9 billion of which has subsequently been passed through as share premium to SNS Bank.
- A bridge loan of € 1.1 billion granted to SNS REAAL.
- A release of around € 5.5 billion in risk-weighted assets as a result of the transfer of Property Finance activities to a new, to be established asset management organisation.
- SNS Bank's contribution to the Resolution levy imposed by the Minister.

In a decision taken on 22 February 2013 the European Commission provisionally approved the capital injection of € 2.2 billion in SNS REAAL, € 1.9 billion of which SNS REAAL will pass through to SNS Bank, and a bridge loan from the Dutch State to SNS REAAL of € 1.1 billion. The approval remains valid until the European Commission is in a position to make a final decision based on a restructuring plan that the Ministry of Finance is required to have presented on 22 August 2013 at the latest. Under the terms of the decision on 22 February 2013 SNS REAAL and its subsidiaries are prohibited from making any acquisitions ('acquisition ban') and payments on hybrid instruments ('hybrid debt call and coupon ban').

The objective of the restructuring plan to be presented to the European Commission by the Ministry of Finance is to restore the financial stability of SNS REAAL and its subsidiaries and to prevent a future recurrence. It is possible that, after having reviewed the restructuring plan, the European Commission may decide that, as a consequence of State aid, additional measures and/or sanctions are required to counteract unintended distortions in competition. These possible measures and/or sanctions may have an impact on the future strategic positioning of SNS REAAL and SNS Bank. The following sections elaborate on specific aspects of the nationalisation.

3.1.1 Council of State

A considerable number of interested parties lodged appeals against the decision with the Administrative Jurisdiction Division of the Dutch Council of State. On 25 February 2013 the Council of State declared the appeals to be largely unfounded and allowed the expropriation legally in expropriating the securities and capital components. This was not the case concerning the related obligations or liabilities of SNS REAAL NV and SNS Bank in respect of expropriated parties insofar as these obligations or liabilities concerned the (former) ownership of the securities referred to. Therefore, any such claims can still be made against SNS REAAL NV and/or SNS Bank NV respectively.

3.1.2 Enterprise Court

The holders of the securities and capital components, mentioned above, have a right to compensation at the level of their actual value. The level of compensation is to be established by the Enterprise Court of the Amsterdam Court of Appeal. The Minister's current offer is compensation of € 0. The Minister's petition to set compensation at € 0 is under consideration by the Enterprise Court. In the event that the Enterprise Court rules that compensation is due, this will be paid by the Dutch State. This therefore has no consequences for either SNS REAAL NV or SNS Bank NV.

3.1.3 Legal procedures

It is possible that the original holders of the expropriated securities and capital components may initiate legal proceedings to seek compensation for damages. Currently, it is impossible to make any estimate of the chances that possible legal proceedings may result in liability or the level of financial impact on SNS REAAL NV or SNS Bank NV. For this reason, no provisions have been made in respect of possible legal actions by holders concerning the expropriated securities and capital components. As the outcomes of possible legal proceedings can not be predicted, it is not possible to rule out that a negative outcome may have a material negative financial impact on SNS REAAL NV or SNS Bank NV.

3.1.4 Participation certificates

Among the subordinated debts of SNS Bank expropriated by the State are so-called third series participation certificates. The Minister has requested the new management to conduct a fact-finding exercise to ascertain whether there have been irregularities in the offer of and/or advice concerning these certificates in the past, and, if required, for the management to draw up a proposal for compensating those affected. SNS Bank is currently investigating this matter with the aim of clarifying the situation for holders of participation certificates as soon as possible.

3.2 Pro forma figures

This section explores the financial implications for SNS Bank following the nationalisation of SNS REAAL. The following pro forma balance sheet provides an insight into the most important financial effects of the nationalisation and the implementation of certain additional steps announced by the Minister in a letter addressed to the Chairman of the House of Representatives of the Dutch Parliament on 1 February 2013. The pro forma balance sheet has been prepared based solely on announced events or actions that influenced the balance as of 31 December 2012 in order to illustrate the overall impact of subsequent steps in the nationalisation. The steps reflected in the pro forma balance sheet do not in all cases represent historic actual transactions. A number of steps are yet to be implemented. Actual performance may therefore differ, for instance as a result of the European Commission response to the restructuring plan, which may influence the presented pro forma figures. The following factors are set out by column in the pro forma balance sheet and are further explained in the following sections:

- The write-off of the real estate finance portfolio to the value as determined by the Minister upon transfer of Property Finance to an asset management organisation. The loss on the real estate finance portfolio on separation is € 2.8 billion compared to the book value of June 2012 (refer to section 3.2.1.1). Of this amount, € 776 million is recognised in the second half of 2012. For the remaining loss, a provision of € 2.0 billion has been made in the first quarter of 2013. This provision will lead to a decrease in the risk-weighted assets of SNS Bank as per 1 February 2013, after which the remaining risk-weighted assets will be released at the external transfer of the portfolio (refer to 3.2.1.4).
- The expropriation of and conversion into equity of the subordinated debt of SNS Bank NV and incorporation into equity of the results from the reduction of derivatives relating to the expropriated items.
- A paid-in share premium of € 2.2 billion by the Dutch State in SNS REAAL, € 1.9 billion of which has passed through as share premium to SNS Bank.
- The release of around € 5.5 billion in risk-weighted assets by transferring the activities of Property Finance to a new, to be established asset management organisation in combination with the government guarantee of around € 5 billion for the temporary loan that SNS Bank will provide to this asset management organisation.
- The contribution by SNS Bank to the Resolution levy imposed by the Minister.
- An estimation of the deferred tax asset resulting from the impairments of Property Finance and the conversion into equity of subordinated debts.

3.2.1 Pro forma balance sheet SNS Bank consolidated financial statements

Table 2: Pro Forma balance sheet SNS Bank NV after nationalisation

In € millions	31-12-2012	PF held for sale	Balance sheet after PF at held for sale	Expropriation of subordinated debts	Capital injection	Demerging PF	Resolution levy	Pro Forma Balance sheet
Assets								
Cash and cash equivalents	6,933	-	6,933	-	1,900	(24)	-	8,809
Loans and advances to banks	1,927	-	1,927	-	-	4,930	-	6,857
Loans and advances to customers	61,768	(1,906)	59,862	-	-	(4,699)	-	55,163
Property projects	416	(118)	298	-	-	(298)	-	-
Deferred tax assets	337	233	570	-	-	(8)	-	562
Other assets	9,960		9,960	-	-	(209)	-	9,751
Total assets	**81,341**	**(1,791)**	**79,550**	**-**	**1,900**	**(308)**	**-**	**81,142**
Equity and liabilities								
Other liabilities	79,184		79,184	89	-	(308)	70	79,035
Participation certificates and subordinated debt	820	-	820	(780)	-	-	-	40
Shareholders' equity	1,337	(1,791)	(454)	691	1,900	-	(70)	2,067
Total equity	**1,337**	**(1,791)**	**(454)**	**691**	**1,900**	**-**	**(70)**	**2,067**
Total equity and liabilities	**81,341**	**(1,791)**	**79,550**	**-**	**1,900**	**(308)**	**-**	**81,142**
Core Tier 1 ratio	6.1%		(2.9%)					14.9%
RWA SNS Bank	20,592	(2,024)	18,568			(5,487)		13,081

3.2.1.1 *Property Finance at held for sale*

The pro forma balance sheet shows the impact of the intended transfer of Property Finance to the asset management organisation. Property Finance is to be separated at a value considerably lower than its book value. Around € 2.8 billion of the total assets of Property Finance are to be written off compared to the book value as of 30 June 2012. The Minister of Finance decided on this write-down. The pro forma figures recognise a gross figure for the write-down of Property Finance amounting to € 2,024 million (€ 1,791 million net). The figure is derived from the total write-down of € 2.8 billion, compared to the book value at 30 June 2012, minus the sum of € 776 million in impairment charges taken in the second half of 2012. Part of the write-down is tax deductible (refer to section 3.2.1.6 for an explanation). The explanation that accompanied the decision to nationalise the company indicated that Property Finance's property projects have a value of between € 185 million and € 265 million. The pro forma balance sheet therefore includes an impairment charge on the value of property projects to an average value of € 225 million, analogous to the total write-down on Property Finance as a whole based on the average outcome. The portfolio of property projects has increased as a result of foreclosures in the second half of 2012. The average transfer value, taking into account this increase is € 298 million as of 31 December 2012. It is estimated that the write-off recognised in the pro forma balance sheet of € 2,024 million is for around € 1,906 million attributable to the property finance loans provided by Property Finance and for around € 118 million on property projects. In respect of the write-off shown in the pro forma balance sheet a provision has been charged to the result for the first quarter of 2013 because the ministerial decision has effectively created an obligation to transfer Property Finance at the value set.

In the valuation of the real estate loan portfolio of Property Finance, there are considerable differences between the transfer value at split off from SNS REAAL, the fair value recognised in section 22.1 and the balance sheet valuation as per 31 December 2012.

The balance sheet valuation of the property finance loans is € 6,605 million and has, in accordance with accounting rules, an amortised cost basis. Provisions are only made for this after a downward adjustment of the expected cash flows resulting from an actual loss event on the balance sheet date. This means that the provisions relate only to the items that have been determined to be in default as a result of these events and on which a loss has been incurred. To determine the amount of the provision, the expected cash flows are discounted against the original effective interest rate of the item in question. Thus, discounting the cash flows takes place at an interest rate agreed with the customer at the time the loan was taken out. Losses arising from expected future developments or events no matter how likely are not recognised (expected loss).

The fair value of the property finance loans is recognised in the financial statements in section 22.1. The preparation in section 22.1 applies only to the fair value of financial instruments and therefore does include the fair value of the property finance loans, but not the property projects. The fair value is based on the market price, defined as the price established between knowledgeable, willing parties in an arm's length transaction (no forced transactions). At this time there is no active market for real estate financing and reference prices (derived from comparable transactions) are therefore not available. Management has ruled that the outcome of the internal study into the expected shortfall of the loans is the best estimate for the fair value. This study is based on the run-off strategy used by Property Finance based on value maximisation without time pressure on the run-off. Reference transactions perceptible in the market are taken into account as much as possible in the valuation. Unlike the balance sheet valuation, the study took into account the expected losses on items that were not (yet) in default on 31 December 2012. The discount rate at which the cash flows were discounted also includes surcharges based on the market rate on top of the original effective interest rate to express the increased risk compared to the origination date. Three scenarios (positive, neutral and negative) were calculated for the benefit of the internal study into the value of the portfolio. The outcome based on the neutral scenario has been recognised as fair value.

The transfer price at which the real estate finance portfolio will be split off is based on the decision by the Minister subsequent to a study commissioned by him.

3.2.1.2 Expropriation of subordinated bonds and private debts

Subordinated bonds

The Dutch State injected all expropriated subordinated bonds of SNS REAAL and SNS Bank into SNS REAAL in the form of a share premium, with economic effect from 1 February 2013. Subsequently, with economic effect on the same date, SNS REAAL transferred the expropriated subordinated bonds issued by SNS Bank to SNS Bank in the form of a share premium. The debt instruments shall terminate pursuant to amalgamation, including all ensuing payment obligations to the State. The financial reporting follows accordingly. The value of the expropriated subordinated bonds has been incorporated as equity, for the most part not subject to taxation. The results arising from unwinding hedges relating to the expropriated items, has been incorporated as equity, as a taxable result.

Subordinated private debts

Subordinated private debts have been expropriated. The passive capital components of SNS Bank corresponding to these debts have also been expropriated on behalf of Stichting Afwikkeling Onderhandse Schulden SNS REAAL. The subsequent release in the balance sheet has been added to the equity as a taxable result.

The pro forma balance sheet does not take into account the increase in interest on the expropriated subordinated loans over the period between 31 December 2012 and 25 February 2013 being the date on which the Council of State came to the conclusion that the capital components were lawfully expropriated. The tax effects arising from the expropriation of the subordinated private debts has been taken into account.

Although SNS REAAL has been appointed director of the Stichting Afwikkeling Onderhandse schulden SNS REAAL, it is for the time being assumed that, in view of the limited directors' liability risk, this Foundation is not consolidated in the financial results of SNS REAAL. This is because the only aim of the Foundation is to execute the objective of the Dutch State to reinforce the capital position of SNS REAAL and SNS Bank with the expropriation.

3.2.1.3 Capital injection

In his letter to the Second Chamber of Parliament, the Minister explained that SNS REAAL requires a capital injection totalling € 2.2 billion, comprising € 1.9 billion for SNS Bank en € 300 million for SNS REAAL NV. A € 2.2 billion paid-in share premium to SNS REAAL NV was made on 11 March 2013. SNS REAAL paid-in the sum of € 1.9 billion as a share premium into SNS Bank on the same day.

3.2.1.4 Demerging Property Finance

The Minister’s letter to Parliament announces the intention of Property Finance being transferred in a separate asset management organisation. The Minister has indicated that to ensure the credibility of this solution it is necessary for the asset management organisation to function entirely independently of SNS Bank and SNS REAAL, both financially and operationally. In addition, the Minister has stated that DNB foresees that establishing the asset management organisation will require € 0.5 billion in equity for operational costs at inception and as a buffer for unexpected developments. This would be injected by the State. The receipt of € 0.5 billion in equity is not included in the pro forma balance sheet because the asset management organisation is no longer part of SNS Bank and SNS REAAL. The Minister has also stated that the State has the intention to provide a guarantee for the financing of the asset management organisation of around € 5 billion. Initially, the funding of the asset management organisation will largely continue to be provided by SNS Bank so that SNS Bank retains a share of the credit risk of the portfolio.

A State guarantee will subsequently cover the risk for this amount. The aim is to gradually replace this financing with that from third parties. The preparations for establishing the asset management organisation are underway.

The table below outlines the effect of demerging Property Finance from SNS REAAL’s and SNS Bank’s financial results. The first column shows the balance sheet of the Property Finance segment. This corresponds to the balance sheet of the legal entity SNS Property Finance BV. In the second column the effects of reclassification and settlements of balance sheet items between group components are included as well as the reversal of eliminations. The largest elimination item for the purpose of consolidation is the offset of the intercompany debt of Property Finance against SNS Bank’s intercompany claim. The column ‘PF Held for Sale’ shows the loss booked on the transfer of Property Finance’s portfolio as outlined in section 3.2.1.1. The deferred tax asset as a result of the split off is recognised by the entity SNS Bank, part of the fiscal unity SNS REAAL. Within the fiscal unity SNS REAAL the deferred tax asset can be offset against future gains. The write down on the portfolio results in the entity Property Finance displaying strongly negative equity. Prior to the separation of Property Finance the negative net asset value will be strengthened, and the intercompany funding provided to Property Finance will be written off. The column 'Demerging PF' shows that after demerging there is an amount of nearly € 5.0 billion for the item 'Loans and advances to banks'. This is the outstanding loan provided by SNS Bank to Property Finance after demerging. The total amount Property Finance needs for funding after demerging is around € 5.1 billion. The difference is caused by the loans that Property Finance has at other banks (€ 170 million) which are presented under the column 'Loans and advances to banks'.

Table 1B: Explanation column demerging PF

In € millions	Segment PF 31-12-2012	Reclassification	PF Held for sale	Strengthening Equity PF	**Demerging PF**
Assets					
Deferred tax assets	(8)	-	-	-	(8)
Property projects	(416)	-	118	-	(298)
Loans and advances to customers	(6,605)	-	1,906	-	(4,699)
Loans and advances to banks	(10)	7,376	-	(2,436)	4,930
Cash and cash equivalents	(203)	179	-	-	(24)
Other assets	(608)	399	-	-	(209)
Total assets	**(7,850)**	**7,954**	**2,024**	**(2,436)**	**(308)**
Equity and liabilities					
Shareholders' equity	412	-	2,024	(2,436)	-
Total equity	**412**	**-**	**2,024**	**(2,436)**	**-**
Participation certificates and subordinated debt	-	-	-	-	-
Debt certificates	-	-	-	-	-
Amounts due to banks	(8,124)	7,954	-	-	(170)
Other liabilities	(138)	-	-	-	(138)
Total equity and liabilities	**(7,850)**	**7,954**	**2,024**	**(2,436)**	**(308)**

3.2.1.5 Contribution to resolution levy

The Minister has requested all banks for a contribution in the form of a one-off Resolution levy. SNS Bank's contribution is estimated to be € 70 million and is included under Other liabilities. It is anticipated that this will fall due in 2014 and will be charged against the results in that year.

3.2.1.6 Impact corporation tax

Measures to be implemented in relation to nationalisation have an influence on the level of corporation tax to be received and paid. Quantification of the impact on the tax position, as presented in the pro forma balance sheet, is based on certain provisional assumptions which are explained in the sections below. The overall impact will be determined in consultation with the Dutch tax authority. The management of SNS Bank believes that the assumptions are correct estimates that adequately reflect the risks and uncertainties.

Tax claim due to loss on Property Finance

It is estimated that € 934 million of the (gross) write-down on Property Finance of € 2,024 million (refer to explanation in section 3.2.1.1) is tax deductable. The deferred tax asset of € 233 million arising from this (25% x € 934 million) is included in its entirety in the pro forma balance sheet, based on the presumption of there being adequate future taxable profits to realize the associated deferred tax asset. In concluding this, account has been taken of assumptions about future profits as well as uncertainties concerning the future composition of the fiscal unity group of SNS REAAL.

Tax impact on expropriation of subordinated debts

It is estimated that the capital gains resulting from the expropriated subordinated bonds will largely not be subject to corporation tax. The calculated profit to be processed in 2013 arising from expropriated subordinated loans is fully subject to corporation tax. Taking into account provisions, the taxable profit on the settlement of hedges related to the expropriated bonds there is a net increase in equity of SNS Bank of € 691 million.

4 Profile and brands

SNS Bank NV (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 € 81.3 billion and 2,236 employees (FTEs), which makes it a major player in the Dutch market. SNS Bank NV has its head office in Utrecht.

4.1 General

4.1.1 Rooted in society

SNS Bank is strongly rooted in Dutch society. SNS Bank dates back 200 years when the first savings banks with a public utility function were founded.

4.1.2 Simplicity in finance

SNS Bank aims to make banking business simple, understandable and transparent. We do this by actively engaging our customers in developing our products and services. But also with the assistance of committed employees, who believe in these products and services.

4.1.3 Customer focus

We work hard to earn our customers, who encompass both private individuals and business customers. By providing a sound service, we favour an optimal relationship with each and every customer - a service that is accessible and fairly priced. Every SNS Bank brand gives shape to this in its own way. We ultimately aim for sustainable relationships with our customers but also with society.

4.2 Our brands

There is no such thing as the average customer. Everyone has different desires, needs and preferences. And we want to serve our customers in the way that suits them best. That is why, instead of one brand for all customers, we have opted for different brands that each serve their customers in the way that suits them. Each brand has its own way of working, image, mentality and products, from savings and investments. For example, 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 needs and RegioBank works with personal advisors.

4.2.1 SNS Bank

SNS Bank

SNS Bank was founded in 1817 with a view to increasing people's financial independence. This assignment and challenge is just as relevant today as it was back then. As a broad, accessible bank for consumers and the small business market, we allow our customers to choose for themselves how they manage their banking business: via the website, over the telephone, with a financial advisor at home or at one of the 200 SNS Shops or via the mobile channel.
Products: payments, savings, mortgages, insurance, loans, investments and bank savings.
www.snsbank.nl

4.2.2 ASN Bank

ASN Bank has been one of the leading banks in sustainable banking in the Netherlands for 50 years. Money is invested in projects and companies that respect people, animals and the environment. ASN Bank aims to demonstrate that sustainable banking goes perfectly hand-in-hand with market-based results.
Products: savings, payments, investments and asset management.
www.asn.nl

4.2.3 RegioBank

RegioBank is the SNS Bank regional bank formula to which some 535 independent advisors are affiliated. RegioBank is the local bank without the fuss or hassle. With great personal attention, a sense of service and a full range of banking products all under one roof.
Products: mortgages, savings, payments, loans and investments.
www.regiobank.nl

4.2.4 BLG Wonen

BLG Wonen is a financial services provider whose aim is to allow its customers to live as comfortable as possible. Carefree home ownership makes you feel at home. Now and in the future. We achieve this by making our customers' living wishes come true via transparent services and professional, personal advice from the best independent advisors.
Products: mortgages, savings and insurance.
www.blg.nl

5 Strategy

SNS Bank NV's (SNS Bank) 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.

5.1 Mission, core value and responsibility

Our mission Simplicity in finance is in keeping with the origins of our company, which is now nearly 200 years ago. Even then, transparency, simplicity and solidarity were the pillars for our operations. We care about the fundamentals in people's lives, such as living, education, a buffer for unexpected expenses, compensation in the event of losses and sufficient pension provisions. We endeavour to ensure this with our mission of Simplicity in finance.

We also wish to operate responsibly for all our stakeholders and in fact our core value CARE! represents the responsibility we want to take for our customers, for one another and for society.

5.2 Corporate responsibility

Dutch financial institutions are subject to an extensive system of laws and regulations safeguarding the quality and security of financial products and services. Proper compliance with those laws and regulations is something that comes naturally to SNS Bank. Corporate responsibility (CR) goes beyond this. On the basis of our conviction, our own responsibility and in consultation with our stakeholders, we aim to add sustainable value by means of:

- Responsible service
  We place our customers' interests first in developing, improving and providing our products and services. 'Responsible' also means that we account for (potential) positive and negative impacts on people and the environment of our everyday work. We endeavour to create a chain of responsibility within financial services, in which our business units primarily focus on:
  - offering useful and valuable products and services with limited risks, based on simplicity and convenience;
  - using customer experiences and complaints to help us to improve, i.e. based on engagement with customers and other stakeholders;
  - enable customers to make responsible choices by providing comprehensible product information and/or appropriate advice;
  - measure and improve customer satisfaction;
  - responsible lending and responsible investment of customers' funds and our own funds;
  - with systematic assessment of customer interests and customer integrity as a starting point

  We believe that responsible services help us win more customers, as well as enabling us to be more commercially successful, but also that they are ultimately better for our customers and for society of which we are all part. Our practical approach to providing services responsibly ties in well with our strategic pillar Winning, helping and retaining our customers.
  SNS Bank endeavours to achieve a more responsible balance. A portion of that balance sheet, consists of customer investments and our own investments. By making conscious choices and exclusions, we aim to make a difference. SNS Asset Management implements this investment policy. This way, we aim to make a visible contribution to a society that faces great problems such as climate change, pollution and raw materials shortages through a more sustainable investment and distribution chain.
  Personal leadership of our employees, inspired by our mission and core value, is crucial for the further development of responsible service provision. That, too, is something we are continually working on.

- Responsible organisation
  Providing responsible services and working on customer interests and satisfaction is not possible without consistent attention for our own staff. That is why we want to be a committed employer whom our employees enjoy working for. We want to offer a healthy work-life balance and reward them in a responsible way and we want to encourage our employees to take responsibility for their own work and their career, their development and demonstrating involvement in the community.
- Sustainable chain and environment
  As a large company, SNS Bank forms part of many product and service chains. As a major buyer, we exert influence to make the supply chain more sustainable in co-operation with our partners – think of our suppliers. We do this by focussing on the responsible use of energy, accommodation, waste disposal and mobility.

A steering committee, consisting of two members of the Executive Board of SNS REAAL, the management boards of SNS Bank, REAAL and Zwitserleven and a number of Group staff departments, is responsible for carrying out CR. This steering committee, led by the Chairman of the Executive Board of SNS REAAL, met on five occasions in 2012 and topics of discussion included progress in the business units and the further development of Group-wide issues such as our stakeholder engagement and performance indicators.

SNS Bank regularly assesses its policy and results against the opinions of its stakeholders. In 2012, we performed a materiality analysis, also known as a stakeholders' consultation. The outcomes of this have improved our ability to (more extensively) discuss precisely those topics that are of importance to our stakeholders and to further improve CR. Main topics that emerged included: financial reporting, involvement in the community, product responsibility, chain responsibility, customer satisfaction, stakeholder engagement, ethics and integrity and our role as an employer.

5.3 Strategy

This summer, the Dutch Ministry of Finance will present a restructuring plan for SNS REAAL and her 100% subsidiary SNS Bank to the European Commission. This plan will be drawn up in close consultation with the Ministry and SNS REAAL. The European Commission will assess this. Together with the financial forecasts, this will be the framework within which SNS Bank can develop itself. In view of the situation, it is not possible to provide more information on possible new strategic objectives at this time. We will get more clarity on this in the course of this year.

5.3.1 Market position

SNS Bank focuses its activities on the Dutch market for mortgages, savings and investments. Our customers are primary private individuals and small & medium-sized enterprises (SMEs). We want to distinguish ourselves with:

- Multiple brands, allowing us to offer our customers the most suitable products through their preferred brand and distribution channel.
- Placing the customer and the customer’s interests first by developing and offering simple and accessible products combined with high-quality service and advice.
- Strong market positions based on simple, useful products with an attractive price/quality ratio.
- A simple and cost-efficient organisation.

5.3.2 Strategic priorities 2012

SNS Bank formulated four strategic priorities: Phasing out the property finance loan portfolio, Strong capital management, Winning, helping and retaining customers, and Reducing the cost base.

5.3.2.1 Phasing out Property Finance loan portfolio

Up to the moment of nationalisation, SNS Bank focused on phasing out Property Finance's loan portfolio. However, as a result of the nationalisation, Property Finance will be placed in a separate real estate management organisation as soon as possible. This real estate management organisation will operate financially and operationally on an entirely independent basis and will therefore no longer be part of SNS Bank. SNS Bank will provide the initial funding for this real estate management organisation, but the State will guarantee this loan. Refer to chapter 3 Nationalisation for further information.

5.3.2.2 Capital management

The capital and liquidity objectives for 2012 were:

- A core Tier 1 ratio of 10%.
- A loan-to-deposit ratio of between 125% and 150% over time.

As part of nationalisation on 1 February 2013, the subordinated debts of SNS Bank were expropriated and SNS Bank was recapitalised. Refer to chapter 3 Nationalisation. The capital ratios of SNS Bank improved considerably as a result of this. The risk profile of SNS Bank will improve further if Property Finance is transferred to a separate real estate management organisation.

Despite the strongly improved capital position, we will continue to give priority to further strengthening financial buffers and capital ratios, both for protection against volatility in the financial markets as well as against a potential impact on the results of our core markets due to the economic downturn.

New capital and liquidity objectives will be determined after the completion of the strategic reorientation.

5.3.2.3 Winning, helping and retaining customers

By winning, helping and retaining customers, we will increase our brands' vitality and the scale of our activities to a level that safeguards the implementation of our mission 'Simplicity in finance', also in the long term. We aim to provide our customers with useful and valuable products through their preferred distribution channel and brand. A range of brands and channels enable us to increase our effectiveness in sales and marketing and to access our overall target group more easily. Shared IT resources, production and service centres within the Group and staff departments also promote efficiency.

In order to win, help and retain our customers, we are paying greater attention to customer interests and customer satisfaction. We achieve this by means of:

- Continuous dialogue with our customers, allowing us to continuously improve our services;
- Measuring customer satisfaction more effectively;
- Improving customer interaction and service levels;
- Providing transparent and relevant products and appropriate advice.

Customers can easily determine if a product suits their needs either by themselves or with the help of a financial advisor.

In order to win, help and retain our customers, we also strive to ensure the sustainable growth of our brands. We are achieving this by means of:

- New, simple and useful products.
  Transparent product features and rates are essential. These are achieved by listening attentively to our customers and involving them in the product development process. Before launching new products, we make carefully assessment of customer value, return and risk. We also aim to guarantee the provision of reliable and appropriate advice, including that provided by our distribution partners. This is how we are working to create long-term added value for our customers.
- Multi-brand strategy.
  We serve our customers with brands that vary broadly from one another. Each brand is geared towards its own target group. The brands are linked to one another via SNS Bank NV and benefit from shared product development, processes and systems. This enables the brands to make the most effective contribution towards the overall performance of SNS Bank.
- Winning 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 behaviour and timely notification of (potentially) relevant products.

5.3.2.4 Reducing the cost base

Structural cost reduction is necessary for reasons including the following: the increasing demand for cheap, simple products, new market entrants, increased market transparency and higher capital and liquidity requirements.

It is our aim to further reduce the operating costs. In doing so, the loss of jobs cannot be ruled out. We will achieve this through greater efficiency in all Core activities, including lean programmes. In addition, we will reduce costs by hiring less external staff, reducing the number of office locations and structurally adjusting the terms and conditions of employment to the social requirements of today.

6 Strategy update

SNS Bank NV (SNS Bank) formulated four strategic priorities for 2012. In 2012, we structurally worked toward the execution of this strategy. This chapter covers the progress we made in 2012.

In 2012, SNS Bank aimed to strengthen its foundation with the priorities of Phasing out Property Finance and a Strong capital management. We are building for the future with the priorities of Winning, helping and retaining customers and Reducing the cost base. We are doing this in a way that we believe is responsible, which we will explain in relation to each business unit in chapters 9 and 10.

6.1 Phasing out Property Finance

The phase-out of Property Finance was continued in 2012, despite the extremely difficult circumstances. The phase-out of the portfolio resulted in a reduction of the total commitments (gross loans including undrawn commitments) of € 9.6 billion to € 8.0 billion (-18%) at the end of 2012. The risk-weighted assets were also significantly reduced. Refer to chapter 10 Property Finance for further details.

It is our intention to place Property Finance in a separate real estate management organisation whose operations and finances are separate from SNS Bank. Refer to chapter 3 Nationalisation of SNS Bank for further information.

6.2 Strategic restructuring and capital restructuring

On 22 February 2013, the European Commission (EC) decided to give temporary approval for the capital injection of € 2.2 billion in SNS REAAL, for SNS REAAL to downstream part of this capital, i.e. € 1.9 billion, to SNS Bank. The approval is valid until the EC takes a final decision based on the restructuring plan to be presented by the Ministry of Finance on August 22 2013 at the latest. The decision on 22 February 2013 stipulates, inter alia, that until the moment of the EC's final decision, SNS Bank is not to conduct any acquisitions ('acquisition ban') and payments on hybrid instruments ('hybrid debt call and coupon ban').

For the capital restructuring, reference is made to chapter 3 Nationalisation.

6.3 Winning, helping and retaining customers

In 2012, turmoil in the financial markets continued. Apart from this, SNS Bank had to deal with a great deal of negative publicity, especially due to the uncertainty surrounding Property Finance. This meant that, after an increase in savings deposits in 2012, a material part of the savings at SNS Bank was withdrawn in 2013. Customer satisfaction, nevertheless, remained stable at the 2011 level, supported by new initiatives taken in 2012.

Winning, helping and retaining customers ensures that our brands are full of vitality and provides us with the economies of scale and cost base that enable us to ensure the execution of our mission, also in the longer term. It is always our objective to:

- improve our services, with the meaning of customers' interests for our brands in mind, which we do in consultation with our customers;
- achieve greater customer satisfaction;
- create sustainable growth of our brands.

6.3.1 Customers' interests and satisfaction

In our view, putting customers' interests first is about orientation towards the customer. This seems obvious, but is not always so. When weighing interests between our various stakeholders, customers and their interests are always key. It is not about doing everything the customer wants. It is about giving substance to the actual needs of the customer in an appropriate and responsible way. In order to do so, we need to embed this in our working methods and procedures and pay steady attention to this. Our brands systematically assess customers' interests in all new products and product adjustments. On the basis of a Group-wide standards framework within the scope of the Product Approval and Review Process (PARP), products are assessed against so-called CUSC criteria: cost-efficient, usefulness, secure and comprehensible. Customers' interests also formed a guiding principle in the many improvements carried out by SNS Bank in the service they provided to customers. SNS Bank improved its online support for self-managed products via interactive calculation modules and Q&A sections. Many initiatives were geared towards making information more accessible, for instance by simplifying product terms and conditions and use of language, as well as by referring customers to intermediaries for advice and providing support in this regard. These improvements make it easier for customers to choose the products that are appropriate to their situation and their objectives.

Putting customers' interests first is a key objective for us, as it is for the Netherlands Authority for the Financial Markets (AFM). Criteria of the AFM closely correspond with SNS Bank's mission, core value and vision with regard to corporate responsibility (CR). After the AFM and the Executive Board of SNS REAAL discussed SNS REAAL's stance on the issue of putting customers' interests first to gain an insight into the background situation and to enable a better comparison of the various market players, SNS Bank was evaluated internally. Through a sharper discussion of the matter in the assessment of our employees we aim to emphasise customers' interest more.

Despite the considerable challenges in relation to the capital position and the issues concerning Property Finance, SNS Bank has made progress in some important aspects in the view of the AFM, namely as a result of:

- devoting explicit attention to CR and the aim to become the most customer-friendly financial services provider in the Netherlands by 2015 by putting customers' interests first;
- greater coordination and consistency between the various initiatives geared towards putting customers' interests first;
- A self-critical stance adopted by the Management Board, which has been expressed by acknowledging that the level of ambition with regard to putting customers' interests first was initially too low and by a proactive attitude, evidenced by the active efforts to act upon recommendations of the AFM.

There areas for attention that the investigations of the AFM specifically highlighted were: sharing best practices across the entire Group more often, strict implementation of procedures and making greater use of modern technology to prevent anticipated disappointment among customers.

6.3.1.1 Improved and more focused measurement

All brands give shape to such recommendations and invested in systems and/or procedures to gather, analyse and utilise customer data more effectively. This information is essential in order to continue to improve the service and customer satisfaction. Our management places emphasis on this subject by using instruments such as the KBC dashboard.

SNS Bank's retail brands are using the NPS method (Net Promotor Score) to measure customer satisfaction. This method is used to measure the number of customers who feel so positive about a brand that they would recommend it to family and friends. From this figure we deduct the number of customers who would advise family and friends against the brand. Uniform NPS statistics, based on a representative sample, are gathered twice a year by an external agency.

Customer satisfaction in the entire financial services sector has come under increased pressure in recent years as a result of the developments relating to the financial crisis. Among all surveyed Dutch banks and insurers, a limited number had a positive NPS score in 2012, including ASN Bank. Statistics also show that customers who recently had contact with the brand, via the helpdesk for instance, were on average more satisfied than other customers. Measurements at the business units confirmed this outcome. The brands therefore strive to intensify customer interaction, also by means of various forms for dialogue such as panel discussions.

SNS Bank's NPS score fell slightly from -33 at year-end 2011 to -35 at year-end 2012. The explanation for this is mainly attributable to the publicity around Property Finance. This also affected the SNS Bank brand.

ASN Bank's score went from +33 at year-end 2011 to +22 at year-end 2012.

RegioBank's score went from -18 at year-end 2011 to -9 at year-end 2012.

In 2012, SNS Bank expanded their customer satisfaction surveys by conducting them more often and in more sub-areas.

6.3.1.2 Learning from the client dialogues

SNS Bank NV brands use a variety of media and/or events to enter into dialogue with their customers. SNS Bank used the SNS Community to improve products and product information. The number of ways to provide feedback via web pages, Twitter and Facebook increased significantly. A wide range of fundamental and current topics were discussed with SNS Bank's Customer Council, which meets four times a year. ASN Bank is making a discussion platform called 'For tomorrow's world' available to customers and interested parties. ASN Bank also involved its customers in some sustainability initiatives by means of various events. RegioBank advisors placed considerable emphasis on personal interaction and maintaining and developing their local network.

6.3.1.3 Improving customer contact and service levels

In 2012, statistics showed that most service levels of our brands had improved. SNS Bank refined its systems in order to record and analyse feedback, queries and complaints from customers even more effectively. The level of contactability of SNS Customer Service was 89%. The number of complaints fell by 21%.

6.3.1.4 Simple, relevant products and appropriate advice

Offering simple products is the mission of SNS Bank. However, simplification is a process that takes time, and it is often problematic or not possible to apply to products already sold. We also use the feedback from our customers for the benefit of the Product Approval Process of existing and new products when developing new simple products and services. The most important improvements achieved in 2012 were:

- further simplification of SNS Bank's range of savings products;
- All brands also paid attention to simplifying and clarifying product information, making it easier for customers to make responsible choices.

6.3.2 Sustainable growth of our brands

6.3.2.1 Multi-brand strategy

SNS Bank distinguishes itself in the Dutch market through its multi-brand strategy. This allows us to respond to new market developments efficiently and effectively. We manage performance using common indicators, minimise brand overlap and take direct advantage of market opportunities. This strategy also enables us to gain a more detailed understanding of the needs and perception of our customers, as a result of which they feel more comfortable with their brand.

In 2012, the positioning of brands in relation to one another was further refined, so that they better complement one another in the market of potential customers. The total customer coverage is thus extended whilst the overlap is reduced. The differences between the brands focus on three main aspects: personal values, social status and the level of financial self-reliance.

SNS Bank creates value with its multi-brand strategy aimed at well-defined target groups in three ways: by expanding more rapidly than would be the case with a single brand, by means of more effective and therefore cheaper marketing and by means of price differentiation. In 2012, this strategy made a significant contribution to the (profitable) growth in savings and in the strong growth of sales of REAAL insurance products via SNS Bank.

6.3.2.2 Winning new customers
The total number of customers of our retail banking brands fell by more than 64,500 customers to over 3 million. The total savings deposits entrusted to us rose and the market share in savings increased from 10% to 10.3%. Each brand developed its own tailor-made commercial initiatives to optimally reach their target group. SNS Bank restrained itself in the sale of its own new mortgages due to the deterioration to solvency as a result of the losses of Property Finance in the property finance loan portfolio. Consequently, the market share in new mortgages decreased from 5.7% to 2.0%. Sales of third-party mortgages rose strongly, however, from 8% in 2011 to 29% in 2012, which meant we were able to welcome many new customers.

6.3.2.3 Retaining clients and offering a broader range of products
SNS Bank further expanded the range of third-party mortgages, improving its position in the market of first-home buyers. The retention rate of existing mortgages was high. The fall in new sales had a limited effect on the size of the total mortgage portfolio, which fell from € 52.8 billion to € 50.6 billion (-4.3%). Sales of insurance from REAAL via SNS Bank rose sharply.

In 2012, we were once again able to take advantage of the growing bank savings market. SNS Bank and RegioBank cooperate closely in the field of product development and distribution. Bank savings and savings deposits entrusted to us rose by 6.6% to € 35.4 billion.

6.3.2.4 Successful new products
The introduction of the Zilvervlootsparen, a savings account for children aged 0-18, was a major success. Since its launch in September, more than 32,000 accounts were opened at SNS Bank and RegioBank. The interest-bearing current account attracted many new customers. SNS Bank was the first major bank to introduce such an account at the end of 2011.

6.4 Reducing the cost base
Reducing the cost base of our organisation contributes towards improving the company's competitiveness and capital position.

The total adjusted operating expenses decreased from € 229 million to € 205 million (-10%) compared to 2011. An important factor was a reduction in the average number of FTEs from 2,426 to 2,236 (-8%). The reduction at SNS Retail Bank amounted to € 11 million and Property Finance € 3 million. Programmes to increase efficiency in the administration systems of SNS Bank also significantly contributed towards the reduction. SNS Bank also benefited from the run off and closure of old SNS branches, the opening of cost-efficient SNS shops and further automation of transaction processes.

Other important contributions to the cost reductions were cost synergy through the harmonisation and standardisation of IT systems, tightened procurement and adjustment of the terms of employment.

Investments made by SNS Bank were mainly aimed at further cost base improvements in the coming years, but also at long-term ICT solutions. The main investments in 2012 were:

- The New World of Work (NWW); more than 1,000 employees switched to NWW.
- For SNS Bank (and the other banking brands) a migration took place to a modern platform making it future proof.

6.5 Realisation of ambitions

6.5.1 Net result

In November 2011, SNS Bank abandoned its medium-term profit target due to the situation in the financial markets, deteriorating economic outlooks, stagnating or falling sales volumes and greatly changing laws and regulations. A substantial loss of € 719 million was reported for 2012. However, it continues to be our objective to be an organisation that will return to a healthy level of profitability.

6.5.2 Capital and liquidity ratios

SNS Bank publishes its solvency ratios using the risk-weighted assets as calculated under Basel II, taking in account the Basel I 80% Floor rules. In the second half of 2012 the implementation of more stringent risk assessment models for loans in combination with a deteriorating credit risk environment led to an increase in the level of risk-weighted assets under Basel II, which surpassed the level of Basel I with an 80% floor. As a consequence, solvency ratios are since then calculated using Basel II risk-weighted assets, whereas for previous periods Basel I with an 80% floor was used. Basel II risk-weighted assets increased from € 19.2 billion at year-end 2011 to € 20.6 billion. The use of more stringent risk assessment models for retail mortgages led to an increase of € 3.5 billion in Basel II risk-weighted assets, which were also impacted by the redemption of debt securities issued under securitisation programmes. This was partly compensated by the decline of the total exposure at Property Finance. Due to the net loss at SNS Bank and the increase in risk-weighted assets, the core Tier 1 ratio dropped from 9.2% at the end of 2011 to 6.1%, which was below the internal and the DNB requirements.

As a result of the increase in savings balances and the decrease in loans and advances to customers, the loan-to-deposit ratio of SNS Bank improved from 159% at year-end 2011 to 142%. Excluding Property Finance, the pro forma loan-to-deposit amounted to 126%.

6.5.3 Performance management

SNS Bank wants to enhance management based on performance by means of quantifiable results. Four new CR performance indicators were developed in 2012 that will be effective from 2013. At SNS Bank management based on customer satisfaction was enhanced. The number of measurement moments and measurement areas was increased.

For capital and liquidity ratios, refer to 6.5.2. For other realised financial ratio’s, refer to key figures. For customer satisfaction scores, refer to 6.3.1. For employee satisfaction and absenteeism, refer to 13.8.

7 Outlook 2013

The Netherlands and the rest of the eurozone are faced with an ongoing recession. Although the euro crisis seems to be under control, the scarcity in the capital market is persisting and there is great uncertainty and risk of volatility in the financial markets. Corporate financials are retaining ample liquidity and capital because of precaution and more strict requirements. With regard to capital, these markets are still not entirely open, other than for cash. The Dutch housing market remains weak and the number of mortgage holders experiencing payment difficulties is steadily increasing. Unemployment is rising and the number of bankruptcies is increasing. These conditions are placing profitability in our sector under even greater pressure.

7.1 Financial markets in 2013

7.1.1 General explanation

Stimulus measures for the global economy will primarily need to come from the United States of America, China and other emerging markets. It seems likely that growth in the USA will continue, despite new taxation measures being introduced by the federal government. The delay in the growth of the Chinese economy seems to have passed and the demand for products from Europe, particularly Germany, will probably pick up. The eurozone is still dealing with the burden of the recovery of government finances, the necessary shrinking of the financial sector and loss absorption due to the depreciation of collateral and increasing risk of default (unemployment and bankruptcy). The permanent threat of crisis has diminished however, due to the willingness of the ECB to purchase government bonds without limit at sharply rising interest rates, but under conditions. The pressure upon southern European countries is likely to ease somewhat. The mild recession being experienced in the Netherlands and in many other European countries will continue in 2013.

7.1.2 Interest rates low, risk surcharges volatile

In February 2013, the ECB lowered its growth forecast for the eurozone to zero and kept its most important interest rates at the same low level. Due to the low growth forecast, the ECB will possibly keep the interest rate low. The low inflation forecast makes it possible for the ECB to apply a stimulus policy. The interest rate spreads of southern European countries in particular have recently fallen sharply. However, due to the continuing poor economic conditions, the risk of increasing credit spreads remains, which could cause a repetition of the sovereign debt turmoil in the eurozone

7.2 Impact of laws and regulations

New laws and regulations give rise to higher costs in the financial sector, in relation to maintaining capital, risk management, internal organisation, resolution levy and/or taxation. A bank tax entered into force from October 2012 and this cost SNS Bank € 9 million in 2012. The Dutch Ministry of Finance and De Nederlandsche Bank (the Dutch Central Bank – DNB) are working to establish a fund to finance the deposit guarantee scheme, into which banks must deposit funds in advance. The capital requirements and the timing of Basel III is still creating a great deal of uncertainty, but are indicating higher costs, including for lending activities. The plans include a reduction of the Tier 1 leverage ratios and much more stringent capital requirements in the resell of securitised mortgage loans. Securitisation is an important source of funding for mortgage lending by Dutch banks under favourable financial market conditions.

A mandatory bankers' oath applies to board members and supervisory board members since January 2013. This may be extended to other positions. SNS Bank is supportive of the underlying idea that this will help employees to feel able to call their managers to account over (alleged) unethical conduct. A discussion of ethical issues in our sector contributes towards the continued efforts to develop a modern, customer-oriented and socially desirable corporate culture.

7.3 Change in the distribution landscape

Laws and regulations combined with social trends have also had an impact on the distribution landscape in the financial services sector. The most important changes are outlined below.

7.3.1 Fixed advisors' fee

From January 2013, a ban on commissions will apply to complex financial products. Instead of this commission, the advisory body (bank, insurer, or intermediary) will receive a fee based on an agreement with the customer. The separation between product price and advisors' fee creates greater transparency in the total cost price for the customer. Even so, all parties, the provider, advisor and customer, need to get used to the new situation. Advisors are able to use different advice models and different types of rates. The price of advisory services will also often depend on the information that customers are able to gather and contribute themselves. In this respect, the market for complex products will therefore not become transparent immediately as far as consumers are concerned. Furthermore, many consumers will try to save on costs by purchasing a complex product without seeking advice, which can result in the wrong choices being made. Self-managed products are gaining ground. The regulatory requirements imposed on advisory services providers are being tightened. As a result of these developments, combined with falling volumes, the number of intermediaries will fall sharply, particularly in the field of pensions, life insurance and bank savings.

In the new market conditions, providers of both products and advisory services will need to adopt a flexible and very precise approach in anticipating the opportunities and limitations of the different distribution channels. SNS Bank is in a favourable position in this regard due to:

- an in-house banking distribution and advisory channel for a large portion of the complex insurance products;
- the multi-brand strategy with a mix of direct and indirect distribution channels, a variety of service models and brands that make it possible to provide different direct sales offers and product advice combinations;
- SNS Bank being the only bank in the Netherlands to sell third-party mortgages and provide independent mortgage advice.

7.3.2 Increase in direct sales of simple products

The trend in which consumers are increasingly purchasing products without the intervention of an intermediary has already existed for a long time in relation to simple products, such as savings and non-life insurance for private individuals. This trend is continuing. Gathering information and comparing products oneself has become easier as a result of the improvement and expansion of websites. SNS Bank is responding effectively to this development with its multi-brand strategy and diversification of distribution channels.

7.3.3 Tax benefits on bank savings

Until 2008, only life insurers were permitted to offer products for wealth creation with tax incentives. However, since the introduction of bank savings in 2008, the consumer has alternatives available via the banks. Bank savings products have grown strongly since then, at the expense of more complex life insurance products that combined asset growth with guarantees and/or insurance policies. Bank savings products are often combined with 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 activities. The tax advantage of bank savings has been restricted with effect from 2013. Although growth will decline, this market will continue to have a healthy growth potential for the time being.

7.3.4 Ban on the distribution fee for investment funds

The Dutch Ministry of Finance intends to put a ban on the distribution fee paid by investment fund providers to distribution partners by 2014. The current fee model includes the possibility that investment advice from distributors is (partly) based on financial gain and therefore takes less account of customers' interests. Financial institutions must therefore develop a new earnings model for distribution of investment funds. SNS Bank is already leading the way in this development in 2013. In February 2013, SNS Bank introduced five new profile funds without a distribution fee. The risk profiles vary widely from very defensive to very offensive investments. The distribution fees no longer form part of the so-called Total Expense Ratio (TER) of the investment funds, but are charged to the customer separately.

7.4 Product markets 2013

SNS Bank primarily anticipates growth in the (bank) savings market. Under the influence of the weak economy and new regulations, the other markets will see no or negligible growth and some markets are expected to contract (further).

- Mortgage market remains weak
- Further growth (bank) savings

7.4.1 Mortgage market will remain weak

The Ministry of Finance will restrict the tax deductibility of interest of new and existing residential mortgages over the coming years by 0.5% per year from a maximum of 52% to a maximum of 42%. Furthermore, from 2013 interest on a new mortgage is only tax deductible if it is an annuity mortgage, whereby a portion is repaid each year. The temporary cut in transfer tax to 2% will become permanent. Interest payments on a debt remaining after selling a property for less than the mortgage value will remain tax-deductible for 10 years. These measures will actually result in higher monthly costs for first-home buyers. The housing agreement reached in February 2013 between the government and an ad hoc coalition in the Second Chamber of Dutch Parliament resulted in partial set-off against the monthly costs for first-home buyers and better flow through of the residential property market. Even so, we expect persistent stagnation and lower prices in the housing market in 2013. However, in the longer term, the measures may contribute towards improving the health of the housing market and reducing excessive debts amongst Dutch consumers.

The number of mortgage holders with payment arrears will further increase. The reasons for this may be: lower income (due to unemployment, for example), double mortgage payments when the old property remains unsold, and/or a residual part of the debt, a mortgage value that is higher than the price realised when the house is sold (foreclosure). Losses on loans are therefore expected to increase. These losses will need to be controlled through the high percentage of mortgages guaranteed under the National Mortgage Guarantee scheme and the vigilant and proactive management of mortgages with payment arrears.

The focus of SNS Bank lies on retaining the existing portfolio and assisting existing customers. SNS Bank is also providing impartial advice for new mortgages and is selling both its own mortgages and those of third parties. The margin on mortgages remains at a healthy level.

7.4.2 Continued growth of (bank) savings

The uncertain economic situation encourages the inclination to save, but shrinking incomes in many households will restrict the total growth of the savings market. However, maturing unit-linked insurance policies will provide a positive stimulus, particularly for the bank savings market. These will continue to grow, although at a decreasing pace compared with previous years. As a banc-assurer with a robust distribution network, we are able to consolidate our strong market position in the bank savings market. The willingness of private individuals to invest was limited over the past few years. This situation is not yet expected to change in 2013.

7.5 First quarter 2013

SNS Retail Bank had a good start of the year. For the first quarter of 2013, SNS Retail Bank reported a net profit of € 107 million, including a one-off positive impact from nationalisation measures of € 24 million. Adjusted for one-off items, net profit of SNS Retail Bank for the first quarter was € 83 million, compared to € 32 million for the first quarter of 2012.

Property Finance reported a net loss of € 1.8 billion for the first quarter of 2013, due to a € 1.8 billion net impact of the € 2 billion write-down of the real estate finance portfolio. With this write-down the net exposure has been brought in line with the held for sale valuation as determined by the Dutch State.

Due to the considerable first quarter loss at Property Finance, SNS Bank will also report a loss for the year 2013 as a whole. In spite of a further weakening of the Dutch housing market, we expect SNS Retail Bank to continue to report satisfactory results in the coming quarters.

8 Financial outlines

8.1 Result

8.1.1 Changes in segmentation

In 2012 SNS Bank took further steps to enhance its capital position and reduce ist risk profile. SNS Bank decided to withdraw from the commercial property finance market for SME's in the second half of 2012. As a result SNS SME's loan portfolio will be phased out. The core real estate finance portfolio, part of the total loan portfolio, will be phased out under the direction and responsibility of Property Finance. This announcement was among onther things made in the trading update for the third quarter 2012.

SNS SME's other activities (the SME mortgage and savings portfolio) will be continued and transferred to SNS Retail Bank. The SME mortgage portfolio of € 1.3 billion and SME savings of € 2.9 billion have been combined with those of SNS Retail Bank. Comparative figures for 2011 have been adjusted accordingly. As a result of this transfer, the reporting segment SNS SME will cease to exist.
The change in segmentation is in alignment with the new business activities decision model and also creates more transparency in respect of the net result from SNS Bank's continued activities in the future, and results relating to the phase out (and isolation) of the Property Finance portfolio in a separate asset management organisation in 2013.

8.1.2 Results 2012 compared to 2011

For the year 2012, SNS Bank reported a net loss of € 719 million, compared to a net profit of € 38 million for the year 2011. This negative result was mainly driven by a significant loss at Property Finance of € 813 million. Excluding Property Finance, SNS Bank posted a net profit of € 94 million compared to a € 281 million net profit for the year 2011.

SNS Retail Bank’s net profit decreased sharply. The main factors behind this decrease were the absence of a gain from a lower Tier 2 exchange transaction, sharply higher loan impairments, restructuring charges and lower commission income. Furthermore, the 2012 result included a charge for the new banking tax. Adjusting for the impact of one-off items, the net profit of SNS Retail Bank amounted to € 130 million compared to € 301 million for the year 2011.

At Property Finance, the net loss increased sharply, driven by sharply higher impairments on loans and property projects reflecting the further weakening of real estate markets and an impairment of the remaining goodwill. Impairment charges on loans and property projects based on incurred losses increased from € 284 million in 2011 to € 941 million, of which € 776 million occurred in the second half of 2012 (including € 654 million in the fourth quarter).

8.2 Impact of one-off items

At SNS Retail Bank, the net impact of one-off items amounted to € 36 million negative. Of this, € 9 million consisted of a loss on the exchange of Greek government bonds in the first half year. In the second half, the net impact of one-off items was € 27 million negative, consisting of a restructuring charge of SNS Retail Bank which was announced at the Investor Day on 15 November 2012. The restructuring charge was taken for plans which aim to deliver a reduction of approximately 200 FTEs by the end of 2014 (-8%) and further improve operational efficiency.

At Property Finance, the net impact of one-off items of € 47 million negative consisted of an impairment of the remaining goodwill from the acquisition of Property Finance in 2006 as a result of the repositioning of SNS SME and the integration of the former core portfolio into Property Finance and its subsequent run off objective.

One-off items in 2011 consisted of an impairment of Greek government bonds of € 20 million net at SNS Retail Bank.

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

In € millions	2012	2011
Net result for the period at SNS Retail Bank	94	281
Net result for the period at Property Finance	(813)	(243)
Total net result for the period	**(719)**	**38**
Impact of one-off items at SNS Retail Bank	(36)	(20)
Impact of one-off items at Property Finance	(47)	-
Total one-off items	**(83)**	**(20)**
Adjusted net result for the period at Retail Bank	130	301
Adjusted net result for the period at Property Finance	(766)	(243)
Total adjusted net result for the period	**(636)**	**58**

8.3 Operating expenses

Total operating expenses in 2012 increased by € 12 million (+4%), influenced by one-off expenses. These included restructuring charges of € 43 million gross, mainly consisting of € 37 million costs at SNS Retail Bank and € 6 million at Property Finance. Other one-off expenses were the winding down of the portfolio at Property Finance (€ 67 million). These one-off expenses were partly compensated by a release of € 15 million related to the final calculations of SNS Retail Bank's share in the savings guarantee scheme for DSB Bank and Icesave.

Total operating expenses SNS Bank

In € millions	2012	2011	Change
Total operating expenses	300	288	4%
Adjustments			
Restructuring charge at SNS Bank	43	4	
SNS Retail Bank's share in savings guarantee scheme	(15)	(1)	
Expenses related to winding down portfolio Property Finance	67	56	
Total adjustments	**95**	**59**	
Total adjusted operating expenses SNS Bank	**205**	**229**	**(10%)**

Total adjusted operating expenses decreased by € 24 million (-10%), supported by a decrease in the number of internal staff by 74 FTEs. All business units contributed to the decrease: SNS Retail Bank (- € 11 million) and Property Finance (- € 3 million).

SNS Bank will strive for a further reduction of costs driven by ongoing efficiency programmes and a structural moderation of collective labour agreements.

9 Developments SNS Retail Bank

SNS Retail Bank net result decreased from € 281 million to € 94 million (-67%), driven by higher loan impairments, lower commission income, a restructuring charge and lower gains on the buy-back of own debt. The higher impairment charges to loans, reflecting the weak housing market and the implementation of a new risk model.

SNS Retail Bank

In € millions	2012	2011	Change
SNS Retail Bank	94	281	(67%)

9.1 SNS Retail Bank strategy

SNS Retail Bank brands want to help people to be financially fit and aim to achieve this with simple and accessible products, a customer-friendly, efficient and robust organisation and sound services. Our core value CARE! and our Manifesto encourage employees to put customers' interests first when providing financial services. The main themes in SNS Retail Bank Manifesto are:

- Sustainability: our contribution to society
- Utility: our value for the customer
- People to people: our view on banking
- Financial self-reliance: our key objective in providing financial services

SNS Retail Bank's Manifesto describes the connection between the brands of ASN Bank, RegioBank, BLG Wonen and SNS Bank. From a number of common values, the different brands focus on specific target audiences. In this way, SNS Retail bank gives substance to the multi-brand strategy.

The four brands of SNS Retail Bank mainly serve individual clients and self-employed persons in the Netherlands. The brands differ from one another in terms of primary target audience, product range, distribution channels and brand experience, but at the same time they enjoy efficiency benefits by using shared service centres, IT and facilities and staff services. This multi-brand strategy allows us to remain close to our customers. Each brand gives shape to this in its own way:

- SNS Bank is the broad and accessible consumer brand for banking and insurance products for people who want to manage their banking business in a modern way. SNS Bank serves its customers with service, advice and sales via snsbank.nl, mobile phone, SNS Customer Service, SNS Shops and financial advisors.
- ASN Bank is the brand for sustainable savings, investments and payments. Services are provided via the Internet, over the telephone and by mail. ASN Bank focuses primarily on private individuals, but also accepts social organisations and companies as customers provided they operate in accordance with the ASN Bank principles of corporate social responsibility.
- RegioBank is the bank formula for independent advisors outside the major cities, with a focus on local and personal service without fuss.
- BLG Wonen is the brand for the independent advisor who gives broad house and home-related financial advice to clients.

In 2012, it was decided to transfer the small SME mortgages and business insurance, savings and payments of SNS SME to SNS Retail Bank. The remaining SNS SME loans were transferred to the activities of Property Finance that are to be run off.

9.2 Financial developments SNS Retail Bank

SNS Retail Bank

In € millions	2012	2011	Change
Result			
Net interest income	705	680	4%
Net fee and commission income	54	86	(37%)
Investment income	23	45	(49%)
Result on financial instruments	52	155	(66%)
Other operating income	9	2	350%
Total income	**843**	**968**	**(13%)**
Impairment charges to loans and advances	224	95	136%
Other impairment charges	4	31	(87%)
Total operating expenses	479	467	3%
Other expenses	8	-	0%
Total expenses	**715**	**593**	**21%**
Result before tax	**128**	**375**	**(66%)**
Taxation	33	94	(65%)
Minority interests	1	-	
Net result for the period	**94**	**281**	**(67%)**
One-off items	(36)	(20)	(80%)
Adjusted net result for the period	**130**	**301**	**(57%)**
Efficiency ratio	57.4%	49.9%	
Impairment charges to loans and advances as a % of gross outstanding loans to customers	0.40%	0.15%	
Risk-weighted assets Basel II	13,081	9,460	38%
Savings	32,815	30,342	8%
Loans and advances to customers	55,163	55,907	(1%)

9.2.1 Result 2012 compared to 2011

SNS Retail Bank continued to focus on its commercial performance in 2012. Retail savings balances grew by € 2.5 billion (+ 8%) despite ongoing news flow in the media related to the future of SNS REAAL in the second half of 2012. Overall customer satisfaction levels improved or remained stable. ASN Bank continued to have one of the highest customer satisfaction levels in the industry and won the 'Most customer-friendly bank of The Netherlands' award. SNS Bank's and RegioBank's new "Zilvervloot Sparen" savings account, launched in September 2012, attracted 32 thousand customers. BLG Wonen (formerly BLG Hypotheken), has been repositioned as a complete financial services provider for homeowners, whereas the focus was previously solely on mortgages. The repositioning of RegioBank has been completed and its increased presence in smaller communities continues to pay off and is reflected in increasing customer satisfaction.

SNS Retail Bank has developed plans to further improve the efficiency of its operations. The implementation should result in a reduction of approximately 200 FTEs by the end of 2014.

Despite SNS Retail Bank's commercial achievements, net profit decreased by 67% to € 94 million. The 2012 result included a net loss of € 9 million on the exchange of Greek government bonds in the first half of 2012 and restructuring charges of € 27 million net related to the repositioning of SNS Retail Bank in the second half. The 2011 results had been impacted by an impairment on Greek government bonds of € 20 million net. Adjusted for these one-off items net profit fell by € 153 million. This was due to the to the absence of a net gain of € 84 million from a lower Tier 2 exchange transaction in 2011, higher loan impairments, lower commission income and charges related to the new banking tax in 2012.

9.3 Income

Net interest income showed a modest increase of € 25 million (+4%) driven by higher interest income from mortgages. SNS Retail Bank's residential mortgage portfolio decreased to € 49.4 billion (year-end 2011: € 51.4 billion), due to redemptions in combination with limited sales of new mortgages. Redemptions were slightly lower compared to 2011. SNS Retail Bank's market share in new mortgages of 2.1% was down compared to 2011 (5.8%), due to the focus on the reduction of risk-weighted assets. However, despite the reduction of the mortgage portfolio, total risk-weighted assets under Basel II increased by € 3.6 billion to € 13.1 billion due to the implementation of more prudent risk assessment models (Internal Rating Based approach) for loans in combination with a deteriorating credit risk environment and due to the redemption of debt securities issued under securitisation programmes. As a result of the sharp increase, risk-weighted assets under Basel II surpassed the level of Basel I with an 80% floor.

Retail savings balances increased by € 2.5 billion to € 32.8 billion (+8%), including bank saving balances, which grew by € 1.1 billion to € 2.4 billion (+85%). SNS Bank, ASN Bank and RegioBank all contributed to the increase in savings balances. SNS Retail Bank's market share in savings increased to 10.3% (year-end 2011: 10.0%). However, SME savings included in 'Other amounts due to customers', were significant lower at € 2.9 billion compared to year-end 2011 (€ 3.6 billion), due to the media attention for SNS REAAL and the increased liquidity needs at our customers. The loan-to-deposit ratio of SNS Retail Bank improved to 126% from 137% at year-end 2011.

Net fee and commission income was € 32 million lower, mainly driven by the transfer of SNS Beleggingsfondsen Beheer BV from SNS Retail Bank to SNS REAAL Group activities as per 1 January 2012, increased fees paid on securitisation transactions following credit rating downgrades and lower asset management transactions and fees. Furthermore, insurance fees on mortgage-related products were lower.

Investment income decreased by € 22 million mainly due to a loss of € 13 million gross on the exchange of Greek government bonds and lower trading results on fixed income investments.

The result on financial instruments decreased sharply by € 103 million, due to a decline in buy-back results on own funding paper to € 49 million compared to € 156 million in 2011 (which included a gain on a lower Tier 2 exchange transaction of € 112 million gross). This was partly compensated by higher fair value movements of the DBV mortgage portfolio, which had adversely impacted the 2011 result.

9.4 Expenses

Total operating expenses increased by € 12 million. This included a restructuring charge of € 37 million pre-tax related to the plans to further improve the efficiency of operations, including a more centralised use of office facilities. The higher expenses were partly compensated by a release of € 15 million related to the final calculations of SNS Retail Bank's share in the savings guarantee scheme for DSB Bank and Icesave. Costs in 2011 had included a release of € 1 million. Adjusted for these items, total operating expenses decreased by € 11 million (-2%) driven by a reduction in the number of staff following completion of the repositioning programme in 2011.

The efficiency ratio increased from 49.9% in 2011 to 57.4% due to lower income in the absence of the gain on the Tier 2 exchange in 2011 and the above mentioned one-off expenses. Adjusted for these items, the efficiency ratio improved from 56.8% to 54.7% because of lower operating expenses.

Impairment charges to loans and advances increased by € 129 million to € 224 million. This equates to 40 basis points of gross outstanding loans compared to 17 basis points in 2011. Both retail and SME loans contributed to this increase. Impairment charges to retail loans increased by € 99 million to € 181 million. This equates to 33 basis points of gross outstanding loans compared to 15 basis points in 2011 (residential mortgages: 31 basis points compared to 14 basis points in 2011). Impairment charges in 2012 included an amount of € 11 million due to the default of one major debtor and € 40 million related to the implementation of more stringent risk assessment models. Impairment charges in 2011 had included a charge of € 22 million related to increased prudence in credit risk models to reflect the market environment. Excluding the impact of the default of one major debtor and the impact of risk models, impairment charges increased by € 70 million. This increase reflects the weakening economic situation in the Netherlands and lower recovery amounts on mortgages as a result of pressure on housing prices.

Impairment charges to SME loans increased by € 30 million to € 43 million driven by the weakening economic situation and lower recovery amounts as a result of pressure on prices of collateral.

Other impairment charges of € 4 million consisted of impairments on tangible fixed assets compared to impairments of € 31 million in 2011 related to Greek government bonds (€ 27 million) and tangible fixed assets.

Other expenses of € 8 million consisted of SNS Retail Bank's share in the 2012 full year charge for the new banking tax (in total € 10 million of which the remainder has been included in the result of Property Finance).

9.5 Credit risk

Housing prices continued to decrease in 2012. The price index of existing home sales fell 6.3% year-on-year and the number of homes sold was down again, by approximately 3%. The weak housing market lengthens the recovery period of loans in default and limits recovery amounts.

Rising unemployment and declining disposable incomes are important drivers for the development of loans in arrears. Loans in arrears increased from € 2.0 billion at year-end 2011 to € 2.2 billion. As a percentage of gross loans they rose from 3.56% to 3.94%. Under current market circumstances, SNS Retail Bank proactively contacts mortgage clients with higher risk mortgages, for instance due to high Loan to Values and provide information and tips to avoid consecutive missed payments, if necessary in combination with a personal budget coach.

The quality of new mortgage inflows is, however, improving thanks to stricter standards and an increase in mortgages covered by the Dutch Mortgage Guarantee Scheme (NHG). At SNS Bank, 72% of the mortgage production of new clients in 2012 was covered by the NHG. Of the total mortgage portfolio, 20% is now covered by NHG. At the end of 2012 the weighted average indexed Loan-to-Foreclosure-Value (LtFV) of the retail mortgages stood at 99% compared to 93% at year-end 2011.

For the year 2013 the outlook remains very challenging. Macroeconomic indicators suggest that economic activity in the Netherlands will remain subdued. Consumers' purchasing power is expected to decrease further, while unemployment is set to increase. We expect the conditions in the housing market to remain weak and therefore loan impairments to be at historically high levels.

At SNS Retail Bank, we expect risk-weighted assets to increase due to the future redemption of debt securities issued under securitisation programmes. Furthermore, the further implementation of more stringent risk assessment models for retail mortgages could have an upward impact on risk-weighted assets.

9.6 Organisation and distribution

9.6.1 Customer focus and efficiency

The SNS Retail Bank brands and shared service centres implemented various improvements with a view to customer interest and efficiency. These two aspects are inextricably linked because only with an efficient organisation can the bank brands offer a good price/quality ratio to its customers. All bank brands contributed to cost savings, in part through further development of the shared services centres, IT and product development. One example of central product development was the platform for mobile payments which was made available to SNS Bank customers at the end of 2012. ASN Bank and RegioBank are to follow at the start of 2013.

Although SNS Retail Bank welcomed many new customers in 2012, the number of unique customers showed a decrease of 64,500 (2%). This was because customers with just a salary savings account left. The fiscally attractive salary savings scheme was abolished in 2012. Moreover, the publications on the developments at Property Finance affected the number of people with savings accounts.

9.6.2 SNS Bank: close to the customer both online and offline

SNS Bank continued to invest in developing the provision of services and the brand: the objective is greater simplicity and convenience for people who want to manage their banking business in a contemporary way. That is why SNS Bank is expanding the number of SNS Shops in the Netherlands to better help and advice its new and existing customers in a personal way in line with its strategy.

Apart from personal contact via the telephone and in SNS Shops, SNS Bank also seeks interaction and engagement with its customers in a targeted manner via the Internet. It has become easier for customers to respond online to how they experience SNS Bank's services. In 2012, customers on average provided feedback via the website 31,000 times per month. In addition, open feedback was given on average well over 2,500 times per month, including tips on how to improve the website. We also notice that our customers increasingly make use of the SNS Community and of Twitter and Facebook. In many cases, the webcare team is able to respond to questions and discussions within a matter of minutes. There was a sharp increase in the number of customers responding via online channels. For actual improvement actions, refer to Listening better to your customers, better customer service.

In order to increase the accessibility of its services, the SNS Bank website also offers aids to customers with a visual impairment, such as a 'talking digipass'. In 2012, SNS Bank was the only bank in the Netherlands to retain the zero threshold title from the 'Stichting Waarmerk Drempelvrij', the Dutch foundation that provides quality labels for accessible websites for people with a disability Customers who are not yet familiar with online banking can attend a course for SNS online banking in an SNS Shop nearby.

9.6.2.1 *Added products strengthen customer relationships*

For many customers, simplicity in finance means having as many of your financial products as possible with just one bank and managing them via a single website. Therefore SNS Bank has further expanded its range of insurance products. Sales of new insurance policies rose significantly, by about 61%. SNS Bank aims to further strengthen the relationship with its customers by offering additional products such as the CZ Zorg-op-maat policy that was introduced in November. The CZ policy offers exclusive discounts and is only available to existing SNS Bank customers.

9.6.2.2 *Handling money in a responsible way*

Through its products and service, SNS Bank aims to make it easy for its customers to manage expenditure and income and to achieve their financial objectives, but that is not enough. People also need to have the personal knowledge, motivation and encouragement to be able to handle money sensibly. SNS Bank is actively promoting this in society. Every year, many employees from SNS Bank, RegioBank, ASN Bank, BLG Wonen and others devote themselves to explaining financial matters to children aged 6 to 12 during the national Money Smart Week. In total, employees of SNS REAAL delivered about 1,200 guest lectures, more than any other institution in our sector.

SNS Bank and SNS REAAL are among the initiators and partners of the Stay on Top of Your Spending Foundation (WWJB). WWJB focuses on increasing financial self-reliance among young people aged between 12 and 25. To this end, WWJB engages with young people, both offline and online. Key activities include interactive and target audience-focused workshops, support for schools with teaching materials and guest teachers as well as special events. Events organised by WWJB in 2012 included MoneySkills to test and improve financial skills, the 2nd Young People & Money Event and Edgie The Movie, a crowd-sourced film featuring Wouter Bos, who gets young people thinking about money and the dilemmas it brings. SNS Bank and SNS REAAL not only made a financial contribution in 2012, but also contributed by enabling their employees to give guest lectures and workshops. For more information, see the website of WWJB.

SNS Bank became involved in the social debate on the stagnating housing market and burden of debt that homeowners have built up and the risks that they are facing. According to a recent survey almost 70% would prefer to finance their home from their own savings as much as possible in order to minimise their mortgage expenses. At the same time, research revealed that only 3% are saving to purchase a home. SNS Bank therefore argued via various media in favour of a system of bouwsparen (home savings) based on the German Bauspar system. To make this initiative happen, the government and other parties involved in the housing market need to take action. Saving rather than borrowing needs to be (fiscally) encouraged. On 31 October 2012, SNS Bank organised a symposium on bouwsparen for politicians, the *government, regulatory bodies, the construction sector, banks, insurance companies and interest groups such as FNV Young (a trade union), the Dutch Association of Estate Agents and the Dutch National Homeowners Association.*

With the reintroduction of Zilvervloot Sparen in September 2012, SNS Bank and RegioBank aim to encourage the habit of saving among children. This objective, in the form of an educational role and in accordance with the Manifesto, is more important than immediately realising returns for SNS Bank and RegioBank. Through Zilvervloot Sparen, parents and grandparents also have a positive involvement in their (grand) childrens' habit of saving.

9.6.2.3 Better listening to customers, improving service

SNS Bank refined its systems to further improve the recording and analysis of customer responses, enquiries and complaints, among other things through more interaction on the website. As a result of these analyses, a lot of improvements were made. In addition, customer satisfaction was measured more frequently and across more sub-areas. The availability of SNS Customer Service was 89%.

In July, SNS Customer Service abolished the system of phone key selection for customers telephoning the bank. Customers are now connected to an employee immediately. Employees were trained in advance to be able to answer the majority of questions in a single call. Calls need to be transferred far less frequently than previously. Waiting times for customers have not increased as a result.

The total number of complaints declined significantly, by approximately 21%. For SNS Bank, this is evidence that products have become simpler and easier to understand and that service delivery has improved. Of all the complaints, 25% for example related to customer care and service, 16% to service delivery and 13% to the cashier function.
SNS Bank also improved the complaints handling itself. This was done by focusing more on directly finding a suitable solution with more authority for the staff member to solve the complaint and to prevent new complaints, instead of finding out who was wrong or right.

The SNS Customer Council acts as a sounding board for the Management Board of SNS Bank. The council is made up of some 20 customers who meet at least four times a year with the members of the SNS Bank Management Board for an open dialogue on numerous topics. Agenda items in 2012 included: the SNS Participation Certificates, marketing campaigns, the role of the SNS Shops in relation to customer service, advice and the Internet, the role of SNS Bank in getting the housing market back on track and SNS Bank's brand identity.

The number of members of the SNS Community rose from approximately 900 members at the end of 2011 to approximately 1,500 at the end of 2012. Members actively think along about improvements of services such as the development process of the mobile app for instance when user tests, research results and discussions had a real influence on the final design of the mobile app. Tips about the revised My SNS Investment environment, the new functionality where a balance deficit is automatically topped up and the method of providing information about changes in interest on savings helped SNS Bank to implement improvements too. Also, the idea for the service card that was introduced in 2012 originated from the SNS Community. Following criticism from the SNS Community regarding the rate of interest on the SNS Jeugdspaarrekening (savings account for youngsters), which was below the rate for adults, the two interest rates were brought in line.

SNS Bank also used the responses, questions and complaints from customers via other channels, in particular SNS Customer Service and the web pages, to make improvements. Other improvements implemented in 2012 included:

- the elimination of the charge for a replacement card
- the keuzedeposito retail savings account is now terminated by definition rather than extended on the expiry date
- reduced response time for mortgage applications and a range of improvements with respect to extensions and changes of the mortgage
- less frequent submission of costly certificates of inheritance by surviving relatives and easier submission of changes.

9.6.2.4 Customer satisfaction

SNS Bank intensified its control of customer satisfaction by measuring more frequently and across more sub-areas. In addition to the Net Promoter Score (NPS), SNS Bank also measures customer assessments in report scores. Once a customer had given a score, SNS Bank's advisors, sales advisors and employees of SNS Customer Service started in 2012 to randomly call back these customers. This gives the employee in question insight into why the score was given. The outcome of this conversation with the customer is recorded, discussed with the manager and used to make improvements. Nevertheless, customer satisfaction of SNS Bank, based on the NPS, fell from -33 at the end of 2011 to -35 at the end of 2012, a limited deterioration.

9.6.3 ASN Bank: number of customers rises to 588,000

The number of ASN Bank customers rose from 575,000 to 588.000 (+2%), although the growth was driven down by the outflow of customers who only had a salary savings account. Years of consistent sustainability policy, product policy, customer service and marketing ensure a strong brand reputation and a high level of customer satisfaction. ASN Bank attaches great value to engagement with its customers and other stakeholders with respect to its mission and issues of sustainability. ASN Bank is keen to ensure that these discussions with customers are more concerned with this issue than with quality of the service. That simply has to be good. According to research conducted by MarketResponse, ASN Bank was again very successful in doing so. As in 2011, ASN Bank was acclaimed most customer-friendly bank in the Netherlands. In addition, ASN Bank was again a frontrunner in responsible banking according to the Fair Bank Guide. The number of employees (FTEs) increased by approximately 10% due to the increase in the number of customers and in the expansion of sustainable credit management.

9.6.3.1 Engagement supports policy and strengthens loyalty

ASN Bank's investment policy is of great importance in performing its mission. The principles of this are set out in issue papers. These are updated not just in the light of new scientific publications, but also via crowd sourcing among customers, NGOs and other stakeholders. The Climate issue paper concept is ready and will be approved by the management board in 2013. On the Ethical Investment Day organised by the ASN Bank in December, the issue of climate change was also the main topic. In addition to presentations by the Management Board and external experts as well as discussions, the day also provided scope for relaxation around this topic. ASN Bank also organises involvement in sustainability via the online platform Voor de Wereld van Morgen (For Tomorrow's World). This platform is open to both customers and other stakeholders. By the end of 2012, the number of members increased to 51,500. For many customers and for the Management Board, the Annual General Meeting of Shareholders of ASN Beleggingsfondsen (ASN Investment Funds) is an important platform to discuss the bank's policy. The central topics in 2012 were the policy and changing regulations with respect to the ASN-Novib Microkredietfonds (ASN-Novib Micro Loans Fund).

If ASN Bank performs well, its social partners will benefit too. Contributions to them, including those of the ASN Foundation, amounted to € 2.6 million, i.e. 7.4% (2011: 4.0%) of the net profit.

9.6.3.2 Customer satisfaction

When it comes to service, customers have high expectations of ASN Bank. Especially the initial experience of new customers is, therefore, of key importance. ASN Bank attaches great value to the Net Promoter Score, because customers who are so positive that they will recommend the bank to other people will make a bigger contribution to the bank's growth than a large group that is only reasonably positive. ASN Bank is one of the few Dutch banks to get a positive rating on customer satisfaction based on the NPS method. Nevertheless, it fell from 34 at year-end 2011 to 22 at year-end 2012. The most likely explanation for this is the negative attention in the media for SNS REAAL and the financing of homes via SNS Bank.

9.6.4 RegioBank: exploit opportunities ignored by other banks

The number of RegioBank customers rose from 511,000 to 530,000 (+4%). At the same time, the number of branches remained more or less stable at 535. Because a lot of other banks are withdrawing from less densely populated regions, RegioBank is serving a growing need for local bank branches offering a personal service and a cashier function. RegioBank has a flexible and low cost structure. Advisors may also broker products from other providers, but savings and payment products are exclusively RegioBank products.

RegioBank is continuing to further strengthen its position as a local bank in the region. In addition to national radio advertising, there were radio ads in Friesian and in seven regional dialects across the Netherlands. The campaigns were well received and made a direct contribution to the growth in the number of customers and the number of sales. RegioBank has good growth potential. Advisors learned how to turn potential customers into actual customers and how to better discuss banking products with their customers. Organised mutual contact between advisors was increased, allowing them to learn more from one another.

9.6.4.1 *Customer satisfaction*

Customer satisfaction at RegioBank, based on the NPS measurement method, increased from -18 at the end of 2011 to -9 at the end of 2012. Customers are particularly satisfied with the personal approach, commitment and customer care. Areas for improvement according to customers were communication and the website. Satisfaction among advisors with respect to the RegioBank formula and organisation rose from 75% at the end of 2011 to 87% at the end of 2012.

9.6.5 BLG Wonen: theme brand with new growth opportunities

BLG Wonen started with the transformation from mortgage advice to house and home-related advice in 2012. That is why BLG Hypotheken became BLG Wonen in 2012. This gave the brand for intermediaries a new positioning which will be further developed in the years ahead. BLG Wonen currently offers three types of products: home loans, home savings and home insurance. At the end of 2012, bank savings were also added to the portfolio. BLG Wonen was present at home and lifestyle events to raise awareness of its home and housing-related services which will be further expanded in the years ahead. BLG Wonen will start customer satisfaction research in 2013 using the NPS method of measurement.

9.6.6 Testing customer interest

The products and services offered by the SNS Retail Bank brands constantly evolve due to changes in customer needs and changes in laws and regulations. In 2012, the brands also tested all their products for new sales using the Group-wide SNS REAAL standards. They measured whether customers' interests are sufficiently put first in accordance with the following criteria: cost-effectiveness, usefulness, security and clarity. The brands also carry out tests to find out if marketing and product communication comply with all internal and external regulations.

9.6.7 Awards

Once again, our retail bank brands won several awards in areas such as customer service, best retail bank website, most flexible current account, best sustainable investment funds and best travel insurance. See GRI 2.10 of the annual report of SNS REAAL for an overview.

9.7 Commercial developments SNS Retail Bank

9.7.1 Savings and payments

9.7.1.1 *Further market share growth*

The total Dutch savings market, including bank savings, increased from € 306 billion to € 324 billion (+5.9%). SNS Retail Bank's market share again grew and increased from 10.0% to 10.3%. At the end of 2012, the total savings amounted to € 32.8 billion. This further limited the bank's funding dependence on the capital market. Especially in the first half of 2012, savings deposits increased. In the second half of the year, reports about the increased losses in the real estate loan portfolio and speculation on the future of SNS REAAL had a negative impact on growth.

SNS Bank's range of savings products has been further simplified. SNS Bank restricted the number of on demand savings products to two: Internetsparen (online saving) for unlimited deposits and Maxisparen for a monthly deposit. Other types with a higher interest rate for a minimum deposit plus a bonus after temporarily not making any withdrawals were abolished.

The introduction of the Zilvervloot Sparen was a great success. From the start of September, around 32,000 accounts were opened at SNS Bank and RegioBank. With Zilvervloot Sparen, both banks are restoring this very popular type of savings for children and young people that dates back to the second half of the last century. At the time, the government offered a maximum premium of 10% on completion of the total saving period. Now, SNS Bank and RegioBank do this. Because they believe it is important that children learn to save. Money can be paid in from birth through to the age of 18, and you can start saving any time up to the age of 16. The maximum deposit is € 600 per annum and the interest payment at year-end 2012 was 2.3%. For each full year of saving, savers receive a premium of 1% on the amount paid in, up to a maximum of 10%.

At the end of 2011, SNS Bank was the first major bank to introduce the current account with interest. It attracted a lot of new customers. A new service is the SNS Servicepas (service card) which allows customers whose bank card has been broken, stolen or lost can temporarily withdraw cash or make payments. SNS Bank is the only bank in the Netherlands offering this service. SNS Bank introduced a functionality whereby a balance deficit can automatically topped up from the savings account on a weekly basis if the customer wishes. The customer can also choose to be alerted when the account is in the red in which case he could possibly take action himself.

A lot of SNS Shops sponsor local activities or devote themselves to good causes. Here are some examples: a marketing campaign around SNS Betalen, in co-operation with Stichting Jarige Job, raised nearly € 50,000 for the birthdays of children aged 4 -12 who grow up in families who are dependent on the Food Bank; a Santa Claus afternoon for disadvantaged children in Oss and participation in the Serious Request campaign in the Enschede region.

9.7.1.2 *Successful savings campaign for ASN Bank and Bio Vakantieoord*

ASN Bank contributed approximately 30% to total net growth of the savings deposits within the retail banking brands by growing the number of customers. In spring, ASN Bank introduced an exceptionally successful marketing savings campaign for Bio Vakantieoord. This institution aims to offer disabled children and their parents a wonderful, care-free holiday. ASN Bank donated € 5 for every customer that opened an ASN Ideaalsparen account and for every customer that paid at least € 1,500 in savings into this account. This resulted in a donation from ASN Bank of € 323,785. Part of the money goes towards energy efficient buildings and part towards providing more facilities for the guests.

9.7.1.3 Spaar-op-Maat and Zilvervloot Sparen popular at RegioBank

ASN Retail Bank contributed approximately 24% to total net growth of the savings deposits of SNS Retail Bank, in part due to a growing number of customers. As with SNS Bank, introduction of Zilvervloot Sparen savings account for children was a great success. This also contributed to a positive brand experience, customer loyalty and additional sales opportunities. In addition to personal contact, many RegioBank customers also value the cashier function at the branches. Approximately 80% of the branches have a cashier function. In 2012 once again, the RegioBank savings products scored well in various surveys, such as various highest scores during the year for the Spaar-op-MaatVrij savings account in the Dutch Consumers' Association Money Guide.

9.7.1.4 Sustained growth in bank savings

Bank savings increased by € 1.3 billion to € 2.4 billion. The figures do not include bank savings for mortgage redemptions. Bank savings products are simple, transparent products with relatively low risks and low costs, which allow our customers to benefit from fiscal exemptions to the maximum. This explains their growing popularity. Sales of pension-related and severance pay products increased by about 67% in 2012. All the bank savings products are on the balance sheets of SNS Bank or RegioBank.

9.7.2 Mortgages

9.7.2.1 Mortgage portfolio remains stable

The market volume for new residential mortgages in the Netherlands fell again, from € 66 billion in 2011 to € 47 billion in 2012. The number of mortgage transactions dropped by approximately 19.7% to 200,000 and the average transaction volume was down by around 11%. The change in fiscal regulations for mortgage deductions that entered into force in 2013 brought a short-term revival in sales at the end of the year.

The total mortgage portfolio of SNS Bank, RegioBank and BLG Wonen, amounting to € 50.6 billion, fell only slightly by 4%, due to a high retention rate. The new mortgages market share fell sharply, from 5.7% in 2011 to 2.0% in 2012. First of all because SNS Bank increased its focus on selling third-party mortgages, which fits in with the aim of strengthening the distribution function and developing independent mortgage advice as a paid service. And secondly because SNS Bank implemented a conservative policy with respect to its own new mortgages in order to limit the capital requirement, due the bank's solvency that came under pressure following the losses on Property Finance’s real estate loans portfolio.

Expert advice, taking into account customers’ individual interests, is essential in providing responsible financial services. At the end of 2011, SNS Bank was the first bank in the Netherlands to introduce a fixed fee for advisory services. With effect from 2013, this applies to all complex financial products. SNS Bank is the only bank in the Netherlands to offer its customers a choice of different brands depending on the mortgage advice given. SNS Bank also brokers mortgages from other providers such as Delta Lloyd and Aegon. In 2012, Syntrus Achmea was added to the product range. As a result, SNS Bank strengthened its position in the market for mortgages with a National Mortgage Guarantee (NMG). The share of new third-party mortgages as part of total sales rose from 8% in 2011 to 29% in 2012. As a result, the total distribution share fell by only 2.8%.

The further deterioration of the housing market, coupled with rising unemployment, left more people facing financial difficulties. The number of people in arrears increased and the level of the impairments rose too. The number of impairments rose sharply from € 40 million in 2011 to € 98 million in 2012. The number of mortgages in arrears rose by 9.3%. A high proportion of new mortgages are covered by the National Mortgage Guarantee (NMG). In 2012, this proportion was 48.8%.

9.7.2.2 Preventing problems and helping to solve problems

At the end of 2012, SNS Bank and RegioBank set up a new service called 'Special Attention', to prevent customers from having potential payment problems. Based on customer profiles, SNS Bank and RegioBank contact high-risk customers because their mortgage costs are forming too big a part of their disposable income, such as customers with a high LTV (loan-to-value) mortgage or in arrears. In addition, customers whose fixed interest period was about to expire were informed of the risk of rising interest rates from 2013. RegioBank draw customers attention to the risks of (maintaining) too high a mortgage via the Oplossing voor uw Aflossing (Resolve your redemption) campaign. RegioBank points its customers to various options to secure redemption, for example via an annuity mortgage, a linear mortgage or via bank savings. The best solution varies from customer to customer. Following the initiative, 2% of the customers redeemed (part of) their mortgage.

The Special Credits department focuses on customers who want to pay their mortgage, but are no longer able to do so. Account managers try to help and offer solutions. SNS Bank is keen to differentiate between people with a poor payment attitude and people who act entirely in good faith. SNS Bank account managers visit customers in their homes, find out more about the financial situation, make suggestions for reducing expenditure and/or increasing income and then seek to find a solution together with the customer. Such a solution is always more beneficial for both parties than the forced sale of the house at an auction. The number of forced sales was 988 in 2012 compared with 906 in 2011.

9.7.3 Investments

Customers' appetite for investments remained low due to the weak economic environment and volatility on the financial markets. The preference for saving increased. Expiring unit-linked insurance policies and investment-linked mortgages also played a part in this. Nevertheless, the total assets under management in the SNS investment funds increased to € 5.1 billion (+8.1%), mainly due to gains on bonds and next to that to gains on shares.

9.7.3.1 Enabling customers to make responsible choices

SNS Bank strives for a well-ordered range of investment opportunities and helps customers to make their own choices that best suit their needs as well as their knowledge and experience. Customers can test which form of investment best suits them via the website. Subsequently, they gain insight in the various options and cost structures per investment method.

At SNS Bank, customers can invest independently via SNS Fundcoach or SNS Zelf Beleggen. SNS Fundcoach offers a choice of around three hundred large international and specialist investment fund providers. Via SNS Zelf Beleggen, customers invest in stocks, bonds, options and a limited number of investment funds. The number of transactions via SNS Zelf Beleggen fell slightly.

9.7.3.2 Responsible investments and responsible performance

SNS investment funds are actively managed funds. This means that they do not automatically track the index for the sectors in which they invest. SNS Asset Management (SNS AM), the manager of the SNS Investment Funds, thus aims to achieve two key objectives:

- by adhering to our Fundamental Investment Principles, we exclude non-sustainable investments. That is to say, we do not invest in companies that violate the so-called ESG (Environment, Social, Governance) criteria and, therefore, do not sufficiently respect SNS AM's principles in the area of human rights, the environment and corporate governance;
- a better average performance than so-called index funds, justifying the slightly higher costs for active management.

SNS Bank sets out the social and environmental aspects of its investment policy on its website. SNS Bank also demonstrates on its website to what extent its investment funds comply with the ESG criteria: 100%, 100-85%, 85-65% or less than 65%. The ESG criteria cannot be 100% guaranteed for every fund given that SNS AM purchases part of its investment management from third parties. SNS Bank publishes a quarterly report on its website regarding excluded companies and active shareholdership. In 2012, the reports – also within the scope of putting customers' interests first - were better tailored to meet private interested parties by making them more compact and by publishing them in Dutch for the first time.

The Fair Bank Guide raised the scores of SNS Bank and RegioBank compared to the previous year due to tightening of the policy for investments for own account and business funding in the areas of climate and biodiversity. This led to improvements in the scores for nature, health, transparency and the forestry industry. The Fair Bank Guide compares the eleven largest providers of individual current and savings accounts in the Dutch market. It looks at the banks' own investments and funding as well as the asset management for customers.

SNS investment funds performed well in 2012, with high absolute returns for stock, bond and mixed funds. Particularly in the second half of the year, following calming statements made by the president of the ECB, equity markets rose and capital market interest rates decreased sharply, causing the prices of bond fund to rise. Of the sixteen funds, thirteen funds - more than 80% - achieved a return of 10% or more. For example, SNS Euro Mixfonds, the largest of them, with invested assets of € 1.9 billion, achieved a return of 15.6% based on intrinsic value and net of costs. The funds also performed well compared to relevant benchmarks. Of the sixteen funds, twelve funds - or 75% - performed better than the benchmark on the basis of intrinsic value net of costs. Thus, SNS Euro Share Fund outperformed the benchmark by 2.5%. Research agency Morningstar gives investment funds a rating based on stars for their yield-to-risk ratio.
SNS investment funds scored well at this rating scale at year-end:

- three funds with the maximum of five stars;
- seven funds with four stars;
- four funds with three stars;
- one fund with two stars.

The SNS High Dividend Equity Fund did not get a rating. This is because of the specific regional weight of this fund (60% Europe versus 40% US) and the hedging of all currencies against the euro. The risk-return characteristics of this fund are therefore not comparable to that of the benchmark.

9.7.3.3 Participation Certificates

On 1 February, the Minister of Finance decided to nationalise SNS REAAL and to expropriate, inter alia, the third series of SNS Participation Certificates. The first possible maturity date of this series was 23 June 2013. The Council of State subsequently determined inter alia that the nationalisation and expropriation of the third series of SNS Participation Certificates irrevocably remains in force. The Enterprise Chamber of the Amsterdam Court is currently dealing with a lawsuit to determine the compensation amount. The State proposed € 0 as compensation amount for the SNS Participation Certificates.

The Minister of Finance has requested SNS Bank to investigate if the bank may have acted or advised improperly with respect to the certificates in the past and, if necessary, to make a compensation proposal. Further to the Minister's request, SNS Bank gives preferential treatment to this investigation. The Minister has requested the Netherlands Authority for the Financial Markets (AFM) to monitor the investigation. SNS Bank will provide more information as soon as possible.

9.7.3.4 ASN Bank specialist in sustainable investments

Interest in the ASN investment funds remained more or less stable. The outflow was around 0.5%. ASN Bank's criteria for sustainable investments go a step beyond the criteria of SNS Bank, REAAL and Zwitserleven. ASN Bank sets out the exclusion and inclusion criteria on its website. The bank also makes every effort to encourage responsible investment in general, in part through the Groenberaad Banken, the Association of Investors for Sustainable Development, the United Nations Environment Programme Finance Initiative (UNEP FI) and the Carbon Disclosure Project. In 2012, ASN Bank remained one of the frontrunners in the Fair Banking Guide’s assessment.

ASN Bank measures the carbon dioxide emissions from companies in which its investment funds invest. ASN Bank measures the effectiveness of its climate policy by calculating the carbon dioxide emissions of the equity funds. In 2012, ASN Bank developed a new calculation method. This method no longer starts from the relative, but from the absolute carbon dioxide emissions. Because ASN Bank calculates the average absolute carbon dioxide emissions per fund, it measures the real impact of its investments on the earth’s carrying capacity. After the formal adjustment of the investment policy, ASN Bank will implement this calculation method of the carbon dioxide emissions in 2013.

9.7.3.5 Exclude but still exercise influence

Sustainable investment has its dilemmas. Should you invest in companies that do not (fully) adhere to responsible principles so that you can aim for improvements through a voting policy and engagement? Or should you exclude these companies from your investments, preferably together with other parties, and try to enforce changes via the media or political lobbying? Both methods can prove successful. ASN Bank opts for exclusions more frequently than other banks. Thus, ASN Bank paid attention to Philips in its portfolio. Philips had an interest in DutchAero which is involved in the production of the Joint Strike Fighter. ASN Bank excludes all companies that are involved in arms production, via trade or distribution. ASN Bank repeatedly put across its point of view at shareholders' meetings via the Dutch Association of Investors for Sustainable Development. Philips reduced its share in DutchAero by 20% in the beginning of 2012. Philips now forms part of the ASN Bank investment universe.

9.7.3.6 More ASN Bank loans for companies

In 2012, Dutch banks, in line with the majority of European banks, adopted a defensive loan policy with regard to the economic crisis, the poorly accessible capital market and the increasing requirements for buffer capital. Bucking this trend, ASN Bank was able to increase its sustainable loans for project development in 2012. The number of new loans rose from € 138 million in 2011 to € 174 million (+26%). Of this, € 110 million was loaned directly by ASN Bank and € 64 million was loaned via the ASN Groenprojectenfonds, ASN Green Projects Fund in which private customers can invest. The total ASN Bank loan portfolio for project development thus increased from € 287 million to € 366 million (+ 27.5%) at the end of 2012. ASN Bank tests projects for loans against the sustainability criteria of human rights, climate and biodiversity. Large projects are also tested against the international Equator Principles. In addition to the loans, a further € 219 million was invested in private loans and € 89 million in corporate bonds.

ASN Bank also invests in affordable housing via NMG mortgages or private mortgages with comparable features. These mortgages give people on a moderate income the chance to live pleasantly.

ASN Bank believes that people in the sustainable society of the future want to live in good, affordable, energy-efficient homes. Although ASN Bank seeks to invest in mortgages for energy-efficient homes that are built with sustainable materials, in practice this is not yet possible on a large scale. ASN, therefore, places emphasis on the social aspect: ASN Bank primarily invests in mortgages for people with lower and middle income. As with all investments, ASN Bank continuously strives to make its investments in residential mortgages more sustainable. To this, ASN Bank will give further substance in the coming years in the context of its long-term objective for the climate. Along with SNS Bank, BLG Wonen and RegioBank, ASN Bank is working on a policy document in which all aspects of a social, sustainable housing policy is further elaborated on.

In 2012, € 250 million in new loans was extended for these mortgages. At the end of 2012, approximately € 4.5 billion was outstanding in loans for mortgages. According to ASN Bank risk standards, the value of the mortgages for the entire mortgage portfolio may not exceed 110% of the foreclosure value. At the end of 2012, this percentage was 77.9%.

The investment arm of ASN Bank became manager of the Energy Fund Overijssel. This fund aims to invest € 250 million in energy savings and new energy over the next years. It enables entrepreneurs to invest in sustainable energy such as biomass, solar and geothermal through loans, participations and guarantees and provides information to help them along the way. This objective fits in well with ASN Bank's mission to encourage sustainability in society. ASN Bank collaborates on this assignment with Royal HaskoningDHV and Start Green Venture Capital which contribute technical knowledge and management of the shareholders' equity.

9.7.3.7 Positive profit contribution SNS Securities

Although profit contribution from SNS Securities declined due to the challenging market environment, it remained positive. SNS Securities retained its strong position and achieved growth in the corporate bonds market. SNS Securities also provides individual asset management and investments with advice for assets from € 250,000. This market came under severe pressure. On 19 December 2012, SNS Securities signed a letter of intent to sell its private banking activities to Bank ten Cate & Cie in the second half of 2013.

Other activities of SNS Securities are securities services (shares, bonds and derivatives) for national and international professional investors and support to SMEs and larger businesses with respect to private and public capital market transactions. The securities research carried out by SNS Securities focuses in particular on the Dutch small and midcap funds. The macro-economic research is also used for risk management purposes within SNS REAAL.

10 Developments Property Finance

10.1 Financial developments at Property Finance

Property Finance

In € millions	2012	2011	Change
Result			
Net interest income	98	123	(20%)
Result on financial instruments	(12)	(36)	67%
Other operating income	(2)	(9)	78%
Total income	**84**	**78**	**8%**
Impairment charges to loans and advances	941	284	231%
Impairment charges goodwill	47	-	0%
Total operating expenses	116	106	9%
Other expenses	1	-	0%
Result assets and liabilities held for sale	-	4	(100%)
Total expenses	**1,105**	**394**	**180%**
Result before tax	**(1,021)**	**(316)**	**(223%)**
Taxation	(208)	(73)	(185%)
Net result for the period	**(813)**	**(243)**	**(235%)**
One-off items	(47)	-	
Adjusted net result for the period	**(766)**	**(243)**	**(215%)**
Impairment charges as a % of average gross outstandings	10.27%	2.50%	
Risk-weighted assets Basel II	7,511	9,724	(23%)
Total net exposure	7,031	9,413	(25%)
Property projects	416	512	(19%)

10.2 Result 2012 compared to 2011

The net loss of Property Finance increased sharply to € 813 million, mainly driven by sharply higher loan impairments, reflecting the further weakening of real estate markets and an impairment of the remaining goodwill. Impairment charges increased to € 941 million, of which € 772 million occurred in the second half of 2012. Furthermore, net interest income was lower, operating expenses were up and the effective tax rate was lower due to non tax-deductable losses on some international loans.

10.3 Income

Net interest income declined by € 25 million (-20%) due to the run off of the loan portfolio. The lower loan portfolio also entailed lower interest-related fee and commission income included in net interest income.

The result on financial instruments of € 12 million negative improved with € 24 million compared to 2011 due to lower discounts on the sale of performing loans, reflecting the slowdown to sell non-default loans to third parties.

Other operating income amounted to € 2 million negative compared to € 9 million negative in 2011, due to a narrowing loss on participations, following the sale of a North American property project in 2011.

10.4 Expenses

Impairment charges increased by € 657 million to € 941 million and consisted mainly of impairments on loans (€ 718 million; 2011: € 196 million). Impairments on property projects rose to € 210 million (2011: € 91 million). Impairments on participations were € 13 million (2011: a reverse of € 3 million).
Impairment charges on the Dutch portfolio rose to € 569 million compared to € 156 million in 2011, due to the weakening of Dutch real estate markets. Impairment charges on the international portfolio increased to € 372 million from € 128 million in 2011 mainly driven by higher impairment charges on loans and property projects in Spain and France.

Impairment charges on Property Finance's portfolio increased substantially compared to 2011 and also in the second half compared to the first half of 2012. This was the result of several developments.

First of all, it became increasingly clear that the economic recovery was taking longer than expected. At the end of 2012 and early 2013, several influential parties subsequently adjusted their expectations further downward. This was also clearly reflected in the further deterioration in the outlook on the real estate markets, including the Dutch market. Due to this and to the lack of reference transactions, appraisers have become more cautious. In addition, in some countries, including the Netherlands and Spain, the refinancing market shrank further or is now practically closed.

In the valuation of the portfolio with the estimation of future cash flows, transactions are used which can be observed in the market and which are to a certain extent comparable. Due to the increasing lack of liquidity in current markets, appraisers had difficulty to test a large part of the portfolio against recent relevant comparable market transactions. This meant that the assumptions and estimates made by Property Finance in the valuation of loans were exposed to significant uncertainties, greater than under normal market conditions, resulting in a broader bandwidth for the valuations.

All this was reflected in a perceptible decline in the pace of the run-off, in lower estimates of expected future cash flows and, in some cases, in a necessary adjustment to the exit strategy.

As a result of the aforementioned developments the number of loans in default increased during the second half of 2012 and consequently, provisions were made.

Moreover, the collateral of the total portfolio was reappraised during the year, including a major part of the portfolio that was in default during the third and fourth quarter of 2012. On top of these valuations, based on the developments in the real estate markets, an additional reassessment was executed of the valuations of a number of (critical) property projects at the end of the fourth quarter and in the beginning of 2013.

Finally, due to the postponement of the publication date of SNS Bank's Annual Report 2012 subsequent to the nationalisation, events have – more than in previous years – taken place after the balance sheet date. Thus, pursuant to the regular review process in 2013, we received more updated appraisals resulting in a lower valuation compared to the original balance sheet valuation, due to the previously outlined unfavourable economic developments and further declining real estate markets. This lower valuation as per 31 December 2012, resulting from new insights of the updated appraisals in 2013, also affected the level of loan impairments.

Goodwill impairments of € 47 million related to the remaining goodwill from the acquisition of Property Finance in 2006 and reflected the repositioning of SNS SME, the integration of the former core portfolio into Property Finance and the subsequent objective to run it off.

Operating expenses increased by € 10 million to € 116 million due to higher legal and advisory costs related to the run off of the loan portfolio and higher restructuring charges.

10.5 Portfolio development

Table 14: Breakdown Property Finance portfolio

In € millions	2012	2011
Total portfolio		
Commitments	7,880	9,626
Undrawn commitments	48	88
Outstanding loan portfolio (gross)	**7,832**	**9,538**
Loan provision	1,217	637
Outstanding loan portfolio	**6,615**	**8,901**
Property projects	416	512
Total net exposure	**7,031**	**9,413**
Non-performing loans	2,649	1,769
Non-performing loans as % of loans outstanding	33.8%	18.5%
Coverage ratio	45.9%	36.0%
Average loan-to-value (LtV)	100.9%	88.6%
Dutch portfolio		
Commitments	6,348	7,469
Undrawn commitments	66	61
Outstanding loan portfolio (gross)	**6,282**	**7,408**
Loan provision	867	366
Outstanding loan portfolio	**5,415**	**7,042**
Property projects	106	36
Total net exposure	**5,521**	**7,078**
Non-performing loans	1,899	1,171
Non-performing loans as % of loans outstanding	30.2%	15.8%
Coverage ratio	45.7%	31.3%
Average loan-to-value (LtV)	101.3%	87.0%
International portfolio		
Commitments	1,532	2,157
Undrawn commitments	(18)	27
Outstanding loan portfolio (gross)	**1,550**	**2,130**
Loan provision	350	271
Outstanding loan portfolio	**1,200**	**1,859**
Property projects	310	476
Total net exposure	**1,510**	**2,335**
Non-performing loans	750	598
Non-performing loans as % of loans outstanding	48.4%	28.1%
Coverage ratio	46.7%	45.3%
Average loan-to-value (LtV)	99.4%	94.4%
Breakdown international portfolio (geographical)		
Germany	333	592
Spain	198	403
France	145	206
Other Europe	634	703
North America	200	431
Total net exposure	**1,510**	**2,335**

10.6 Total portfolio

Total net exposure declined by € 2.4 billion to € 7.0 billion (-25%) compared to year-end 2011. This decline was due to impairment charges of € 0.9 billion and transactions (sales, redemptions) of € 1.5 billion. Total commitments declined by € 1.7 billion to € 7.9 billion (-18%).

Non-performing loans increased by more than € 0.9 billion to € 2.6 billion. The new inflow, of which 69% related to Dutch loans, was partly offset by the sale of non-performing loans and the foreclosure and reclassification to property projects. Total non-performing loans as a percentage of gross loans increased from 19% to 34%.

Total loan provisions increased by € 580 million to € 1,217 million due to additions, partly offset by the reduction of the loan portfolio and the foreclosure and reclassification of non-performing loans to property projects. The coverage ratio increased from 36.0% to 45.9%. The average LtV of the total loan portfolio increased from 88.6% at year-end 2011 to 100.9%.

Property projects (real estate projects where Property Finance has taken control) decreased from € 512 million to € 416 million mainly due to impairments. Foreclosures in 2012 consisted of two domestic projects and two projects in Spain.

10.7 Dutch portfolio

The total Dutch net exposure declined by € 1.5 billion to € 5.5 billion compared to year-end 2011 (-22%), mainly through impairments and redemptions. Total commitments declined from € 7.5 billion to € 6.3 billion (-15%).

Non-performing Dutch loans increased sharply by € 728 million due mainly to new inflows reflecting the further weakening of domestic real estate markets. Total non-performing loans as a percentage of gross loans outstanding increased from 16% to 30%. The coverage ratio increased from 31% to 46%. The average LtV of the Dutch portfolio increased sharply from 87.0% to 101.3%. Net of provisions, the average LtV of the Dutch portfolio amounted to 87.0% (year-end 2011: 82.7%).

10.8 International portfolio

The total international net exposure declined from € 2.3 billion at year-end 2011 to € 1.5 billion (-36%). The exposure was reduced through redemptions, the sale of loans, movements in foreign exchange rates and impairments.

Total commitments declined from € 2.2 billion to € 1.5 billion (-29%). Non-performing international loans increased strongly from € 0.6 million to € 0.8 billion. New inflow of non-performing loans related to Spain, Italy, Germany and France. The outflow mainly related to North America and Germany. As a percentage of gross loans outstanding, non-performing loans increased from 28% to 48%.

In North America the coverage ratio increased from 54% to 74% due to a decline in non-performing loans resulting from partial redemptions. The coverage ratio in Europe increased from 38% to 41%. The average LtV of the international portfolio increased from 94.4% to 99.4%. Net of provisions, the average LtV of the international portfolio amounted to 77.3% (year-end 2011: 82.4%).

10.9 Restructuring following nationalisation

As part of the restructuring, after the transfer of SNS SME core portfolio, and following the nationalisation of SNS REAAL, the total real estate finance portfolio and activities of Property Finance will be transferred to a separate asset management organisation outside SNS REAAL. This transfer entails a € 2.8 billion gross write-off of the total assets compared to the book value at 30 June 2012. The additional write-off takes into account the € 772 million incurred losses which already had been provisioned for in the second half of 2012 and € 4 million discounts on loans sold and thus will amount € 2,024 million (pre-tax). This write-off has become effective in the first quarter of 2013 by taking a provision. SNS Bank will continue the funding of this portfolio, also after the intended transfer. The Dutch State intends to provide a guarantee of approximately € 5 billion for the funding of Property Finance. As soon as the guarantee has been obtained, combined with the transfer, SNS Bank will not bear the credit risk on an equivalent amount of funding. Consequently it will not carry the related risk-weighted assets in its capital ratios anymore. SNS Bank will strive to gradually replace this funding by third-party funding.

11 Risk and capital management

The capital risks of SNS Bank NV (SNS Bank) were a major source of concern as early as 2011, as the EBA stress test showed that SNS Bank had a capital shortfall. By mid-2012 the capital ratio was strengthened mainly by reducing the risk-weighted assets and a capital contribution. Causing concern, however, were the underlying driving factors of falling capital ratios, i.e. the value changes at Property Finance in particular and higher capital requirements. As the risks in SNS Bank's property finance portfolio were found to increase so much during 2012, it could only be concluded that, without additional measures, the solvency might not be improved sufficiently to meet the (internal) capital standards for the bank and the Group (SNS REAAL) in the medium term in combination with the planned repayment of the state support. That is why it was decided to proceed to strategic reorientation, as communicated in July 2012. Various scenarios were examined looking for a reinforcement of the capital base.

In the second half of 2012, SNS Bank was forced to take substantially higher impairments on property loans and real estate projects in the balance sheet. Several factors contributed to this situation. Firstly, the macro-economic situation worsened. But there was mainly a matter of deterioration of the real estate market to which the Dutch real estate markets were no exception. These deteriorating conditions were reflected in increasing caution on the part of appraisers, which was also partly due to the lack of reference transactions. On top of this, in some countries, including the Netherlands and Spain, the refinancing market continued to shrink or was virtually closed. For the real estate portfolio, all this translates in a perceptible decline in the run-off pace, in lower estimates of the expected future cash flows and, in a number of cases, in a necessary adjustment of the adopted exit strategy. Following the aforementioned developments, we saw the number of loans in default rising further in the second half of the year, forcing us to make provisions for more items.

Property Finance has conducted a thorough examination of its property loan portfolio with the assisted by an external party. It assessed for each property what the potential losses could be for the years to come. This assessment took into account the country or region, the type of real estate and the condition of the relevant real estate. These analyses learned that the potential losses were higher than previously assumed. This resulted in an increase in impairments. Also for residential mortgages impairment losses increased. The decrease in value of houses is mainly based on statistical models. Recent developments are used to rebuild these models. The new models project, under the same circumstances significantly, higher losses.

Due to these developments, the financial position of SNS Bank in 2012 weakened. The core Tier 1 ratio decreased from 9.2% in 2011 to 6.1% ultimo 2012, and thus below the limit required by DNB and under the internal standard of at least 9%. The necessity to come up with a comprehensive solution increased.

By the end of 2012, SNS REAAL was frequently in the media. This ultimately resulted in the outflow of savings and deposits from SNS Bank. In January 2013 the negative publicity further intensified. The increasing outflow of savings and deposits resulting from this was reason to activate SNS Bank's Liquidity Contingency Plan in January 2013. The relatively high liquidity buffers of SNS Bank and the proper functioning of this plan proved to be adequate for cushioning the liquidity outflow in January.

At the end of 2012, SNS Bank concluded in its Internal Capital Adequacy Assessment Process (ICAAP) that it would have insufficient capital in time if it did not take any additional measures. If negative economic developments were to continue, it would be unlikely that SNS REAAL would be able to repay the State aid in time (no later than year-end 2013) just like that. In the years to come, the capital ratio of the company would come under even more pressure and the – hitherto - rising capitalisation would not improve further.

De Nederlandsche Bank (DNB) informed SNS REAAL through its Supervisory Review and Evaluation Process (SREP) of its presumption that the risks in the real estate loan portfolio were more material than previously assumed by SNS Bank and that an increase in the core capital in the short term is needed. As, in DNB's view, SNS REAAL was not able to meet the requirements set for this purpose within good time, DNB informed the Ministry of Finance that DNB no longer deemed it justifiable for SNS Bank to continue its banking activities. The Ministry of Finance subsequently decided on 1 February 2013 to nationalise SNS REAAL as described in Chapter 3.

11.1 Risk management in exceptional circumstances

In 2012 and in January 2013, SNS Bank's risk management was strongly driven by the exceptional circumstances facing the company:

- In the second half of 2012, SNS REAAL was frequently in the media, which resulted in uncertainty and speculations about SNS Bank's survival. In the same period, SNS Bank amongst other improved the eligibility of its asset portfolio. As from mid-January 2013 until the moment of SNS REAAL's nationalisation on 1 February, there was an increased outflow of savings and deposits. The liquidity buffers of SNS Bank (year-end 2012 € 11.5 billion) proved adequate to cushion the outflow in January 2013.
- Property Finance's losses were larger than expected and increased in the course of the year.
- The housing market again showed weak volumes and weak price development in 2012. The chances of payment defaults and losses in the event of foreclosure increased, which was reason for SNS Bank to intensify its arrears management in the course of the year. The combination of the deteriorating credit risk environment and the introduction of stricter risk assessment models for loans in this market, resulted in an increase in risk-weighted assets under Basel II, putting further pressure on the capital ratios.
- The market risk of investments in European government bonds remained high in 2012. As of September 2012, tensions in the bond market slightly diminished as a result of the ECB's statements that the euro was to be defended 'at any cost'. This had its effect on the valuation of bonds.

The nationalisation of SNS REAAL put a halt to the outflow of savings and deposits, reinforced the capital base of the SNS Bank and placed the risk associated with the financing of commercial property outside the company. SNS Bank now has the possibility to shift its focus back to its core activities and to further reinforce its capital base.

11.2 Key financial risks for SNS Bank

The nationalisation removed the liquidity risk and the risks associated with the financing of commercial property. Currently, the key financial risks for SNS Bank are:

- Continued stagnation and declines in value in the housing market due for instance to rising unemployment, uncertainties with regard to economic developments including house prices and uncertainties as to additional political measures with respect to the housing market. The amended government policy of February 2013 removes some uncertainty, such as on the mortgage interest tax relief, but house prices could fall further, which is negative for the losses in the event of foreclosure and thus for the credit losses on SNS Bank's (residential) mortgage portfolio.
- Persistent risks surrounding the euro, including the risk of partial payment default by a European member state. SNS Bank has a portfolio of government bonds, the value of which may come under pressure.
- Due to the economic recession, the risks of claims and of customers coming to face financial problems have increased, with potentially negative consequences for profitability.
- Exposure to interest rate differences between European countries and between different fixed-income instruments, which mainly manifests itself in potential volatility of the market value of fixed-income investments.
- Amended regulatory rules in the financial sector and uncertainty as to how fast those rules will be implemented. This makes it difficult to control the balance sheet and profitability.
- The arguments given in the appeal before the Council of State give rise to the conclusion that the owners of the expropriated assets are considering to begin legal procedures against SNS Bank to claim damages.
- The European Committee has provisionally approved the rescue aid from the State. For this rescue aid and the other elements set out in the letter to the Dutch House of Representatives (Kamerbrief), approval will be requested in the restructuring plan that is to be presented no later than 22 August.

For more information see Financial risk management chapter 21.

11.3 Capitalisation

11.3.1 Capitalisation SNS Bank

Increasing losses on real estate were obviously the main determinant of the deteriorating capital ratios. The deteriorating capital ratios were reinforced by a number of developments in the retail activities. These were driven by the developments in the Dutch mortgage market. House prices fell, unemployment rose and arrears and foreclosures increased. As a result, the probability of default (PD) increased, as did the expected losses in case of default (LGD). Hence, the expected losses and the risk-weighted assets (RWA) increased. The introduction of a new, but also more conservative internal model for mortgages reinforced all this. The increase in RWA of the internal mortgages model significantly contributed to the 80% floor of Basel I no longer being the determinant for the capital ratios, but the capital requirements under Basel II.

11.3.2 Strategic reorientation

As the year progressed, the dialogue between the Supervisory Board and the Management Board on the nature, extent and possible solutions of the capital shortfall that was gradually becoming more evident intensified. This subject was discussed in several Supervisory Board meetings.

11.3.3 Pro forma capitalisation

The pro forma capitalisation of SNS Bank has improved after the nationalisation. The pro forma core Tier 1 ratio of SNS Bank, by the end of 2012 is 14.9%. This includes the already completed and currently intended aid measures.

The pro forma solvency ratios take into account all known effects ensuing from the nationalisation, including subsequent effects, such as:

- The write-off of the real estate portfolio to the values as determined by the Minister by transfer of Property Finance to a real estate management organisation. The loss on the real estate portfolio on separation is € 2.8 billion compared to the book value of June 2012 (refer to section 3.2.1). Of this amount, € 776 million is recognised in the second half of 2012. For the remaining loss, a provision of € 2.0 billion has been made in the first quarter of 2013. This provision will lead to a decrease in the risk-weighted assets of SNS Bank as per 1 February 2013, after which the remaining risk-weighted assets will be released at the external transfer of the portfolio (refer to 3.2.1).
- The expropriation of and conversion into equity of the subordinated debt of SNS Bank and incorporation into the assets of the results from the reduction of derivatives relating to the expropriated items.
- A paid-in share premium of € 2.2 billion by the Dutch State in SNS REAAL, € 1.9 billion of which has passed through as share premium to SNS Bank.
- The release of around € 5.5 billion in risk-weighted assets by transferring the activities of Property Finance to a new, to be established real estate management organisation in combination with the government guarantee of around € 5 billion for the temporary loan that SNS Bank will provide to this real estate management organisation.
- The contribution by SNS Bank to the Resolution levy imposed by the Minister.
- An estimation of the deferred tax asset resulting from the impairments of Property Finance and the conversion into equity of subordinated debts.

SNS Bank aims at a strong solvency in light of the further implementation of Basel III.

11.4 Liquidity

Given the uncertainty and negative publicity about SNS Bank, SNS Bank did maintain a high liquidity position in 2012 too. At year-end 2012, this liquidity position was € 11.5 billion. By the end of 2012, SNS REAAL was frequently in the news. Confidence among consumers and in the financial markets in a solution to reinforce the capital base of SNS REAAL dwindled. This ultimately resulted in an increased outflow of savings and deposits in January 2013, which was the reason to activate SNS Bank's Liquidity Contingency Plan. The relatively high liquidity buffers of SNS Bank and the proper functioning of this plan proved adequate to cushion the outflow of liquidity in January 2013 (see section 21.7.2 Liquidity risk policy and 21.7.3 ILAAP).

After the nationalisation, the outflow of savings and deposits came to a halt. However, SNS Bank still maintains a high liquidity position, as – on the one hand – the situation on the (interbank) money and capital markets has not yet normalised and – on the other hand – regulatory bodies are expected to require higher liquidity buffers in the future (as announced in the Basel III regulations).

11.5 Management of non-financial risks

The financial crisis and the subsequent public debate about the financial sector made it clear that culture and conduct are essential for restoring confidence in the financial sector. SNS Bank puts customers' interests first in its mission, core values and strategy. Also for that reason, measures were taken in 2012 to further improve the control of non-financial risks. The basis for this control is complying with laws and regulations and internal rules and maintaining and promoting integrity in the corporate culture. SNS Bank has a Code of Conduct and a set of measures in place to guarantee integrity in the conduct of its business. Signals indicating a violation of this integrity are investigated.

Developments in the management of non-financial risks

Major new developments in the management of non-financial risks were the following:

- The Group Risk Committee (GRC) of SNS REAAL, set up in 2011, met periodically in 2012. The GRC sets SNS Bank's policy frameworks for both financial risks and non-financial risks and supervises their implementation.
- The results of the integrity assessment in 2011 led to various improvements in 2012. In addition, a number of integrity-related issues were included in the employee survey. The results of this survey form the basis for improvement plans.
- In 2012, a risk appetite dashboard for non-financial risks was introduced. It gives the management insight into the extent to which business is conducted within the limits of the risk appetite.
- SNS Bank was increasingly faced with threats of cybercrime. SNS Bank is closely monitoring these developments and takes appropriate measures where necessary.

For more information see chapter 23 Non-financial risk management.

11.5.1 Property Finance

During the financial year reasonable suspicion of irregularities was obtained in respect of invoices and expense reimbursement claims regarding the hiring of third parties and cooperation with third parties in Property Finance. This has partly occurred at management and supervisory functions on projects.

Currently these signals, which indicate irregularities, are under further investigation. Concrete evidence of irregularities will lead to claims. These claims are inherently uncertain and, therefore, do not lead to recognition of a receivable in the balance sheet or to a disclosure of a contingent asset at this time.

We have implemented several measures to prevent reoccurrence of these irregularities. Inter alia, the employees potentially involved no longer work for Property Finance. If applicable, our relationships with third parties associated with these individuals have been terminated. In addition, a number of managers and employees of Property Finance have been suspended pending the investigation. Furthermore, suspicions of criminal offenses arising from the conduct of these employees are reported to the authorities. The continuation of our investigation of potential irregularities is one of the measures taken by SNS REAAL in response to the signs of potential irregularities.

In addition to the investigations carried out by SNS REAAL there is an investigation by the criminal authorities. To the extent possible and allowable under Dutch law, SNS REAAL cooperates with the criminal authorities. It is possible that at the completion of investigations, matters arise that could affect the valuation of assets and liabilities.

Finally, with respect to a limited number of loans, irregularities are suspected which took place before 2010. These files are currently being investigated with the assistance of a third party.

11.6 New regulation and their implementation

11.6.1 New regulations

The negotiations in Europe on the implementation of the Capital Requirements Directive IV, or the CRD IV, had not yet been completed by the end of 2012. CRD IV is a European directive for the implementation of the Basel III regulations published in 2011 aimed at reinforcing the capital and liquidity of banks and investment firms. DNB voiced the expectation that CRD IV and the corresponding CRR Regulation will take effect on 1 January 2014 at the earliest. SNS Bank is anticipating the new capital and liquidity requirements ensuing from them or taking effect in the near future.

11.6.2 Basel III migration plan

In May 2012, SNS Bank updated its Basel III migration plan, which included a base case scenario. According to the Basel III standards, SNS Bank met all the liquidity and solvency requirements in time in this base case scenario. The plan also included the consequences of several negative scenarios, such as a further deteriorating real estate market, and possible measures to tackle these consequences.

As explained above, at year-end 2012, the conclusion of the Internal Capital Adequacy Assessment Process (ICAAP) was that SNS Bank would not meet the capitalisation requirements in the stress scenario used.

11.7 Developments in the risk management organisation

The SNS REAAL risk management organisation aims at strengthening the Group policy and the frameworks within which risk policy is defined. Continuous improvement of quality and efficiency of risk management are the central theme here.

In addition, the developments on financial markets and the economic recession require a dynamic risk management organisation. The cultural shift in the financial sector requires, among other things, a stronger focus on putting the interests of clients first, combined with the development of corporate responsibility.

An analysis of the risk management organisation resulted in a number of fundamental improvements, better safeguarding the clear definition of risk frameworks and decision-making processes. The main developments in 2012 were as follows:

- Introduction of improved Risk Governance
- Review (update) of the Risk Management policies pursued within SNS REAAL
- Enhanced demarcation of duties and responsibilities among Group Risk Management and BU Risk Management, and the introduction of functional lines for the Risk function from Group Risk Management.
- The proposed split off of the Risk Management activities of Property Finance and those of SNS Retail Bank resulting in a separate department Risk Management Property Finance as per 1 January 2013.

For more information, see paragraph 20.2 Risk Management organisation.

12 Funding and credit ratings

The risk surcharges in the capital market decreased in the second half of 2012, but SNS Bank NV's (SNS Bank) accessibility remained limited and the lack of capital in the European banking sector persisted. A few public funding deals were testimony to the market's confidence in SNS Bank. SNS Bank limited its dependence on the capital market with further growth of savings deposits. SNS Bank's liquidity position remained high in 2012.

12.1 Public funding strategy

Our public funding strategy is aimed at funding the activities SNS Bank at competitive levels, i.e. at minimal cost while 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 late 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 geographic areas. For example, SNS Bank can opt for the most suitable instrument, depending on the varying market conditions, capital requirements and the qualifications demanded by De Nederlandsche Bank (Dutch Central Bank). Our customers' savings play an increasingly important role in the total funding, which enables us to limit our dependence on the public money and capital markets and improve the loan-to-deposit ratio. This ratio showed limited improvement from 159% at year-end 2011 to 142% at year-end 2012.

12.2 Funding transactions in 2012

The total liquidity position, including the cash balance, of the SNS Bank remained high in 2012. The liquidity position at year-end 2012 was € 11.5 billion, compared to € 11.1 billion at year-end 2011.

In the first half of 2012, the capital markets continued to be under pressure. SNS Bank's main funding sources were the increase in retail savings deposits and the participation in an LTRO tranche, a three-year loan, in February. An LTRO (long-term refinancing operation) is a facility with a low variable interest rate, i.e. in practice 1% or less, which the ECB used to provide commercial banks with up to approximately a quarter of the refinancing volume required.

In the second half of 2012, confidence in the capital markets improved following the ECB's announcement that, subject to national governments requesting aid, it would buy up government bonds without limitation, if the risk surcharges should reach unacceptable levels. This calmed down the markets and the risk surcharges decreased. In this improved climate, SNS Bank successfully placed five-year covered bonds with a value of € 1 billion in August. The bonds were well over-subscribed, and the risk surcharge of 115 basis points over mid-swaps was considerably better than the average risk surcharge in 2011. The covered bonds, priced at 99.995 percent, have a coupon of 2.125%. At year-end 2012, the covered bonds, listed on Euronext Amsterdam and the Luxembourg Stock Exchange, had an AA+ rating from Fitch and an Aa2 rating from Moody's. At the end of January 2013, just before the nationalisation and the accompanying improvement of the capital position, Moody's downgraded SNS Bank's rating, as a result of which the rating of the covered bonds was downgraded to A1. It is expected that, as long as this rating does not improve, it will not be possible to issue any.

In September, SNS Bank placed securitisations at the amount of € 883 million within the framework of its Hermes XVIII securitisation programme. One tranche of € 211 million in Class A3 and with a maturity of approximately five years was placed with a few institutional investors. The two other tranches, one of € 192 million in Class A1 and with a maturity of approximately two years and one of € 480 million in Class A2 and with a maturity of approximately five years, were well over-subscribed. The placement improved both SNS Bank's liquidity position and repayment profile.

The lower risk surcharges in the second half of 2012 improved the marketability of SNS Bank securities. The risk surcharges of the subordinated bonds, covered bonds and Residential Mortgage Backed Securities (RMBS) declined. The indicative risk surcharges for five-year covered bonds, for example, decreased from 140 basis points at year-end 2011 to 90 basis points at year-end 2012, and those for five-year RMBS from 175 basis points at year-end 2011 to 120 basis points at year-end 2012.

All of SNS Bank's issues in 2012 were benchmark bonds. Issues of liquid benchmark bonds contribute to a broadening of 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 SNS Bank bonds.

12.3 Private placements

There were a limited number of private placements of debt securities in 2012. 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 be dependent on short-term money programmes. In 2012, as well, only very limited use was made of these programmes. The amount outstanding on the European programme was approximately € 70 million at year-end 2012, and the funding via the French programme amounted to approximately € 380 million.

12.4 Credit ratings

In 2012, the credit ratings of many European financial institutions continued to be under severe pressure. The pressure on SNS Bank's credit ratings in 2012 mainly related to the impact of the deteriorating property market on its capital position. The relatively low ratings led to relatively high funding costs. At the same time, from a European perspective confidence in SNS Bank remained high, also because of its classification as one of the four systemically important banks of the Netherlands by the Dutch Central Bank. This was also evident from successful public funding transactions.

When assigning credit ratings to subsidiaries, rating agencies will take into account the mutual intertwining of the banking and insurance activities within a financial group. As a result, the credit ratings of the Insurance activities of SNS REAAL were also under pressure in 2012, albeit to a lesser extent than those of the Banking activities.

On 15 February 2012, Moody's placed all ratings of SNS REAAL and its subsidiaries 'under review for possible downgrade'. The reason was an extensive review of the ratings of a number of European banks because of deteriorating macroeconomic factors, higher funding costs and pressure on profitability. On 1 March 2012, Standard & Poor's lowered the rating of SNS Bank by one notch, while at the same time replacing the 'negative outlook' by a 'stable outlook'. As a result, the rating of SNS Bank was BBB+. The reasons for the downgrade were weakened prospects regarding the economic outlook and their negative impact on SNS Bank. On 8 March 2012, Fitch lowered SNS Bank's viability rating from bbb+ to bbb-. This rating does not take into account any support by the State. On 15 June 2012, Moody's lowered the rating of SNS Bank by one notch, within the framework of the general review of ratings for European banks that had been previously announced. The outlook for the rating was increased to 'stable'. As a result, the rating of SNS Bank was Baa2. Compared to SNS Bank's downgrade by at most four notches as indicated by Moody's on 15 February 2012, the downgrade remained limited. On 26 June 2012, Fitch reconfirmed the long-term rating of SNS Bank.

The announcement on 13 July 2012 of SNS REAAL's strategic reorientation, in connection with the rising impairments on loans at Property Finance, put the credit ratings under further pressure in the second half of 2012. On 16 July, Fitch placed SNS Bank's viability rating at Rating Watch Negative. Fitch reconfirmed SNS Bank's rating at a floor level of BBB+ because of the AAA- rating of the Dutch State and the assumption that the State will intervene in case of emergency. On 20 July 2012, S&P placed the rating of SNS Bank at a 'negative outlook'. In response to the strategic reorientation, Moody's announced on 2 August 2012 that it would leave the rating and the outlook unchanged.

On 9 October 2012, Fitch reconfirmed SNS Bank's rating once again at BBB+ with a 'stable outlook'. It lowered SNS Bank's viability rating by two notches from bbb- to bb, and the Rating Watch Negative for SNS Bank's viability rating was lifted. Fitch's reason for lowering the viability rating was the increased risks in the property loan portfolio.

On 16 November 2012, S&P lowered to a BBB rating for SNS Bank. SNS Bank's stand-alone credit profile (SACP) was lowered to bb+.

On 21 November 2012, Moody's placed the rating of SNS Bank at 'Review for Downgrade' and lowered the stand-alone bank financial strength rating (BFSR) of SNS Bank from D+ to E+. Moody's reason was the quickly deteriorating Dutch commercial property market, which was likely to result in further losses at Property Finance. In addition, Moody's believed that chances had increased that SNS REAAL would have to obtain external support in order to protect SNS Bank's solvency from possible losses at Property Finance.

Due to the rating actions in 2012, SNS Bank's stand-alone ratings have deteriorated to 'non-investment grade' at all three rating agencies. As credit ratings of subordinated debt securities are mostly derived from the stand-alone ratings, these were also under considerable pressure, particularly in the second half of 2012. However, the higher stand-alone credit ratings of the Insurance activities and the likelihood of State aid in the event of an emergency supported the counterparty credit ratings of SNS Bank to a level of barely 'investment grade'.

On 29 January 2013, S&P placed the rating of SNS Bank on 'CreditWatch negative'. On 31 January 2013, Moody's downgraded the BFSR of SNS Bank to E and lowered the rating one notch.

On 4 February 2013, in response to the nationalisation, Moody's placed the rating on a 'review for downgrade'. On 5 February 2013, also in response to the nationalisation, S&P raised the CreditWatch for SNS Bank from 'negative' to 'developing'. The SACP of SNS Bank was lowered from bb+ to ccc+, but because of the State aid the credit rating of SNS Bank remained unchanged at BBB. Also on 5 February 2013, Fitch raised the 'rating watch negative' on SNS Bank. The viability rating of SNS Bank was lowered by Fitch from bb to f, but SNS Bank's rating remained unchanged at BBB+.
The current ratings and the latest reports from Standard & Poor's, Moody's and Fitch can be consulted on and downloaded from the Investors section of the SNS REAAL website. The table below presents the ratings as at 31 December 2012.

Credit ratings

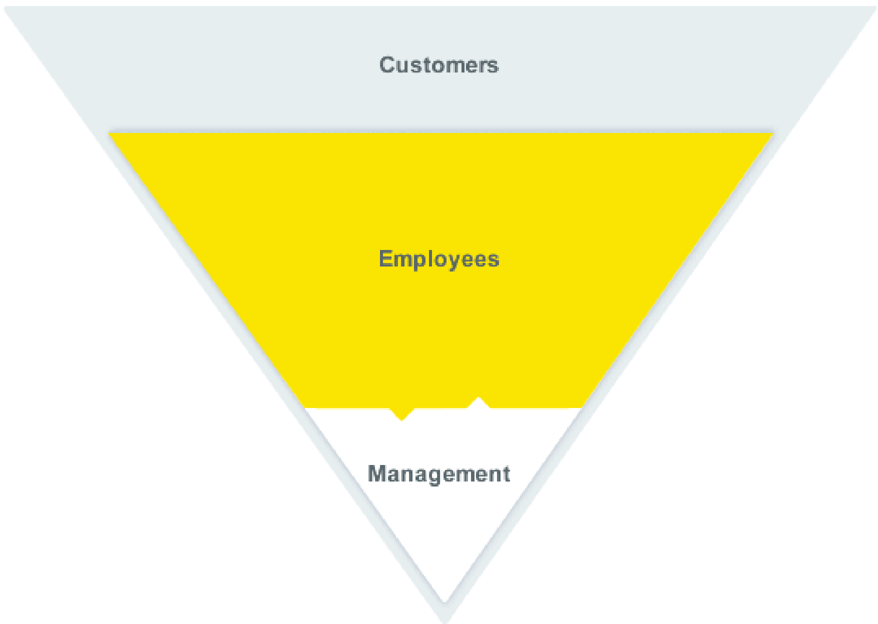
	S&P	Moody's	Fitch
Long-term	BBB (negative)	Baa2 (review for downgrade)	BBB+ (stable)
Short-term	A3	P-2 (review for downgrade)	F2

13 Our people

SNS Bank NV (SNS Bank) is a genuine ‘people company’. It is only thanks to our employees’ dedication that we can build long-term relationships with our customers as they establish and maintain customer contacts. We want our employees to find satisfaction in their jobs. We encourage their development and expansion and want to offer them a good work-life balance and responsible remuneration. Even in very challenging market conditions, such as in 2012. We continued to invest in employees through education, training courses and the New World of Work (flexible working). The average employee satisfaction remained relatively high with a score of 7.2 (2011: 7.3). The Management Board greatly appreciates the commitment and performance employees have demonstrated despite the major developments at SNS Bank.

13.1 Personal leadership

It is our people who carry out our mission Simplicity in finance. They give meaning to corporate responsibility, inspired by our core value CARE!. We, therefore, consider it of great importance that our staff is professional, committed and motivated. We expect personal leadership from them when executing and giving meaning to their own work. SNS Bank started a transition process to create more room for personal leadership within the organisation. Our HR instruments, such as training, education and performance evaluations support us in this effort. Personal leadership is essential to make corporate responsibility, in which we put our customers’ interests first, a daily reality. It means that people act from personal motivation to provide customers with the best possible service and thus contribute to SNS Bank’s overall result. Each employee is responsible for his own professionalism. This demands a modern leadership style from management. They must enable employees to make use of their full potential through support, feedback and discussions. This is what we call: the inverted pyramid.



More freedom means more responsibility and more accountability with regard to personal commitment and performance. What has been achieved and what not? What went well and what can be improved on? With dialogues like this, we create a culture of continuous improvement in our organisation.

In the past two years, SNS Bank has gained positive experience with personal leadership in projects to put customers' interests first and to make the organisation more efficient. For more information on our progress in this respect, see 9.6.2 SNS Retail Bank. From 2013, personal leadership will be incorporated in change programmes for parts of the organisation. We expect supportive leadership from our managers. Their primary role is to offer support instead of control and direction. Only then can employees show and develop their own personal leadership. Managers will be supported where required.

13.1.1 Integrity: compliance with internal and external rules and regulations

SNS Bank not only expects professionalism on the job, but also with regard to compliance with internal and external rules and regulations. We have a special online training course on integrity for new employees. For other SNS Bank employees, we completed a programme in which we used special issues and news items in internal media, online training and workshops emphasising themes such as putting customers' interests first, dealing with confidential information and conflicts of interest. Our rules for standards of conduct are defined in our 'Common sense, clear conscience' code of conduct. Our employees are well aware of this code, as was proved once more in the 2012 employee survey. SNS Bank regularly brings this code of conduct to the attention by means of e-learning programmes, (online) workshops, presentations and publications. SNS Bank has a contact centre for incidents where employees can report suspected violations of rules, such as fraud, inappropriate behaviour and conflicts of interest. Despite all these efforts, it is possible that incidents occur that are not acceptable. We then take strict action. Following investigations into potential conflicts of interest that started in 2012, a number of employees from Property Finance were forced to leave or were suspended. The investigation is continued in 2013.

13.1.2 CARE!

Our core value CARE! gives guidance to our behaviour. By means of CARE! SNS Bank makes an appeal to its employees to consciously connect to: our customers, each other, the result and society. We emphasise the importance of CARE! for society by means of the CARE! Fund, which provides financial support to employees who dedicate themselves to a good cause. There is a site on SNS Bank's intranet that matches supply and demand of volunteer work.

13.1.3 Responsible employer

Being a responsible employer is much more than encouraging personal leadership and maintaining integrity. It also means offering competitive terms of employment, employability programmes, training and personal development opportunities, diversity and a good work-life balance. For the latter, the New World of Work (NWW) is an important tool.

13.2 Attractive employer

The New World of Work (NWW) stimulates personal leadership. In the NWW employees are required to be in charge of organising their own work. Employees clearly focus on results, carry out part of their work at home and use modern media to communicate with their colleagues. The number of employees that switched to the NWW rose from more than 630 at the end of 2011 to over 1.034 at the end of 2012. The objective of the NWW is to achieve a higher level of employee satisfaction as well as higher productivity. Investment costs, in particular the refurbishment of offices and the purchase of technical equipment, will be recovered by more economical and effective operations. We will considerably save on office space costs and the burden on the environment will be reduced.

13.2.1 Employee satisfaction level remains high

Every year SNS Bank conducts an employee survey to gather feedback. In 2012, 78.8% of the employees participated in the survey. The high response is a sign of their great commitment to the company. The employee satisfaction score fell from 7.3 to 7.2, mainly due to the impact of market conditions and reorganisations that cause uncertainties with regard to jobs and positions. The level of satisfaction with regard to work, colleagues and management remained high. A lot of employees find SNS Bank sufficiently large and diverse to offer different challenges though small enough to visibly contribute to the company as a whole on an individual level.

In answer to the question what makes SNS Bank an attractive employer, the most common answer was the New World of Work. In 2012, the terms of employment were an important issue for SNS Bank's management in internal discussions and in consultations with the trade unions. The survey showed that developments in the financial services industry and the challenges SNS Bank faces, caused high work pressure for some departments and individuals, but at the same time provided unique learning experiences in challenging projects. SNS Bank's mission, Simplicity in finance, and its implementation with a strong focus on the customers' interests, has a motivating effect on many employees. "What you do, does make a difference", one employee commented. Employees also indicated points for improvement. Among the most frequently mentioned were clarity and certainty on the future and terms of employment. Improved co-operation between the various departments and business units was another. As a result of the different office locations, employees sometimes have trouble finding each other, despite the NWW facilities.

13.2.2 Promoting diversity

SNS Bank wants to reflect our diverse society in the composition of its workforce. The diversity policy is based on equal opportunities for all. When recruiting employees, we focus on the qualities, motives and abilities of a potential employee and not on gender or origin. For working parents, the NWW offers many benefits to combine work and family life. It is our objective to increase the number of women in senior positions. In 2012, several female directors participated in the international Professional Boards Forum, where female high potentials can meet with directors of companies and organisations. Besides expanding the network, propagating the diversity policy for SNS Bank was a reason to participate. On 1 January 2013, the Management and Supervision Act (Wet Bestuur en Toezicht) entered into force. The act requires, inter alia, that at least 30% of the Executive Board of SNS REAAL and Supervisory Board members must be female and at least 30% must be male. This also applies to management boards and supervisory boards of other major entities in the SNS REAAL Group. SNS Bank does not as yet comply with this requirement regarding balanced representation as the act has only recently entered into force. In 2012, one reappointment was made in the Supervisory Board. This concerned a woman.

The desired diversity also means that we want to recruit more people with disabilities. Despite the reorganisations, SNS Bank hired several Wajong youngsters in 2012. To get started, nothing more but a dedicated parking space, an adapted keyboard and an extra high desk were required. Wajong stands for the Employment support Act for Young Disabled Persons. Its objective is to support people with disabilities in finding and retaining paid work. Wajong youngsters are usually very motivated to work. Although we offer suitable coaching, we do not create jobs especially for them.

13.3 Sustainable employability

By sustainable employability we mean how productive, motivated and healthy employees want to and can stay to work inside and/or outside SNS Bank. Sustainable employability is important for every employee. Big changes are currently taking place in the financial services industry. Customers demand simpler products, better service and a better price-performance ratio. This calls for an enhanced customer focus and greater efficiency. Our employees have a responsibility to maintain their employability in these changing circumstances. This means keeping up to date and broadening their (professional) knowledge as well as their skills and behaviour. SNS Bank's multi-brand policy offers additional career development opportunities. Employees who move between brands, share their knowledge with new colleagues and develop themselves accordingly.

HR has several tools to increase employees' employability. The Performance and Competency Assessment, a performance management cycle, for instance is directed at the employee's current performance as well as at his employability and career opportunities in the future. If necessary, a Personal Development Plan can be drawn up, or (external) career counselling called in. The e-assessments, our training courses and the Talent Development and Management Development programmes too, fit into this policy. With a tool for integral personnel planning, managers can map out the impact of internal and external developments on their staffing. This allows them to attune the number of employees and their knowhow and competencies in time to future needs. For instance, by planning training programmes in a timely manner.

13.3.1 Health policy

To be able to continue working (properly), a good health is required. SNS Bank wants managers to open a dialogue when an employee's health is hindering his normal personal and professional functioning. HR provides tools to conduct these dialogues. SNS Bank pays a great deal of attention on prevention, including compensation for a fitness programme and a bicycle programme. Many employees use the Prevention Compass, a triennial health check. SNS Bank's intranet has a medical site that includes information on prevention, the company medical physician process, a healthy workplace set-up and the procedures for sick leave. SNS Bank co-operates with a licensed occupational health service and has developed a health and safety plan to limit work-related illnesses, such as RSI or stress in co-operation with the Central Works Council (CWC). Job stress can have many different causes. In case of work-related stress in a department or of an employee, the manager can appeal to an HR advisor. This HR advisor, together with the occupational health service, discusses the problem to make it manageable and work on a personal solution.

For employees who cannot return to their former job as a consequence of a sustained illness resulting in disability, HR provides reintegration assistance for a position inside or outside SNS Bank. In 2012, SNS Bank commenced collaboration with two reintegration agencies that help employees find a reintegration position outside the company.

The absenteeism rate fell marginally in 2012. The development of absenteeism is in line with that of the industry. Only a small part of the absenteeism is work-related.

13.3.2 From work to work

Throughout the organisation there were many projects to work in a more customer-oriented and efficient way. In addition, reorganisations were carried out, with a strong impact on staff and positions at all levels of the organisation. The overall number of employees (FTEs) on the payroll of SNS Bank fell by 149, including attrition, from 2,426 to 2,236 (-8%). Occasionally, the nature of the job changed so much that employees had to reapply for their job. HR offers workshops and guidelines to support managers and employees in dealing with reorganisations.

SNS REAAL, the holding company of SNS Bank, reached agreement with the trade unions on a new Social Plan for the period from 1 January 2013 to 1 August 2014. Employees who lose their job due to a reorganisation will be assisted in their search for a new job inside or outside the organisation for a period of nine months. For those who do not succeed in finding a job within SNS REAAL, there is a financial severance scheme. In 2012, SNS REAAL set up Flexforce, an internal staffing agency, for SNS Retail Bank. Flexforce plays a central role in filling temporary positions. Regular staff of SNS REAAL uses its knowledge of our systems and processes in business units and at locations where it is most needed. SNS Bank can thus offer its own employees perspective and reduce the deployment of external staff. We also want to reduce the number of external employees by means of using the Pluspool. The Pluspool is an internal employment agency for reassignment candidates from the age of 58 and can provide a solution if these candidates do not succeed in finding a new job within the reassignment period.

13.4 Training and development

We offer our employees many opportunities to develop themselves both professionally and personally, thus improving their performance and employability both inside and outside the organisation. By means of new working methods and by developing, exchanging and preserving knowhow, we create added value for our customers. It also improves our competitiveness. HR supports employees with a wide variety of vocational training courses, the Performance and Competency Appraisal Cycle, generic training courses, traineeships and Talent Development and Management Development programmes.

13.4.1 CARE for each other, learn from each other

Adequate information on career and personal development opportunities is essential. Our career events offer CV checking services, job vacancy information and workshops on topics such as personal branding, social media and managing your own career. SNS Bank also has a community of internal coaches who enable employees to get acquainted with coaching in an accessible way. Employees with financial positions receive a quarterly career bulletin informing them about vacancies and colleagues who switched jobs.

Colleagues, managers in particular, play an important role in our staff's personal development. How do you evaluate a customer service call? How do you give each other constructive feedback after something did not go well? And how can you learn from your own and other people's mistakes? A good manager does not hesitate to discuss his own customer service call that did not go well with his staff as he and others can learn from it. This is what we call CARE! for each other. And if we learn something from it, it also means CARE! for the customer and CARE! for the result. In practice, discussing errors may lead to problems or conflicts. In this case, a development advisor or an internal or external coach may then be consulted, or employees can call upon a professional internal or external mediator.

13.4.2 Attracting and developing talent

In order to attract talent, SNS Bank organises workshops and gives guest lectures at colleges and universities and SNS REAAL offices. Approximately five times a year, we invite students to our headquarters for lunch sessions to talk about our traineeships. We also co-operate with educational institutions with regard to content-related matters.

SNS Bank offers ample opportunities for interns. In 2012, we organised several events, among them, for the first time, an introduction day. These events are organised for and by interns, so they can get to know each other and SNS Bank well. Additional activities for interns include speed dates and workshops. Many students found the workshop by one of our recruiters on the do's and don'ts in a selection procedure particularly interesting.

SNS Bank has two types of traineeships for new talent, i.e. the management traineeship and the financial traineeship. For the management traineeship we recruit graduates with the capabilities to grow at least into key positions. They receive a broad training and personal guidance from a mentor from the Top 100 managers of SNS REAAL. Trainees have a lot of freedom in choosing assignments at our different brands. The management traineeship is a development programme that lasts three years. The trainee swaps jobs at least four times between the business units. After that, the trainee can make a well-balanced decision about which job suits him best. Financial trainees enter into a two-year training programme to become a financial specialist.

We selected talented managers and specialists for the Talent Development (TD) programme. The TD programme is designed for managers and specialists who perform exceptionally well and have growth potential. Experience shows that, on average, these employees switch jobs more frequently and that the outflow rate is lower. The programme therefore contributes to an important objective: developing, binding and retaining talented employees. In addition, from the start of 2012 there is a Talent Community, a platform on our intranet for those who want to get the most out of themselves. The Management Development (MD) programme focuses on managers in senior management positions, also with the aim to stimulate switching jobs. The MD programme has been developed in collaboration with Nyenrode Business University. Particular attention was paid to personal leadership.

For employees outside special programmes, a training budget is available. This budget was 3% of the gross salaries, thus remaining at the 2011 level.

13.4.3 Professional skills

Our customers rely on professional and qualified staff, so that we can put their interests first. Since 2007, the Financial Supervision Act (Wft) imposes legal rules for professional qualifications. These qualification requirements are regularly reinforced. SNS Bank assists staff as much as possible to pass their exams, tests and modules. With the idea, however, that each employee is primarily responsible for his own development. The precondition is that the legal requirements for professional qualifications are met.

13.5 Future-proof terms of employment

SNS Bank aims for future-proof terms of employment that are appropriate for the current economic and social situation, the modified business model and the future of our company and employees. Prior to the negotiations on the Collective Labour Agreement (collective agreement) with the trade unions in 2012, SNS REAAL took stock of its employees' views on the issue. They did so by means of an employee survey and engagement sessions throughout the country. Members of the Executive Board of SNS REAAL entered into dialogue with employees to hear their views on adjustments in the terms of employment. Employees indicated they were prepared to adjust the terms and conditions of employment, but they were, inter alia, apprehensive about intervention in the fixed salary and annual bonus (13th-month pay). 49% of the employees understood that the cost reductions on total costs of SNS REAAL are partly to be realised by cost savings on employment terms. These responses were brought forward in the consultations on the new collective agreement with the unions and the CWC. An important result, directed at wage moderation, was that it was agreed that during the term of the new collective agreement, from 1 June 2012 to 1 January 2014, there will be no collective agreement increases on the fixed income. Just as in 2011, the performance bonus for 2012 was reduced to an average allowance of 1.55% of the annual salary.

During the duration of the collective agreement we will develop a new pension scheme that will be effective on 1 January 2014. The principles of the scheme are that it is future-proof and in line with legal adjustments and the prevailing market. In the same period, we will also discuss our salary system and any other remuneration elements guided by the question whether the remuneration is still appropriate to the changing market conditions and changes SNS REAAL is going through.

13.5.1 Remuneration policy

The remuneration policy takes all stakeholders' interests into account, i.e. customers, employees, shareholders and society. We want to attract and retain talented employees without creating a so-called "golden cage".

For the Management Board and senior management, SNS Bank has a moderate remuneration policy. The policy was not adjusted in 2012. We refer you to chapter 18 Report of the Supervisory Board for the Remuneration Report of SNS REAAL.

13.6 SNS REAAL Pension Fund

All staff is employed by SNS REAAL NV. The pension scheme to which SNS REAAL employees are entitled can be designated as a defined collective contribution scheme. Under this scheme, SNS REAAL pays a fixed agreed amount to Stichting Pensioenfonds. As there is no commitment either enforceable by law or otherwise to pay additional contributions, pension benefits and related investments have no longer been included in the balance sheet since 2005. In 2009 an agreement was reached on the pension premium for a period of 5 years, effective 1 January 2010 until 31 December 2014. During this period a fixed percentage of 21.75% of gross wages is paid.

Based on the market interest rate, the coverage ratio of the SNS REAAL Pension Fund amounted to 111.9% on 31 December 2012 against a required coverage ratio of 110.5%. The increased life expectancy is taken into account in the calculation of the coverage ratio. It is laid down in the indexation rules that indexation is only possible with a coverage ratio of at least 115%. On 31 October 2012 (reference date for the indexation decision), the coverage ratio stood at 114.4%; just a little too low to grant (partial) indexation. The pension fund's Management Board decided not to increase the pensions on 1 January 2013. If the coverage ratio is calculated on the basis of the yield curve introduced by the Dutch Central Bank (DNB) in September, the coverage ratio at the end of December 2012 was 117.6%. This percentage is important in order to be able to compare the coverage ratio with other pension funds.

SNS REAAL Pension Fund's asset manager is SNS Asset Management, which invests according to responsible Environmental, Social and Governance (ESG) criteria.

In November 2012, the Dutch pension magazine NPN (Netherlands Pension and Investment News) - published by the Financial Times - chose SNS REAAL Pension Fund to be the winner in the 'best practice governance policy' category, in which 17 pension funds were nominated. The pension fund has adapted the responsibilities that befit a CDC (Corporate Defined Contribution) scheme. Under this scheme, a large part of the risk is for account of the participants. The NPN jury praises the fact that the employer has only limited influence on the board. The board consists of five employee representatives and only one employer representative and the chairman has no connection with SNS REAAL.

Report of the Supervisory Board

14 Report of the Supervisory Board

Members of the Supervisory Board of SNS Bank NV (SNS Bank) are also member of the Supervisory Board of SNS REAAL. 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 Report of the Supervisory Board of the annual accounts 2012 of SNS REAAL regarding the specific items in relation to SNS Bank 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.

2012 was an exceptional year for SNS Bank. Due to the difficult macro-economic and financial environment, it proved difficult to free up capital to strengthen the solvency of SNS Bank in line with increased capital requirements. It became clearer that SNS REAAL would not be able to repay the capital support from the Dutch State, which SNS REAAL had received at the end of 2008, before the end of 2013, without creating a capital shortage. This increased the need to find an all inclusive solution for strengthening the capital position of SNS REAAL and the portfolio of Property Finance. For this reason, in the summer of 2012, SNS REAAL announced that it was exploring a broad range of scenarios for both strategic restructuring and the enhancement and simplification of its capital base. The objective was to find a comprehensive solution for the Property Finance portfolio and the capital position of SNS REAAL. It has by now become clear that the efforts of all parties involved could not prevent that the Dutch Minister of Finance found himself forced to nationalise SNS REAAL. For more information about the nationalisation, please refer to chapter 3 Nationalisation of SNS REAAL.

14.1 Main topics and discussions

In 2012, the Supervisory Board focused its attention on two main themes: supporting, advising and supervising the Management Board in exploring the scenarios aimed at finding a comprehensive solution for the Property Finance portfolio and the capital position of SNS Bank and monitoring the development of these scenarios by the Management Board on the one hand and the regular operations of SNS Bank on the other. In view of the urgency and strategic importance, the Supervisory Board spent most of its time on the first theme in 2012.

Major subjects were the capital position of SNS Bank, Property Finance, risk management and risk appetite, the earnings model of SNS Bank, including cost reduction, the changing regulatory environment, such as Basel III, the large number of projects, the real estate market, good customer service and the optimisation of putting the customer and the customer's interests first. Most of these themes are also included in the management letters of both the external and internal auditor.

14.2 Composition of the Supervisory Board

The composition of the Supervisory Board did not change in 2012. At the Annual General Meeting of Shareholders on 25 April 2012, Herna Verhagen was reappointed for a term of four years with the reinforced right of recommendation of the Central Works Council. For more information on the composition of the Supervisory Board and its members in 2012 refer to chapter 15. On 1 February 2013, Rob Zwartendijk resigned from the Supervisory Board at the time of the nationalisation. As Vice-Chairman, Piero Overmars temporarily fulfils the role of Chairman.

14.3 Composition of the Management Board

On 1 February 2013 Ference Lamp (CFRO of SNS REAAL and also member of the board at SNS Bank) resigned from his positions. As of 4 February Maurice Oostendorp is nominated and appointed by the Dutch State as CFRO of SNS REAAL. Maurice Oostendorp also became member of the Management Board at SNS Bank on 26 April 2013.

14.4 Meetings of the Supervisory Board

14.4.1 Main topics

In 2012, the Supervisory Board met sixteen times: in February, March, April (twice), May, June, July, August, September (twice), October, November (three times) and December (three times). In 2012, Robert Jan van de Kraats was absent five times, Jos Nijhuis four times, Jan Nijssen three times, Herna Verhagen twice and Piero Overmars and Ludo Wijngaarden once. Usually, absent members of the Supervisory Board gave their input on topics for consideration to the Chairman of the Supervisory Board beforehand, or to the entire Supervisory Board. More detailed information on the main topics discussed can be found in the Annual Report of SNS REAAL 2012, chapter Report of the Supervisory Board.

14.4.2 Presence of the external auditor

The external auditor is present at all Audit Committee meetings and at least once a year at a meeting of the Risk Committee. The external auditor has a standing invitation to attend meetings of the Supervisory Board. In 2012, the external accountant did not attend any plenary meetings of the Supervisory Board.

14.5 Committee meetings

The Supervisory Board has four committees:

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

Every committee prepares the decision-making of the Supervisory Board in respect of the duties assigned to it and reports to the Supervisory Board. More detailed information on the main topics discussed can be found in the Annual Report of SNS REAAL 2012, chapter Report of the Supervisory Board.

14.6 Closing words

The Supervisory Board explicitly wishes to express its gratitude and appreciation to all employees of SNS Bank, in particular for their engagement and commitment. Great demands have been made on them over these last months, both inside and outside the office. This has not always been easy for all parties concerned. Despite these developments and the persistent negative sentiment towards the financial services industry, SNS Bank employees continue to dedicate themselves to SNS Bank with a great deal of enthusiasm. The Supervisory Board realises fully well that this is not self-evident and wishes to express its gratitude for this.

An exceptional effort was also demanded of SNS Bank’s management. Nevertheless, working relations with the Supervisory Board were good. For this too, the Supervisory Board wishes to express its gratitude.

Finally, the Supervisory Board wishes to express its thanks for the unyielding commitment and dedication with which Rob Zwartendijk and Ference Lamp have devoted themselves to SNS Bank these past months, and before that too. The Supervisory Board regrets their departure, but respects their choice.

Utrecht, 26 June 2013

On behalf of the Supervisory Board,

Piero Overmars, Vice Chairman and Acting 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 of SNS REAAL, the Supervisory Board, shareholders and shares, to SNS REAAL's Annual Report 2012.

15.1 The Supervisory Board

The Supervisory Board of SNS Bank comprises the following members on the date of publication of this annual report:

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

The Supervisory Board has set up four committees that, on 31 December 2012, comprised the following members:

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

As described in chapter 3 Rob Zwartendijk resigned on 1 February 2013. The composition of the above mentioned committees has therefore changed and is now as follows:

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

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 report 2012 of SNS REAAL.

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 and improving the functioning of the financial services industry. This is obviously also an objective of SNS Bank. SNS Bank does this by following this Code and its mission, core value and strategy. SNS Bank continually undertakes initiatives to restore trust in the financial services industry and to improve the functioning of the industry. Also in 2012.

15.2.3 SNS Bank adopts the 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. From that moment on, SNS Bank aimed at applying the Code to all its activities.
SNS Bank almost completely complies with the Code now. SNS Bank and its employees carefully monitor compliance with the Code and try to further improve it, in line with the execution of SNS Bank's mission Simplicity in finance and its core value CARE!.

15.2.4 SNS Bank applies the Code to all activities

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

- SNS Bank's mission Simplicity in finance puts its customers and its customers' best interests first in accordance with the Code.
- The remuneration policy of the senior management complies with the Code and the applicable laws and regulations.
- The senior 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.
- SNS Bank has a programme for continuous education in accordance with the principles of the Code.
- The Product Approval Process has been implemented in accordance with the Code and audits are carried out each year.
- SNS Bank has a risk management structure that is compliant with the principles of the Code and evolves continually. Chapter 11 discusses relevant developments in the field of risk management.
- The internal audit function is organised at Group level, is compliant with the Code and evolves continually.

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, including SNS Bank, implement and apply the principles of the Code.

15.2.6 Compliance with the Banking Code

SNS Bank almost complies with the Banking Code. Due to the circumstances, the Supervisory Board did not comply with the Code at some points in 2012:

- Recommendation 2.1.8: as a result of the focus on finding an all comprehensive solution for Property Finance's portfolio and the capital position of SNS REAAL, the Supervisory Board did not completely comply with the obligation of permanent education.
- Recommendation 2.1.9: as a result of the external evaluation of the functioning of the Supervisory Board in combination with the focus on finding an all comprehensive solution for Property Finance's portfolio and the capital position of SNS REAAL, the Supervisory Board did not evaluate the effectiveness of the permanent education.

Further improvements to the compliance with the Code are possible. For instance with respect to the evaluation of the Supervisory Board of some subsidiaries of SNS Bank (recommendation 2.1.10), the establishment of the directors' compliance with the professional requirements (recommendation 3.1.4), the maximisation of severance pay of several directors (recommendation 6.3.2) as a result of existing contractual arrangements, and setting up an audit and risk committee for the Supervisory Board of some subsidiaries of SNS Bank.

15.2.7 Putting customers' interests first

The Banking Code recommendations aimed at the culture of the activities, such as putting customers 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 customers and customers' interests first, which is embedded in the mission Simplicity in finance and the core value CARE! Due care is exercised to consider the interests of all of SNS Bank's stakeholders. Putting customers first is part of employees' performance appraisal and of the product approval process for existing and new products. Business units are required to report to the management of SNS Bank on the way in which they put the customer first.
The implementation of these recommendations from the Banking Code is discussed in more detail in other sections of this Annual Report:

- Our brands (paragraph 4.2)
- Winning, helping and retaining customers (paragraph 6.3)
- Customers' interests and satisfaction (paragraph 6.3.1)
- Sustainable growth of our brands (paragraph 6.3.2)
- SNS Bank: innovation through simplicity (paragraph 9.6.2)
- ASN Bank: continued growth (paragraph 9.6.3)
- RegioBank: personal contact and advice (paragraph 9.6.4)
- Commercial developments SNS Retail Bank (paragraph 9.7)
- Strategy SNS Retail Bank (Paragraph 9.1)

15.2.8 Continuing education and competence Supervisory Board and senior management

In 2012, 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 internal auditing, cybercrime, dealing with regulatory bodies, fiscal developments, ethical conduct and governance, economic capital, remuneration policies, embedded value and Solvency II and putting customers' interests first. 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 NV state the following:

15.3.1 In-control statement

The Management Board of SNS Bank declares to have reasonable assurance that the material risks facing SNS Bank have been described. This is based on the risk management organisation as described in the chapter Risk and capital management. The effectiveness of essential control measures is regularly reviewed. SNS Bank has a structured internal Statement on Internal Control (SIC) process with the accompanying evaluation by senior management. For SNS Bank, the following material risks have been identified for which risk mitigating actions have been or will be taken:

- The execution of the decision to nationalise SNS REAAL, the holding company of SNS Bank, has profound implications for the organisation and is complex because of the change process. The intended separation of Property Finance and the consequences of the expected European Committee decision on the nationalisation are some examples.
- Deficiencies in the internal control at Property Finance have become more clearly visible, due to the difficult real estate market conditions and the pressure to reduce risk-weighted assets. These deficiencies pertain to, inter alia, the quality of loan files, hiring of external staff and the management of companies in which recovered collateral is managed. Apart from this, the outcome of the annual integrity survey, performed for the entire Group, was negative for this business unit. On the back of increased concern about potential conflicts of interest based on this survey and other studies, SNS Bank started a thorough internal investigation in late 2012. This investigation will continue into 2013 and has resulted in various measures as well reporting of our suspicion of criminal offenses to the criminal authorities. Apart from the internal investigation, criminal authorities are also conducting an investigation. The outcome of the investigations, internal control deficiencies noted and remediating actions taken, have been discussed in the relevant governance committees. With respect to Property Finance's internal controls, further risk mitigating measures were taken in 2012 and will be taken in 2013 to prevent reoccurrence. Effectiveness of these measures will be measured.
- Civil society is increasingly facing the threat of cybercrime. SNS Bank closely follows these developments and takes appropriate measures where necessary.
- Media respond almost instantly to developments in the financial sector. The exposure in the (social) media has sharply increased, the ongoing fraud investigation at Property Finance attracting particular attention. Negative media attention damages the image of SNS Bank NV's brands.
- In 2012, SNS Bank expanded its product management process with a periodic review of its products. In line with our mission of Simplicity in Finance and due to changing laws and regulations and the changing public opinion, we continue to focus on our product portfolio and the creation of lasting value for our customers.
- The appeal to the loyalty of SNS Bank employees has increased as a result of the need for more sustainable terms and conditions of employment, reduced job security and the many organisational changes.

15.3.2 Control over 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, that are responsible for the execution of the work, and thus for an accurate and faithful recording of the transactions and the reporting thereon.
- A system of financial key controls within the financial accounting and reporting departments, in order to monitor the proper functioning of financial reporting management and control systems.
- The Financial Committee's assessment of financial accountability partly based on the key controls' results. After approval by the management of SNS Bank NV, the findings of the financial reporting process, together with the financial accountability, are discussed in the Audit Committee of SNS REAAL.
- 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 of SNS REAAL and the Audit Committee.

We believe that the measure taken lead to an adequate control over the financial reporting process.

15.3.3 Transparency statement

The members of the Management Board state the following: "SNS Bank prepares the consolidated and company financial statements 2012 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, size and composition of equity, financial position as per 31 December 2012 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 and performance of the business during the financial year. The principal risks SNS Banks NV faces are described in the Annual Report."

Utrecht, 26 June 2013

Dick Okhuijsen
Ernst Jan Boers
Maurice Oostendorp
Wim Henk Steenpoorte

Financial statements

16 Consolidated financial statements

16.1 Consolidated balance sheet

Consolidated balance sheet

Before result appropriation and in € millions	*Notes*	31-12-2012	31-12-2011
Assets			
Cash and cash equivalents	1	6,933	5,128
Loans and advances to banks	2	1,927	1,682
Loans and advances to customers	3	61,768	64,797
Derivatives	4	3,660	3,354
Investments	5	5,302	4,106
Investment properties	6	-	1
Property projects	7	416	512
Investments in associates	8	3	17
Property and equipment	9	71	90
Intangible assets	10	98	153
Deferred tax assets	11	337	225
Corporate income tax	12	117	115
Other assets	13	709	1,092
Total assets		**81,341**	**81,272**
Equity and liabilities			
Savings	14	32,815	30,342
Other amounts due to customers	15	9,529	10,215
Amounts due to customers		**42,344**	**40,557**
Amounts due to banks	16	8,686	4,716
Debt certificates	17	21,990	27,361
Derivatives	4	3,599	3,606
Deferred tax liabilities	11	303	303
Other liabilities	18	2,180	1,694
Other provisions	19	82	35
Participation certificates and subordinated debt	20	820	1,121
Share capital		381	381
Other reserves		1,675	1,304
Retained earnings		(719)	38
Shareholder's equity	**21**	**1,337**	**1,723**
Equity attributable to securityholders	21	-	156
Minority interests		-	-
Total equity		**1,337**	**1,879**
Total equity and liabilities		**81,341**	**81,272**

The references next to the balance sheet items relate to the notes to the consolidated balance sheet starting from chapter 25.1.

Some of the comparative figures have been restated for comparison purposes. Please refer to the notes in subsection 17.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.

Pro forma figures

This section explores the financial implications of the nationalisation of SNS REAAL for SNS Bank. The following pro forma balance sheet provides an insight into the most important financial effects of the nationalisation and the implementation of certain additional steps announced by the Minister in a letter addressed to the Chairman of the House of Representatives of the Dutch Parliament on 1 February 2013. The pro forma balance sheet has been prepared based solely on announced events or actions that influenced the balance as of 31 December 2012 in order to illustrate the overall impact of subsequent steps in the nationalisation. The steps reflected in the pro forma balance sheet do not in all cases represent historic actual transactions. A number of steps are yet to be implemented. Actual performance may therefore differ, for instance as a result of the European Commission response to the restructuring plan, which may influence the presented pro forma figures. The following factors are set out by column in the pro forma balance sheet and are further explained in the following sections:

- The write-off of the real estate finance portfolio to the value as determined by the Minister upon transfer of Property Finance to an asset management organisation. The loss on the real estate finance portfolio on separation is € 2.8 billion compared to the book value of June 2012 (refer to section 3.2.1.1). Of this amount, € 776 million is recognised in the second half of 2012. For the remaining loss, a provision of € 2.0 billion has been made in the first quarter of 2013. This provision will lead to a decrease in the risk-weighted assets of SNS Bank as per 1 February 2013, after which the remaining risk-weighted assets will be released at the external transfer of the portfolio (refer to 3.2.1.4).
- The expropriation of and conversion into equity of the subordinated debt of SNS Bank NV and incorporation into equity of the results from the reduction of derivatives relating to the expropriated items.
- A paid-in share premium of € 2.2 billion by the Dutch State in SNS REAAL, € 1.9 billion of which has passed through as share premium to SNS Bank.
- The release of around € 5.5 billion in risk-weighted assets by transferring the activities of Property Finance to a new, to be established asset management organisation in combination with the government guarantee of around € 5 billion for the temporary loan that SNS Bank will provide to this asset management organisation.
- The contribution by SNS Bank to the Resolution levy imposed by the Minister.
- An estimation of the deferred tax asset resulting from the impairments of Property Finance and the conversion into equity of subordinated debts.

Pro Forma balance sheet SNS Bank after nationalisation

Before result appropriation and in € millions	31-12-2012	PF held for sale	Balance sheet after PF at held for sale	Expropriation of subordinated debts	Capital injection	Demerging PF	Resolution levy	Pro Forma Balance sheet
Assets								
Cash and cash equivalents	6,933	-	6,933	-	1,900	(24)	-	8,809
Loans and advances to banks	1,927	-	1,927	-	-	4,930	-	6,857
Loans and advances to customers	61,768	(1,906)	59,862	-	-	(4,699)	-	55,163
Derivatives	3,660	-	3,660	-	-	-	-	3,660
Investments	5,302	-	5,302	-	-	-	-	5,302
Investment properties	-	-	-	-	-	-	-	-
Property projects	416	(118)	298	-	-	(298)	-	-
Investments in associates	3	-	3	-	-	(3)	-	-
Property and equipment	71	-	71	-	-	(2)	-	69
Intangible assets	98	-	98	-	-	-	-	98
Deferred tax assets	337	233	570	-	-	(8)	-	562
Corporate income tax	117	-	117	-	-	(3)	-	114
Other assets	709	-	709	-	-	(201)	-	508
Total assets	**81,341**	**(1,791)**	**79,550**	**-**	**1,900**	**(308)**	**-**	**81,142**
Equity and liabilities								
Savings	32,815	-	32,815	-	-	-	-	32,815
Other amounts due to customers	9,529	-	9,529	-	-	-	-	9,529
Amounts due to customers	**42,344**	**-**	**42,344**	**-**	**-**	**-**	**-**	**42,344**
Amounts due to banks	8,686	-	8,686	-	-	(170)	-	8,516
Debt certificates	21,990	-	21,990	-	-	-	-	21,990
Derivatives	3,599	-	3,599	-	-	-	-	3,599
Deferred tax liabilities	303	-	303	41	-	(8)	-	336
Corporate income tax	-	-	-	-	-	-	70	70
Other liabilities	2,180	-	2,180	(5)	-	(121)	-	2,054
Other provisions	82	-	82	53	-	(9)	-	126
Participation certificates and subordinated debt	820	-	820	(780)	-	-	-	40
Shareholder's equity	1,337	(1,791)	(454)	691	1,900	-	(70)	2,067
Total equity and liabilities	**81,341**	**(1,791)**	**79,550**	**-**	**1,900**	**(308)**	**-**	**81,142**

16.1.1 Property Finance at held for sale

The pro forma balance sheet shows the impact of the intended transfer of Property Finance to the asset management organisation. Property Finance is to be separated at a value considerably lower than its book value. Around € 2.8 billion of the total assets of Property Finance are to be written off compared to the book value as of 30 June 2012. The Minister of Finance decided on this write-down. The pro forma figures recognise a gross figure for the write-down of Property Finance amounting to € 2,024 million (€ 1,791 million net). The figure is derived from the total write-down of € 2.8 billion, compared to the book value at 30 June 2012, minus the sum of € 776 million in impairment charges taken in the second half of 2012. Part of the write-down is tax deductible (refer to section 3.2.1.6 for an explanation). The explanation that accompanied the decision to nationalise the company indicated that Property Finance's property projects have a value of between € 185 and € 265 million. The pro forma balance sheet therefore includes an impairment charge on the value of property projects to an average value of € 225 million, analogous to the total write-down on Property Finance as a whole based on the average outcome. The portfolio of property projects has increased as a result of foreclosures in the second half of 2012. The average transfer value, taking into account this increase is € 298 million as of 31 December 2012. It is estimated that the write-off recognised in the pro forma balance sheet of € 2,024 million is for around € 1,906 million attributable to the property finance loans provided by Property Finance and for around € 118 million on property projects. In respect of the write-off shown in the pro forma balance sheet a provision has been charged to the result for the first quarter of 2013 because the ministerial decision has effectively created an obligation to transfer Property Finance at the value set.

In the valuation of the real estate loan portfolio of Property Finance, there are considerable differences between the transfer value at split off from SNS REAAL, the fair value recognised in section 22.1 and the balance sheet valuation as per 31 December 2012.

The balance sheet valuation of the property finance loans is € 6,605 million and has, in accordance with accounting rules, an amortised cost basis. Provisions are only made for this after a downward adjustment of the expected cash flows resulting from an actual loss event on the balance sheet date. This means that the provisions relate only to the items that have been determined to be in default as a result of these events and on which a loss has been incurred. To determine the amount of the provision, the expected cash flows are discounted against the original effective interest rate of the item in question. Thus, discounting the cash flows takes place at an interest rate agreed with the customer at the time the loan was taken out. Losses arising from expected future developments or events no matter how likely are not recognised (expected loss).

The fair value of the property finance loans is recognised in the financial statements in section 22.1. The preparation in section 22.1 applies only to the fair value of financial instruments and therefore does include the fair value of the property finance loans, but not the property projects. The fair value is based on the market price, defined as the price established between knowledgeable, willing parties in an arm’s length transaction (no forced transactions). At this time there is no active market for real estate financing and reference prices (derived from comparable transactions) are therefore not available. Management has ruled that the outcome of the internal study into the expected shortfall of the loans is the best estimate for the fair value. This study is based on the run-off strategy used by Property Finance based on value maximisation without time pressure on the run-off. Reference transactions perceptible in the market are taken into account as much as possible in the valuation. Unlike the balance sheet valuation, the study took into account the expected losses on items that were not (yet) in default on 31 December 2012. The discount rate at which the cash flows were discounted also includes surcharges based on the market rate on top of the original effective interest rate to express the increased risk compared to the origination date. Three scenarios (positive, neutral and negative) were calculated for the benefit of the internal study into the value of the portfolio. The outcome based on the neutral scenario has been recognised as fair value.

The transfer price at which the real estate finance portfolio will be split off is based on the decision by the Minister subsequent to a study commissioned by him.

16.1.2 Expropriation subordinated bonds and private debt

16.1.2.1 Subordinated bonds

The Dutch State injected all expropriated subordinated bonds of SNS REAAL and SNS Bank into SNS REAAL in the form of a share premium, with economic effect from 1 February 2013. Subsequently, with economic effect on the same date, SNS REAAL transferred the expropriated subordinated bonds issued by SNS Bank to SNS Bank in the form of a share premium. The debt instruments shall terminate pursuant to amalgamation, including all ensuing payment obligations to the State. The financial reporting follows accordingly. The value of the expropriated subordinated bonds has been incorporated as equity, for the most part not subject to taxation. The results arising from unwinding hedges relating to the expropriated items, has been incorporated as equity, as a taxable result.

16.1.2.2 Subordinated private debts

Subordinated private debts have been expropriated. The passive capital components of SNS REAAL and SNS Bank corresponding to these debts have also been expropriated on behalf of Stichting Afwikkeling Onderhandse Schulden SNS REAAL. The subsequent release in the balance sheet has been added to the equity as a taxable result.

The pro forma balance sheet does not take into account the increase in interest on the expropriated subordinated loans over the period between 31 December 2012 and 25 February 2013 being the date on which the Council of State came to the conclusion that the capital components were lawfully expropriated. The tax effects arising from the expropriation of the subordinated private debts has been taken into account.

Although SNS REAAL has been appointed director of the Stichting Afwikkeling Onderhandse schulden SNS REAAL, it is for the time being assumed that, in view of the limited directors' liability risk, this Foundation is not consolidated in the financial results of SNS Bank. This is because the only aim of the Foundation is to execute the objective of the Dutch State to reinforce the capital position of SNS REAAL and SNS Bank with the expropriation.

16.1.3 Capital injection of € 1.9 billion

In his letter to the Second Chamber of Parliament, the Minister explained that SNS REAAL requires a capital injection totalling € 2.2 billion, comprising € 1.9 billion for SNS Bank en € 300 million for SNS REAAL NV. A € 2.2 billion paid-in share premium to SNS REAAL NV was made on 11 March 2013. SNS REAAL paid-in the sum of € 1.9 billion as a share premium into SNS Bank on the same day.

16.1.4 Demerging Property Finance

The Minister's letter to Parliament announces the intention of Property Finance being transferred in a separate asset management organisation. The Minister has indicated that to ensure the credibility of this solution it is necessary for asset management organisation to function entirely independently of SNS Bank, both financially and operationally. In addition, the Minister has stated that DNB foresees that establishing the asset management organisation will require € 0.5 billion in equity for operational costs at inception and as a buffer for unexpected developments. This would be injected by the State. The receipt of € 0.5 billion in equity is not included in the pro forma balance sheet because the asset management organisation is no longer part of SNS REAAL. The Minister has also stated that the State has the intention to provide a guarantee for the financing of the asset management organisation of around € 5 billion. Initially, the funding of the asset management organisation will largely continue to be provided by SNS Bank so that SNS Bank retains a share of the credit risk of the portfolio.

A State guarantee will subsequently cover the risk for this amount. The aim is to gradually replace this financing with that from third parties. The preparations for establishing the asset management organisation are underway.

The table below outlines the effect of demerging Property Finance from SNS Bank's financial results. The first column shows the balance sheet of the Property Finance segment. This corresponds to the balance sheet of the legal entity SNS Property Finance BV. In the second column the effects of reclassification and settlements of balance sheet items between group components are included as well as the reversal of eliminations. The largest elimination item for the purpose of consolidation is the offset of the intercompany debt of Property Finance against SNS Bank's intercompany claim. The column 'PF Held for Sale' shows the loss booked on the transfer of Property Finance's portfolio as outlined in section 3.2.1.1. The deferred tax asset as a result of the split off is recognised by the entity SNS Bank, part of the fiscal unity SNS REAAL. Within the fiscal unity SNS REAAL the deferred tax asset can be offset against future gains. The write down on the portfolio results in the entity Property Finance displaying strongly negative equity. Prior to the separation of Property Finance the negative net asset value will be strengthened, and the intercompany funding provided to Property Finance will be written off. The column 'Demerging PF' shows that after demerging there is an amount of nearly € 5.0 billion for the item 'Loans and advances to banks'. This is the outstanding loan provided by SNS Bank to Property Finance after demerging. The total amount Property Finance needs for funding after demerging is around € 5.1 billion. The difference is caused by the loans that Property Finance has at other banks (€ 170 million) which are presented under the column 'Loans and advances to banks'.

Table 1B: Explanation column demerging PF

In € millions	Segment PF 31-12-2012	Reclassification	PF Held for sale	Strengthening Equity PF	**Demerging PF**
Assets					
Deferred tax assets	(8)	-	-	-	(8)
Property projects	(416)	-	118	-	(298)
Loans and advances to customers	(6,605)	-	1,906	-	(4,699)
Loans and advances to banks	(10)	7,376	-	(2,436)	4,930
Cash and cash equivalents	(203)	179	-	-	(24)
Other assets	(608)	399	-	-	(209)
Total assets	**(7,850)**	**7,954**	**2,024**	**(2,436)**	**(308)**
Equity and liabilities					
Shareholders' equity	412	-	2,024	(2,436)	-
Total equity	**412**	**-**	**2,024**	**(2,436)**	**-**
Participation certificates and subordinated debt	-	-	-	-	-
Debt certificates	-	-	-	-	-
Amounts due to banks	(8,124)	7,954	-	-	(170)
Other liabilities	(138)	-	-	-	(138)
Total equity and liabilities	**(7,850)**	**7,954**	**2,024**	**(2,436)**	**(308)**

16.1.5 Contribution to Resolution levy

The Minister has requested all banks for a contribution in the form of a one-off Resolution levy. SNS Bank’s contribution is estimated to be € 70 million and is included under Other liabilities. It is anticipated that this will fall due in 2014 and will be charged against the results in that year.

16.1.6 Impact corporation tax

Measures to be implemented in relation to nationalisation have an influence on the level of corporation tax to be received and paid. Quantification of the impact on the tax position, as presented in the pro forma balance sheet, is based on certain provisional assumptions which are explained in the sections below. The overall impact will be determined in consultation with the Dutch tax authority. The management of SNS Bank believes that the assumptions are correct estimates that adequately reflect the risks and uncertainties.

16.1.6.1 *Tax claim due to loss on Property Finance*

It is estimated that € 934 million of the (gross) write-down on Property Finance of € 2,024 million (refer to explanation in section 3.2.1.1) is tax deductable. The deferred tax asset of € 233 million arising from this (25% x € 934 million) is included in its entirety in the pro forma balance, based on the presumption of there being adequate future taxable profits to realize the associated deferred tax asset. In concluding this, account has been taken of assumptions about future profits as well as uncertainties concerning the future composition of the tax group of SNS REAAL.

16.1.6.2 *Tax impact on expropriation of subordinated debts*

It is estimated that the capital gains resulting from the expropriated subordinated bonds will largely not be subject to corporation tax. The calculated profit to be processed in 2013 arising from expropriated subordinated loans is fully subject to corporation tax. Taking into account provisions, the taxable profit on the settlement of hedges related to the expropriated bonds there is a net increase in equity of € 691 million.

16.2 Consolidated income statement

Consolidated income statement

in € millions	*Notes*	2012	2011
Income			
Interest income		2,544	2,761
Interest expense		1,741	1,958
Net interest income	25	**803**	**803**
Fee and commission income		106	139
Fee and commission expense		52	53
Net fee and commission income	26	**54**	**86**
Share in result of associates	27	-	(1)
Investment income	28	23	45
Result on financial instruments	29	40	119
Other operating income	30	7	(6)
Result assets and liabilities held for sale	31	-	(4)
Total income		**927**	**1,042**
Expenses			
Staff costs	32	274	258
Depreciation and amortisation of fixed assets	9 , 10	26	30
Other operating expenses	33	295	285
Impairment charges	34	1,216	410
Other expenses	35	9	-
Total expenses		**1,820**	**983**
Result before tax		**(893)**	**59**
Taxation	36	(175)	21
Net result continued operations		**(718)**	**38**
Net result discontinued operations		-	-
Net result for the period		**(718)**	**38**
Attribution:			
Net result attributable to shareholders		(719)	38
Net result attributable to securityholders		-	-
Net result attributable to shareholders and securityholders		**(719)**	**38**
Net result attributable to minority interests		1	-
Net result for the period		**(718)**	**38**

The references next to the income statement items relate to the notes to the consolidated income statement starting from chapter 25.25.

Some of the comparative figures have been restated for comparison purposes. Please refer to the notes in subsection 17.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.

Earning per share / security

in €	*Notes*	2012	2011
Earnings per share			
Earnings per share from continued operations	37	(855.68)	45.26
Earnings per share from discontinued operations		-	-
Earnings per share	37	(855.68)	45.26
Diluted earnings per share			
Earnings per share from continued operations	37	(855.68)	40.16
Earnings per share from discontinued operations		-	-
Earnings per share	37	(855.68)	40.16

The references next to the income statement items relate to the notes to the consolidated income statement starting from paragraph 25.25.

Some of the comparative figures have been restated for comparison purposes. Please refer to the notes in subsection 17.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.

16.3 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

in € millions	2012	2011
Net result for the period	**(718)**	**38**
Unrealised revaluations property and equipment	-	-
Realised revaluations through profit or loss	-	(2)
Change in revaluation reserve	**-**	**(2)**
Unrealised revaluations from cash flow hedges	4	37
Realised revaluations through profit or loss	-	-
Change in cash flow hedge reserve	**4**	**37**
Unrealised revaluations investments available for sale	140	(68)
Impairments fair value	-	20
Realised revaluations through profit or loss	(30)	(34)
Change in fair value reserve	**110**	**(82)**
Other changes	(1)	2
Change in other comprehensive income (after tax)	**113**	**(45)**
Total comprehensive income	**(605)**	**(7)**
Attribution:		
Total comprehensive income attributable to shareholders	(605)	(7)
Total comprehensive income to minority interests	1	-
Total comprehensive income	**(604)**	**(7)**

Some of the comparative figures have been restated for comparison purposes. Please refer to the notes in subsection 17.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.

16.4 Consolidated statement of changes in equity

Consolidated statement of changes in total equity 2012

in € millions	Issued share capital	Share premium reserve	Revaluation reserves property in own use	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 2012	381	967	-	64	(227)	500	38	1,723	156	-	1,879
Transfer of net result 2011	-	-	-	-	-	38	(38)	-	-	-	-
Transfers 2011	**-**	**-**	**-**	**-**	**-**	**38**	**(38)**	**-**	**-**	**-**	**-**
Unrealised revaluations	-	-	-	4	140	-	-	144	-	-	144
Realised revaluations through profit or loss	-	-	-	-	(30)	-	-	(30)	-	-	(30)
Other changes	-	-	-	-	-	-	-	-	-	(1)	(1)
Impairments	-	-	-	-	-	-	-	-	-	-	-
Amounts charged directly to total equity	**-**	**-**	**-**	**4**	**110**	**-**	**-**	**114**	**-**	**(1)**	**113**
Net result 2012	**-**	**-**	**-**	**-**	**-**	**-**	**(719)**	**(719)**	**-**	**1**	**(718)**
Total result 2012	**-**	**-**	**-**	**4**	**110**	**-**	**(719)**	**(605)**	**-**	**-**	**(605)**
Capital issue	-	219	-	-	-	-	-	219	(156)	-	63
Securities issue / repurchase	-	-	-	-	-	-	-	-	-	-	-
Transactions with shareholders and securityholders	**-**	**219**	**-**	**-**	**-**	**-**	**-**	**219**	**(156)**	**-**	**63**
Total changes in equity 2012	**-**	**219**	**-**	**4**	**110**	**38**	**(757)**	**(386)**	**(156)**	**-**	**(542)**
Balance as at 31 December 2012	**381**	**1,186**	**-**	**68**	**(117)**	**538**	**(719)**	**1,337**	**-**	**-**	**1,337**

Consolidated statement of changes in total equity 2011

in € millions	Issued share capital	Share premium reserve	Revaluation reserves property in own use	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 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 shareholders 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**

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, in the chapter Accounting principles for the consolidated financial statements.

16.5 Consolidated cash flow statement

Consolidated cash flow statement

in € millions	2012	2011
Cash flow from operating activities		
Operating profit before taxation	(893)	59
Net result discontinued operations	-	-
Adjustments for:		
Depreciation and amortisation of fixed assets	27	32
Changes in other provisions	(65)	15
Impairment charges / (reversals)	1,216	410
Unrealised results on investments through profit or loss	(148)	(90)
Retained share in the result of associates	-	1
Tax (paid) / received	-	-
Change in operating assets and liabilities		
Change in loans and advances to customers	2,343	2,176
Change in loans and advances to banks	3,725	1,334
Change in savings	2,473	2,944
Change in trading portfolio	(717)	52
Change in other operating activities	(121)	(992)
Net cash flow from operating activities	**7,840**	**5,941**
Cash flow from investment activities		
Sale of intangible assets	-	-
Sale of property and equipment	7	17
Sale of subsidiaries	2	122
Sale of investment property	28	194
Sale and redemption of investments and derivatives	2,620	4,079
Purchase of intangible fixed assets	(6)	(6)
Purchase of property and equipment	(5)	(18)
Purchase of investments in associates	(1)	108
Purchase of investment property	(9)	-
Purchase of investments and derivatives	(2,919)	(3,928)
Net cash flow from investment activities	**(283)**	**568**
Cash flow from finance activities		
Issue of shares and share premium	63	154
Issue of subordinated loans	47	60
Issues of debt certificates	4,685	1,556
Repurchase of securities	-	(100)
Redemption of subordinated loans	(389)	(982)
Redemption of debt certificates	(10,158)	(5,895)
Net cash flow from financing activities	**(5,752)**	**(5,207)**
Cash and cash equivalents 1 January	5,128	3,833
Effect of exchange rate fluctuations on cash held	-	(7)
Change in cash and cash equivalents	1,805	1,302
Cash and cash equivalents as at 31 December	**6,933**	**5,128**
Additional disclosure with regard to cash flows from operating activities		
Interest income received	2,650	2,803
Dividends received	4	1
Interest paid	1,820	1,781

Some of the comparative figures have been restated for comparison purposes. Please refer to the notes in subsection 17.3.4 Changes in principles, estimates and presentation 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 2012 were authorised for publication by the Management Board following their approval by the Supervisory Board on 26 June 2013. The financial statements will be submitted to the General Meeting of Shareholders for adoption in July 2013.

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 NV comprise the accounts of all the companies controlled by SNS Bank NV and the interest of SNS Bank NV in associated companies and entities.

SNS Bank NV is a 100% subsidiary of SNS REAAL NV. As of 1 February 2013, the Dutch State is the sole shareholder of SNS REAAL NV.

The information in the separate financial statements of SNS Bank NV differs from the segment information shown in the annual report of SNS REAAL NV as shown in the annual report of 2012. The difference is the result of intercompany transactions within SNS REAAL which are eliminated in the segment reporting of SNS Bank in the financial statements of SNS REAAL. The SNS Retail Bank net result in the annual report of SNS Bank NV is € 6 million higher, as net interest income is € 3 million (gross) higher and result on financial instruments is € 5 million (gross) higher. These differences are the result 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.

In 2012, SNS REAAL and its subsidiary SNS Bank had a vulnerable capital position. In the second half of the year, SNS REAAL worked closely together with, among others, the Dutch Central Bank (DNB), the Ministry of Finance and advisors to reach a comprehensive solution for the capital position and portfolio of Property Finance. This vulnerable capital position eventually led to the nationalisation of SNS REAAL on 1 February 2013, making the Dutch State the sole shareholder of SNS REAAL. After the nationalisation, the Minister has announced follow-up steps to enforce the capital position of SNS REAAL and to isolate the portfolio of Property Finance in a letter addressed to the Chairman of the States General Second Chamber. The nationalisation and follow-up steps are further explained in chapter 3 Nationalisation. Based on the before mentioned events and the decision announced by the Minister of Finance, the annual accounts are prepared on a going concern basis.

17.3 Basis of preparation

17.3.1 Statement of IFRS compliance

SNS Bank NV 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 NV prepares its company financial statements (see also paragraph 26.3 Principles for the preparation of the company financial statements for the application of section 2:402 of the Netherlands Civil Code) 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 2012

New or amended standards become effective on the date specified in the relevant IFRS, but may allow early adoption. In 2012, 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 NV.

- Amendment to IFRS 1 First time adoption – Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters.
- Amendment to IFRS 7 Financial Instruments Disclosures – Transfers of Financial Assets.
- IAS 12 Income Taxes – Recovery of Tax Assets.

17.3.3 Interpretations of existing standards or amendments to standards, not yet effective in 2012

The following new standards, amendments to existing standards and interpretations, published prior to 1 January 2013 and effective for accounting periods beginning on or after 1 January 2013, were not early adopted by SNS Bank NV.

- 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 – 'Offsetting Financial Assets and Financial Liabilities'.
- Amendment to IAS 32 Financial Instruments: Presentation – 'Offsetting Financial Assets and Financial Liabilities'.
- Amendment to IFRS 1 First-Time Adoption of International Financial Reporting Standards – 'Government Loans'.
- Amendment to IAS 1 Presentation of Financial Statements – 'Presentation of Items of Other Comprehensive Income'.
- Improvements to IFRSs 2011.

Notes to the main changes:

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.

IFRS 10 Consolidated Financial Statements, effective for accounting periods beginning on or after 1 January 2014, introduces a single recognition model for all entities, based on control, regardless of the type of entity consolidated. This new requirement is still being analysed, but based on the first results SNS Bank does not expect a significant impact on the consolidated financial statements when this new standard enters into force in 2014.

17.3.4 Changes in principles, estimates and presentation

17.3.4.1 Changes in presentation

In 2012 SNS Bank took further steps to enhance its capital position and reduce its risk profile. In view of this, SNS Bank decided in the second half of 2012 to withdraw from the commercial property finance market for SME's. As a result SNS SME's loan portfolio will be phased out. The core real estate finance portfolio, part of the total loan portfolio, will be phased out under the direction and responsibility of Property Finance. This announcement was made in the trading update of the third quarter 2012.

SNS SME's other activities (the SME mortgage and savings portfolio) will be continued and transferred to the SNS Retail Bank business unit. As a result of this transfer, SNS SME will cease to exist. The change in segmentation is in alignment with the new business activities decision model and also creates more transparency for users of the financial statements in respect of the net result from SNS Bank's continued activities in the future, and results relating to the phase out (and separation) of the Property Finance portfolio in a separate asset management organisation in 2013.

The accompanying statements present the impact of the aforementioned changes in the segmented balance sheet as at 31 December 2011 and the segmented income statement for 2011.

Reported 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
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**

Adjusted balance sheet by segment 31 December 2011

in € millions	SNS Retail Bank	Property Finance	Eliminations	Total
Assets				
Cash and cash equivalents	5,109	476	(457)	5,128
Loans and advances to banks	11,200	11	(9,529)	1,682
Loans and advances to customers	55,907	8,890	-	64,797
Derivatives	3,354	-	-	3,354
Investments	4,106	-	-	4,106
Investment properties	1	-	-	1
Property projects	-	512	-	512
Investments in associates	-	17	-	17
Property and equipment	88	2	-	90
Intangible assets	106	47	-	153
Deferred tax assets	218	7	-	225
Corporate income tax	102	13	-	115
Other assets*	921	276	(105)	1,092
Total assets	**81,112**	**10,251**	**(10,091)**	**81,272**
Equity and liabilities				
Savings	30,342	-	-	30,342
Other amounts due to customers	10,035	180	-	10,215
Amounts due to banks	5,174	9,529	(9,987)	4,716
Debt certificates	27,361	-	-	27,361
Derivatives	3,606	-	-	3,606
Deferred tax liabilities	296	7	-	303
Corporate income tax	(1)	-	1	-
Other liabilities	1,670	129	(105)	1,694
Provisions	30	5	-	35
Participation certificates and subordinated debt	1,121	-	-	1,121
Equity attributable to shareholders	1,322	401	-	1,723
Equity attributable to securityholders	156	-	-	156
Total equity	**1,478**	**401**	**-**	**1,879**
Total equity and liabilities	**81,112**	**10,251**	**(10,091)**	**81,272**

** There has been a shift of € 18 million from the other assets to loans and advances to customers.*

Reported 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**

Adjusted income statement by segment 2011

in € millions	SNS Retail Bank	Property Finance	Eliminations	Total
Income				
Interest income	2,653	417	(309)	2,761
Interest expense	1,973	294	(309)	1,958
Net interest income	**680**	**123**	**-**	**803**
Fee and commission income	139	-	-	139
Fee and commission expense	53	-	-	53
Net fee and commission income	**86**	**-**	**-**	**86**
Share in result of associates	-	(1)	-	(1)
Investment income	45	-	-	45
Result on financial instruments	155	(36)	-	119
Other operating income	2	(8)	-	(6)
Result assets and liabilities held for sale	-	(4)	-	(4)
Total income	**968**	**74**	**-**	**1,042**
Expenses				
Staff costs	215	43	-	258
Depreciation and amortisation of fixed assets	29	1	-	30
Other operating expenses	223	62	-	285
Impairment charges	126	284	-	410
Total expenses	**593**	**390**	**-**	**983**
Result before tax	**375**	**(316)**	**-**	**59**
Taxation	94	(73)	-	21
Net result continued operations	**281**	**(243)**	**-**	**38**
Net result discontinued operations	-	-	-	-
Net result for the period	**281**	**(243)**	**-**	**38**
Minority interests	-	-	-	-
Net result attributable to shareholders and securityholders	**281**	**(243)**	**-**	**38**

17.3.4.2 Changes in estimates

Risk assessment model on residential mortgages

During 2012, SNS Bank subjected its existing risk assessment model on residential mortgages and bridge loans to a regular revision. A revised definition of default is used in the new model, as well as a connection to the market developments through the use of more recent data and an improved credit risk database. The PD, LGD and best estimate LGD are recalibrated. The introduction of the new model and recalibration of the parameters led to an addditional increase of provisions on residential mortgages with € 40 million in 2012.

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.

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 and derivatives.

All other financial assets (including loans and advances) and liabilities are measured at amortised cost. The book value of assets and liabilities measured at amortised cost that are part of a fair value hedge is restated to reflect the change in fair value that is attributable to the hedged risk.

Non-financial assets and liabilities are generally measured at historical cost. Except for the cash flow information, the financial statements have been prepared on an accrual basis.

17.3.5.2 Functional currency and reporting currency

The consolidated financial statements have been prepared in millions of euro's (€). The euro is the functional currency of SNS Bank NV. All financial data presented in euro's 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 NV 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. Hereby, management judges situations on the basis of available information and financial data which could potentially alter in the future. Although these estimates are made to the best of the management's knowledge, actual results may differ from the estimates and the use of other propositions or data can lead to materially different results.

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 NV 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 NV, 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 (including the estimated sales price at the end of the exit period) are discounted at the weighted average cost of capital (WACC) of SNS Bank NV.

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 external 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 Impairment charges of intangible assets and investments in financial instruments

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 recoverable value is determined by a value in use calculation.

Reversal of impairments on intangible 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

Each reporting date, SNS Bank NV assesses whether there are objective indications of impairment of investments classified as loans and receivables and as 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:

a The price of the most recent transaction as an indication.
b Current fair values of other, similar investments (in entities).
c Using valuation methods that use market data as much as possible, and that are 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 NV 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 NV has control in any other manner.

Subsidiaries are fully consolidated from the date on which control is transferred to SNS Bank NV. They are de-consolidated from the date control ceases. The financial statements of these group companies are fully consolidated, with SNS Bank NV 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 NV has securitised mortgage receivables in SPEs. With these transactions, the economic ownership of the mortgage loans is transferred to separate entities. SNS Bank NV does not have any direct or indirect interests in these entities.

SNS Bank NV fully consolidates these SPEs in its financial statements if, on the basis of the economic reality of the relationship between SNS Bank NV and the SPE, SNS Bank controls the SPE, or if SNS Bank NV 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 NV generally has between 20% and 50% of the voting power, or over which SNS Bank NV can exercise significant influence on the operational and financial policies, but she has no control.

Joint ventures are entities over which SNS Bank NV 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 NV's share in the total results of associates and joint ventures, from the date that SNS Bank NV 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 NV'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 NV 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 NV 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 NV 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 or 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 NV and its associates and joint ventures are eliminated to the extent of SNS Bank NV'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 euro's at the exchange rate at the transaction date. Monetary balance sheet items denominated in foreign currencies are translated into euro's 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 NV 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, on balance sheet date, 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 NV are clearly distinctive organisational components, and carry out activities that generate income and expenses. The Management Committee of SNS REAAL NV defines the performance targets and authorises and monitors the budgets that have been prepared by these business units. The management of each business unit defines the policy of that business unit, in accordance with the strategy and the performance targets as formulated by the Management Committee. The business segments are:

- SNS Retail Bank
- Property Finance

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

17.5 Specific balance sheet principles

17.5.1 Financial assets

SNS Bank NV 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, amounts held by the Insurance activities at other banks and advances from the Banking activities 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. These receivables are measured at amortised cost using the effective interest method, less any impairment losses.

17.5.1.2 Loans and advances to banks

These concern receivables to banks with a remaining maturity of one month or more, and not in the form of interest-bearing securities. These receivables are measured at amortised cost using the effective interest method, 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 insurance

SNS Bank has concluded credit insurance 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 issuer of the credit insurance. Impairment of mortgages and the amount receivable under the credit insurance 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.

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 Hedging and 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 NV 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 NV can designate certain derivatives as either:

a A hedge of the risk of changes in the fair value of a recognised asset or liability or firm commitment (fair value hedge); or
b 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 NV, 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 NV ceases the hedge accounting relationship after a management decision to this end or as soon as it has been established that a derivative is no longer an effective hedging instrument, or when the derivative expires, is sold, terminated or exercised; when the hedged 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 previously hedged financial instruments.

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 future 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 endowment 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:

a This eliminates or considerably limits an inconsistency in valuation or recognition that would otherwise arise; or
b SNS Bank NV 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, houses and land, are held to generate long-term rental income or capital appreciation or both. 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 (partial) 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, as far is possible, partly based on recent market transactions. The valuation of the fair value of investment properties depends on, inter alia, the (expected) market rentable value, rent incentives, discount rate and expected vacancy, as well as 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 for which no specific sales agreement with a third party exists. Property projects comprise 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, including bank 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, independent 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 fair value on an unlet or (partially) 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 from 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 NV’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 NV 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 five 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 property and equipment, 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, in addition to deposits regarding reinsurance contracts, premium deposits and mortgage deposits.

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

Upon initial recognition, savings, amounts due to customers and amounts due to banks are measured at fair value, including transaction costs incurred. Thereafter, they are measured at amortised cost.

Any difference between the measurement at initial recognition and the redemption value based on the effective interest method is recognised under ‘interest expense Banking activities’ in the income statement during the term of these savings and amounts owed.

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.

After initial recognition a specific category of outstanding debt certificates (the securitised mortgages through Holland Homes transactions) remains 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.

The accrued interest on subordinated debt is part of the expropriation decree. The accrued interest on subordinated bonds is credited to the shareholders' equity in the pro forma balance sheet. The result on financial instruments in the pro forma profit and loss account include the accrued interest on subordinated loans.

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.

In 2013, a constructive obligation is formed in relation to the intended separation of Property Finance in a separate asset management organisation. The pro forma figures include the constructive obligation.

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. 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, Banking activities'.

The participation certificates are presented als liabilities in the financial statements.

The participation certificates are part of the expropriation decree of the Dutch State and are added to the share premium reserve in the pro forma figures.

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.

The subordinated debt of SNS Bank is part of the expropriation decree of the Dutch State. In the pro forma balance sheet, the subordinated bonds are added to the share premium reserve. The subordinated loans are credited to the result on financial instruments (profit and loss account).

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 29.1 'Provision regarding profit or loss appropriation'.

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.

A number of SNS REAAL NV'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 NV's subsidiaries. The costs of the Executive Board and other specific company costs are not allocated to SNS REAAL NV'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. 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

Interest income is recognised using 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 'Specific balance sheet principles' 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 NV is a banking company that focuses mainly on the Dutch retail and SME markets. The product range consists of two core product groups: 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 NV are organised in two primary business segments. The Management 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 NV. 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 25.24 (Related parties). Intercompany common control transactions are accounted for using book value accounting.

18.1.1 SNS Retail Bank

This segment offers banking products in the field of mortgages, asset growth and asset protection for the retail and SME markets. In addition to the label SNS Bank the segment SNS Retail Bank also comprises ASN Bank, BLG Hypotheken, RegioBank and SNS Securities. Together with the segment Property Finance the segment SNS Retail Bank constitutes the legal entity SNS Bank NV.

The SNS SME segment that was set up on 1 January 2011 and comprised of the former SME activities of SNS Retail Bank and the core business of Property Finance has been split up again, and ceased to exist. As per 1 January 2012 the former SME activities of SNS Retail Bank have been included in the SNS Retail Bank segment and the core business Property Finance into the segment Property Finance. For more information see paragraph 17.3.4.1 Changes in presentation.

18.1.2 Property Finance

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

Property Finance's core business, which was formerly presented in the segment SNS SME, now falls under the segment Property Finance; for more information see paragraph 17.3.4.1 Changes in presentation.

18.2 Balance sheet by segment

Balance sheet by segment 31 December 2012

in € millions	SNS Retail Bank	Property Finance	Eliminations	Total
Assets				
Cash and cash equivalents	6,909	203	(179)	6,933
Loans and advances to banks	9,867	10	(7,950)	1,927
Loans and advances to customers	55,163	6,605	-	61,768
Derivatives	3,660	-	-	3,660
Investments	5,302	-	-	5,302
Investment properties	-	-	-	-
Property projects	-	416	-	416
Investments in associates	-	3	-	3
Property and equipment	69	2	-	71
Intangible assets	98	-	-	98
Deferred tax assets	329	8	-	337
Corporate income tax	114	3	-	117
Other assets	508	600	(399)	709
Total assets	**82,019**	**7,850**	**(8,528)**	**81,341**
Equity and liabilities				
Savings	32,815	-	-	32,815
Other amounts due to customers	9,529	-	-	9,529
Amounts due to banks	8,691	8,124	(8,129)	8,686
Debt certificates	21,990	-	-	21,990
Derivatives	3,599	-	-	3,599
Deferred tax liabilities	295	8	-	303
Corporate income tax	-	-	-	-
Other liabilities	2,458	121	(399)	2,180
Provisions	73	9	-	82
Participation certificates and subordinated debt	820	-	-	820
Equity attributable to shareholders	1,749	(412)	-	1,337
Equity attributable to security holders	-	-	-	-
Total equity	**1,749**	**(412)**	**-**	**1,337**
Total equity and liabilities	**82,019**	**7,850**	**(8,528)**	**81,341**

Balance sheet by segment 31 December 2011

in € millions	SNS Retail Bank	Property Finance	Eliminations	Total
Assets				
Cash and cash equivalents	5,109	476	(457)	5,128
Loans and advances to banks	11,200	11	(9,529)	1,682
Loans and advances to customers	55,907	8,890	-	64,797
Derivatives	3,354	-	-	3,354
Investments	4,106	-	-	4,106
Investment properties	1	-	-	1
Property projects	-	512	-	512
Investments in associates	-	17	-	17
Property and equipment	88	2	-	90
Intangible assets	106	47	-	153
Deferred tax assets	218	7	-	225
Corporate income tax	102	13	-	115
Other assets	921	276	(105)	1,092
Total assets	**81,112**	**10,251**	**(10,091)**	**81,272**
Equity and liabilities				
Savings	30,342	-	-	30,342
Other amounts due to customers	10,035	180	-	10,215
Amounts due to banks	5,174	9,529	(9,987)	4,716
Debt certificates	27,361	-	-	27,361
Derivatives	3,606	-	-	3,606
Deferred tax liabilities	296	7	-	303
Corporate income tax	(1)	-	1	-
Other liabilities	1,670	129	(105)	1,694
Provisions	30	5	-	35
Participation certificates and subordinated debt	1,121	-	-	1,121
Equity attributable to shareholders	1,322	401	-	1,723
Equity attributable to securityholders	156	-	-	156
Total equity	**1,478**	**401**	**-**	**1,879**
Total equity and liabilities	**81,112**	**10,251**	**(10,091)**	**81,272**

Some of the comparative figures have been restated for comparison purposes. Please refer to the notes in subsection 17.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.

18.3 Income statement by segment

Income statement by segment 2012

in € millions	SNS Retail Bank	Property Finance	Eliminations	Total
Income				
Interest income	2,465	287	(208)	2,544
Interest expense	1,760	189	(208)	1,741
Net interest income	**705**	**98**	**-**	**803**
Fee and commission income	106	-	-	106
Fee and commission expense	52	-	-	52
Net fee and commission income	**54**	**-**	**-**	**54**
Share in result of associates	-	-	-	-
Investment income	23	-	-	23
Result on financial instruments	52	(12)	-	40
Other operating income	9	(2)	-	7
Total income	**843**	**84**	**-**	**927**
Expenses				
Staff costs	231	43	-	274
Depreciation and amortisation of fixed assets	26	-	-	26
Other operating expenses	222	73	-	295
Impairment charges	228	988	-	1,216
Other expenses	8	1	-	9
Total expenses	**715**	**1,105**	**-**	**1,820**
Result before tax	**128**	**(1,021)**	**-**	**(893)**
Taxation	33	(208)	-	(175)
Net result continued operations	**95**	**(813)**	**-**	**(718)**
Net result discontinued operations	-	-	-	-
Net result for the period	**95**	**(813)**	**-**	**(718)**
Minority interests	1	-	-	1
Net result attributable to shareholders and securityholders	**94**	**(813)**	**-**	**(719)**

The goodwill impairment of € 48 million of SNS SME is included in the segment Property Finance

Income statement by segment 2011

in € millions	SNS Retail Bank	Property Finance	Eliminations	Total
Income				
Interest income	2,653	417	(309)	2,761
Interest expense	1,973	294	(309)	1,958
Net interest income	**680**	**123**	**-**	**803**
Fee and commission income	139	-	-	139
Fee and commission expense	53	-	-	53
Net fee and commission income	**86**	**-**	**-**	**86**
Share in result of associates	-	(1)	-	(1)
Investment income	45	-	-	45
Result on financial instruments	155	(36)	-	119
Other operating income	2	(8)	-	(6)
Result assets and liabilities held for sale	-	(4)	-	(4)
Total income	**968**	**74**	**-**	**1,042**
Expenses				
Impairment charges	126	284	-	410
Staff costs	215	43	-	258
Depreciation and amortisation of fixed assets	29	1	-	30
Other operating expenses	223	62	-	285
Total expenses	**593**	**390**	**-**	**983**
Result before tax	**375**	**(316)**	**-**	**59**
Taxation	94	(73)	-	21
Net result continued operations	**281**	**(243)**	**-**	**38**
Net result discontinued operations	-	-	-	-
Net result for the period	**281**	**(243)**	**-**	**38**
Minority interests	-	-	-	-
Net result attributable to shareholders and securityholders	**281**	**(243)**	**-**	**38**

Some of the comparative figures have been restated for comparison purposes. Please refer to the notes in subsection 17.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.

19 Acquisitions and disposals

On 19 December 2012, SNS Bank signed a memorandum of understanding to transfer the private banking activities of SNS Securities to Bank ten Cate & Cie during the second half of 2013. The transaction is subject to a statement of no objection from the Dutch Central Bank (DNB). The transfer has no material impact on equity and result.

20 Risk management and -organisation

20.1 Main developments risk profile

SNS Bank NV's commercial activities, such as offering accessible banking products, involve risks, whereby the exposure to proprietary trading, complex products or foreign currencies, is limited.
A summary of the developments on the riskprofile and capital of SNS Bank NV is presented below, and explained in further detail in the subsequent chapters.

Capital Management

The core Tier 1 ratio dropped from 9.2% at the end of 2011 to 6.1%, which was below the internal and Dutch Central Bank (DNB) requirements due to the net loss at SNS Bank NV and the increase in risk-weighted assets.

A further explanation on capital management can be found in chapter 24 Capital management.

Balance sheet and Risk Management

Compared to year-end 2011, SNS Bank's balance sheet increased driven by the participation in the second tranche of the LTRO facilities and higher savings balances which increased cash and cash equivalents.

Loans and advances to customers decreased by € 3.2 billion driven by a € 2.3 billion reduction at Property Finance due to redemptions, impairments and the sale of loans. Excluding Property Finance, loans and advances to customers decreased by € 0.9 billion to € 57.7 billion. SNS Bank's residential mortgage portfolio decreased by € 2.0 billion to € 49.4 billion due to redemptions. Sales of new mortgages were limited. The decline in residential mortgages was partly compensated by an increase of other loans mainly due to higher cash loans to governments as part of liquidity management.

Market risk SNS Bank

During 2012 interest rates over all terms dropped significantly. Volatilities in interest rates stayed at a high level.

An important metric to measure interest rate risk of SNS Bank is duration of equity. In order to maintain a low sensitivity to changes in interest rates, the duration of equity was held at low levels, between 1 and 4, during 2012. At year-end, the duration of equity was 3.7 (year-end 2011: 3.8).

Another metric used to manage interest rate risk is Value of Risk (VaR). The average VaR with a confidence level of 99% stood in 2012 at € 180 million compared to an average of € 210 million over 2011. At the end of 2012, the VaR stood at € 176 million versus € 227 million at year-end 2011.

20.2 Risk management organisation

The risk management organisation of SNS Bank NV and its subsidiaries are integrated in the risk management organisation 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 NV.

The SNS REAAL Business and Risk Governance focuses on improving the quality of risk management and achieving efficiency in risk control. The risk management system is aimed at further strengthening the policy and implementation in the business operations.

The risk management activities of the legal entity SNS Bank NV is organised into the business unit SNS Retail Bank.

Until 31 December 2012, Risk Management Property Finance was part of Risk Management SNS Bank NV. As of 1 January 2013, Risk Management Property Finance is hierarchically structured under the CFO of Property Finance NV. For more information refer to 21.5 Credit risk Property Finance.

Risk Committee
Supervisory Board
Audit Committee
Executive Board
Model Goverance Committee (MGC)
Group Risk Committee (GRC)
Group Financial Committee (FinCo)
Group Asset & Liability Committee (ALCO Group)
Group Credit Risk Committee (GCC)
Goverance, Operational Risk & Compliance Committee (GORCC)
Insurance activities
Business Unit REAAL
Business Unit Zwitserleven
Banking activities
SNS BANK
Product Market Pricing Committee BU (PMPC)
Product Market Pricing Committee BU (PMPC)
Product Market Pricing Committee BU (PMPC)
Asset & Liability Committee Insurance (ALCO Insurance)
Asset & Liability Committee Bank (ALCO Bank)
Actuarial Risk Committee (ARC)
Advises:
GRC, MGC, FinCo, ALCO Group, BU Management, ALCO Insurance
Credit Risk Committee SNS Retail Bank (CC SNS Retail Bank)
Credit Risk Committee Property Finance (CC PF)

The management boards of the business units 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 frameworks established at Group level for risks including credit risk, insurance risk, integrity risk and operational risk. Asset & Liability Management is managed at Group level. The (risk) policy frameworks are established in the Group Risk Committee (GRC).

Responsibility levels in risk management

For the purposes of risk management, SNS REAAL distinguishes three responsibilities based on the 'Three Lines of Defence' model used as best practice in the financial sector. This distinction defines clear responsibilities and guarantees that risk management is a subject taken up by the entire organisation:

- 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 identifying and monitoring risk positions and in respect of policy matters and have a monitoring role with regard to relevant 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. In addition, Group Audit is responsible for conducting special internal audit work for the management teams of the business units and line management.

The responsibilities within the risk management organisation have been clearly defined, with the GRC being the highest risk management body reporting to the Executive Board of SNS REAAL 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 of SNS REAAL and the management boards of the three business units. These owners are each individually 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, are formulated as follows:

- One shared Group-wide risk type classification.
- A pre-set risk tolerance ('Risk Appetite') for each identified risk type.
- 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.

20.3 Risk management committees

SNS REAAL NV's Executive Board and the statutory Management Board of SNS Bank NV have ultimate responsibility for the risk management within SNS Bank. The risk committees established within SNS REAAL have an operational role and, if necessary, they determine frameworks within the mandate from the GRC. The Supervisory Board has its own committees.

Risk Committee

The Risk Committee comprises at least three members of the Supervisory Board. This committee assesses, among other things, the profile of SNS REAAL's financial and non-financial risks, in particular as to whether capital allocation, investment policy and liquidity requirements on the strategic level correspond with the approved risk appetite. In addition, the Risk Committee assesses the structure 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 (GRC)

The Executive Board and the statutory management boards 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 risk control departments for financial and non-financial risks (Group Risk Management, Compliance, Security & Operational Risk Management and Group Audit). The latter risk control 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 plan.

Other Risk Committees at Group level
The Group committees have a mutually equal status in the risk committee structure. Their primary focus is on optimising risk and return within the defined frameworks. In their framework-formulating 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 next 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.

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 Bank and ALCO Insurance operate under the ALCO Group;
- **Group Counterparty & Credit Risk Committee (GCC)** to manage the credit risks, including the counterparty credit risks (policy) and to approve loans and revisions. The SNS Retail Bank Credit Risk Committee and the Property Finance 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
Local risk committees have been set up within the business units, which operate within the policy frameworks delegated by the Group committees, or which solely only have an advisory role. The risk committees at business unit level (BU level) are:

- **Product Market Pricing Committee (PMPC)** for the formal approval of products. There is a PMPC for the BU SNS Retail Bank and, additionally, a PMPC for SNS Securities and SNS Asset Management. The PMPCs have a direct escalation line to the GRC;
- **Asset & Liability Committee Bank (ALCO Bank)** to manage the ALM risks in the balance sheet of the Banking activities;
- **Credit Risk Committee SNS Retail Bank (CC SNS Retail Bank)** to manage all forms of credit risks in the bank's balance sheet (with the exception of credit risk on customers in Property Finance);
- **Credit Risk Committee Property Finance (CC PF)** to manage credit risks on Property Finance's customers.

Decision-making processes
Decisions are taken by a majority of the votes present, subject to a quorum set in advance for the relevant committee. In the event of a tie, the chairman decides.

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 statutory powers allocated to the parties present.

20.4 Risk management departments

In order to promote efficiency and uniformity, the risk management departments advise on risk management and report on the risk profile. They act as shared service centres for the Banking activities and, with regard to risks, they are responsible for modelling, measuring, monitoring, reporting and advice. They are not responsible for determining the policy, but have an advisory role in this area.

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

At SNS REAAL the following departments are involved in risk management for SNS Bank NV:

- Group Risk Management (GRM)
- Compliance, Security & Operational Risk Management (CS&O)
- Legal Affairs (LA)
- Risk Management SNS Retail Bank and Property Finance
- Group Audit (GA)

Group Risk Management (GRM)

GRM supports SNS REAAL in taking on and monitoring responsible risks for the benefit of all stakeholders. GRM's primary task is to carry out its second-line role based on the 'Three Lines of Defence' model used by SNS REAAL.

Within this context, GRM supports the Executive Board of SNS REAAL, the BU management boards and other stakeholders in:

- Formulating and monitoring the risk profile;
- Defining the frameworks within which the risk owners (can) operate;
- Identifying changing market conditions and regulations in the field of Risk Management that are relevant to the strategy and policy;
- Ensuring and controlling efficient risk management processes;
- Achieving coherence in SNS REAAL's risk management organisation;
- Valuing the portfolios for steering structural value creation;
- Coordinating strategic projects related to the management of financial risks (including stress tests and the Basel III programme);
- Model building;
- Model validation (including an escalation line to the CFRO).

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

CS&O advises SNS REAAL's 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 structuring business processes. The main duties of the department are providing recommendations for ethical and controlled business conduct, coordinating and promoting operational risk management, security risk management and integrity risk management, formulating policies, giving advice and support with regard to issues related to non-financial risks, providing courses & awareness programmes, oversight & monitoring 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 collaboration. These themes serve as guidance for the risk analyses to be performed and provide the structure for supervision and risk reporting.

Legal Affairs (LA)

Legal Affairs (LA) 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) legal disputes;
- Advising on cooperation agreements.

Risk Management SNS Retail Bank and Property Finance

Credit risk management is allocated to three separate and independent departments (Mortgage Service Centre, Special Credits department Service Centre and Risk Management). The strengthening of first line ALM and balance sheet management is continued in 2012. These activities will be incorporated into the Finance, Risk & Control department of SNS Bank in 2013. Also, in 2012 the separation of the Risk Management activities of Property Finance and SNS Retail Bank was continued. As a result, this led to a separate Risk Management Property Finance department, effective 1 January 2013.

The Mortgage Service Centre, Special Credits department, SNS Retail Bank Risk Management and Property Finance Risk Management play an important role in the following tasks:

Mortgages Service Centre:

- Binding advice on residential mortgages;
- Administering and management of credit facilities and private collateral.

Special Credits department Service Centre:

- Manages loans in arrears and loans in default;
- Prepares reports on the operational management relating to credit risk.

Risk Management SNS Retail Bank:

- Advising on the credit risk policy;
- Independent analysis of and advice on credit proposals;
- Binding advice on commercial items;
- Administering and management of credit facilities and collateral;
- Performing the secretarial duties for the SNS Retail Bank Credit Committee;
- Serving as a voting member on the credit committee;
- Presents a proposal for the credit provision amount, which is to be approved by the management board.

Risk Management Property Finance:

Within Property Finance, a Restructuring & Recovery (R&R) department was set up, independent of Risk Management. R&R manages the default portfolio (this includes the management of the collateral and property projects of which

Property Finance has taken effective control). The R&R department prepares the settlement and restructuring plan and presents a proposal on the amounts to be taken as an impairment provision, which is to be approved by the management board.

Group Audit

Group Audit (GA) reports to the chairman of the SNS Bank Managing Board als well as the chairman of the SNS REAAL 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 primarily carries out its audits on behalf of SNS Bank's Managing Board as well as SNS REAAL's Executive Board based on a dynamic risk analysis. This risk analysis is in line with the Banking Code and the Insurance Code and has been discussed with the external auditor and the Dutch Central Bank. These audits focus on the internal risk management and control system, related processing procedures and (the reliability of) management information.

Group Audit is also responsible for carrying out the differentiated internal audit activities on behalf of the business units' 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.

20.5 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.

20.6 Framework for business control

Taking risks is an integral part of doing business 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 managing 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 risk appetite and the ensuing 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, including 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 the quality of staff 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;
- Processes set up for the purpose of managing the predictability of performance, the prevention of unforeseen losses and the reliability of information.

The management boards of the business units are responsible for day-to-day operations within these frameworks and each year draw up operational plans that are approved by the Executive Board.

The framework for business control sets out how responsibility is awarded within SNS REAAL and how this must be accounted for. This framework forms the basis for controlling the (risk) management processes.

The framework for business control thus offers a reasonable, 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 is the periodic in-control statements per business unit. The outcome of this procedure contributes to the management statements that are included in the SNS Bank Annual Report (see chapter 15.3 Management Statements).

Framework for business control

In an in-control statement, the management boards and members of SNS REAAL's Executive Board state, with due observance of changes to internal and external factors, whether they have identified the essential 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. They also state whether they expect that the risk management system will continue to work adequately.

The Executive Board of SNS REAAL discusses the in-control statements and establishes whether additional measures need to be taken in order to curtail risks. The statements are also used to prepare the management statement for the annual report (see chapter 15.3 Management statements). The reports on the in-control statement are also submitted to the Audit Committee.

21 Financial risk management

21.1 Introduction

This chapter discusses the financial risks that occur within SNS Bank.
These financial risks mainly consist of credit risks, market risks, liquidity risks and capital risk.

The credit risks are discussed in the first five paragraphs. Paragraph 21.2 provides a comprehensive overview of the credit risk profile and credit risk management of SNS Bank. The credit risks of SNS Retail Bank and Property Finance are explained in the paragraph 21.4 and paragraph 21.5.

The market risk is discussed in paragraph 21.6, with a description of the definition and management of the market risk, as well as – in separate subsections – a description of the spread risk, currency risk, sensitivity test for interest rate risks and shares, effective interest rate of the Banking activities and, lastly, the market risk for the trading portfolio within the Banking activities.

The liquidity risk is discussed in paragraph 21.7, with a description of the definition and management of the liquidity risk, as well as a separate description of the Internal Liquidity Adequacy Assessment Process (ILAAP).

The capital risk is discussed in paragraph 24.5.

The former SME activities of SNS Retail Bank, previously presented in the SME segment, have been added to the SNS Retail Bank segment, for more information see paragraph 17.3.4.1 Changes in presentation.

21.2 Credit risk - overview

Credit risk is the risk that a borrower and/or counterparty does not meet his financial or other contractual obligation. The credit risk is broken down into debtor risk, counterparty risk and transfer risk. The credit risk management within SNS Retail Bank's business units is described in paragraph 21.4.

The Banking activities distinguish various categories of credit risk. The main categories are loans and advances to customers, loans and advances to banks, and investments. More than 92% of the loans and advances to customers are backed by mortgage collateral. The other non-mortgage-backed items are mainly loans and advances to banks and investments (primarily bonds). The investments in connection with the Company's own liquidity management and held for trading are low-risk.

The loan portfolio of SNS Retail Bank focuses on the Dutch market. The market for owner-occupied residential property was weak in 2012, just as in 2011. Despite government measures, such as reduced property transfer tax, both the number of residential properties sold and the average price per residential property dropped. The number of transactions on the residential property market thus reached record lows and house prices fell for the fourth year in a row. The falling house prices and the stagnating residential property market led to longer foreclosure periods and larger losses on foreclosure.

The loan portfolio of Property Finance is mainly commercial real estate in the Nederlands. It is becoming increasingly clear that the economic recovery is taking longer than expected. This is also clearly reflected in the further deterioration in the outlook on the real estate markets, to which the Dutch real estate markets are no positive exception. As a result of the aforementioned developments the number of loans in default is increasing during the second half of 2012. Consequently, provisions were made.

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

Credit risk

	SNS Retail Bank		Property Finance		Eliminations		Total	
In € millions	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Investments	5,302	4,106	-	-	-	-	5,302	4,106
Derivatives	3,660	3,354	-	-	-	-	3,660	3,354
Loans and advances to customers	55,519	56,140	7,822	9,527	-	-	63,341	65,667
Loans and advances to banks	9,867	11,200	10	11	(7,950)	(9,529)	1,927	1,682
Other assets, no lending operations	1,118	1,436	1,352	984	(399)	(105)	2,071	2,315
Cash and cash equivalents	6,909	5,109	203	476	(179)	(457)	6,933	5,128
Total	**82,375**	**81,345**	**9,387**	**10,998**	**(8,528)**	**(10,091)**	**83,234**	**82,252**
Off-balance sheet commitments								
Liabilities from pledges and guarantees given	20	35	115	142	-	-	135	177
Liabilities from irrevocable facilities	612	729	134	191	-	-	746	920
Total	**83,007**	**82,109**	**9,636**	**11,331**	**(8,528)**	**(10,091)**	**84,115**	**83,349**

The table below gives an indication of the credit risk of the Banking activities, 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 and 100% for the other loans and advances.

Credit risk based on weighting percentages under Basel II guidelines

	Risk weighted assets		Regulatory capital	
In € millions	**2012**	2011	**2012**	2011
Standardised approach				
Central Government and Central Banks	17	20	1	2
Institutions	1,098	1,056	88	85
Corporates	7,733	9,660	619	773
Retail	1,095	1,181	88	94
Shares	13	26	1	2
Other assets	1,267	1,606	101	128
Internal rating based approach				
Retail mortgages	6,319	2,992	506	239
Securitisation positions	1,030	763	82	61
Subtotal	**18,572**	**17,304**	**1,486**	**1,384**
Market risk	317	107	25	9
Operational risk	1,703	1,773	136	142
Additional transitional Capital requirements	-	1,350	-	108
Total	**20,592**	**20,534**	**1,647**	**1,643**

As can be seen in the table above, the most important developments in comparison to last year relate to the items corporates, retail mortgages and secutarisation positions. The decline of corporates by € 1,927 million to € 7,733 million at year-end 2012, is mainly caused by phasing out the Property Finance portfolio. The increase of retail mortgages by € 3,328 million to € 6,319 million in 2012 is the result of increased PD's and LGD's, caused by the deteriorating economic environment, and in 2012 a more conservative internal risk model for home mortgages was put into operation. Taking securitisations on own account led to the increased secutarisation positions by € 267 million to € 1,030 million at the end of 2012. This includes the new securitisation Hermes XVIII.

21.3 Credit risk profile and credit risk management

The credit risk management of SNS Retail Bank runs via Risk Management SNS Retail Bank. The arrears and defaults are managed by the Special Credits department Service Centre.

The default items of Property Finance (and items for with a potential default situation is plausible) are managed by the Restructuring and Recovery (R&R) department.

21.3.1 Credit risk profile and credit risk management SNS Retail Bank

The probability of default of a borrower (PD) is another major risk indicator. Here, an estimate is made of the probability that obligations will structural not be met in the next year.

The table below shows the spread of the principal weighted PD risk classification of the outstanding retail mortgages (including securitised mortgages).

PD risk classification SNS Retail Bank private residential portfolio

Probability of Default %	2012	2011
<= 1	74.7%	83.2%
>1 - <= 4	14.4%	5.3%
>4 - <= 7	4.1%	3.8%
>7 - <= 10	0.0%	0.0%
>10 - <= 13	0.0%	4.1%
>13 - <= 17	2.6%	0.0%
>17 - < 100	1.7%	1.9%
100	2.5%	1.7%
Total	**100.0%**	**100.0%**

The change in PD risk classification is mainly caused by the use of new credit risk models for retail mortgages, which SNS Retail bank introduced in 2012.

The credit rating of SNS Retail Bank's mortgage portfolio deteriorated in 2012 compared to the mortgage portfolio in 2011. This was the result of the weak 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 in the portfolio is improving thanks to stricter acceptance standards and a higher share of mortgages covered by the National Mortgage Guarantee.

Special Credits department SNS Retail Bank

An essential part of the risk policy is the timely deployment of Special Credits department Service Centre. The Special Credits department distinguishes between loans to private customers and loans to small and medium-sized enterprises (SME). The Special Credits department applies a uniform working method that is aimed at identifying items with risk exposure.

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

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

In 2012, 207 foreclosure sales were made in respect of residential mortgages. The stagnation of the Dutch housing market resulted, in comparison to previous years, in a decline in the collateral values and corresponding decline of the coverage ratio. 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-default accounts (IBNR).

The default rate of residential mortgages rose from 1.15% to 1.55% (based on numbers). The contamination rate of the portfolio increased from 1.93% in 2011 to 2.71% in 2012 (also based on numbers). Contamination rate is defined as arrears plus defaults.

21.3.2 Credit risk profile and credit risk management Property Finance

As previously mentioned, the Minister of Finance has announced that Property Finance intends to be separated from SNS REAAL into an asset management organisation. See for more information chapter 3 Nationalisation of SNS REAAL and paragraph 3.2.1.1 Property Finance on held for sale.

In 2012 the net exposure of Property Finance was reduced with € 2.4 billion, from € 9.4 billion to € 7.0 billion. This reduction is the result of regular redemptions in combination with the sale of loans, restructurings and impairments of the portfolio.

The development of the credit risk profile of Property Finance is continuously monitored. This is done on the basis of reports on payments in arrears and overdrafts, periodic reviews and portfolio analyses. In addition, "early warnings" meetings are taking place. At these meetings, early warning signals such as payments in arrears, renewals and possible inadequate interest coverage ratios 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 Property Finance’s review policy. This guideline is in accordance with DNB guidelines on the appraisal of commercial real estate property. The collateral values of the loans in default are valued at least once a year, of which a major part of the portfolio is valued during the fourth quarter. The aim is to check the valuation of loans in default at the balance sheet date against current external appraisals. In addition, an annual valuation is made of the collateral of non-default loans exceeding € 10 million and of project loans. Smaller collateral are valued at least once every three years.

Furthermore, in 2012 Property Finance conducted an in depth analysis on nearly the entire portfolio, both the former Core as well the Non-core portfolio. The analysis was intended to map the current state of the portfolio and perform a scenario analysis for future developments (under a base, bear and optimistic scenario). The analysis is performed under supervision of management of Property Finance, where specialists of both Property Finance and Group Risk Management have been involved.

The results of the portfolio analysis are validated by an independent third party. Also, the results and insights into the current state of the portfolio in question are included in the ICAAP of SNS Bank.

Also, based on a letter from DNB dated 23 November 2012 to the Dutch Banking industry, stating that market conditions for commercial property changed significantly, additional risk-based analysis on the property values in the portfolio including, if necessary, an updated independent valuation was carried out.

The valuation of a property may be performed by an internal expert or by an external appraiser. For loans in default and loans exceeding € 10 million external nationally renowned appraisers are deployed. The valuations are as much as possible carried out in accordance with the Royal Institution of Chartered Surveyors (RICS) valuation standard. The other loans are valued also by internal appraisers. These internal appraisers are certified and operate independently. Received concept valuation reports are being audited and challenged before being finalised.

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 delivery on promises and (other) internal 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 at least once a year, in which an optimistic, a realistic and a pessimistic scenario is fleshed out. During so-called expert sessions both the chosen exit strategies as well as the results of the scenarios are assessed by Risk Management of SNS Bank. Should the development of the risks associated with the item under assessment give rise to it, a reassessment of the last scenario analysis will be performed. Loans are valued on the basis of the realistic scenario, using prognoses and discounting of future cash flows using the interest rate of the original loan, 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 is made.

In 2012, as a result of the deteriorating market environment, scenario analysis was also performed upon the majority of the non-default loans.

The departments R&R, Loan provisions, Risk Management and Finance & Control are involved in the valuation of loans and property projects. The scenarios of loans in default for which a provision has already been taken are reassessed every quarter. R&R, Loan provisons and Risk Management departments are involved in this process. The scenario analysis and valuations based on these, including comments by Risk Management, are discussed in the Credit Committee Property Finance, adopted in Management Board meetings and then submitted to the Credit Committee for ratification.

Property projects

Due to the unfavourable developments on the Dutch and International real estate 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 Property Finance’s balance sheet.

The property on Property Finance’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 realistic 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 Property Finance's default 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 increasing lack of liquidity in the market, it is very difficult for a large part of the portfolio to test against recent observed comparable market transactions. This means that the assumptions and estimates made by Property Finance in the valuation of loans are exposed to significantly large uncertainties greater than under normal market conditions, which results in broader bandwidth for the valuations.

21.4 Credit risk SNS Retail Bank

21.4.1 Loans and advances to customers

In credit management, a distinction is made between credit management for individual customers and credit management on the portfolio level.

Loans to retail customers consisting of mortgage loans or consumer credit (included under ‘other’) are approved by authorised officers on the basis of acceptance standards and policy rules. The acceptance standards 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 signs. 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 possibly a 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 additional security.

Loans and advances to customers SNS Retail Bank by security type

In € millions	2012	2011
Mortgages < 75% of foreclosure value	14,876	18,431
Mortgages > 75% of foreclosure value	4,355	4,116
Mortgages with National Mortgage Guarantee	7,368	7,816
Securitised mortgages	22,742	20,900
Residential property in the Netherlands	**49,341**	**51,263**
Residential property outside of the Netherlands	90	100
Residential property outside of the Netherlands	**90**	**100**
Mortgage-backed loans	1,409	1,541
Issued to government	2,291	1,204
Unsecured loans	2,158	1,876
Non-residential property in the Netherlands	**5,858**	**4,621**
Other collateral and unsecured loans	230	155
Non-residential property outside of the Netherlands	**230**	**155**
Loans and advances to customers	**55,519**	**56,139**
Specific provisions	(339)	(222)
IBNR provision	(17)	(10)
Provisions for bad debt	**(356)**	**(232)**
Total	**55,163**	**55,907**

SNS Retail Bank’s loans and advances to customers amounted to € 55 billion at year-end 2012, of which € 49 billion relates to residential mortgages. 15% of these residential mortgages are covered by the National Mortgage Guarantee. This percentage is excluding the securitised mortgages with a National Mortgage Guarantee.

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’. A bank can transfer the credit risk of loans and advances to third parties with the use of securitisations. The underlying mortgage loans of securitisation notes held for own account (€ 12.0 billion, 2011: € 9.0 billion) are included in ‘Securitised 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 Retail Bank manifests itself in the deferred purchase price and any unissued E-notes. SNS Retail Bank has placed all E-notes externally (€ 76 million of which was sold to the Insurance activities). The sum of the deferred purchase prices was nil as at the end of December 2012 (2011: € 6 million).

SNS Retail Bank is also the originator of a synthetic securitisation launched in 2004 with a first call date in March 2014. In this structure, SNS Retail Bank bought credit protection through a credit default swap (CDS) with respect to a reference portfolio of approximately € 319 million residential mortgages. The CDS counterparty is a triple A bank with a weight of 0%. This bank has in turn transferred the CDS credit risk to investors whereby the mezzanine portion of the risk is hedged by the issuance of credit-linked notes.

Loans and advances to customers SNS Retail Bank by industry

In € millions	2012	2011
Retail	51,221	53,020
Public sector	2,291	1,204
Service sector companies	819	663
Industry	195	205
Agriculture	29	36
Other commercial	608	779
Total	**55,163**	**55,907**

Loans and advances to customers SNS Retail Bank by region

In € millions	2012	2011
The Netherlands	53,492	55,760
EMU	1,644	142
United Kingdom	24	1
United States	1	2
Other	2	2
Total	**55,163**	**55,907**

With respect to the loans and advances to customers the information on arrears included in the table is the basis for determining the provision collectively. Every quarter, the Special Credits department proposes a provisions level to SNS Retail Bank’s Credit Committee. SNS Retail Bank's CFRO ratifies this proposal.

Loans and advances to customers in arrears SNS Retail Bank

In € millions	2012	2011
No arrears	53,330	54,139
< 3 months	1,247	1,190
3 - 6 months	287	215
6 - 12 months	265	196
> 1 year	390	399
Provision	(356)	(232)
Total	**55,163**	**55,907**

Provisions loans and advances to customers SNS Retail Bank

In € millions	2012	2011
Book value non provisioned loans	53,330	54,139
Book value provisioned loans (gross value)	2,189	2,000
Specific provisions	(339)	(222)
IBNR provision	(17)	(10)
Total book value non provisioned and provisioned loans	**55,163**	**55,907**

Loan to Foreclosure Value (LtFV)

The weighted average LtFV at year-end 2012 of SNS Retail Bank's mortgage portfolio with the National Mortgage Guarantee was 99% (2011: 93%). The foreclosure value determined at the time of application is indexed with the Land Registry Office's House Price Index. The Land Registry Office updates this index every month. The House Price Index is broken down into province and type of residence. Examples of residence types are apartments, terraced houses or end-of-terrace houses, semi-detached or detached houses. SNS Retail Bank follows this breakdown. From December 2011 to December 2012, the national index for all types of housing declined by 6.3%. The index' development varies per region and residence type. Generally, no new valuation report is requested for existing residential mortgages.

A majority of the loans and advances to customers at SNS Retail Bank consists of mortgage loans where the existing mortgage collateral (partly) mitigates the credit risk on the loans. 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 LtFV classification is based on mortgage collateral; no account has been taken of other guarantees and accrued savings components.

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

In € millions	2012		2011	
Mortgage loans	49,766	90%	51,729	93%
Other	5,397	10%	4,178	7%
Total loans and advances to customers	**55,163**	**100%**	**55,907**	**100%**
Mortgage loans and advances to customers SNS Retail Bank by LtFV buckets				
NHG	10,421	21%	10,082	20%
LtFV <= 75%	12,682	26%	15,177	30%
LtFV >75 <=100%	9,139	18%	9,583	18%
LtFV >100 <=125%	8,509	17%	10,955	21%
LtFV > 125%	9,015	18%	5,932	11%
Total	**49,766**	**100%**	**51,729**	**100%**

21.4.2 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 also regarded as derivative transactions. It is policy to make forward exchange transaction contracts ánd other over-the-counter derivatives contracts with parties with whom an umbrella agreement has been concluded, known as an ISDA (International Swaps and Derivatives Association) Master Agreement and Credit Support Annex. Under the Credit Support Annex, securities are exchanged on the basis of frequent comparison of the value of outstanding transactions under the ISDA Master Agreement and the balance of already transferred securities under the Credit Support Annex, above a set limit if necessary. This can lead to the redeposit or deposit of additional collateral.

Interest rate derivatives are also used by SNS Bank to manage and/or limit SNS Bank's interest rate risk. The maturity of these derivatives ranges from two to thirty years. The risk mitigation conditions that apply to such derivatives are the same as for short-term derivatives. A system of counterparty limits is also applied. This reduces the concentration risk. A small part of the derivatives has been concluded with Property Finance clients.

21.4.3 Investments

In response to the eurozone crisis the exposure to risks in investment portfolio was reduced by further reducing investments in government loans from peripheral countries during 2012. See tables below for more information.

Overview investments SNS Retail Bank 2012

	Fair value through profit or loss			
In € millions	**Held for trading**	**Designated**	**Available for sale**	**Total**
Shares and similar investments	1	-	11	12
Fixed income investments	847	103	4,340	5,290
Total	**848**	**103**	**4,351**	**5,302**

As a result of the high liquidity position, money is invested in liquid instruments from high rated counter parties on a short term base.

Overview investments SNS Retail Bank 2011

	Fair value through profit or loss			
In € millions	Held for trading	Designated	Available for sale	Total
Shares and similar investments	7	-	11	18
Fixed income investments	123	98	3,867	4,088
Total	**130**	**98**	**3,878**	**4,106**

Breakdown fixed income investment portfolio available for sale (geography)

In € millions	2012		2011	
Ireland	121	2%	165	4%
Greece	-	0%	26	1%
Italy	326	6%	284	7%
Spain	-	0%	30	1%
Subtotal GIIPS	**447**	**8%**	**505**	**12%**
Germany	1,468	28%	1,561	38%
France	456	9%	220	5%
The Netherlands	1,690	31%	1,179	28%
Austria	303	6%	310	8%
Belgium	241	5%	164	4%
Japan	528	10%	-	0%
Other	157	3%	149	4%
Total	**5,290**	**100%**	**4,088**	**100%**

Breakdown fixed income investment portfolio available for sale (industry)

In € millions	2012		2011	
Sovereign	4,444	84%	3,492	84%
Financials	352	7%	226	6%
Corporates	105	2%	26	1%
Mortgage backed securities	211	4%	273	7%
Other	178	3%	71	2%
Total	**5,290**	**100%**	**4,088**	**100%**

Breakdown fixed income investment portfolio available for sale (maturity)

In € millions	2012		2011	
< 3 Months	820	15%	82	2%
< 1 Year	683	13%	48	1%
< 3 Years	659	12%	1,236	30%
< 5 Years	455	9%	274	7%
< 10 Years	1,735	33%	1,505	37%
< 15 Years	99	2%	237	6%
> 15 Years	839	16%	706	17%
No maturity	-	0%	-	0%
Total	**5,290**	**100%**	**4,088**	**100%**

Breakdown fixed income investment portfolio available for sale (rating)

In € millions	2012		2011	
AAA	2,522	48%	3,232	79%
AA	1,279	24%	220	5%
A	807	15%	376	9%
BBB	662	13%	227	6%
< BBB	-	0%	26	1%
No rating	20	0%	7	0%
Total	**5,290**	**100%**	**4,088**	**100%**

Sovereign exposure fixed-income investment portfolio (geography)

In € millions	2012		2011	
Ireland	121	3%	165	5%
Greece	-	0%	26	1%
Italy	320	7%	270	7%
Spain	-	0%	29	1%
Subtotal GIIPS	**441**	**10%**	**490**	**14%**
Germany	1,437	32%	1,551	44%
France	402	9%	195	6%
The Netherlands	1,053	24%	733	21%
Austria	302	7%	310	9%
Belgium	236	5%	164	5%
Japan	528	12%	-	0%
Other	45	1%	49	1%
Total	**4,444**	**100%**	**3,492**	**100%**

Breakdown fixed income sovereign GIIPS (maturity)

	Fair value		Nominal	
In € millions	**2012**	2011	**2012**	2011
< 3 Months	-	26	-	50
< 1 Year	1	-	1	-
< 3 Years	1	24	1	25
< 5 Years	-	-	-	-
< 10 Years	82	130	78	153
< 15 Years	43	45	40	61
> 15 Years	314	265	310	332
No maturity	-	-	-	-
Total	**441**	**490**	**430**	**621**

21.5 Credit risk Property Finance

While reading this paragraph, chapter 3 Nationalisation and paragraph 25.24 Subsequent events should be taken in consideration.

The total commitments decreased by € 1.7 billion from € 9.6 billion to € 7.9 billion (-18%). In 2012, the net exposure is reduced by € 2.4 billion (25%) to € 7.0 billion.

Breakdown portfolio Property Finance

In € millions	**2012**	2011
Commitments	7,880	9,626
Undrawn commitments	48	88
Outstanding loan portfolio (gross)	**7,832**	**9,538**
Loan provision	1,217	637
Outstanding loan portfolio	**6,615**	**8,901**
Property projects	416	512
Total exposure	**7,031**	**9,413**

In 2012, the reduction of net exposure and commitments was realised by a combination of regular redemptions, loan sales, restructuring and through foreclosure and the following transfer of loans to property projects.

Breakdown portfolio Property Finance by region

In € millions	**2012**	2011
The Netherlands	5,521	7,078
Other Europe	1,310	1,904
North-America	**200**	**431**
Total	**7,031**	**9,413**

In absolute terms, the major part of the reduction by € 2.4 billion in 2012 relates to the Netherlands (€ 1.5 billion). Net exposure in North America is reduced by € 0.2 billion in 2012. As a result, the remaining value of this portfolio is only € 0.2 billion.

Impairments

The development of the credit risk profile of Property Finance is continuously monitored. In 2012 Property Finance conducted an in depth analysis of nearly the entire portfolio, both the former Core as well the Non-core portfolio. The analysis was intended to map the current state of the portfolio and perform a scenario analysis for future developments (under a base, bear and optimistic scenario). The results of the portfolio analysis are validated by an independent third party.

Impairments Property Finance

In € millions	2012	2011
The Netherlands	537	159
Other Europe	172	17
North-America	9	20
Loans and advances	**718**	**196**
The Netherlands	26	-
Other Europe	180	68
North-America	4	23
Property projects	**210**	**91**
Goodwill	47	-
Associates and joint ventures	13	(3)
Total	**988**	**284**

Impairment charges on Property Finance’s portfolio were substantially higher than in the first half of 2012 and 2011. This was the result of a number of developments.

First of all, it is becoming increasingly clear that the economic recovery is taking longer than expected. In late 2012 and early 2013, several influential parties subsequently adjusted their expectations further downwards. This is also clearly reflected in the further deterioration in the outlook on the real estate markets, to which Dutch real estate markets are no exception. Due to this, but also to the lack of reference transactions, we observed that appraisers have become more cautious. In addition, in some countries, including the Netherlands and Spain, the refinancing market shrank further or is now practically closed.

In the valuation of our portfolio with 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 increasing lack of liquidity in the current market, our appraisers have difficulty for a large part of the portfolio to test against recent observed comparable market transactions. This means that the assumptions and estimates made by Property Finance in the valuation of loans are exposed to significantly large uncertainties greater than under normal market conditions, which results in broader bandwidth for the valuations.

All this is reflected in a visible decline in the pace of the run-off, in lower estimates of expected future cash flows and, in some cases, in a necessary adjustment to the exit strategy.

As a result of the aforementioned developments the number of loans in default is increasing during the second half of 2012. Consequently, provisions were recognised.

Moreover, is should be mentioned that the total portfolio's collateral was reappraised during the year, of which major part of the portfolio in default during the third an fourth quarter. Op top of these valuations, based on the developments in the real estate markets, we have executed an additional reassessment of the valuations of property in the portfolio on a number of (critical) projects at the end of the fourth quarter and beginning 2013.

Finally, due to the postponement of the publication date of SNS Bank’s Annual Report 2012 subsequent to the nationalisation, events have – more than in previous years – taken place after the balance sheet date. Thus, pursuant to the regular review process in 2013, we received more updated appraisals resulting in a lower valuation than the original balance sheet valuation due to the previously outlined ongoing unfavourable economic developments and further declining real estate markets. This lower valuation as per 31 December 2012 resulting progressive insights from the updated appraisals in 2013, has had a significant impact on the amount of the loan default provisions made.

The impairments on loans represent the Netherlands for 73%, Other Europe for 25% and North America for 2%.

SNS Bank decided in the second half of 2012 to withdraw from the commercial property finance market for SME’s. In the future SNS Bank will focus on private individuals. As a result of this decision, SNS SME will cease to exist. The Core real estate finance portfolio will be phased out under the direction and responsibility of Property Finance. This decision resulted in an impairment of the remaining goodwill of Property Finance.

Impairments in associates and joint ventures in 2012 are caused by the impairments of five participating interests.

Loans and advances Property Finance

Loans and advances Property Finance by security type

In € millions	2012	2011
Mortgages < 75% of foreclosure value	100	368
Mortgages > 75% of foreclosure value	1,181	1,263
Residential property in the Netherlands	**1,281**	**1,631**
Residential property outside of the Netherlands	480	836
Residential property outside of the Netherlands	**480**	**836**
Mortgage-backed loans	4,496	5,266
Other securities and unsecured loans	497	501
Non-residential property in the Netherlands	**4,993**	**5,767**
Mortgage-backed loans	1,056	1,282
Other collateral and unsecured loans	22	22
Non-residential property outside of the Netherlands	**1,078**	**1,304**
Specific provisions	(1,214)	(625)
IBNR provision	(3)	(12)
Provisions for bad debt	**(1,217)**	**(637)**
Total	**6,615**	**8,901**

Breakdown loans and advances Property Finance by assets

In € millions	2012	2011
Residential	2,181	2,867
Offices	2,391	2,511
Retail	1,312	1,994
Industrial	911	1,119
Other	1,037	1,047
Total	**7,832**	**9,538**

In 2012, the reduction of € 1.7 billion can be broken down into 40% residential property, 40% retail property, 7% offices, 12% factories and 1% other.

Loan to value

The Loan-to-Value (LtV) of the loan portfolio was 100.9 % as at year-end 2012 (2011: 88.6%). As at year-end 2012, the average LtV of the provisioned loans is 169.0% (2011: 139.2%). The LtV of the Dutch portfolio increased from 87% at year-end 2011 to 101.3% end of 2012. The LtV of the international portfolio increased to 99.4% at yearend 2012, from 94.4% at yearend 2011. 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 gross loans, divided into different LtV buckets. This creates insight into the volumes in which credit risk is completely mitigated by the existing mortgage collateral (LtV ≤ 100%) and additionally the volumes where there is a collateral shortfall (LtV> 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	2012		2011	
Loans and advances to customers	7,832	118%	9,538	107%
Provision loans and advances to customers	(1,217)	(18%)	(637)	(7%)
Total loans and advances to customers	**6,615**	**100%**	**8,901**	**100%**
Loans and advances to customers Property Finance by LtV buckets				
LtV <= 75%	1,298	17%	2,310	24%
LtV >75 <=100%	2,129	27%	3,633	38%
LtV >100 <=125%	1,830	23%	2,151	23%
LtV > 125%	2,575	33%	1,444	15%
Total	**7,832**	**100%**	**9,538**	**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 21.3.2 'Credit risk profile and credit risk management Property Finance'.

Defaults Property Finance

	Outstanding		Loan to Value	
In € millions	**2012**	2011	**2012**	2011
Not in default	4,711	6,792	82.3%	79.3%
Default, not impaired	472	977	96.6%	102.8%
Default, impaired	2,649	1,769	169.0%	139.2%
Total in default	**3,121**	**2,746**	**151.5%**	**123.5%**
Total	**7,832**	**9,538**	**100.9%**	**88.6%**

The outstanding balance of the provisioned default loans was € 2,649 million as at year-end 2012 (2011: € 1,769). Expressed as a percentage of the total portfolio, the defaults rose from 28.8% to 39.8%.

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 can occur mainly in project financing.

Arrears in loans and advances Property Finance

	Outstanding		Loan to Value	
In € millions	**2012**	2011	**2012**	2011
Neither past due nor impaired	4,258	6,147	83.0%	79.2%
Past due but not impaired	925	1,622	85.8%	92.6%
Impaired	2,649	1,769	169.0%	139.2%
Total	**7,832**	**9,538**	**100.9%**	**88.6%**

The decline in the non-provisioned, non-default loans in arrears of € 697 million is mainly the result of a shift to provisioned loans (€ 858 million), arrears caught up (€ 317 million) and the realised phase out of these loans (€ 117 million). This is partly compensated by an inflow of new loans in arrear (€ 595 million).

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

	Outstanding		Loan to Value	
In € millions	**2012**	2011	**2012**	2011
< 30 days	334	336	82.6%	80.0%
30 - 60 days	97	347	65.8%	103.1%
60 - 90 days	49	161	69.9%	72.0%
> 90 days	445	778	97.8%	101.7%
Total	**925**	**1,622**	**85.8%**	**92.6%**

If there are payments in arrears, or is a collateral shortfall (the LtV exceeds 100%) or 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 2012

In € millions	Netherlands	Other Europe	North-America	Total
Book value provisioned loans (gross value)	1,899	619	131	2,649
Provision	(867)	(253)	(97)	(1,217)
Book value provisioned loans (net value)	**1,032**	**366**	**34**	**1,432**
Coverage ratio	45.7%	40.9%	74.0%	45.9%
Fair value collateral provisioned loans	1,146	377	44	1,567
Loan to Value provisioned loans	167.7%	164.1%	244.2%	169.0%

Provisions loans and advances Property Finance 2011

In € millions	Netherlands	Other Europe	North-America	Total
Book value provisioned loans (gross value)	1,171	337	261	1,769
Provision	(366)	(129)	(142)	(637)
Book value provisioned loans (net value)	**805**	**208**	**119**	**1,132**
Coverage ratio	31.3%	38.3%	54.4%	36.0%
Fair value collateral provisioned loans	883	254	125	1,262
Loan to Value provisioned loans	130.9%	135.0%	206.2%	139.2%

The coverage ratio (= provisions as a percentage of the balance of the provisioned loans) is 45.9%. Compared to 2011, the coverage ratio as at year-end 2012 has increased in all regions.

Property projects Property Finance

The total sum of property projects on the balance sheet of Property Finance amounted to € 416 million as at 31 December 2012 (year-end 2011: € 512 million). Of this sum, € 107 million is related to the Netherlands (2011: € 36 million), € 284 million to Other Europe (2011: € 451 million) and € 25 million to North America (2011: € 25 million).

The book value at year-end 2012 is fully based on the lower net realisable value.

Accumulated impairments on property projects and assets held for sale

	Property projects	
In € millions	**2012**	2011
Gross value	1,134	985
Accumulated impairments	(718)	(473)
Book value (net realisable value)	**416**	**512**

The increase of the gross value is mainly caused by new property projects in the Netherlands (€ 100 million), Spain (€ 25 million) and North America (€ 3 million). In addition, the gross value has increased due to capitalised project costs. Accumulated impairments have increased mainly due to impairments on projects in Spanish (€ 147 million) and Luxembourg (€ 31 million).

21.6 Market risk

Market risk is the risk of movements in the level and/or volatility of market prices. The following paragraphs contain an explanation of the market risk of the bank book. In this respect, a distinction is made between interest rate risk, spread risk, (share) price risk and currency risk. In addition, this chapter includes a sensitivity analysis of interest rate risk and equity risk, and an overview of the average effective interest rates. Finally, a separate paragraph discusses the market risk of the trading portfolio.

21.6.1 Managing market risk

The market risk of the Banking activities, including Property Finance, is managed by SNS Retail 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 market risk, assessments are continually made to establish whether the risk indicators fall within pre-set limits. Management 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.

21.6.2 Interest rate risk

In 2012, the yield curve for all maturities fell due to economic developments. At the same time, the interest rate was volatile in 2012. The interest rate risk in the bank's portfolio is measured, monitored and managed using duration of shareholders' equity, Value-at-Risk (VaR), Earnings-at-Risk (EaR) and gap analyses. When managing the interest rate risk, rather than considering separate balance sheet items, the total of interest-bearing assets and liabilities, including interest rate derivatives, is examined. These derivatives are used to lower the interest rate sensitivity. See paragraph 22.2 Hedging and hedge accounting for more information.

The primary indicator for interest rate risk is the equity duration. During 2012, the strategic bandwidth for the equity duration was 0 to 8. The Group ALCO resets the strategic bandwidth each year. Due to the volatility in the capital market interest rates and the aim to limit the sensitivity to changes in interest rates, the duration was kept at a low level in 2012, between 1 and 4. At year-end 2012, the equity duration was 3.7 (year-end 2011: 3.8).

Both Value-at-Risk (VaR) and Earnings-at-Risk (EaR) are determined on the basis of scenario analyses. The fair value of shareholders' equity is obtained by discounting the cash flows from the total balance sheet with the cost-of-fund curve of the Banking activities. 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.

During 2012, the VaR was € 181 million on average, with a maximum of € 207 million at the end of September 2012, and a minimum of € 142 million at the end of May 2012. At year-end 2012, the VaR was € 193 million.

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.

In 2012, the EaR averaged € 6 million. At its highest point in April 2012 the EaR was € 7 million. At year-end 2012, the EaR was € 4 million. The limit for the EaR is € 56 million.

The VaR figures are before taxation and the EaR figures are after taxation.

In addition to giving direction to equity duration, VaR and EaR, we also give direction to the net (assets minus liabilities) position of redeeming nominal amounts per interest rate period. 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 direct the interest rate position to the desired level.

The table below illustrates the term to maturity gap profile of the Banking activities 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 that are due on demand on a daily basis.

Term to maturity gap profile 2012

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Provision	Total
Assets							
Investments (interest bearing)	960	856	578	712	2,184	-	5,290
Derivatives	739	1,222	564	630	505	-	3,660
Loans and advances to customers	22,161	2,484	7,756	19,470	11,470	(1,573)	61,768
Loans and advances to banks	1,924	4	1	-	-	(2)	1,927
Other assets	1,764	-	-	-	(1)	-	1,763
Cash and cash equivalents	6,933	-	-	-	-	-	6,933
Subtotal	**34,481**	**4,566**	**8,899**	**20,812**	**14,158**	**(1,575)**	**81,341**
Off-balance sheet products	10,500	17,350	8,010	8,942	7,190	-	51,992
Total assets	**44,981**	**21,916**	**16,909**	**29,754**	**21,348**	**(1,575)**	**133,333**
Liabilities							
Participation certificates and subordinated debt	-	-	483	-	337	-	820
Debt certificates	6,854	13,161	612	990	373	-	21,990
Derivatives	1,072	637	722	608	560	-	3,599
Savings	5,598	1,514	1,136	19,054	5,513	-	32,815
Other amounts due to customers	4,491	921	429	1,286	2,402	-	9,529
Amounts due to banks	8,680	6	-	-	-	-	8,686
Other liabilities	2,565	-	-	-	-	-	2,565
Subtotal	**29,260**	**16,239**	**3,382**	**21,938**	**9,185**	**-**	**80,004**
Off-balance sheet products	9,561	10,775	10,661	11,126	9,869	-	51,992
Total liabilities	**38,821**	**27,014**	**14,043**	**33,064**	**19,054**	**-**	**131,996**
Interest rate sensitivity gap	**6,160**	**(5,098)**	**2,866**	**(3,310)**	**2,294**	**(1,575)**	**1,337**

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	19,639	5,558	7,738	19,321	13,444	(903)	64,797
Loans and advances to banks	1,681	2	-	-	-	(1)	1,682
Other assets	2,223	-	-	-	-	-	2,223
Cash and cash equivalents	5,128	-	-	-	-	-	5,128
Subtotal	**30,017**	**7,401**	**8,758**	**20,263**	**15,737**	**(904)**	**81,272**
Off-balance sheet products	10,610	17,465	9,093	6,684	10,935	-	54,787
Total assets	**40,627**	**24,866**	**17,851**	**26,947**	**26,672**	**(904)**	**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	4,712	4	-	-	-	-	4,716
Other liabilities	2,032	-	-	-	-	-	2,032
Subtotal	**24,319**	**18,595**	**5,736**	**17,964**	**12,779**	**-**	**79,393**
Off-balance sheet products	7,735	9,558	13,093	13,218	11,183	-	54,787
Total liabilities	**32,054**	**28,153**	**18,829**	**31,182**	**23,962**	**-**	**134,180**
Interest rate sensitivity gap	**8,573**	**(3,287)**	**(978)**	**(4,235)**	**2,710**	**(904)**	**1,879**

Quotation risk

Quotation risk is the risk due to increasing interest rates between the time the quotation is made and the time the loan is extended. Each month a trade-off is made between the hedging costs and the scope of the quotation risk. The quotation risk on fixed-rate mortgages is limited by a VaR limit of € 14.3 million (2% of the estimated gross interest margin). The average quotation VaR for fixed-rate mortgages was € 1.2 million in 2012. At year-end 2012, the quotation VaR was € 1.5 million. The quotation VaR remained comfortably within the limit throughout 2012.

The level of new mortgages was low in 2012. Gross new mortgage sales in 2012 mainly comprised floating interest rate mortgages and partly fixed-rate mortgages. Capped-rate mortgages were hardly concluded in 2012. Due to the low number of new mortgages, the interest rate risk from quotations on fixed-rate mortgages was partly hedged with swaps in the first quarter only.

21.6.3 Spread risk GIIPS countries

To reduce risks, SNS Bank NV has further reduced its government bond exposure to GIPPS countries (Greece, Ireland, Italy, Portugal, Spain) in 2012. SNS Bank NV's remaining government bond exposure to Italy amounts to € 316 million nominal value and to Ireland to € 115 million nominal value.

21.6.4 Equity risk

The price risk on the Banking activities is very limited. There is only a position of € 11 million in equity, which is primarily an investment of ASN Bank in sustainable funds.

21.6.5 Exchange rate risk

Exchange rate position (net exposure)

	Balance		Hedge derivatives	
In € millions	**2012**	2011	**2012**	2011
US dollar	(533)	(520)	508	535
Japanese yen	493	(79)	(489)	84
Pound Sterling	51	(559)	(54)	555
Swiss franc	(14)	(14)	9	(2)
Canadian dollar	139	135	(119)	(123)
Australian dollar	1	(1)	(1)	2
Hongkong dollar	(106)	(204)	103	196
Danish krone	78	57	(63)	(65)
Other	(24)	(85)	21	88
Total	**85**	**(1,270)**	**(85)**	**1,270**

All currency exposures of the Banking activities are measured and hedged on a daily basis, making the net currency exposure very small.

21.6.6 Sensitivity test for interest rate risks and shares

The interest rate risks of the Banking activities can be illustrated by a sensitivity analysis. This analysis calculates the impact of an immediate parallel shift of the yield curve of +100 basis points or -100 basis points (bps), and an immediate shock in stock prices of +10% or -10% on the fair value of shareholders' equity, the result and shareholders' equity. The results of the calculations are net of taxation.

Sensitivity interest rates and shares

	Fair value equity		Result		Shareholders' equity	
In € millions	**2012**	2011	**2012**	2011	**2012**	2011
Interest rate + 1%	(21)	(195)	23	36	(156)	(72)
Interest rate - 1%	27	128	45	(15)	151	81
Shares +10%	1	1	-	-	1	1
Shares -10%	(1)	(1)	-	-	(1)	(1)

The 'Fair value equity' column shows the sensitivity of the fair value of shareholders' equity, including embedded options, if the interest rate immediately rises or falls by 100bps (parallel shift) and the stock prices increase or decrease by 10%.

The sensitivity of the fair value of shareholders' equity to interest rate changes is substantially lower than last year. This is mainly caused by the mortgage portfolio, which is less sensitive to interest rate changes due to its reduced size. The decrease in sensitivity is strongest with rising interest rates. As a result of the unusual low interest rate level at year-end 2012, the sensitivity for a decline in interest rate has declined less than the sensitivity for an increase in interest rate. The impact of the scenario for interest rate declines (-100bps) is limited, because in the scenario it is assumed that interest rates can not fall below 0%.

The 'Result' column shows the sensitivity of the result to interest rate fluctuations, which is calculated according to the following method: for the amounts that mature during the first 12 months, including the new production expected in 2013, the changes in net interest income are calculated in the event that interest rates immediately rise or fall by 100bps (parallel shift). Compared to last year, the calculation methodology has been slightly modified. Instead of reducing the balance sheet by not replacing liquidity items that are falling due, they are replaced by items with a similar type of interest rate in the new methodology. The size of the balance sheet is thus kept constant, giving a more faithful representation of reality. Moreover, the fact that interest rate increases are passed on more quickly to the customer rate of demand savings deposits and loans are taken into account.

The positive effect on interest income in the event of rising interest rates has become smaller. This is mainly caused by a lower average volume of liquidities for the next 12 months and by a lower volume of ALM swaps, on which SNS Bank receives variable interest. In the event of a drop in interest rates, the aforementioned balance sheet development has a less negative impact on interest income. The development of the yield curve, which was particularly low at year-end 2012, also plays an important role here. The low interest rate results that the negative impact from the decreasing interest rate scenario (-100bp) is limited. The assumption in this scenario is that the interest rate cannot drop any further than 0%.

The 'Shareholders' equity' column expresses the sensitivity from the investment portfolios available for sale and the cash flow hedge derivatives in case of a direct parallel 100bp interest rate increase or decrease and from the equity portfolio in case of a direct 10% increase or decrease of the equity prices.

The value of the investment portfolio increased in 2012 due to additional investments in government bonds. As a result, the sensitivity of these investment portfolios and, consequently, the immediate impact on shareholders’ equity increased.

21.6.7 Effective interest rates

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

Effective interest rates

In percentages	2012	2011
Assets		
Investments available for sale (interest bearing)	2.0%	2.9%
Mortgages	4.5%	4.7%
Property finance	3.2%	3.8%
Other loans and advances to customers	4.4%	3.9%
Loans and advances to banks	0.2%	1.0%
Liabilities		
Participation certificates and subordinated debt	7.5%	7.5%
Debt certificates	2.4%	2.8%
Savings	3.1%	3.0%
Other amounts due to customers	2.7%	2.3%
Amounts due to banks	0.0%	0.2%

21.6.8 Market risk trading portfolio

The market risk of the Banking activities’ 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 € 2.3 million (2011: € 2.4 million). The permitted limit was used to only a moderate extent in 2012. 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	**2012**	2011	**2012**	2011
Limit				
Customer desk	200	100	600	300
Money market desk foreign currency	500	500	1,500	1,500
Money market desk euro	150	75	450	225
Repurchase Obligations (Repo's)	75	-	225	-
Capital market desk	300	300	900	900
Credit book financials	200	400	600	1,200
Interest rate desk	250	250	750	750
Off-balance desk	200	200	600	600
Equity desk	150	250	450	750
Bond desk	300	350	900	1,050
Total	**2,325**	**2,425**	**6,975**	**7,275**

21.7 Liquidity risk

Liquidity risk is the risk that there are insufficient liquid assets available in the short term to meet financial obligations, whether under normal circumstances or in times of stress, without this being accompanied by unacceptable costs or losses.

21.7.1 Managing liquidity risk

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

Liquidity risks are managed on the basis of the net (assets minus liabilities) nominal amounts due per maturity in a gap profile. The following table represents the gap profile of the Banking activities at year-end 2011 and 2012 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’ column. In practice, these products are awarded longer maturities. For mortgages, the contractual maturity is maintained without taking into account prepayments.

Liquidity risk Banking activities 2012

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Provision	Total
Assets							
Investments (interest bearing)	543	276	683	1,114	2,674	-	5,290
Derivatives	75	28	22	1,364	2,171	-	3,660
Loans and advances to customers	4,792	679	909	2,014	54,947	(1,573)	61,768
Loans and advances to banks	1,875	43	1	10	-	(2)	1,927
Other assets	8,104	28	-	148	416	-	8,696
Total assets	**15,389**	**1,054**	**1,615**	**4,650**	**60,208**	**(1,575)**	**81,341**
Liabilities							
Shareholders' equity	-	-	-	-	1,337	-	1,337
Participation certificates and subordinated debt	-	-	57	-	763	-	820
Debt certificates	176	95	793	8,705	12,221	-	21,990
Derivatives	39	43	142	838	2,537	-	3,599
Savings	27,807	1,181	184	2,672	971	-	32,815
Other amounts due to customers	5,683	115	460	425	2,846	-	9,529
Amounts due to banks	1,942	10	-	6,704	30	-	8,686
Other liabilities	2,559	-	6	-	-	-	2,565
Total equity and liabilities	**38,206**	**1,444**	**1,642**	**19,344**	**20,705**	**-**	**81,341**
Net liquidity gap	**(22,817)**	**(390)**	**(27)**	**(14,694)**	**39,503**	**(1,575)**	**-**

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	2,118	-	3,354
Loans and advances to customers	5,437	1,280	1,391	2,541	55,051	(903)	64,797
Loans and advances to banks	1,670	-	-	13	-	(1)	1,682
Other assets	6,460	1	3	10	877	-	7,351
Total assets	**13,624**	**1,339**	**1,537**	**5,182**	**60,494**	**(904)**	**81,272**
Liabilities							
Shareholders' equity	-	-	-	-	1,879	-	1,879
Participation certificates and subordinated debt	-	1	242	57	821	-	1,121
Debt certificates	2,132	958	1,821	7,597	14,853	-	27,361
Derivatives	8	51	131	1,117	2,299	-	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	1,323	10	247	3,006	130	-	4,716
Other liabilities	2,027	-	-	-	5	-	2,032
Total equity and liabilities	**36,246**	**1,222**	**5,189**	**14,839**	**23,776**	**-**	**81,272**
Net liquidity gap	**(22,622)**	**117**	**(3,652)**	**(9,657)**	**36,718**	**(904)**	**-**

Development liquidity position SNS Bank

Under normal circumstances the bank has a broad investor base, an extensive range of financing instruments and easy access to the international capital market. However, market conditions are difficult. For a number of years now, SNS Retail Bank has pursued a policy of reducing its dependence on wholesale financing.

In 2012, € 5.3 billion of new wholesale financing was attracted; the remaining financing requirement was met by attracting savings deposits. Savings deposits increased by € 2.5 billion (+8%) compared with year-end 2011 due to a large inflow of new deposits, while the retention level remained high. The liquidity position in the first quarter of 2012 increased as a result of the participation in the 3-year ECB lending facility (LTRO). The increase resulted in a similar decrease of underlying assets which are ECB eligible.

Development liquidity position SNS Bank

In € millions	December 2012	September 2012	June 2012	March 2012	December 2011
Cash	6,691	7,247	7,651	7,788	4,217
Liquid assets	4,818	3,391	3,797	4,075	6,861
Total liquidity position	**11,509**	**10,638**	**11,448**	**11,863**	**11,078**

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

The liquid assets included in the liquidity position consist largely of securitisations held on own book and government bonds. The cash position is part of the liquidity monitoring of SNS Bank's department Financial Markets. Included in these are the non-restricted and restricted demand deposits with the Dutch Central Bank (DNB), current accounts, through Financial Markets, with other credit institutions and deposits with an original duration of 10 days or less. The cash position therefore deviates in this respect from the presented book value Cash and cash equivalents on the face of the balance sheet of the Banking activities.

The total liquidity of the Banking activities remained at a high level. The liquidity position at year-end 2012 amounted to € 11.5 billion compared to € 11.1 billion at year-end 2011. The liquidity position was positively impacted by the increase in savings in combination with a limited growth in mortgages and the reduction of credit limits at SNS Bank SME and Property Finance. This was partly reversed because of loan redemptions.

The loan-to-deposit ratio of the Banking activities improved from 159% as at year-end 2011 to 146%. Excluding Property Finance, the pro forma loan-to-deposit amounted to 126%.

In 2012, SNS Bank vastly complied with both internal and legal standards for liquidity risk. Although SNS Bank's funding profile has become more retail-oriented in the last couple of years (the Loan-to-Deposit Ratio had declined), there still is ample various ways of wholesale funding. Also in the future SNS Bank will continue to strive for a diversified funding profile, in which the emphasis is on retail funding. The internal requirements are thereby significantly stricter than the regulatory requirements.

By the end of 2012, SNS REAAL was frequently in the news. This eventually led to an outflow of savings and credit funds at SNS Bank. In January 2013 the negative publicity intensified. The related increased outflow of savings and credit funds triggered the execution of the Liquidity Contingency Plan of SNS Bank. The relative high liquidity buffer of SNS Bank and the proper functioning of the plan proved to be sufficient to absorb the outflow of liquidity (see also 21.7.2 Liquidity Management).

After the nationalisation of SNS REAAL, the outflow of savings and credit funds ceased. SNS Bank still remains a high liquidity position, on the one hand because the situation on the money and capital markets (interbank) has not yet returned to normal levels, and on the other hand regulators demand increasingly higher liquidity buffers in the future (as announced in Basel III legislation).

For more details, please refer to chapter 12 Funding and credit ratings.

21.7.2 Liquidity risk policy

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 of the Banking activities is based on the composition of its funding portfolio as a going concern. The daily cash management activities of the central treasury are in line with the operational requirements of the Banking activities 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.

Planning for unforeseen events is part of the annual recurring ILAAP process (see paragraph 21.7.3 ILAAP). SNS Bank has a liquidity contingency planning, in which SNS Retail Bank has joined the existing crisis management structure.

In January 2013 the Liquidity Contingency Plan was executed. The frequency of information on the outflow of savings and the development of the liquidity position was raised to multiple times a day. Also the Crisis Liquidity Team (CLT) discussed on a daily base the actions to be taken and informed the Dutch Central Bank (DNB) on this. Although the raised outflow of savings reduced the liquidity position, on 31 January 2013 it was still well over € 7.3 billion. Besides the outflow of savings the liquid assets also decreased with € 2.3 billion due to the termination of the securitisation program Hermes XVII. The CLT remained operational during the first week after the nationalisation. After 1 February 2013, the outflow of savings ceased and a steady grow became visible.

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, has agreed with its main counterparts to settle changes in the market value of derivatives periodically. As a result there may be both amounts received and amounts paid. At year-end 2012, SNS Bank paid an amount of € 0.6 billion on balance. In relation to the total funding requirements, this risk is limited.

21.7.3 ILAAP

In the ILAAP (Internal Liquidity Adequacy Assessment Process), the amount of liquidity deemed necessary is determined by the managing board of SNS Retail Bank and the Executive Board of SNS REAAL. The Dutch Central Bank introduced the ILAAP in 2011 and SNS Retail Bank ran the ILAAP for the second time in 2012. Points of departure are the balance sheet, (proposed) strategy, risk appetite and existing risks. The assessment includes the questions of how risks are dealt with and whether the liquidity of SNS Retail 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, extreme outflow of savings and credit funds, the lack of funding in the money and capital markets, negative liquidity effects due to slower than expected phase out of Property Finance and a decline in market value of liquid assets.

22 Financial instruments and hedge accounting

22.1 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 2012

In € millions	Fair value	Book value
Financial assets		
Investments		
- Fair value through profit or loss: held for trading	848	848
- Fair value through profit or loss: designated	103	103
- Available for sale	4,351	4,351
Derivatives	3,660	3,660
Loans and advances to customers	61,481	61,768
Loans and advances to banks	1,927	1,927
Other assets	709	709
Cash and cash equivalents	6,934	6,933
Total financial assets	**80,013**	**80,299**
Financial liabilities		
Participation certificates and subordinated debt	637	820
Debt certificates	22,172	21,990
Derivatives	3,599	3,599
Savings	33,222	32,815
Other amounts due to customers	9,536	9,529
Amounts due to banks	8,680	8,686
Other liabilities	2,180	2,180
Total financial liabilities	**80,026**	**79,619**

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	64,656	64,797
Loans and advances to banks	1,682	1,682
Other assets	1,092	1,092
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	4,716
Other liabilities	1,694	1,694
Total financial liabilities	**77,787**	**79,055**

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 are not observable, various techniques are 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.

22.1.2 Notes to the valuation financial assets and liabilities

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

Investments

The fair values of equities are based on quoted market prices or available market information. 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 values of nearly all derivatives are based on market prices. For a limited number of non-publicly traded derivatives the fair value depends on the type of instrument and is based on a present value model or an option valuation model.

Loans and advances to customers

The fair value of loans and advances to customers has been established by determining the present value of the expected future cash flows. Various surcharges on the yield curve were used for the calculation of the present value. In this respect, a distinction was made by type of loan and advance and by type of customer groups to which the loan/advance relates.

- ***Mortgages***
  The market value of mortgages is determined based on a present value method. The yield curve used to determine the present value of cash flows of mortgage loans is the swap rate, increased by a risk surcharge. This risk surcharge has been derived from the development in mortgage rates compared to the swap rate. Fixed costs and surcharges for embedded options are not included in this spread. The value of embedded options is calculated separately. In determining the expected cash flows, any expected future early redemptions are taken into account.
- ***Real estate finance***
  The fair value is based on the market price, defined as the price established between knowledgeable, willing parties in an arm's length transaction (no forced transactions). At this time there is no active market for real estate financing and reference prices (derived from comparable transactions) are therefore not available. Management has ruled that the outcome of the internal study into the expected shortfall of the loans is the best estimate for the fair value. This study is based on the run-off strategy used by Property Finance based on value maximisation without time pressure on the run-off. Reference transactions perceptible in the market are taken into account as much as possible in the valuation. Unlike the balance sheet valuation, the study took into account the expected losses on items that were not (yet) in default on 31 December 2012. The discount rate at which the cash flows were discounted also includes surcharges based on the market rate on top of the original effective interest rate to express the increased risk with respect to the issuance date. Three scenarios (positive, neutral and negative) were calculated for the benefit of the internal study into the value of the portfolio. The outcome based on the neutral scenario has been recognised as fair value.

  The transfer price at which the real estate portfolio will be separated is based on the decision of the Minister of Finance, on the basis of a study carried out under his assignment.

Loans and advances to banks
For loans and advances to banks, the fair value of bank activities is considered equivalent to the book value given the short-term nature of the loans in this item.

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

Cash and cash equivalents
The book value of the liquid assets is considered to be a reasonable approximation of the fair value.

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. The fair value of subordinated debt was estimated on the basis of the present value of the cash flows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is derived from the latest known market prices for subordinated debt in 2012.

See also section 25.24 Subsequent events.

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 plus a risk surcharge for SNS Bank NV.

Amounts due to customers and banks
The fair values of demand deposits and saving deposits differ from the nominal value because the interest is not adjusted on a daily basis and in practice customers do not draw on the balance in the accounts for a longer period of time. The fair values of these deposits were calculated based on the net present value of the relevant portfolios' cash flows with fixed interest rates using a specific discount curve. For savings not covered by the Deposit Guarantee Scheme (DGS), the curve is based on the average current rates of several Dutch providers. SNS Bank's Cost-of-Fund (COF) curve was used for savings not covered by the DGS. Last year, all savings were valued based on the COF curve. The adjustment of savings valuation has led to a strong increase in the fair value of savings.

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 the market yield on the balance sheet date.

22.1.3 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	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Financial assets								
Investments								
- Fair value through profit or loss: held for trading	534	16	314	114	-	-	848	130
- Fair value through profit or loss: designated	63	79	40	19	-	-	103	98
- Available for sale	3,827	3,381	510	480	14	17	4,351	3,878
Derivatives	-	(39)	3,660	3,393	-	-	3,660	3,354
Loans and advances to customers	-	-	2,262	2,329	-	-	2,262	2,329
Financial liabilities								
Fair value through profit or loss: debt certificates	-	-	1,577	1,701	-	-	1,577	1,701
Derivatives	-	-	3,599	3,606	-	-	3,599	3,606

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 bonds.

Level 2 – Fair value based on observable market data

This category includes investments for which market quotes have been issued by brokers, but whose markets are also identified as being inactive. In that event, the available market prices are largely supported and validated using market data including market rates and current risk surcharges related to the various credit ratings and sector distinction. These concern mainly corporate bonds. The category also comprises financial instruments for which no issued stock prices are available, but whose fair value was determined using models with observable market data as their input variables. These instruments mainly include non-publicly traded interest rate Derivatives.

Level 3 – Fair value not based on observable market data

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

Changes in level 3 financial instruments

	Fair value through profit and loss: held for trading	
In € millions	**2012**	**2011**
Balance as at 1 January	17	14
Total gains or losses recognised in profit or loss	(3)	3
Balance as at 31 December	**14**	**17**

Breakdown level 3 financial instruments

In € millions	**2012**	2011
Bonds issued by financial institutions	14	17
Total	**14**	**17**

The fair value of financial instruments classified in level 3 is partly based on data which are not observable in the market.

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	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Bonds issued by financial institutions	-	-	-	27	-	-	-	27
Total	**-**	**-**	**-**	**27**	**-**	**-**	**-**	**27**

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

SNS Bank NV 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 levels 1, 2 and 3

There have been no movements in level classification compared to the previous financial year.

22.1.4 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 2012

In € millions	**< 1 month**	**1 - 3 months**	**3 months - 1 year**	**1 - 5 years**	**> 5 years**	**Total**
Participation certificates and subordinated debt	-		(116)	(91)	(1,056)	(1,263)
Debt certificates	(284)	(1,563)	(925)	(9,853)	(12,093)	(24,718)
Savings	(27,881)	(1,223)	(349)	(2,919)	(997)	(33,369)
Other amounts due to customers	(5,694)	(130)	(519)	(663)	(3,803)	(10,809)
Amounts due to banks	(1,945)	(62)	(158)	(6,604)	(33)	(8,802)
Total	**(35,804)**	**(2,978)**	**(2,067)**	**(20,130)**	**(17,982)**	**(78,961)**

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 loans	(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)**

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

Liquidity calendar derivatives 2012

In € millions	**< 1 month**	**1 - 3 months**	**3 months - 1 year**	**1 - 5 years**	**> 5 years**	Total
Interest rate derivatives	(52)	(117)	(470)	(1,495)	(1,406)	(3,540)
Currency contracts	(30)	(6)	(18)	(15)	(29)	(98)
Total	**(82)**	**(123)**	**(488)**	**(1,510)**	**(1,435)**	**(3,638)**

Liquidity calendar derivatives 2011

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Interest rate derivatives	(61)	(113)	(415)	(1,677)	(1,360)	(3,626)
Currency contracts	(31)	(6)	(9)	(35)	(22)	(103)
Total	**(92)**	**(119)**	**(424)**	**(1,712)**	**(1,382)**	**(3,729)**

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 NV 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 2012

	Notional amounts				Fair value	
In € millions	**< 1 year**	**1 - 5 years**	**> 5 years**	**Total**	**Positive**	**Negative**
Interest rate contracts						
- Swaps and FRAs	30,250	69,041	39,219	138,510	3,263	(3,343)
- Options	245	4,775	1,315	6,335	41	-
Currency contracts						
- Swaps	71	951	211	1,233	98	(32)
Total	**30,566**	**74,767**	**40,745**	**146,078**	**3,402**	**(3,375)**

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)**

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

In the bank book Derivatives are used to:

- Hedge the basic risk;
- Manage the duration of the interest-bearing shareholders' equity. The policy is that this duration ranges between 0 and 8;
- 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 customers;
- Convert fixed-rate funding into floating-rate funding;
- Hedge the risks relating to hybrid savings products;
- Hedge the quotation risk when offering mortgages if the new business of fixed-rate mortgages is substantial;
- Hedge exchange rate risks by converting non-euro funding into euro funding;
- Hedge risks in investment portfolios.

22.2.2 Hedge accounting

With regard to the majority of the hedge strategies explained above, SNS Bank NV 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)

The mortgage portfolio contains 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 covers the interest rate risk that occurs as a result of writing the embedded interest rate option to the customer.

Hedging the interest rate risk on funding (micro hedge)

SNS Bank NV 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 euro's and the fixed rate into a floating rate, SNS Bank NV 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)
Interest rate risk on fixed-income investments (government bonds) is hedged by swapping the coupon to a floating rate using interest swaps and by selling interest rate futures. 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
The mortgage quotation risk can be hedged 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. After the end of the hedge the value accrued in the hedge is amortised to the result during the duration of the funding. The accrued value in shareholders' equity was € 7.4 million negative as at 31 December 2012.

Hedging floating interest rate cash flows
The risks of floating interest rate cash flows on the liquidity position, floating interest rate mortgages, property finance loans and funding are covered 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 in shareholders' equity as at 31 December 2012 was € 97.7 million.

23 Non-financial risk management

As described in the risk classification, SNS Bank NV recognises both financial risks and non-financial risks. Non-financial risks include strategic, integrity and operational risks. The Compliance, Security & Operational Risk Management (CS&O) department is one of the departments monitoring and advising on the management of these non-financial risks.

23.1 Management of non-financial risk

SNS Bank NV has taken several measures to manage non-financial risks. The main components are the following:

- A clear governance structure, including a transparent assignment of duties and responsibilities and escalation procedures, reinforced with a clear risk management structure. 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 area. Along with several other Group staff departments, the Compliance, Security & Operational Risk Management (CS&O) department has an important monitoring role to play in the second Line of Defence and has the option of escalation where necessary. The third Line of Defence is formed by Group Audit, which, independently from the line, tests the set-up and operation of the entire system of control measures.
- The Group policy formulated by CS&O, including the operational risk framework, in the field of ethical business conduct concerning non-financial risks. If desired, CS&O provides recommendations on the practical translation to the specific application within the business units and monitors compliance.
- The training & awareness programme to make managers and staff aware of non-financial risks. This programme includes information meetings, e-learning programmes, presentations and 'train the trainer' workshops.
- The advisory role of staff departments operating independently from the line in the development and endorsement of products. Since 2012, this also includes the periodic review of product portfolios.
- The central reporting centre where staff can report various kinds of incidents, such as fraud, undesirable behaviour and information security breaches. The aim is that risks are reported in time so consequential damage can be prevented or limited and adequate measures can be taken to prevent similar incidents. Employees can also report incidents to the reporting centre anonymously (whistleblowing arrangement).
- Signs of fraud are always investigated. Fraud investigations are risk based, with specialist external support if necessary. See also paragraph 23.2.
- The monitoring programme executed annually by CS&O in consultation with Group Audit. Based on a risk-based analysis, the means to be used for relevant subjects are annually determined.
- The quarterly report on non-financial risks. This quarterly report provides the management boards, SNS REAAL's Executive Board and the Supervisory Board's Risk Committee with an overview of the main developments in non-financial risks, progress in the follow-up of action items, the implementation of new/amended laws and regulations, the central embedding of customer interests in the organisation and an analysis of the developments in incidents. This report also presents the degree to which SNS REAAL acts in accordance with its risk appetite.
- The periodic in-control statements by the management boards of the business units and the Executive Board members. In this statement, they report on the main risks and corresponding control measures, the improvements made compared to the previous period and the improvement measures in progress. The in-control statement points out the most actual risks.

23.2 Property Finance

During the financial year reasonable suspicion of irregularities was obtained in respect of invoices and expense reimbursement claims regarding the hiring of third parties and cooperation with third parties in Property Finance. This has partly occurred at management and supervisory functions on projects.

Currently these signals, which indicate irregularities, are under further investigation. Concrete evidence of irregularities will lead to claims. These claims are inherently uncertain and, therefore, do not lead to recognition of a receivable in the balance sheet or to a disclosure of a contingent asset at this time.

We have implemented several measures to prevent reoccurrence of these irregularities. Inter alia, the employees potentially involved no longer work for Property Finance. If applicable, our relationships with third parties associated with these individuals have been terminated. In addition, a number of managers and employees of Property Finance have been suspended pending the investigation. Furthermore, suspicions of criminal offenses arising from the conduct of these employees are reported to the authorities. The continuation of our investigation of potential irregularities is one of the measures taken by SNS REAAL in response to the signs of potential irregularities.

In addition to the investigations carried out by SNS REAAL there is an investigation by the criminal authorities. To the extent possible and allowable under Dutch law, SNS REAAL cooperates with the criminal authorities. It is possible that at the completion of investigations, matters arise that could affect the valuation of assets and liabilities.

Finally, with respect to a limited number of loans, irregularities are suspected which took place before 2010. These files are currently being investigated with the assistance of a third party.

23.3 Capital requirement operational risk

To calculate the capital that must be maintained as a buffer for the manifestation of operational risks, the standardised approach is used for the Banking activities. The adequacy of the banking capital for operational risk is assessed every year on the basis of ICAAP.

24 Capital management

24.1 Capital management at particular times

Already during 2011 the capital ratios of SNS Bank NV were a primary focus of attention. At that time the EBA stress test resulted in a capital deficit at SNS Bank NV. Mid-2012 the capital ratio improved as a result of the reduction in risk-weighted assets. However, the underlying enchasing triggers of the decreasing capital ratios, such as the value adjustments at especially Property Finance and higher capital requirements, were distressing. During the course of 2012, the increase of the risks of the property finance portfolio of SNS Bank NV led to the conclusion that without additional actions the solvency could not be improved sufficiently enough to meet the (internal) capital requirements in the medium term for SNS Bank NV. Also for house financing impairment losses increased. The risk weighted assets of houses are mainly based on statistical models. Recent developments are used to rebuild these models. In particular, the losses in a period of recession, a so-called downturn, are estimated higher. The new models project, under the same circumstances, significantly higher losses and lead to higher risk weighted assets.

Due to these developments, the financial position of SNS Bank NV in 2012 weakened. The core Tier 1 ratio decreased from 9.2% in 2011 to 6.1% at year-end 2012, and thus below the limit required by DNB and under the internal standard of at least 9%. As a result, it was decided to perform a strategic reorientation, as communicated in July 2012. Various scenarios were investigated to strengthen the capital base.

Near the end of 2012, SNS Bank NV frequently made the headlines. The trust of consumers and financial markets in a solution for the strengthening of the capital position declined.

End of 2012, SNS Bank NV concluded in its Internal Capital Adequacy Assessment Process (ICAAP) that without additional actions there would be insufficient capital. With the ongoing negative economic developments it would be improbable that SNS REAAL could indeed repay the capital support received form the State in 2008 on the agreed date (year-end 2013 at the latest). In the upcoming years, it was expected that the capital ratio of the company would even be under more pressure and the (up till then) projected increasing capitalisation would not further improve.

The Dutch Central Bank (DNB) informed through its Supervisory Review and Evaluation Process (SREP) SNS Bank NV that the risks regarding the property finance portfolio were far more material than was presumed. DNB also informed the company that an increase of the core capital would be necessary on short term notice. When SNS Bank NV, according to DNB, could not meet the demands set out to accomplish this in time, DNB informed the Ministry of Finance it would not be justified for SNS Bank NV to continue its Banking activities. On 1 February 2013, the Ministry of Finance therefore decided to nationalise SNS REAAL, as is described in chapter 3 Nationalisation.

SNS Bank NV now has the possibility to focus on its core activities and further strengthen its capital base.
The pro forma capitalisation of SNS Bank NV improved after nationalisation.

The pro forma core Tier 1 ratio of SNS Bank NV is 14.9% at year-end 2012. The pro forma solvency ratios take all known effects caused by the nationalisation into account, including secondary effects such as:

- The transfer of Property Finance to a real estate management organisation at a loss on separation of € 2.8 billion on the real estate portfolio compared to the book value of June 2012 (refer to section 3.2.1.1). Of this amount, € 776 million is recognised in the second half of 2012. For the remaining loss, a provision of € 2.0 billion has been made in the first quarter of 2013. This provision will lead to a decrease in the risk-weighted assets of SNS Bank as per February, after which the remaining risk-weighted assets will be released at the external transfer of the portfolio (refer to 3.2.1.4).
- The expropriation and conversion into equity of subordinated debt of SNS Bank NV and SNS REAAL NV.
- A paid-in share premium of € 2.2 billion by the Dutch State in SNS REAAL, € 1.9 billion of which has passed through as share premium to SNS Bank NV.
- The release of around € 5.5 billion in risk-weighted assets by transferring the activities of Property Finance to a new, to be established real estate management organisation in combination with the government guarantee of around € 5 billion for the temporary loan that SNS Bank NV will provide to this real estate management organisation.

- The contribution by SNS Bank NV to the Resolution levy imposed by the Minister.
- An estimation of the corporation tax settlement on the impairments of Property Finance and the conversion into equity of subordinated debts.

SNS Bank NV strives to a strong solvency in view of the further implementation of Basel III.

24.2 Going concern capital management

24.2.1 Planning

Every year, SNS Bank NV prepares operational plans with a three-year horizon. At the same time, it prepares the Capitalisation and Funding Plan with the same horizon, in which the expected development of the capital and funding available is compared to the capital and funding requirements ensuing from the operational plans. Instruments to lower the risks and to increase the available capital and liquidity are used for control purposes. For more details on funding, please refer to chapter 12 Funding and credit ratings.

In addition to the long-term planning in the Capitalisation and Funding Plan, each month a 12-month rolling forecast of capitalisation developments is made for the Banking activities, which is discussed at ALCO Bank. This forecast makes it possible to take additional measures if necessary. 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 internal 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.

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 required for the banking activities.

24.2.2 Capital adequacy assessment

The assessment of capital adequacy consists of the following elements:

- An ICAAP is performed on an annual basis, with close involvement of senior management to determine the capital adequacy. ICAAP is further described in paragraph 24.5.2 Capital Adequacy Banking activities (ICAAP).
- As part of the ICAAP, the capital requirements ensuing from stress testing are compared to the qualifying capital present.
- The results of the stress tests are annually compared with the economic capital required. The economic capital is calculated and reported to Group ALCO on a quarterly basis. Sensitivity analyses are performed and forecasts of capital development are made on a monthly basis.
- Using the Supervisory Review & Evaluation Process (SREP), a dialogue with DNB about the capital adequacy is held. Please refer to paragraph 3.1 Nationalisation of SNS REAAL for the outcome of this process.

24.3 Objectives and framework of standards

24.3.1 Objectives

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

In determining the capital structure, SNS Bank NV takes into account the restrictions set by the Dutch Central Bank, national and European regulations, rating agencies and internal requirements regarding capital adequacy.

SNS Bank NV'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 NV aims for optimum capital allocation among the various business units to achieve maximum returns on its activities.

24.3.2 Framework of standards

In 2012, SNS Bank NVs' internal targets for solvency, are mentioned in the scheme below.

Internal solvency standards

	Target	Realisation	
in percentages		2012	2011
Tier 1 ratio	> 10%	7.7%	12.2%
core Tier 1 ratio	> 9%	6.1%	9.2%

To calculate its solvency ratios, SNS Bank NV applies the Basel II regulatory framework. This includes the credit risk types, market risk of trading portfolios and operational risk, and applies the Internal Rating Based method for the credit risk for residential mortgages.

24.4 Capital position

Capitalisation

In € millions	December 2012	December 2011
Banking activities		
core Tier 1 ratio	6.1%	9.2%
Tier 1 ratio	7.7%	12.2%
BIS ratio	9.3%	14.4%
core Tier 1 capital	1,253	1,879
Tier 1 capital	1,584	2,505
BIS capital	1,908	2,961
Risk weighted assets	20,592	20,534

SNS Bank publishes its solvency ratios using the risk-weighted assets as calculated under Basel II, taking into account the Basel I Floor rules.

24.4.1 Solvency

SNS Bank NV publishes its solvency ratios using the risk-weighted assets as calculated under Basel II, taking in account the Basel I 80% floor rules. In the second half of 2012 the implementation of more prudent risk assessment models for loans in combination with a deteriorating credit risk environment led to an increase in the level of risk-weighted assets under Basel II, which surpassed the level of Basel I with an 80% floor. As a consequence, solvency ratios are since then calculated using Basel II risk-weighted assets, whereas for previous periods Basel I with an 80% floor was used. Basel II risk-weighted assets increased from € 19.2 billion at year-end 2011 to € 20.6 billion. The use of more stringent risk assessment models for retail mortgages led to an increase of € 3.5 billion in Basel II risk-weighted assets, which were also impacted by the redemption of debt securities issued under securitisation programmes. This was partly compensated by the decline of the total exposure at Property Finance. Due to the net loss at SNS Bank NV and the increase in risk-weighted assets, the core Tier 1 ratio dropped from 9.2% at the end of 2011 to 6.1%, which was below the internal and the DNB requirements.

24.5 Capital adequacy

24.5.1 Capital management framework

In assessing capital adequacy, SNS Bank NV 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/III regulatory framework, and economic capital calculations. SNS Bank NV's capitalisation is aimed at holding and maintaining a single A rating. SNS Bank NV'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.

24.5.2 Capital adequacy (ICAAP)

In the ICAAP, the required amount of capital is determined by the Management Board of SNS Bank and the Executive Board. Points of departure are the balance sheet, (proposed) 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 also tried by performing stress tests. In 2012, SNS Bank performed an internal stress test as part of the 2012 ICAAP. For this stress test, the risks involved were thoroughly analysed and tested. SNS Bank applies its own specific economic scenarios for this stress test. 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. The results of the 2012 ICAAP show that SNS Bank does not meet the internal standards either in the base case scenario or in a stress scenario. With reference to the Supervisory Review and Evaluation Process (SREP) SNS Bank is in ongoing dialogue with the Dutch Central Bank on the ICAAP results.

The Dutch Central Bank (DNB) informed through its Supervisory Review and Evaluation Process (SREP) SNS Bank NV that the risks regarding the property finance portfolio were far more material than was presumed. DNB also informed the company that an increase of the core capital would be necessary on short term notice. When SNS Bank NV, according to DNB, could not meet the demands set out to accomplish this in time, DNB informed the Ministry of Finance it would not be justified for SNS Bank NV to continue its Banking activities. On 1 February 2013, the Ministry of Finance therefore decided to nationalise SNS REAAL, as is described in chapter 3 Nationalisation of SNS REAAL.

24.5.3 Economic capital

SNS Bank NV uses economic capital (that is unexpected losses) as much as possible for the management of the Company and the business units with the aim to create value in the long term. 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. In assessing capital adequacy, SNS Bank NV takes into account any uncertainties in the economic capital models. These uncertainties are translated into separate surcharges and added to the unadjusted economic capital.

A one-year horizon with 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. The economic capital figures are also discussed with the Dutch Central Bank. Economic capital is furthermore used in the ICAAP and in the specification and assessment of risk appetite. At the Banking activities, economic capital is used to determine the value of our customers.

24.5.4 Stress testing

DNB stress test

At the Dutch Central Bank's request, SNS Bank NV performed two (macro) stress tests on its activities in the third quarter of 2012: a stress test for the whole of SNS Bank NV, and a housing market stress test on residential mortgages. Both stress tests are based on a core Tier 1 ratio of 9.6%, the situation as it was at the end of June 2012.

The SNS Bank NV stress test has a two-year horizon, for which the Dutch Central Bank has prepared a base case scenario and a stress scenario. The stress scenario takes into account a further deterioration of the economy and the financial markets. For example, this stress scenario includes a considerable value decrease of residential property (approximately 30% in 2 years) and commercial property and rising unemployment rates.

The results show that the solvency drops in the stress scenario due to high impairments on the Property Finance and SNS SME portfolios and the adjustment for the revaluation reserve. This brought the solvency below the internal 2012 standard of 5.125% core Tier 1 ratio after stress.

The Dutch Central Bank's housing market stress test has a five-year horizon and consists solely of a stress scenario prescribed by the Dutch Central Bank. This scenario takes into account a further deterioration of the economy, combined with amendments to (tax) legislation. The scenario assumes that tax laws are amended for concluding a mortgage loan. The scenario goes beyond the measures announced in the Spring Agreement that limit the Loan-to-Value ratio and interest deductibility of new loans.

The economic scenario includes a considerable decrease of residential property prices (more than 40% in 5 years) and rising unemployment rates. However, the economic scenario is not in line with the scenario of the SNS Bank stress test, which makes it difficult to compare these two stress tests.

See for more information about stress testing paragraph 24.5.2 Capital adequacy (ICAAP).

EBA stress test on Banking activities

In 2012, the European Banking Authority (EBA) did not ask SNS Bank NV to perform a stress test on its activities. In the meantime it was announced that there will not be an EBA stress test for 2013. This will be moved up to 2014.

See for more information about stress testing paragraph 24.5.2 Capital adequacy (ICAAP).

ICAAP stress test

In the third quarter of 2012, SNS Bank NV subjected its activities to an internal stress test within the context of its Internal Capital Adequacy Assessment Process (ICAAP). This internal stress test is largely based on the Dutch Central Bank's company-wide stress test. The results showed that the solvency drops in the stress scenario due to high impairments on the portfolios of Property Finance and SNS SME. This brought the solvency below the internal 2012 standard of 5.125% core Tier 1 ratio after stress.

See for more information about stress testing paragraph 24.5.2 Capital adequacy (ICAAP).

25 Notes to the consolidated financial statements

25.1 Cash and cash equivalents

Specification cash and cash equivalents

in € millions	2012	2011
Non-restricted demand deposits at Dutch Central Bank	5,902	2,294
Restricted demand deposits at Dutch Central Bank	-	2,000
Short-term bank balances	951	764
Cash	80	70
Total	**6,933**	**5,128**

Restricted demand deposits at Dutch Central Bank are not available for use in SNS Bank NV's day-to-day operations. The increase of demand deposits at the Dutch Central Bank relates to a new issued 2012 three-year loan of the ESCB (LTRO).

25.2 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. The book value of the collateral is € 1.7 billion (2011: € 1.6 billion).

25.3 Loans and advances to customers

Loans and advances to customers

	Loans		Provision		Net amount	
in € millions	2012	2011	2012	2011	2012	2011
Mortgages	50,841	52,920	(214)	(124)	50,627	52,796
Property finance						
- Project finance	3,219	4,008	(920)	(515)	2,299	3,493
- Investment finance	4,179	4,963	(247)	(120)	3,932	4,843
Financial leases	316	468	(5)	(3)	311	465
Other	4,786	3,308	(187)	(108)	4,599	3,200
Total	**63,341**	**65,667**	**(1,573)**	**(870)**	**61,768**	**64,797**

SNS Bank NV has also structured a synthetic securitisation in the form of credit guarantees, whereby the credit risk protection has been bought for a mortgage portfolio of € 319 million (2011: € 345 million).

An amount of € 17.3 billion (2011: € 18.2 billion) of the mortgage loans have been provided as collateral to third parties under the securitisation programmes Hermes, Pearl and Holland Homes, whereof obligations are sold to third parties. The collateral transactions occurred under normal market conditions.
In addition, € 6.1 billion (2011: € 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 € 7.4 billion (2011: € 9.0 billion) of the property finance concerns mortgage secured loans.
Also, € 308 million (2011: € 584 million) of mortgages was provided as collateral under a private loan.

SNS Bank NV has securitised a part of the mortgage loans. The remaining principal of the securitised portfolio amounts to € 22.7 billion (2011: € 20.9 billion), of which € 11.9 billion (2011: € 9.0 billion) is for own account. Further information on securitisation transactions is provided under debt certificates.

Financial leases

	Gross		Unearned interest		Net	
in € millions	**2012**	2011	**2012**	2011	**2012**	2011
Overview maturities						
- Shorter than one year	87	132	(12)	(18)	75	114
- From one to five years	177	282	(24)	(37)	153	245
- Longer than five years	95	122	(12)	(16)	83	106
Total	**359**	**536**	**(48)**	**(71)**	**311**	**465**

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.

Statement of change in loans and advances to customers 2012 (gross)

in € millions	Mortgages	Property finance	Financial leases	Other	Total
Balance as at 1 January	52,920	8,971	468	3,308	65,667
Foreclosure	-	(150)	-	-	(150)
Reclassifications	(3)	(49)	-	64	12
Advances	1,260	83	-	434	1,777
Redemptions	(3,276)	(1,456)	(152)	(196)	(5,080)
Change in fair value as a result of hedge accounting	(86)	-	-	-	(86)
Exchange rate differences	-	(1)	-	-	(1)
Change in mortgage loans at fair value through profit or loss	28	-	-	-	28
Movement in current accounts	-	-	-	1,176	1,176
Other movements	(2)	-	-	-	(2)
Balance as at 31 December	**50,841**	**7,398**	**316**	**4,786**	**63,341**

The movement in current accounts of € 1,176 million (2011: € 122 million) relates to short-term exposures.

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	-	477	4,398
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**	**3,308**	**65,667**

In 2009 and 2011, SNS Retail Bank purchased part of the REAAL NV mortgages held for trading at fair value as then recognised in the REAAL NV balance sheet. As a result, management changed the intention to hold these mortgages for trading purposes and decided to hold these mortgages for the foreseeable future or until maturity. SNS Bank NV used the reclassification option of IAS 39.50d , reclassifying € 680 million (2009) and € 376 million (2011) of mortgages from fair value through profit or loss to loans and receivables. As per 31 December 2012, the reclassified portfolio in 2011 has a value of € 363 million (2011: € 371 million) as a result of sales and redemptions. The reclassified portfolio in 2009 amounts to € 604 million as at 31 December 2012 (2011: € 628 million; 2010: € 649 million; 2009: € 674 million). The fair value adjustment of the portfolios was marginal and did not affect results. At the moment of reclassification the effective interest rate of the mortgages was 5.1% (2011) and 5.2% (2009). The expected recoverable cash flows amount to € 378 million (2011) and € 700 million (2009).

Statement of change in provision loans and advances to customers specific 2012

in € millions	Mortgages	Property finance	Financial leases	Other	Total
Balance as at 1 January	114	629	3	105	851
Reclassifications	34	(52)	2	44	28
Foreclosure	-	(33)	-	-	(33)
Withdrawal	(95)	(128)	-	(29)	(252)
Addition	169	796	-	78	1,043
Release	(23)	(72)	-	(12)	(107)
Other movements	-	24	-	(1)	23
Balance as at 31 December	**199**	**1,164**	**5**	**185**	**1,553**

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	(34)	(18)	-	-	(52)
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	**114**	**629**	**3**	**105**	**851**

Statement of change in provision loans and advances to customers IBNR 2012

In € millions	Mortgages	Property finance	Financial leases	Other	Total
Balance as at 1 January	10	6	-	3	19
Addition	14	-	-	1	15
Reclassifications	(3)	6	-	-	3
Withdrawal	(6)	-	-	(1)	(7)
Release	-	(9)	-	(1)	(10)
Balance as at 31 December	**15**	**3**	**-**	**2**	**20**

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**

Through foreclosure of a part of the property finance portfolio, 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.

25.4 Derivatives

Specification derivatives

in € millions	Positive value 2012	2011	Negative value 2012	2011	Balance 2012	2011
Derivatives held for cash flow hedge accounting	130	135	14	19	116	116
Derivatives held for fair value hedge accounting	2,544	2,038	2,592	2,385	(48)	(347)
Derivatives held in the context of asset and liability management that do not qualify for hedge accounting	728	946	769	976	(41)	(30)
Derivatives held for trading	258	235	224	226	34	9
Total	**3,660**	**3,354**	**3,599**	**3,606**	**61**	**(252)**

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	2012	2011
Balance as at 1 January	(252)	(563)
Purchases	-	42
Disposals	43	(161)
Revaluations	275	386
Exchange rate differences	(5)	33
Other	-	11
Balance as at 31 December	**61**	**(252)**

25.5 Investments

Investments: overview

in € millions	2012	2011
Fair value through profit or loss (held for trading)	848	130
Fair value through profit or loss (designated)	103	98
Available for sale	4,351	3,878
Total	**5,302**	**4,106**

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	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Listed	1	7	847	123	-	-	103	98	951	228
Unlisted	-	-	-	-	-	-	-	-	-	-
Total	**1**	**7**	**847**	**123**	**-**	**-**	**103**	**98**	**951**	**228**

Part of the investments is pledged in liabilities to banks (repo's) and subordinated debt (bonds). The book value of the repo's that have been pledged to banks as debts amount to € 0.4 billion (2011: € 0.4 billion). The book value of the investments that have been pledged by the European System of Central Banks (ESCB) is € 12.7 billion (2011: € 10.1 billion). this collateral is also held for the three-year loan of the ESCB (LTRO).

The book value of other assets as collateral at 31 December 2012 for SNS Retail Bank amount to € 6.6 billion (2011: € 2.7 billion).

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	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Balance as at 1 January	7	12	123	144	-	-	98	93	228	249
Reclassifications	-	-	11	-	-	-	-	-	11	-
Purchases and advances	-	-	-	-	-	-	-	114	-	114
Disposals and redemptions	-	-	-	-	-	-	-	(103)	-	(103)
Revaluations	-	-	39	25	-	-	-	(4)	39	21
Exchange rate differences	-	-	(47)	-	-	-	-		(47)	-
Change in investments held for trading	(6)	(5)	717	(47)	-	-	6	-	717	(52)
Other	-	-	4	1	-	-	(1)	(2)	3	(1)
Balance as at 31 December	**1**	**7**	**847**	**123**	**-**	**-**	**103**	**98**	**951**	**228**

As a consequence of the volatile financial markets SNS Retail 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 2012 this portfolio has a value of € 27 million (2011: € 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 2012 amounts to € 2 million positive (2011: € 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	**2012**	2011	**2012**	2011	**2012**	2011
Listed	-	2	4,340	3,867	4,340	3,869
Unlisted	11	9	-	-	11	9
Total	**11**	**11**	**4,340**	**3,867**	**4,351**	**3,878**

Investments available for sale: statement of change

	Shares and similar investments		Fixed income investments		Total	
in € millions	**2012**	2011	**2012**	2011	**2012**	2011
Balance as at 1 January	11	10	3,867	3,990	3,878	4,000
Purchases and advances	1	2	2,918	3,770	2,919	3,772
Disposals and redemptions	(1)	-	(2,662)	(3,895)	(2,663)	(3,895)
Revaluations	-	(1)	232	33	232	32
Impairments	-	-	(1)	-	(1)	-
Amortisation	-	-	(16)	(8)	(16)	(8)
Other	-	-	2	(23)	2	(23)
Balance as at 31 December	**11**	**11**	**4,340**	**3,867**	**4,351**	**3,878**

Investments available for sale: valuation

In € millions	Shares and similar investments		Fixed income investments		Total	
	2012	2011	2012	2011	2012	2011
(Amortised) cost price	10	11	4,152	3,878	4,162	3,889
Unrealised gains in value	1	-	188	(11)	189	(11)
	11	**11**	**4,340**	**3,867**	**4,351**	**3,878**

25.6 Investment properties

Statement of change in investment properties

in € millions	2012	2011
Balance as at 1 January	1	1
Divestments	(1)	-
Balance as at 31 December	**-**	**1**

25.7 Property projects

Specification property projects

in € millions	2012	2011
Property projects	736	622
Cumulative impairments / (reversals) as at 31 December	(320)	(110)
Total	**416**	**512**

This comprises the international property projects over which Property Finance acquired control.

Statement of change in property projects

in € millions	2012	2011
Balance property projects as at 1 January	512	467
Reclassifications	-	22
Foreclosure	128	160
Additions	9	-
Disposals	(27)	(61)
Impairments	(211)	(91)
Exchange rate differences	(1)	8
Other changes	6	7
Balance property projects as at 31 December	**416**	**512**

The bulk of the portfolio has been valued by independent appraisers. Due to the uncertainty in the market, valuation ranges are wide. The impairment of the property projects is based on the best estimates of management.

25.8 Investments in associates and joint ventures

Statement of change in associates and joint ventures

in € millions	2012	2011
Balance as at 1 January	17	6
Purchases and expansions	1	6
Disposals and divestments	(2)	(4)
Reclassifications	-	12
Share in result of associates	-	(1)
Impairments	(13)	3
Other movements	-	(5)
Balance as at 31 December	**3**	**17**

The reporting dates of all material associates are consistent with the reporting date of SNS Bank NV.

The impairments recognised in associates and joint ventures amounts to € 13 million (2011: € 3 million profit).

Overview most significant investments in associates in 2012

in € millions	Country	Interest	Share in equity	Share in result	Assets	Liabilities	Income
Überseequartier project BV	DE	45%	-	-	66	74	6
Prospect Village LP	US	30%	-	-	41	31	-
The Park at Brushy Creek Ltd	US	12%	1	-	22	16	(1)
Koppelenweg I BV	NL	0%	1	-	35	33	-
Other	Divers	20-50%	-	-	112	92	-
Total			**2**	**-**	**276**	**246**	**5**

Overview most significant investments in associates in 2011

in € millions	Country	Interest	Share in equity	Share in result	Assets	Liabilities	Income
Überseequartier project BV	DE	45%	5	-	37	45	8
Prospect Village LP	US	30%	3	-	41	31	-
The Park at Brushy Creek Ltd	US	12%	-	-	-	-	-
Koppelenweg I BV	NL	0%	-	-	-	-	-
Other	Divers	20-50%	3	1	178	155	22
Total			**11**	**1**	**256**	**231**	**30**

A total of € 63 million (2011: € 113 million) of loans was granted to associates. These have been included under loans and advances to customers. At year end 2012, the associates have no investment commitments (2011: likewise). Participating interests with an interest of less than 20% qualify as an associated company, since SNS Bank NV can exercise significant influence based on a combination of SNS Bank NV'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 2012

in € millions	Country	Interest	Share in equity	Share in result	Assets		Liabilities		Income	Expenses
					Current	Fixed	Current	Long-term		
Homburg LP	CA	50%	-	-	60	-	61	-	14	16
Heyen VG Beleggingen BV	NL	50%	-	-	-	40	1	30	2	2
Other	Divers	15-75%	1	-	140	248	240	183	19	39
Total			**1**	**-**	**200**	**288**	**302**	**213**	**35**	**57**

Overview most significant joint ventures 2011

in € millions	Country	Interest	Share in equity	Share in result	Assets		Liabilities		Income	Expenses
					Current	Fixed	Current	Long-term		
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**

The joint ventures have been granted a total amount of € 819 million (2011: € 1,017 million) of loans and advances. These were reported under the loans and advances to customers. At year end 2012, the joint ventures have € 46 million investment commitments (2011: € 52 million). SNS Bank NV exercises joint control of the joint ventures together with participants, without any unilateral control by one of the participants.

25.9 Property and equipment

Specification property and equipment 2011

in € millions	2012	2011
Land and buildings in own use	40	55
IT equipment	1	7
Other assets	30	28
Total	**71**	**90**

Statement of change in property and equipment 2012

in € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	68	19	55	142
Accumulated revaluations	(7)	-	-	(7)
Accumulated amortisation and impairments	(21)	(18)	(25)	(64)
Balance as at 31 December	**40**	**1**	**30**	**71**
Balance as at 1 January	55	7	28	90
Reclassifications	(4)	-	4	-
Investments	-	-	5	5
Divestments	(7)	-	-	(7)
Depreciation	(1)	(6)	(6)	(13)
Impairments	(3)	-	-	(3)
Other	-	-	(1)	(1)
Balance as at 31 December	**40**	**1**	**30**	**71**

Under Land and buildings an amount of € 4 million is recognised in 2012 for the refurbishment relating to the New World of Work. After completion, this item was reclassified to Other assets.

In 2012 an amount of € 3 million is under construction regarding new office buildings. In 2012, an impairment charge of € 3 million was taken.

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**

25.9.1 Valuation of land and buildings in own use

Due to the economic circumstances the land and buildings in own use with a fair value greater than € 1 million are valued by an external surveyor every year as of 2009. The other land and buildings in own use are valued once every three years.

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	Appraised value as % of total book value
2012	28	40	70%
2011	39	55	71%
2010	48	73	66%

25.10 Intangible assets

Specification intangible assets

in € millions	2012	2011
Goodwill	67	114
Software	16	21
Other intangible fixed assets	15	18
Total	**98**	**153**

Internal developed and capitalised software amount to € 16 million (2011: € 21 million).

Statement of change in intangible assets 2012

in € millions	Goodwill	Software	Other intangible assets	Total
Accumulated acquisition costs	239	45	34	318
Accumulated amortisation and impairments	(172)	(29)	(19)	(220)
Balance as at 31 December	**67**	**16**	**15**	**98**
Balance as at 1 January	114	21	18	153
Capitalised costs	-	4	-	4
Purchases	-	2	-	2
Depreciation capitalised costs	-	(11)	-	(11)
Depreciation purchases	-	-	(3)	(3)
Impairments	(47)	-	-	(47)
Balance as at 31 December	**67**	**16**	**15**	**98**

Statement of change in intangible assets 2011

in € millions	Goodwill	Software	Other intangible 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**

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

25.10.1 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 value-in-use calculations will be prepared with the help of an independent external consultancy agency.

Goodwill cash generating units

in € millions	2012	2011
SNS Retail Bank	67	67
Property Finance	-	47
Total	**67**	**114**

Following the reduction of SNS SME's loan portfolio, which commenced in 2010, SNS Bank decided in the second half of 2012 to withdraw from the finance market for commercial property for SMEs. As a result, SNS SME's loan portfolio (Property Finance's core portfolio that was transferred to SNS SME in 2011) was merged with the Property Finance organisation, and will be further reduced. SNS SME's other SME activities will be continued and transferred to the SNS Retail Bank segment. In the new segmentation, SNS SME will be discontinued.

The goodwill of the cash generating unit Property Finance is fully impaired in 2012 (€ 47 million). The impairment of goodwill is the consequence of the decision of SNS Bank with draw from the financing market of commercial real estate for SME's and to decrease the portfolio.

In 2012, the goodwill of the cash generating unit SNS Retail Bank is impaired by € 0.5 million. This concerns ASN Asset Management BV and was the result of deteriorating market conditions in the market of asset management.

25.10.2 Principles value-in-use calculations

Specification principles value-in-use calculations

	SNS Retail Bank
Benefits in budget period per year	0.7%
Benefits after budget period per year	1.4%
Available solvency	10.0%
Pre-tax discount rate 2012 *	13.7%
Pre-tax discount rate 2011	12.8%

** The increase in the pre-tax discount rate 2012 is primarily driven by higher betas of peer companies.*

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 (including charged group expenses).
- Available and required solvency.
- Discount rate.

The importance of these parameters differs for each cash-generating unit.

The value-in-use calculations are prepared on the basis of operational plans for the period 2013-2015. The assumptions are based on expected future market developments and past experiences, and on the long term characteristics of the markets in which the various cash generating units of SNS Bank NV operate. In addition to the charged corporate staff department costs that are already included in the operational plans, the goodwill impairment test 2012 also takes into account other, not directly allocated corporate company costs (see paragraph 17.6).

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.

25.11 Deferred tax assets and liabilities

Specification deferred tax assets and liabilities

in € millions	2012	2011
- Deferred tax assets	337	225
- Deferred tax liabilities	(303)	(303)
Total	**34**	**(78)**

Origin of deferred tax assets and tax liabilities 2012

in € millions	1 January	Change through profit or loss	Change through shareholders' equity	Other movements	31 December
Intangible assets	4	(2)	-	-	2
Property and equipment	(2)	3	-	-	1
Investments	24	(12)	(37)	-	(25)
Derivatives	73	149	(1)	-	221
Loans and advances to customers	(301)	24	-	-	(277)
Debt certificates	108	(108)	-	-	-
Provisions	10	8	-	(1)	17
Tax-deductible losses	1	88	-	-	89
Other	5	-	-	1	6
Total	**(78)**	**150**	**(38)**	**-**	**34**

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	**(56)**	**14**	**(37)**	**1**	**(78)**

Specification tax-effect changes shareholders' equity

In € millions	2012	2011
Change in revaluation reserve	-	(1)
Change in cash flow hedge reserve	1	12
Change in fair value reserve	37	26
Total	**38**	**37**

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

Tax-deductible losses

in € millions	2012	2011
Total tax-deductible losses	355	3
Deferred tax assets calculated on tax-deductible losses	89	1
Average tax rate	25.0%	25.5%

A deferred tax asset on tax-deductible losses is only recognised if sufficient tax profits are reasonably expected to be realised in the next nine years following the year of the loss.

25.12 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.

25.13 Other assets

Specification other assets

in € millions	2012	2011
Accrued interest	233	257
Other accrued assets	257	638
Accrued assets	**490**	**895**
Other advances	219	197
Total	**709**	**1,092**

The other advances include the offset of the advanced contribution of SNS Bank to the Dutch Central Bank of € 175 million (2011: € 183 million) under the deposit guarantee scheme (DGS) in relation to its share related to the bankruptcy of DSB Bank. The advanced contribution is reduced by the provision of € 27 million (2011: € 40 million). The provision is SNS Bank NV's estimate after foreclosure of the assets.

25.14 Savings

Specification savings

in € millions	2012	2011
Due on demand	24,881	22,289
Other savings	7,934	8,053
Total	**32,815**	**30,342**

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 € 2,393 million (2011: € 1,297 million). The life-course savings accounts amounts to € 331 million (2011: € 298 million).

25.15 Other amounts due to customers

Specification other amounts due to customers

in € millions	**2012**	2011
Non-current debt	2,186	2,229
Available on demand	5,745	6,351
Mortgage deposits	91	167
Savings deposits	1,507	1,468
Total	**9,529**	**10,215**

25.16 Amounts due to banks

Specification amounts due to banks

In € millions	**2012**	2011
Due on demand	1,096	545
Deposits and certificates	5,921	1,884
Private loans	1,656	1,897
Other amounts due to banks	13	390
Total	**8,686**	**4,716**

The debts to banks comprise liabilities ensuing from repo agreements amounting to € 0.4 billion (2011: € 0.4 billion). 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.

In addition, the amounts due to banks for SNS Bank NV comprise of two three-year loans of the ESCB (LTRO).

25.17 Debt certificates

Specification debt certificates

in € millions	**2012**	2011
Medium Term Notes	11,354	15,425
Certificates of Deposit	162	163
Debt certificates issued under Hermes and Pearl Securitisation programmes	8,897	10,072
Debt certificates classified at fair value through profit or loss (Holland Homes securitisation programme)	1,577	1,701
Balance as at 31 December	**21,990**	**27,361**

Debt certificates refer to non-subordinated bonds and other debt certificates with a fixed or variable interest rate.

25.17.1 Medium Term Notes

Specification Medium Term Notes

In €	Coupon rate	Book value 2012	Nominal value 2012	Book value 2011	Nominal value 2011
SNS Bank NV	Fixed	8,118	7748	10,138	9,884
SNS Bank NV	Structured	900	825	1,038	1,017
SNS Bank NV	Floating	2,185	2188	3,792	3,805
SNS Bank NV	Zero	151	165	457	484
Total		**11,354**	**10,926**	**15,425**	**15,190**

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 Retail Bank EMTN programme. The total outstanding volume of debt certificates falling within the scope of the guarantee scheme is € 2.8 billion (2011: € 5.4 billion).

25.17.2 Debt certificates issued under Hermes, Pearl and Lowlands securitisation programmes

SNS Retail 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 Retail 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, Pearl and Lowlands securitisation programmes

in € millions	Initial principal	Start of securitisation	Book value 2012	Book value 2011	First call-option date	Contractual expiration
Hermes VIII	1,269	05-2004	461	493	18-11-2013	01-05-2038
Hermes IX	1,529	05-2005	818	878	18-02-2014	01-02-2039
Hermes X	1,528	09-2005	920	987	18-03-2015	01-09-2039
Hermes XI	1,528	02-2006	1,047	1,123	18-09-2015	01-09-2040
Hermes XII	2,241	10-2006	1,295	1,429	18-03-2016	01-12-2038
Hermes XIII	2,800	02-2007	-	1,878	18-08-2012	01-08-2039
Hermes XIV	2,000	09-2007	1,385	1,489	18-02-2013	01-11-2039
Hermes XV*	1,618	04-2008	1,384	1,481	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	2,513	2,670	18-01-2013	01-07-2046
Hermes XVIII	960	10-2012	933	-	18-09-2017	01-09-2044
Pearl I*	1,014	09-2006	1,014	1,014	18-09-2026	01-09-2047
Pearl II*	852	05-2007	747	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
Lowlands I	3,793	01-2012	3,449	-	18-02-2017	18-01-2044
Total	**28,835**		**20,773**	**19,057**		
On own book			11,876	8,985		
Total			**8,897**	**10,072**		

** After restructuring*

SNS Retail Bank has purchased bonds, issued by the securitisation programmes, with an amortised cost of € 11.8 billion (2011: € 8.9 billion). SNS Retail Bank has purchased subordinated bonds issued by various Pearl companies with an amortised cost of € 98 million (2011: € 98 million).

Hermes XIV, XV, XVI, XVII, XVIII and Pearl IV were mainly held for own account and qualify as assets eligible at the European Central Bank.

25.17.3 Debt certificates classified at fair value with value movements recognised through profit or loss (Holland Homes securitisation programmes)

Through DBV Finance, SNS Retail 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 Retail 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 Retail 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

	Initial principal	Date of securitisation	**Book value**	Book value	Date put-option	Contractual date of expiry
in € millions			**2012**	2011		
Holland Homes (MBS 2000-1)	350	11-2000	125	133	n.a.	24-09-2030
Holland Homes (MBS 2003-1)	435	12-2003	194	216	30-12-2013	31-12-2080
Holland Homes (MBS 2005-1)	757	11-2005	539	568	20-12-2015	31-12-2083
Holland Homes (MBS (Oranje) 2005-1)	1,601	04-2006	719	784	20-01-2018	31-12-2083
Total	**3,143**		**1,577**	**1,701**		
On own book			-	-		
Total			**1,577**	**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 € 1,542 million (2011: € 1,662 million).

25.18 Other liabilities

Specification other liabilities

in € millions	2012	2011
Other taxes	3	8
Other liabilities	1,018	488
Accrued interest	1,159	1,198
Total	**2,180**	**1,694**

25.19 Other provisions

Specification other provisions

	Total	
in € millions	2012	2011
Restructuring provision	52	22
Other provisions	30	13
Total	**82**	**35**

The restructuring provision mainly relates to restructuring as a result of cost reduction programmes. It is expected that the largest part of the provision 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.

At the end of January 2013, SNS Bank NV was held liable with regard to the claim by Stichting Claim SNS/Bos & Partners regarding the investment in foreign investment funds not registered with the AFM, for execution-only customers. Meanwhile, a compensation proposal has been agreed upon with 70% of the customers. For the purpose of the claim, a provision of € 20 million was made at year-end 2012 (2011: € 4 million).

Statement of change in other provisions

	Restructuring provision		Other provisions		Total	
in € millions	2012	2011	2012	2011	2012	2011
Balance as at 1 January	22	30	13	11	35	41
Additions / release	44	5	18	3	62	8
Withdrawal	(12)	(12)	-	(1)	(12)	(13)
Other movements	(2)	(1)	(1)	-	(3)	(1)
Balance as at 31 December	**52**	**22**	**30**	**13**	**82**	**35**

25.20 Participation certificates and subordinated debt

Specification participation certificates and subordinated debt

in € millions	2012	2011
Participation certificates	56	298
Subordinated debt	764	823
Balance as at 31 December	**820**	**1,121**

25.20.1 Participation certificates

This item includes subordinated participation certificates issued by SNS Bank NV to third parties (third series). The certificates were issued in 2003 (€ 56 million).

In 2012 two series participation certificates were redeemed early. At the end of 2012 only the third series is open to a book value of € 56 million. During the second half of 2012 the Dutch Central Bank stipulated that the participation certificates no longer form part of the core Tier 1 capital. As a result, in SNS Bank's solvency reports to the Dutch Central Bank, these instruments are no longer included in the calculation of regulatory capital from that moment onwards.

With the nationalisation of SNS REAAL on 1 February 2013 the third series of these participation certificates were expropriated in favour of the Dutch state. These participation certificates are paid as share premium reserve of SNS REAAL by the Dutch state. Originally the participation certificates are issued by SNS Bank, therefore SNS REAAL issued a share premium deposit in SNS Bank NV. For more information, see paragraph 9.7.3.3 Participation Certificates and paragraph 25.24 Subsequent Events.

25.20.2 Subordinated debt

Specification subordinated debt

in € millions	**2012**	2011
Bonds	712	669
Private loans	52	154
Total	**764**	**823**

25.20.2.1 Bonds

Before nationalisation, the subordinated bonds of SNS Bank NV were part of the qualifying capital and formed part of the solvency position of SNS Bank NV. After the expropriation, the Dutch State added the subordinated bonds, through SNS REAAL, as share premium to the shareholders' equity of SNS Bank NV.

For a part of the expropriated bonds fair value hedge accounting was used. This hedge ended in February 2013. The market value adjustment of € 68 million on the bonds is credited to the result in reporting year 2013.

See also the table in paragraph 3.2.1 Pro Forma balance sheet SNS Bank NV under the column Expropriated subordinated securities.

Bonds

	Coupon rate	Period	**Book value**	Nominal Value	**Book value**	Nominal value
in € millions			**2012**	2012	**2011**	2011
Expropriated in 2013:						
SNS Bank NV	4.238%	1999-2019	5	5	5	5
SNS Bank NV	5.750%	2003-2049	11	11	10	10
SNS Bank NV	6.625%	2008-2018	36	37	36	37
SNS Bank NV	11.250%	2009-2049	318	320	317	320
SNS Bank NV	6.250%	2010-2020	260	262	260	262
Change in fair value as a result of hedge accounting			82	-	41	-
Total			**712**	**635**	**669**	**634**

25.20.2.2 Subordinated private loans

The subordinated private loans have been concluded by SNS Bank NV and form part of the regulatory capital used in determining the solvency position of SNS Bank NV.

With the nationalisation in February 2013 the subordinated private loans and corresponding liabilities are expropriated in the name of Stichting Afwikkeling Onderhandse Schulden SNS REAAL (Stichting AOS). The balance of the subordinated external private loans of SNS Bank is € 12 million (2011: € 12 million) with an average interest rate of 6,8% (2011: 6,8%). An amount of € 40 million are loans of SNS REAAL NV.

Since SNS Bank no longer is a party, seen from the perspective of SNS Bank the debts are cancelled, and the book value is credited to the result of reporting year 2013.

25.21 Equity attributable to shareholders and securityholders

Specification equity

in € millions	2012	2011
Equity attributable to shareholders	1,337	1,723
Equity attributable to securityholders	-	156
Balance as at 31 December	**1,337**	**1,879**

For further information on total equity, see paragraph 16.4 'Consolidated statement of changes in equity'.

25.22 Off balance sheet commitments

25.22.1 Contingent liabilities

Specification contingent liabilities

in € millions	2012	2011
Liabilities from pledges and guarantees given	135	177
Liabilities from (ir)revocable facilities	746	920
Repurchase commitments	1,585	1,713

To meet customer requirements, SNS Retail 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 Retail 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 5% per annum (2011: 7%). 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 calendar repurchase commitments

In € millions	2012	2011
< 1 year	194	221
1 - 5 year	491	623
> 5 year	900	869
Total	**1,585**	**1,713**

25.22.2 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 NV, according to an apportionment scheme.

25.22.3 Lease commitments

Maturity calendar future minimum payments based on irrevocable operational leases

in € millions	2012	2011
Less than one year	7	8
From one year until five year	10	14
More than five years	-	-
Total	**17**	**22**

The determination of the volume of lease commitments is based on the assumption that the lease agreement will be terminated as per the reference date (last day of the financial year). Based on this termination, it is determined for each lease agreement as per which next date the termination can be effected. The total lease commitment is calculated for the period from the reference date until the first possible termination date. The total lease commitment consists of the nominal lease amount due pursuant to the lease agreement for the period stated. The major agreements have renewal options. There are no options to obtain ownership and no restrictions imposed pursuant to the lease agreements.

25.22.4 Legal proceedings

25.22.4.1 Nationalisation

The Minister of Finance decided on 1 February 2013, pursuant to Articles 6:2 and 6:4 of the Financial Supervision Act, to expropriate:

- all subordinated bonds of SNS Bank NV
- subordinated private debts of SNS Bank NV

A large number of stakeholders have lodged an appeal against the decision to the Department of administrative law of the Council of the state. On 25 February 2013, The Council of the state has decided that the appeals have no legal base and therefore upholds the expropriation decree, provided that the securities and assets are lawfully expropriated by the Minister, but not the corresponding liabilities or claims.

The entitled parties of the aforementioned assets have the right to a remuneration reflecting the fair value. The level of remuneration is determined by the Enterprise Section of the Amsterdam Court of Appeal. Meanwhile, the Minister has offered a remuneration of 0 euro. If the Ondernemerskamer decides the entitled parties have a right to remuneration, this will be paid by the Dutch State. This therefore has no consequence for SNS Bank NV.

The arguments used in the appeal at the Council of the state give reason to think that entitled parties of securities and assets will start legal procedures against SNS Bank NV to be compensated for their losses. On this moment, it is not possible to make an estimation of the chance that possible legal procedures will lead to an obligation or the level of financial impact on SNS Bank NV. Therefore, no provisions for possible legal procedures from entitled parties of expropriated assets are made. Since the outcome of any legal proceedings can not be determined with certainty, adverse results may have a material adverse impact on the financial position, results or cash flows of SNS Bank NV.

25.22.4.2 Claims and legal cases

SNS Bank NV is involved in legal proceedings. Although it is impossible to predict the result of pending or threatening legal proceedings, on the basis of information currently available and after consulting legal advisors, the Management Board believes that the outcome of these proceedings is unlikely to have any material adverse effects on the financial position or operating results of SNS Bank NV.

Madoff

In April 2010, a foundation acting for a group of execution-only clients initiated legal proceedings against SNS Bank NV for alleged losses suffered on investments in certain foreign investment funds (including Madoff feeder funds). As already reported in the 2010 and 2011 annual report, where appropriate, clients will be compensated by SNS Bank NV in a suitable manner for which provisions have been taken. In January 2013, in the proceedings before the court, the court reached a verdict. It is judged that SNS Bank NV made mistakes and therefore did not meet its legal agreements. SNS Bank NV is considering its position and examines possible further steps, such as an appeal to the court.

In 2010, three Madoff-feeder funds have initiated legal proceedings in New York against, amongst others, SNS Global Custody, the custody entity of SNS Bank NV, 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 NV and SNS Global Custody. The aforementioned proceedings, in which many financial institutions worldwide are sued in similar proceeding, are in an early stage. Two times a verdict is given on the BVI in favour of SNS Bank NV, but against which appeal is lodged. SNS Bank NV will defend itself strongly but, for the moment, can not give a reliable estimation of possible provisions resulting from these claims.

Securities loan

In June 2012, SNS Bank started legal proceedings against a customer for not repaying an amount (€ 11.3 million) for a securities loan provided by SNS Bank. SNS Bank has made a provision for the total amount in the first half of 2012. This customer claims in the same procedure that SNS Bank and SNS Securities have acted illegitimately and therefore the customer is badly effected. The customer does not mention a specific amount but requests the court to determine the amount in a separate procedure. SNS Bank and SNS Securities defend itself against these claims. For this moment, we think the chances of the customer are small. Therefore and because there is no certainty about the amount of a possible compensation, we have no reason to make a provision for this claim.

Irregularities Property Finance

During the financial year reasonable suspicion of irregularities was obtained in respect of invoices and expense reimbursement claims regarding the hiring of third parties and cooperation with third parties in Property Finance. This has partly occurred at management and supervisory functions on projects.

Currently these signals, which indicate irregularities, are under further investigation. Concrete evidence of irregularities will lead to claims. These claims are inherently uncertain and, therefore, do not lead to recognition of a receivable in the balance sheet or to a disclosure of a contingent asset at this time.

We have implemented several measures to prevent reoccurrence of these irregularities. Inter alia, the employees potentially involved no longer work for Property Finance. If applicable, our relationships with third parties associated with these individuals have been terminated. In addition, a number of managers and employees of Property Finance have been suspended pending the investigation. Furthermore, suspicions of criminal offenses arising from the conduct of these employees are reported to the authorities. The continuation of our investigation of potential irregularities is one of the measures taken by SNS REAAL in response to the signs of potential irregularities.

In addition to the investigations carried out by SNS REAAL there is an investigation by the criminal authorities. To the extent possible and allowable under Dutch law, SNS REAAL cooperates with the criminal authorities. It is possible that at the completion of investigations, matters arise that could affect the valuation of assets and liabilities.

Finally, with respect to a limited number of loans, irregularities are suspected which took place before 2010. These files are currently being investigated with the assistance of a third party.

Property Finance is confronted with a number of claims. The most important ones are mentioned below.

Union de Sociedad The Key en Colmar Group Spain
Mr. R. Ras, a property developer who was involved with the construction and development of a number of Spanish real estate projects which are financed by SNS Property Finance BV, states to have a claim against Property Finance for an amount of more than € 408 million because of supposed damage suffered on these projects by the acts of Property Finance. This claim is not supported with any arguments. On 10 January 2013, Mr. Ras showed NOS Television a Spanish payment request ("acto de conciliación") addressed to Property Finance, in which Property Finance is summoned to appear to a Spanish judge in order to acknowledge the aforementioned amount is due. Till this day, Property Finance has not yet received this payment request. Property Finance strongly denies to be obligated to pay the amount of € 408 million. Although the case has not yet formally brought before court, Mr. Ras exaggerates the case in the press.

Océanis
Océanis SAS is a French joint-venture, in which Property Finance (by means of a subsidiary) until 10 June 2010 was an indirect shareholder. Apollonia is one of the estate agents who Océanis contracted to sell a part of its developed property in France. In 2008, after multiple complaints of clients for supposed fraudulent behaviour of Apollonia were filed, the Court of Marseille has started a criminal investigation against this estate agent. Property Finance and its subsidiary are no party in this matter. At the end of 2012, the Dutch press reported this case. The Océanis file is one of the projects which, within Property Finance, is currently being investigated on possible irregularities and possible redress. Besides, it is investigated if any possible criminal liability and/or legal responsibility of persons within Property Finance or within Property Finance and its subsidiaries could exist regarding the French criminal investigation against Apollonia.

Nawon
Nawon International Estates II LLC, Nawon International Estates III LLC. and Nawon Holding LLC. (hereafter: “Nawon”) announced PF in a letter dated 11 December 2012 that Nawon holds Property Finance responsible for damage already and still to be suffered for an amount of around € 50 million. On 31 January 2013, Nawon requested DNB to investigate this at Property Finance. According to Nawon, Property Finance, as a financer of Nawons German real estate portfolio, has violated its duty to care. On 26 February 2013, Property Finance rejected all liability claims. Property Finance has not yet received a subpoena from Nawon. Meanwhile, Nawon Holding LLC has filed bankruptcy and the liquidator has asked the other Nawon parties to give support for their alleged claims against Property Finance. Until today, the liquidator has not received any support.

Belval Plaza
One of Property Finances real estate projects that got a lot of attention in the press, is the project Belval Plaza in Luxembourg. Property Finance was the financer and the construction and development was the responsibility of a joint venture between the Multiplan group and subsidiary of Property Finance. Since the loans were not repaid as agreed, in 2009, Property Finance started to secure its collateral, therefore Belval Plaza is now fully controlled by Property Finance (and its subsidiary).

Various (sub)contracted and suppliers started a legal procedure against the Belval Plaza companies for the payment of outstanding invoices and alleged compensation. Property Finance strongly rejects these claims. Moreover, in the second half of March 2013, 14 tenants of the commercial centres Belval Plaza I Mall and Belval Plaza II got basic subpoenas against the Belval companies and four subsidiaries of the SNS REAAL group (including Property Finance) for a alleged compensation claim of more than € 16 million. The tenants accuse Belval and Property Finance for the lack of financial and administrative means to make the project a success, bad technical installations in the shopping mall, and bad shopping centre management. The judge in Luxembourg has not set a date for a preliminary hearing yet. The chances of success for this claim are deemed little. Property Finance and other defendants will strongly defend itself.

Finally, half April 2013, the Multiplan Group NV, SA Circle EU Holding, and Mr. C. van Erp, resident of Switzerland, requested the court in Utrecht for a preliminary hearing of witnesses. The request is aimed to hear more than thirty employees, former employees, external employees, managers and former managers of Property Finance (and its legal predecessor) as well as third parties (subcontractors) regarding their involvement in the Belval project. Initially, the request is handled on 25 June 2013 by the court of Utrecht. Property Finance sees no need for this preliminary hearing and will strongly advocate this during the handling of the case.

25.23 Related parties

25.23.1 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 NV 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 NV 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.

25.23.2 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	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Positions								
Loans and advances	260	219	436	1,040	819	1,017	63	113
Provisions for doubtful debt	-	-	-	-	-	3	-	-
Subordinated debt	40	140	-	-	-	-	-	-
Other liabilities	221	201	2,624	2,827	-	-	-	-
Transactions								
Mutation loans and advances	41	(203)	(604)	(277)	(198)	(128)	(50)	(288)
Mutation provisions for doubtful debt	-	-	-	-	(3)	(8)	-	-
Mutation Subordinated debt	(100)	(100)	-	-	-	-	-	-
Mutation Other liabilities	20	(236)	(203)	101	-	-	-	-
Income	5	4	13	11	-	(1)	-	1
Expense recognised during the period in respect of bad or doubtful debt due	-	-	-	-	-	-	-	-
Other expenses	155	166	83	81	-	-	-	-

In 2012, SNS Bank NV received a capital contribution (share premium) from SNS REAAL NV of € 63 million.

As per 1 January 2012, SNS Bank NV transferred the control over SNS Beleggingsfondsen Beheer BV (SBB) to SNS REAAL NV and ceased to consolidate SBB. SNS REAAL NV consolidates SBB as per that date. The transfer of SBB from SNS Bank NV to SNS REAAL NV is a common control transaction. In this context SNS Bank applies book value accounting.

25.23.3 Transactions and positions with managers in key positions of SNS Bank

Managers in key positions with SNS Bank NV comprise the members of the Executive Board, excluding the CEO, of SNS REAAL NV and the board of the business unit SNS Retail Bank, in total 8 persons (2011: 8 persons).

The table below provides an overview of the total remuneration of senior management.

Specification remuneration managers in key positions

	Statutory		Other		Total	
in € thousands	**2012**	2011	**2012**	2011	**2012**	2011
Short-term employee benefits	1,760	1,829	1,373	1,127	3,133	2,956
Post-employment benefits	308	297	171	188	479	485
Other long-term benefits	1	1	95	4	96	5
Termination benefits	-	448	-	-	-	448
Total	**2,069**	**2,575**	**1,639**	**1,319**	**3,708**	**3,894**

Short-term employee benefits means the fixed salary including holiday allowance, 13th month's bonus, contribution to health insurance and social security. SNS Bank took out three insurance policies for the members of senior management: WIA insurance, disability insurance and mortality risk insurance. The corresponding premiums are paid for by SNS Bank. These premiums are also part of the short-term employee benefits.

Based on the Budget Agreement 2013 Tax Measures (Implementation) Act ('Wet uitwerking fiscale maatregelen Begrotingsakkoord 2013'), SNS Bank pays a one-off 'crisis tax levy' of 16% in 2013 of the salaries paid to its employees in 2012, to the extent that the salary per employee was more than € 150,000. The crisis tax levy is also part of the short-term employee benefits. Of all 8 persons that were part of senior management on 31 December 2012, the salary in 2012 was more than € 150,000. The total 'crisis tax levy' for senior management is € 264,000.

Post-employment benefits means the pension premiums paid by the employer less the member's contribution paid by the employee.

Other long-term employee benefits means the reserve for remuneration based on retention agreements. Other long-term employee benefits also means the remuneration based on the Long-Term Remuneration Scheme (LTRS) that was discontinued as from 1 January 2011. The rights existing pursuant to this old scheme are calculated annually in accordance with the old scheme in the form of a claim giving a right to payment in cash. Three years after the provisional granting, the remuneration is definitively determined and distributed in accordance with the old scheme. The remuneration granted provisionally in 2008 was definitively granted and distributed in 2011. In 2012, the remuneration granted provisionally in 2009 was definitively granted and distributed. This was also the last award and distribution pursuant to this old scheme.

Termination benefits means the payment made in the context of a termination of the employment agreement.

No variable remuneration is paid to senior management for 2012.

The table below provides an overview of the loans granted to members of the senior management that were outstanding on 31 December 2012. These loans were only mortgage loans provided in the course of ordinary business and under conditions that also apply to other members of staff.

Specification loans to managers in key positions

	Outstanding as at 31 December		Average interest rate		Redemptions		Advances	
in € thousands	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Mortgage loans	3,792	4,842	3.67%	3.94%	86	14	-	1,477

Transactions with individual members of the Executive Board and the Supervisory Board of SNS REAAL NV are explained in Chapter 18.7 (Remuneration report) of the Report of the Supervisory Board of the Annual Report of SNS REAAL NV.

25.24 Subsequent events

Nationalisation

After consulting the Dutch Central Bank (DNB), the Minister of Finance decided on 1 February 2013, pursuant to Articles 6:2 and 6:4 of the Financial Supervision Act, to expropriate:

- all issued shares in the capital of SNS REAAL NV
- all core Tier 1 capital securities issued by SNS REAAL to Stichting Beheer SNS REAAL securities ('Stichting securities')
- all subordinated bonds of SNS REAAL NV and SNS Bank NV
- subordinated private debts of SNS REAAL NV and SNS Bank NV

Executive Board members of SNS REAAL NV Ronald Latenstein (CEO) and Ference Lamp (CFRO) and Chairman of the Supervisory Board Rob Zwartendijk resigned from their positions upon the expropriation. Subsequently, Gerard van Olphen took up the position of CEO and Maurice Oostendorp that of CFRO on 4 February. Maurice Oostendorp also became member of the Management Board at SNS Bank on 26 April 2013. For the time being, the current Vice President of the Supervisory Board will fulfil the role of Chairman of the Supervisory Board.

For more information about the nationalisation, please refer to chapter 3 Nationalisation of SNS REAAL.

Resolution levy

With the nationalisation decision, the Minister of Finance announced that the banking sector will be asked to contribute a non-recurrent resolution levy of € 1 billion in total. The levy will be imposed in 2014 on all banks participating in the Dutch Deposit Guarantee Scheme using the deposit base on 1 February 2013 as a basis. Expectations are that SNS Bank NV will have to contribute a sum of € 70 million. As the resolution levy is part of the nationalisation on 1 February 2013, it was decided to include the prospected charge in the pro forma figures that take account of all the effects of the nationalisation.

Other

SNS Retail Bank developed plans to conduct its activities more efficiently, including a more centralised use of its office facilities. These efficiency plans are scheduled to be executed in 2013 and are expected to reduce the number of employees by approximately 300 FTEs by the end of 2014 (4.5% of the total number of FTEs).

25.25 Net interest income

Specification net interest income

in € millions	2012	2011
Interest income	2,544	2,761
Interest expense	1,741	1,958
Net interest income	**803**	**803**

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	2012	2011
Mortgages	2,092	2,065
Property finance	262	395
Other loans and advances	114	125
Loans and advances to banks	20	57
Investments	53	115
Other	3	4
Total	**2,544**	**2,761**

The interest income for financial assets not at fair value through profit or loss amounts to € 2,396 million (2011: € 3,073 million).
The recognised interest income on provisioned loans amounts to € 67 million (2011: € 72 million).

Specification interest expenses

in € millions	2012	2011
Debt certificates	394	672
Participation certificates and subordinated debt	73	111
Savings	1,003	916
Other amounts due to customers	192	194
Amounts due to banks	79	65
Total	**1,741**	**1,958**

25.26 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	2012	2011
Fee and commission income:		
Money transfer and payment charges	37	37
Securities activities	12	19
Insurance agency activities	21	20
Management fees	31	69
Other activities	5	(6)
Total fee and commission income:	**106**	**139**
Fee and commission expense	42	53
Commission franchise and advise	10	-
Total	**54**	**86**

25.27 Share in result of associates

This item represents the share in result of associated companies. In 2012 this result was nil (2011: € 1 million negative).

25.28 Investment income

Specification investment income

in € millions	2012	2011
Fair value through profit or loss	(31)	(31)
Available for sale	55	69
Loans and receivables	(1)	7
Total	**23**	**45**

Composition of investment income 2012

	Fair value through profit or loss		Available for sale	Loans and receivables	Total
in € millions	Held for trading	Designated			
Dividend	-	-	4	-	4
Interest	-	-	-	(1)	(1)
Realised revaluations	-	(55)	40	-	(15)
Unrealised revaluations	-	24	11	-	35
Total	**-**	**(31)**	**55**	**(1)**	**23**

Composition of investment income 2011

	Fair value through profit or loss				
in € millions	Held for trading	Designated	Available for sale	Loans and receivables	Total
Dividend	-	-	1	-	1
Interest	-	-	-	7	7
Realised revaluations	1	(32)	45	-	14
Unrealised revaluations	-	-	23	-	23
Total	**1**	**(32)**	**69**	**7**	**45**

A negative result of € 13 million was incurred on the exchange transaction of Greek government bonds in 2012.

25.29 Result on financial instruments

Specification result on financial instruments

in € millions	2012	2011
Fair value movements in hedging instruments	250	255
Fair value movements in hedged item attributable to hedged risks	(263)	(274)
Fair value movements in derivatives held for fair value hedge accounting	**(13)**	**(19)**
Fair value movements of derivatives maintained for ALM not classified for hedge accounting	66	182
Fair value movements in derivatives held for trading	(1)	(7)
Loans sold	(12)	(37)
Total	**40**	**119**

Property Finance has sold loans to third parties resulting in a loss of € 12 million (2011: € 37 million).

25.30 Other operating income

The other operating income amount to € 7 million (2011: € 6 million negative). This amount includes a loss of € 2 million on property projects.

25.31 Result assets and liabilities held for sale

The result assets and liabilities held for sale is nil (2011: € 4 million negative). In 2011 the amount contains a loss due to the sale of assets of Property Finance.

25.32 Staff costs

Specification staff costs

in € millions	2012	2011
Salaries	122	141
Pension costs	25	25
Social security	19	17
Share based payments	1	3
Other staff costs	107	72
Total	**274**	**258**

Other staff costs consist largely of the costs of temporary staff, fleet, travel costs and training and education costs. The lease commitments of the fleet amount to € 5 million (2011: € 6 million) and hiring staff € 37 million (2011: € 37 million). In the other staff costs are also included restructuring charges of € 43 million (2011: € 5 million).

Transactions with individual members of the Executive Board and the Supervisory Board of SNS REAAL NV are explained in paragraph 18.7 'Remuneration report' of the Report of the Supervisory Board of the Annual Report of SNS REAAL NV.

Average number of FTE's

In numbers	2012	2011
Average number of FTE's	2,236	2,426

All staff is employed by SNS REAAL NV. The staff costs are charged to SNS Bank NV by SNS REAAL NV.

Share plan

SNS Bank NV has a share plan under which shares of SNS REAAL NV are allocated to a number of management staff (members of the Management Board as well as senior management) and employees designated by the Management Board. The share plan is part of the remuneration policy within SNS REAAL. This remuneration policy has been drawn up such that the amount and method for the determination of the remuneration in shares do not lead to undesirable incentives and inappropriate behaviour. The purpose of the share plan is to contribute to the realisation of the strategy and long-term objectives of SNS Bank, as well as attracting, retaining and motivating (management) staff.

The share plan includes a direct component and a deferred component.
The direct component represents 60% of the remuneration in shares. The direct component is paid out after the one-year performance period has lapsed. The shares will pass to the employee after the performance period. A retention period of one year applies to the shares of the direct component (this period is three years for the Management Board). It is not until after this retention period that the employee is allowed to sell the shares, taking into account the insider regulations of SNS REAAL regarding the purchase/sale of SNS REAAL shares.

The deferred component represents 40% of the remuneration in shares. The shares of the variable remuneration's deferred component are conditional and vest 4 years (5 years for the Management Board) after the end of the relevant performance period. On condition that,

- at the end of this period, the participant is still employed and/or a member of the Management Board,
- the outcome of the ex-post risk analysis is positive. The basic principle in this ex-post risk analysis is the assessment of any consequences ensuing from the employee's actions that manifest themselves during the deferral period and shed a new light on the actions during the performance period. On this basis, a decision is made as to whether the remuneration in shares will be vested or should be adjusted downwards,
- this can be reconciled with SNS Bank's financial position at the time of vesting, to be determined at the competent authority's discretion.

In addition to the above conditions, the members of the Management Board do not receive any variable remuneration if SNS Bank has incurred a loss during the relevant performance period. After vesting, the shares of the deferred component are transferred to the employee after the end of the 4-year (Management Board: 5-year) deferral period. There is no retention period for these shares.

The remuneration is granted (conditionally) as a nominal amount. The number of shares is calculated by converting the nominal amount (conditionally) granted into a number of shares at the average share price of the SNS REAAL stock in the last five days of trading of the relevant performance period.

In 2012, no (2011: nil) shares were granted to the Management Board members and other senior management members. 846,241 (2011: nil) shares were granted to managers and other employees. This concerns the share plan for 2011.

Shares granted

	Shares (in numbers)		Weighted average grant date fair value per share (in €)	
	2012	2011	**2012**	2011
Total	**846,241**	**-**	**1.74**	**-**
of which conditionally	469,482	-	1.74	-

Process of conditionally granted shares

	Shares (in numbers)	
	2012	2011
As at 1 January	-	-
Conditionally granted	469,482	-
Unconditionally granted	-	-
Expired	-	-
As at 31 December	**469,482**	**-**
Market value grant date	798,119	-
Market value as at 31 December 2012	**483,566**	**-**

In 2011 SNS REAAL started the adjustment of the remuneration policy of the 'Regeling Beheerst Beloningsbeleid' of DNB. This regulation requires that a part of the variable remuneration must take place in shares.

Based on the ‘Wet uitwerking fiscale maatregelen Begrotingsakkoord 2013’, SNS Bank must pay a one-off crisis tax levy of 16% in 2013 on the salaries from current employment that it paid its employees in 2012, to the extent that a salary was more than € 150,000. For SNS Bank, this levy amounts to € 1.5 million.

25.33 Other operating expenses

Specification other operating expenses

in € millions	**2012**	2011
Housing	35	39
IT systems	101	101
Marketing and public relations	28	31
External advisors	62	47
Other costs	69	67
Total	**295**	**285**

The other operating expenses include costs related to lease commitments, which amount to € 2 million (2011: € 1 million).

25.34 Impairment charges / (reversals)

Specification impairment charges / (reversals) by class of asset

	Impairments		Reversals		Total	
in € millions	**2012**	2011	**2012**	2011	**2012**	2011
Through profit or loss						
Loans and advances to customers	1,058	492	117	200	941	292
Property projects	211	91	-	-	211	91
Associated companies	13	3	-	6	13	(3)
Investments	1	27	-	-	1	27
Property and equipment	3	2	-	-	3	2
Intangible assets	47	1	-	-	47	1
Total through profit or loss	**1,333**	**616**	**117**	**206**	**1,216**	**410**
Through equity						
Investments	-	20	-	-	-	20
Total through equity	**-**	**20**	**-**	**-**	**-**	**20**

25.35 Other expenses

In accordance with new legislation the other expenses contains a charge for the new banking tax (€ 9 million).

25.36 Taxation

Specification taxation

in € millions	2012	2011
In financial year	(43)	(50)
Prior year adjustments	18	-
Corporate income tax due	**(25)**	**(50)**
Due to temporary differences	(150)	71
Deferred tax	**(150)**	**71**
Total	**(175)**	**21**

Adjustments for prior years of € 18 million consist primarily of adjustments relating to foreign subsidiaries of € 17 million.

Reconciliation between the statutory and effective tax rate

in € millions	2012	2011
Statutory income tax rate	25.0%	25.0%
Result before tax	(893)	59
Statutory corporate income tax amount	**(223)**	**15**
Effect of participation exemption	16	(2)
Prior year adjustments (including tax provision release)	18	(4)
Permanent differences	12	-
Other	2	12
Total	**(175)**	**21**
Effective tax rate	19.6%	35.2%

25.37 Net result per share / core Tier 1 capital security

Attribution net result to shares and securities

in € millions	2012	2011
Net result		
Attributable to ordinary shares	(719)	38

Specification issued shares / securities

	Shares		State-like'		Foundation-like'	
in numbers	2012	2011	2012	2011	2012	2011
Outstanding as at 1 January	840,008	840,008	29,714,286	29,714,286	-	1,040,000
Issues in the financial year	-	-	-	-	-	-
Contribution as share premium	-	-	(29,714,286)	-	-	(1,040,000)
Outstanding as at 31 December	840,008	840,008	-	29,714,286	-	-

In 2011 SNS REAAL assigned and transferred, as a contribution of share premium to the shares of SNS Bank, the Stichting-like securities. In the same way, in 2012 the State-like securities were contributed as share premium to the shares of SNS Bank. End of 2012 there were no remaining securities.

Specification result per share / security

in euro's	Shares 2012	2011
Net result per weighted average number of shares / capital securities outstanding	(855.68)	45.26
Net result per weighted average number of diluted shares / capital securities outstanding	(855.68)	40.16

Utrecht, 26 June 2013

Supervisory Board
P.S. Overmars (Vice Chairman and Acting Chairman)
H.W.P.M.A. Verhagen (Second Vice Chairman)
C.M. Insinger
R.J. van de Kraats
J.E. Lagerweij
J.A. Nijhuis
J.A. Nijssen
L.J. Wijngaarden
Management Board
D.J. Okhuijsen (Chairman)
E.J.G.V. Boers
M.B.G.M. Oostendorp
W.H. Steenpoorte

26 Company financial statements

26.1 Company balance sheet

Company balance sheet

Before result appropriation and in € millions	*Notes*	2012	2011
Assets			
Cash and cash equivalents		7,333	5,607
Loans and advances to banks	*1*	10,111	11,817
Loans and advances to customers	*2*	35,763	34,182
Loans and advances to group companies	*3*	1,267	1,891
Derivatives		3,709	3,428
Investments	*4*	1,833	1,146
Subsidiaries	*5*	272	102
Property and equipment	*6*	49	67
Intangible assets	*7*	83	135
Deferred tax assets		327	219
Corporate income tax		113	127
Other assets		1,219	1,454
Total assets		**62,079**	**60,175**
Equity and liabilities			
Savings		14,748	14,452
Other amounts due to customers		7,199	7,989
Amounts due to customers	***8***	**21,947**	**22,441**
Amounts due to banks	*9*	15,463	11,280
Debt certificates		11,520	15,625
Derivatives		2,841	2,637
Deferred tax liabilities		273	301
Other liabilities		7,807	4,866
Provisions	*10*	70	25
Participation certificates and subordinated debts		821	1,121
Share capital		381	381
Share premium reserves		1,186	967
Revaluation reserves		6	6
Cash flow hedge reserves		68	64
Fair value reserve		(215)	(189)
Statutory reserves associates		88	(50)
Other statutory reserves		-	50
Other reserves		542	456
Retained earnings		(719)	38
Equity attributable to shareholders	***11***	**1,337**	**1,723**
Securities capital		-	156
Equity attributable to securityholders	***11***	**-**	**156**
Total equity		**1,337**	**1,879**
Total equity and liabilities		**62,079**	**60,175**

26.2 Company income statement

Company income statement

in € millions	2012	2011
Result on subsidiaries after taxation	130	(294)
Other results after taxation	(849)	332
Net result	**(719)**	**38**

26.3 Principles for the preparation of the company financial statements

SNS Bank NV 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 18 (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 26 (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 NV has the power to govern the financial and operating policies, whether directly or indirectly, and which are controlled by SNS Bank NV. The subsidiaries are accounted for using the equity method.

Changes in balance sheet values of subsidiaries due to changes in the revaluation, cash flow and fair value reserve of the subsidiaries are reflected in the statutory reserve associates, which forms part of shareholders' equity.
Statutory reserves that have been formed for the capitalised costs of research and development of software of the subsidiaries are also presented in the statutory 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.

27 Notes to the company financial statements

27.1 Loans and advances to banks

Specification loans and advances to banks

in € millions	2012	2011
Breakdown by remaining maturity:		
Payable on demand	5,398	6,387
Not payable on demand:		
> 1 month < 3 months	245	181
> 3 months < 1 year	52	96
> 1 year < 5 years	676	658
> 5 years	3,740	4,495
Total	**10,111**	**11,817**

27.2 Loans and advances to customers

Specification loans and advances to customers

in € millions	2012	2011
Breakdown by remaining maturity:		
Payable on demand	2,067	2,947
Not payable on demand:		
> 1 month < 3 months	13	36
> 3 months < 1 year	66	159
> 1 year < 5 years	354	760
> 5 years	33,263	30,280
Total	**35,763**	**34,182**

Loans and advances to customers include loans and advances included in Hermes XIV, XV, XVI, XVII and XVIII and Pearl IV, which bonds were not placed with third parties of € 10.2 billion (2011: € 6.7 billion). These bonds are included in the bucket > 5 years.

27.3 Loans and advances to group companies

Loans and advances to group companies of € 1.3 billion (2011: € 1.9 billion) concern Hermes and Pearl bonds repurchased by SNS Bank NV.

27.4 Investments

Specification investments

in € millions	2012	2011
Fair value through profit or loss trade	692	43
Available for sale	1,141	1,103
Total	**1,833**	**1,146**

Statement of change in investments

in € millions	Fair value through profit or loss 2012	Fair value through profit or loss 2011	Available for sale 2012	Available for sale 2011	Total 2012	Total 2011
Balance as at 1 January	43	27	1,103	834	1,146	861
Purchases and advances	3,626	2,404	1,010	886	4,636	3,290
Disposals and redemptions	(2,959)	(2,395)	(1,082)	(1,285)	(4,041)	(3,680)
Intercompany transactions	-	-	-	796	-	796
Depreciation of premiums and discounts	-	-	(4)	(3)	(4)	(3)
Revaluations	-	-	120	(132)	120	(132)
Change in investments through profit and loss	14	6	(6)	6	8	12
Exchange rate fluctuations	(47)	-	-	-	(47)	-
Other	15	1	-	1	15	2
Balance as at 31 December	**692**	**43**	**1,141**	**1,103**	**1,833**	**1,146**

27.5 Subsidiaries

Statement of change in subsidiaries

in € millions	2012	2011
Balance as at 1 January	102	370
Acquisitions	-	1
Disposals and terminations	(6)	-
Revaluations	138	85
Result	130	(294)
Dividend received	(92)	(60)
Balance as at 31 December	**272**	**102**

The loss of the subsidiary Property Finance amounted to € 765 million in 2012. This loss is recognised in the company income statement for the amount of € 353 million as share in result of associates. The bookvalue of Property Finance is thereby nil. The remainder of the loss is for the amount of € 412 million recognised as provision which SNS Bank NV has for Property Finance, under Loans and advances to banks.

27.6 Property and equipment

Specification property and equipment

in € millions	2012	2011
Land and buildings in own use	24	37
IT equipment	1	7
Other tangible fixed assets	24	23
Total	**49**	**67**

Statement of change in property and equipment 2012

in € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	41	18	47	106
Accumulated revaluations	1	-	-	1
Accumulated amortisation and impairments	(18)	(17)	(23)	(58)
Balance as at 31 December	**24**	**1**	**24**	**49**
Balance as at 1 January	37	7	23	67
Reclassifications	(3)	-	3	-
Revaluations	1	-	-	1
Investments	-	-	4	4
Divestments	(7)	-	-	(7)
Decommissioning	(1)	(1)	(1)	(3)
Depreciation	-	(5)	(5)	(10)
Impairments	(3)	-	-	(3)
Balance as at 31 December	**24**	**1**	**24**	**49**

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**

27.7 Intangible assets

Specification intangible assets

in € millions	2012	2011
Goodwill	67	114
Software	16	21
Total	**83**	**135**

Statement of change in intangible assets

in € millions	Goodwill 2012	Goodwill 2011	Software 2012	Software 2011	Total 2012	Total 2011
Accumulated acquisition costs	239	239	45	49	284	288
Accumulated amortisation and impairments	(172)	(125)	(29)	(28)	(201)	(153)
Balance as at 31 December	**67**	**114**	**16**	**21**	**83**	**135**
Balance as at 1 January	114	114	21	27	135	141
Investments	-	-	7	6	7	6
Divestments	-		(1)	-	(1)	-
Amortisation	-	-	(11)	(11)	(11)	(11)
Impairments	(47)	-	-	(1)	(47)	(1)
Balance as at 31 December	**67**	**114**	**16**	**21**	**83**	**135**

27.8 Amounts due to customers

Specification amounts due to customers

in € millions	2012	2011
Savings	14,748	14,452
Other amounts due to customers	7,199	7,989
Total	**21,947**	**22,441**

Time to maturity amounts due to customers

in € millions	2012	2011
Breakdown by remaining maturity:		
Payable on demand	17,397	15,889
Not payable on demand:		
> 1 month < 3 months	750	156
> 3 months < 1 year	129	1,510
> 1 year < 5 years	1,831	1,984
> 5 years	1,840	2,902
Total	**21,947**	**22,441**

27.9 Amounts due to banks

Time to maturity amounts due to banks

in € millions	2012	2011
Breakdown by remaining maturity:		
Payable on demand	4,480	4,137
Not payable on demand:		
> 1 month < 3 months	11	210
> 3 months < 1 year	51	767
> 1 year < 5 years	10,812	5,956
> 5 years	109	210
Total	**15,463**	**11,280**

27.10 Other provisions

Specification other provisions

in € millions	2012	2011
Restructuring provision	42	14
Other provisions	28	11
Total	**70**	**25**

27.11 Equity

Statement of changes in equity 2012

in € millions	Issued capital	Share premium reserve	Revaluatio n reserve	Cash flow hedge reserve	Fair value reserve	Statutory reserves associates	Other statutory reserves	Other reserves	Retained earnings	Equity attributable to sharehold ers	Securitie s capital
Balance as at 1 January 2012	381	967	6	64	(189)	(50)	50	456	38	1,723	156
Transfer of 2011 net result	-	-	-	-	-	-	-	38	(38)	-	
Transfers 2011	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**38**	**(38)**	**-**	**-**
Unrealised revaluations	-	-	-	4	56	84	-	-	-	144	-
Realised revaluations through profit or loss	-	-	-	-	1	(29)	-	-	-	(28)	-
Suppletion negative revaluation reserves associates	-	-	-	-	-	-	(50)	50	-	-	-
Other changes	-	-	-	-	(83)	83	-	(2)	-	(2)	-
Impairments	-	-	-	-	-	-	-	-	-	-	-
Capital issue	-	219	-	-	-	-	-	-	-	219	(156)
Securities issue / repurchase	-	-	-	-	-	-	-	-	-	-	-
Amounts charged directly to equity	**-**	**219**	**-**	**4**	**(26)**	**138**	**(50)**	**48**	**-**	**333**	**(156)**
Net result 2012	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(719)**	**(719)**	**-**
Total result 2012	**-**	**219**	**-**	**4**	**(26)**	**138**	**(50)**	**48**	**(719)**	**(386)**	**(156)**
Total changes in equity 2012	**-**	**219**	**-**	**4**	**(26)**	**138**	**(50)**	**86**	**(757)**	**(386)**	**(156)**
Balance as at 31 December 2012	**381**	**1,186**	**6**	**68**	**(215)**	**88**	**-**	**542**	**(719)**	**1,337**	**-**

Statement of changes in equity 2011

in € millions	Issued capital	Share premium reserve	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)	(135)	135	777	(431)	1,580	256
Transfer of 2010 net result	-	-	-	-		-	-	(410)	431	21	(21)
Transfers 2010	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(410)**	**431**	**21**	**(21)**
Unrealised revaluations	-	-	-	37	(195)	124	-	-	-	(34)	-
Realised revaluations through profit or loss	-	-	-	-	4	(39)	-	-	-	(35)	-
Suppletion negative revaluation reserves associates	-	-	-	-	-	-	(85)	85	-	-	-
Other changes	-	-	-	-	-	-	-	4	-	4	-
Impairments	-	-	-	-	20	-	-	-	-	20	-
Capital issue	-	129	-	-	-	-	-	-	-	129	-
Securities issue / repurchase	-	-	-	-	-	-	-	-	-	-	(79)
Amounts charged directly to equity	**-**	**129**	**-**	**37**	**(171)**	**85**	**(85)**	**89**	**-**	**84**	**(79)**
Net result 2011	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**38**	**38**	**-**
Total result 2011	**-**	**129**	**-**	**37**	**(171)**	**85**	**(85)**	**89**	**38**	**122**	**(79)**
Total changes in equity 2011	**-**	**129**	**-**	**37**	**(171)**	**85**	**(85)**	**(321)**	**469**	**143**	**(100)**
Balance as at 31 December 2011	**381**	**967**	**6**	**64**	**(189)**	**(50)**	**50**	**456**	**38**	**1,723**	**156**

27.11.1 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 2012 is 840,008 ordinary shares.

Specification issued shares / securities

	Shares		State-like'		Foundation-like'	
in numbers	**2012**	2011	**2012**	2011	**2012**	2011
Outstanding as at 1 January	840,008	840,008	29,714,286	29,714,286	-	1,040,000
Issues in the financial year	-	-	-	-	-	-
Contribution as share premium	-	-	(29,714,286)	-	-	(1,040,000)
Outstanding as at 31 December	840,008	840,008	-	29,714,286	-	-

In 2011 SNS REAAL assigned and transferred, as a contribution of share premium to the shares of SNS Bank, the Stichting-like securities. In the same way, in 2012 the State-like securities were contributed as share premium to the shares of SNS Bank. End of 2012 there were no remaining securities.

Specification capital securities

in € millions	**2012**	2011
Securities capital 'State-like'	-	156
Securities capital 'Foundation-like'	-	-
Total	**-**	**156**

Statement of change in capital securities

	Securities capital 'State-like'		Securities capital 'Foundation-like'	
in € millions	**2012**	2011	**2012**	2011
Balance as at 1 January	156	156	-	100
Loss absorption	-	-	-	(21)
Securities repurchase	-	-	-	(79)
Capital issue	(156)	-	-	-
Balance as at 31 December	**-**	**156**	**-**	**-**

27.12 Guarantees

SNS Bank NV has provided guarantees as meant in Book 2, section 403 of the Dutch Civil Code for SNS Securities NV, SNS Property Finance BV and some 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 Bank NV, RegioBank NV and several other subsidiaries of SNS Bank NV.

SNS Bank NV 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.

27.13 Audit fees

Based on Book 2, Section 382A (3) of the Dutch Civil Code, reference is made to the Financial Statements 2012 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, 26 June 2013

Supervisory Board
P.S. Overmars (Vice Chairman and Acting Chairman)
H.W.P.M.A. Verhagen (Second Vice Chairman)
C.M. Insinger
R.J. van de Kraats
J.E. Lagerweij
J.A. Nijhuis
J.A. Nijssen
L.J. Wijngaarden
Management Board
D.J. Okhuijsen (Chairman)
E.J.G.V. Boers
M.B.G.M. Oostendorp
W.H. Steenpoorte

28 Overview of principal subsidiaries

An overview is provided below of the main subsidiaries of SNS Bank NV. Participation in the subsidiaries is 100%.

Overview of principal subsidiaries SNS Bank NV

ASN Bank NV	The Hague
ASN Groenbank NV	The Hague
SNS Securities NV	Amsterdam
SNS Property Finance BV	Leusden
RegioBank NV	Utrecht

Other capital interests

For information on the most significant other capital interests, reference is made to the notes to the consolidated balance sheet in chapter 25.8 (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.

29 Other information

29.1 Provision regarding profit or loss appropriation

29.1.1 Provisions of the Articles of Association regarding profit or loss appropriation for shares

Article 33

a The net result shall be at the free disposal of the General Meeting of Shareholders.

b 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.

c Distribution of profits shall take place following the adoption of the financial statements from which it appears that such distribution is allowed.

Article 34

a 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.

b Dividends that have not been collected within five years after they became due and payable shall revert to the company.

c 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.

d A loss may only be applied against reserves maintained pursuant to the law to the extent permitted by law.

29.1.2 Profit or loss appropriation

The loss for the financial year 2012 is debited to the profit reserves of SNS Bank NV.

29.2 Independent auditor's report

To: The Shareholder of SNS Bank NV

Report on the financial statements

We have audited the accompanying financial statements 2012 of SNS Bank NV, Utrecht, as included in chapters 16 to 28 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 2012, the consolidated statements of income, comprehensive income, changes in equity and consolidated cash flows for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2012, the company income statement for the year than ended and the notes, comprising a summary of the significant accounting policies and other explanatory information.

The Management Board's responsibility

The Management Board is responsible for the preparation and fair presentation of these 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 Report of the Management Board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Management Board 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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board, 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 per 31 december 2012 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 per 31 December 2012 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 Report of the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the Report of the Management Board, 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, 26 June 2013
KPMG Accountants N.V.

P.A.M. de Wit RA

30 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.

30.1 Risk management SNS Bank

SNS Bank's commercial activities in the retail market, such as offering accessible banking products, involve relative 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 concentrated within the retail and SME market segments.

The Dutch economy slowly recovered in the first half of 2012. In the second half of 2012, market conditions worsened considerably. Rising unemployment levels, combined with more stringent lending conditions for mortgages, resulted in a weakening market for housing and especially for commercial real estate. At the same time, regulatory capital requirements increased. Losses at Property Finance subsequently increased, putting pressure on the core Tier 1 ratio of SNS Bank.

During the year 2012, SNS Bank's wholesale funding activities were negligible, as funding needs were wholly met by the increase in retail funding. Savings deposits rose by € 2.5 billion (+8%) compared to year-end 2011 due to a strong inflow of new deposits, while retention rates remained high. Bank savings, part of the total savings deposits, grew by € 1.1 billion to € 2.4 billion. As a result, the loan-to-deposit ratio of the Banking activities improved from 159% at year-end 2011 to 142%.

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 Property Finance. The run-off of the loan portfolio could, however, not prevent that increasing impairments and losses at Property Finance led to a substantial deterioration of the capital base of SNS Bank in the second half year of 2012.

For more information 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 11 on Risk and Capital Management in the annual report, and chapter 20 on Risk and Capital Management in the Financial Statements.

30.2 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 18.4.
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 VIII to XII and XIV to XVIII **	100%	Utrecht	Purchase method
Other **	100%	Various	Purchase method

** Banking licence but exempt from solo supervision*

*** No banking licence therefore not subjectable to solo supervision*

Investments in associated companies

Overview of the most significant investments in associated companies

Subsidiary	Voting power	Domicile	Consolidation method
Überseequartier project BV	45%	DE	Purchase method
Prospect Village LP	30%	US	Purchase method
The Park at Brushy Creek Ltd	12%	US	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

30.3 Regulatory capital requirements

30.3.1 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.

SNS Bank publishes its solvency ratios using the risk-weighted assets (RWA) as calculated under Basel II, taking in account the Basel I 80% floor rules. In the second half of 2012 the implementation of more prudent risk assessment models for loans in combination with a deteriorating credit risk environment led to an increase in the level of RWA under Basel II, which surpassed the level of Basel I with an 80% floor. As a consequence, solvency ratios are since then calculated using Basel II RWA, whereas for previous periods Basel I with an 80% floor was used. In 2011 the capital requirement was adjusted (€ 108 million) due to these transitional rules (known as the capital floor).

In the table below, which is also disclosed in paragraph 21.2 of the chapter on Risk Management, an overview of the capital requirements and the RWA as of 31 December 2012 divided on the different risk types is presented. The credit risk comprises 90,2% (2011: 84,2%) of the risk in SNS Bank. Operational risk accounts for 8,3% (2011: 8,6%) of the capital requirements and market risk comprises 1,5% (2011: 0,5%) of the capital requirements. The table also includes information about the approach used for calculation of the capital requirements. Out of the total capital requirements for credit risk, 39,6% (2011: 21,7%) have been calculated with the internal rating based approach (IRB) and 60,4% (2011: 78,3%) with the standardised approach. An increase in Risk Weight for IRB exposure was the main reason for this shift rather than an increase of exposure covered by IRB models.

Capital requirements and risk weighted assets

	Basel II RWA		Capital requirement	
in € millions	**2012**	2011	**2012**	2011
Credit risk				
Standardised exposure classes:				
- Central governments and central banks	17	20	1	2
- Institutions	1,098	1,056	88	85
- Corporate	7,733	9,660	619	773
- Retail	1,095	1,181	88	94
- Equity	13	26	1	2
IRB exposure classes:				
- Retail	6,319	2,992	506	239
- Securitisation	1,030	763	82	61
Other	1,267	1,606	101	128
	18,572	**17,304**	**1,486**	**1,384**
Market risk				
- Standardised	317	107	25	9
Operational risk				
- Standardised	1,703	1,773	136	142
Other and transitional Capital requirements				
Other and transitional Capital requirements	-	1,350	-	108
Total	**20,592**	**20,534**	**1,647**	**1,643**

30.3.2 Capital requirements for credit risk

SNS Bank received approval by DNB to use the IRB advanced approach for the retail mortgage portfolio and the securitisation portfolio (own book). SNS Bank aims to gradually implement the IRB advanced approach for one additional portfolio i.e. the SME retail portfolio. The standardised approach is and will be used for portfolios for which SNS Bank has approval of DNB, or according to legislation to be exempted from IRB. DNB approved the use of the standardised approach for the portfolios Government, Credit institutions and Equity because the credit risk for these portfolios is limited.

In both the IRB advanced approach and the standardised approach, regulatory capital requirements for credit risk are calculated using the following formula:

Capital requirement = RWA x 8%, where RWA = risk weight x EAD

In the table below the exposure, exposure at default (EAD), average risk weight, RWA and capital requirement are presented by exposure class, which serves as the basis for the calculation of capital requirement. In this report the IRB exposure class as approved by DNB is used. For the remaining portfolios the exposure classes of the standardised approach are used.

The exposure value of an on-balance sheet exposure in the IRB advanced approach is measured gross of value adjustments such as provisioning.

The exposure at default (EAD) for the on-balance sheet items and market value of derivative contracts is 100% of the outstanding amount. Off-balance sheet exposures are converted into EAD using credit conversion factors (CCF).

The risk weight for IRB exposures is calculated as RWA divided by EAD. For exposures in the standardised approach, the risk weight provided by regulation is applied.

Capital requirement for credit risk 2012

in € millions	EAD	Average risk weight	RWA	Capital requirement
Standardised exposure classes				
Central governments and central banks	13,687	0%	17	1
Institutions	2,453	45%	1,098	88
Corporate	7,908	98%	7,733	619
Retail	1,562	70%	1,095	88
Equity	13	100%	13	1
Total standardised approach	**25,623**	**39%**	**9,956**	**797**
IRB exposure classes				
Retail	21,580	29%	6,319	506
Securitisation	7,212	14%	1,030	82
Total IRB approach	**28,792**	**26%**	**7,349**	**588**
Other	1,820	70%	1,267	101
Total	**56,235**		**18,572**	**1,486**

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**

30.3.3 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.

30.3.4 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 total capital charge is calculated as the three-year average of the simple summation of the regulatory capital charges across each of the business lines in each year. The capital requirement for each business line is the beta coefficient multiplied by gross income. The beta coefficients differ between business lines and are stated in applicable regulation.

30.4 Credit risk

30.4.1 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.

30.4.2 Exposure classes

SNS Bank has a credit portfolio, which can be divided into Governments, Credit institutions, equity, 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. SNS Bank uses the Standardised Approach for the calculation of regulatory capital for its other portfolios and for the retail portfolio excluding retail mortgage portfolio and the securitisation portfolio.
SNS Bank envisages to implement the SNS SME portfolio according to the IRB advanced approach. The Property Finance portfolio, which is entirely classified as Corporate, loans to Credit institutions, governments as well as equities are, and will remain, based on the Standardised Approach for the calculation of regulatory capital.

30.4.2.1 *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.

(Treated as) 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 of more than € 1 million to SME secured by mortgages on residential or commercial real estate are classified as corporate exposures.

(Treated as) 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 up to € 1 million in the SME segment that are secured by mortgages on residential or commercial real estate 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.

30.4.2.2 *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 82% (2011: 81%) 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 not been sold to investors. External ratings and the seniority of the position are relevant characteristics.

30.4.3 Information about exposures

SNS Bank recognises various categories of credit risk. The main categories are loans and advances to customers, loans and advances to banks, and investments. More than 92% of the loans and advances to customers are backed by mortgage collateral.
Approximately 80% (2011: 81%) 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 relatively large portion of the portfolio. 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 2012. 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 2012, 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

in € millions	2012	2011
AAA	2,522	3,232
AA	1,279	225
A	807	371
BBB	662	227
Below BBB	-	26
Non-rated	20	7
Total	**5,290**	**4,088**

30.4.3.1 *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 2012 and 2011. 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 2012

in € millions	On-balance sheets items	Off-balance sheet items	Derivatives	**Total exposure**
Standardised exposure classes				
Central governments and central banks	12,118	-	-	12,118
Institutions	2,296	-	1,932	4,228
Corporate	10,342	2,311	181	12,834
Retail	1,634	1,053	-	2,687
Equity	13	-	-	13
Total standardised approach	**26,403**	**3,364**	**2,113**	**31,880**
IRB exposure classes				
Retail	31,963	466	-	32,429
Securitisation	19,245	411	-	19,656
Total IRB approach	**51,208**	**877**	**-**	**52,085**
Other	1,820	-	-	1,820
Total exposure	**79,431**	**4,241**	**2,113**	**85,785**

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**

In the following table the exposures are presented as an average during the previous time period.

Exposure classes split by exposure type, average exposure 2012

in € millions	On-balance sheets items	Off-balance sheet items	Derivatives	Total exposure
Standardised exposure classes				
Central governments and central banks	11,980	2	-	11,982
Institutions	2,158	-	2,048	4,206
Corporate	10,552	2,301	161	13,014
Retail	1,655	1,123	-	2,778
Equity	23	-	-	23
Total standardised approach	**26,368**	**3,426**	**2,209**	**32,003**
IRB exposure classes				
Retail	31,738	462	-	32,200
Securitisation	20,010	719	-	20,729
Total IRB approach	**51,748**	**1,181**	**-**	**52,929**
Other	1,977	-	-	1,977
Total exposure	**80,093**	**4,607**	**2,209**	**86,909**

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**

30.4.3.2 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 2012

in € millions	Central government and central banks	Institutions	Corporate	Other retail and Equity	IRB Retail	Securitisation	Other	Total exposure
The Netherlands	8,282	308	8,080	1,647	31,963	19,245	1,417	70,942
EMU	3,836	598	1,820	-	-	-	302	6,556
Outside EMU	-	1,390	442	-	-	-	101	1,933
Total exposure	**12,118**	**2,296**	**10,342**	**1,647**	**31,963**	**19,245**	**1,820**	**79,431**

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**

30.4.3.3 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 largest industry groups, private clients, public sector and construction and property comprise 95,8% (2011: 96,4%) of the total exposure in the portfolio.

On-balance exposure split by industry and exposure classes 2012

in € millions	Central government and central banks	Institutions	Corporate	Other retail and Equity	IRB Retail	Securitisation	Other	**Total exposure**
Construction and property	-	-	7,726	3	-	-	416	8,145
Public sector	12,118	-	-	-	-	-	-	12,118
Agriculture, horticulture, forestry and fishery	-	-	19	-	-	-	-	19
Industry	-	-	125	-	-	-	-	125
Service sector companies	-	-	526	-	-	-	-	526
Financial institutions	-	2,296	-	10	-	-	-	2,306
Other commercial	-	-	391	-	-	-	-	391
Private clients/SME	-	-	1,555	1,634	31,963	19,245	1,404	55,801
Total exposure	**12,118**	**2,296**	**10,342**	**1,647**	**31,963**	**19,245**	**1,820**	**79,431**

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**

30.4.3.4 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 2012

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	7,181	106	543	1,191	3,097	12,118
Institutions	1,935	74	111	144	32	2,296
Corporate	1,840	620	949	1,811	5,122	10,342
Retail	456	1	3	32	1,142	1,634
Equity	10	-	-	-	3	13
Total standardised approach	**11,422**	**801**	**1,606**	**3,178**	**9,396**	**26,403**
IRB exposure classes						
Retail	351	13	42	238	31,319	31,963
Securitisation	-	-	-	-	19,245	19,245
Total IRB approach	**351**	**13**	**42**	**238**	**50,564**	**51,208**
Other	1,820	-	-	-	-	1,820
Total exposure	**13,593**	**814**	**1,648**	**3,416**	**59,960**	**79,431**

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**

30.4.3.5 *Information about equity*

In the exposure class Equity, SNS Bank's equity holdings outside the trading book are included. The exposure of SNS Bank's equity holdings outside the trading book are shown in groups of SNS Bank (see table below).
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 2012

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	2	2	-	-	-	-	
Joint ventures	1	1	-	-	-	(1)	
Investments available for sale	11	11	-	-	-	-	1
Total	**14**	**14**	**-**	**-**	**-**	**(1)**	**1**

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**

30.4.4 Calculation of RWA

30.4.4.1 General

The RWA calculations in SNS Bank differ between exposure classes. SNS Bank has received approval to calculate the credit risk by using the IRB advanced approach for the retail mortgage portfolios. For the other asset classes the standardised approach is used in 2012. Of these other asset classes our SME Retail portfolio is included in our roll out plan for portfolios to advance to the IRB advanced approach. The following section describes the principles for calculating RWA with the standardised approach and the IRB advanced approach respectively.

30.4.4.2 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 mainly 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 30.7 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 2012

	Risk Weight							
in € millions	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Total**
Standardised approach								
Central Government and Central Banks	12,031	87	-	-	-	-	-	12,118
Institutions	9	2,188	-	2,031	-	-	-	4,228
Corporates	-	525	803	81	-	10,582	843	12,834
Retail	-	-	219	-	2,434	30	4	2,687
Equity	-	-	-	-	-	13	-	13
Total Standardised	**12,040**	**2,800**	**1,022**	**2,112**	**2,434**	**10,625**	**847**	**31,880**

Exposure classes split by exposure per risk weight 2011

	Risk Weight							
in € millions	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 risk weighted assets and capital requirements per risk weight 2012

	Risk Weight							
in € millions	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Total**
Standardised approach								
Central Government and Central Banks								
Risk weighted assets	-	17	-	-	-	-	-	17
Capital requirements	-	1	-	-	-	-	-	1
Institutions								
Risk weighted assets	-	83	-	1,015	-	-	-	1,098
Capital requirements	-	7	-	81	-	-	-	88
Corporates								
Risk weighted assets	-	1	278	33	-	6,248	1,173	7,733
Capital requirements	-	-	22	3	-	500	94	619
Retail								
Risk weighted assets	-	-	72	-	1,004	14	5	1,095
Capital requirements	-	-	6	-	81	1	-	88
Equity								
Risk weighted assets	-	-	-	-	-	13	-	13
Capital requirements	-	-	-	-	-	1	-	1
Total risk weighted assets	**-**	**101**	**350**	**1,048**	**1,004**	**6,275**	**1,178**	**9,956**
Total capital requirements	**-**	**8**	**28**	**84**	**81**	**502**	**94**	**797**

Exposure classes split by risk weighted assets and capital requirements per risk weight 2011

	Risk Weight							
in € millions	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**

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 2012

in € millions	Credit quality step	Risk weight	EAD	Basel II RWA
AAA to AA-	1	0%	4,698	-
A+ to A-	2			
- EMU		0%	-	-
- Outside EMU		20%	-	-
BBB+ to BBB-	3			
- EMU		0%	448	-
- Outside EMU		50%	-	-
BB+ to B-	4			
- EMU		0%	-	-
- Outside EMU		100%	-	-
CC	6			
- EMU		0%	-	-
- Outside EMU		100%	-	-

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 institutions, 31 December 2012

in € millions	**Credit quality step**	**Risk weight**	**EAD**	**Basel II RWA**
AAA to AA-	1	20%	155	31
A+ to A-	2			
- < 3 months		20%	380	76
- > 3 months		50%	68	34
BBB+ to BBB-	3			
- < 3 months		20%	-	-
- > 3 months		50%	56	28
BB+ to B-	4			
- < 3 months		50%	-	-
- > 3 months		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 corporates, 31 December 2012

in € millions	Credit quality step	Risk weight	EAD	Basel II RWA
AAA to AA-	1	20%	-	-
A+ to A-	2	50%	38	19
BBB+ to BBB-	3	100%	-	-
BB+ to B-	4	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%	-	-

30.4.4.3 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 an 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)	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
1	6.48%	9.46%	0.06%	0.04%	3,875	7,197	58	84
2	8.96%	9.53%	0.19%	0.14%	6,775	8,777	258	272
3	16.92%	10.84%	0.45%	0.25%	9,046	6,023	1,167	327
4	16.35%	13.28%	0.81%	0.43%	4,263	3,153	805	311
5	11.99%	13.09%	1.35%	0.93%	1,828	1,509	354	250
6	17.84%	11.99%	1.89%	1.35%	3,334	1,167	1,188	226
7	17.33%	10.17%	6.55%	1.66%	1,234	893	854	168
8	17.64%	10.43%	17.02%	4.51%	768	1,044	779	360
9	17.78%	10.37%	36.90%	12.14%	504	1,103	542	592
10	15.87%	10.51%	100.00%	32.25%	802	545	314	353
11	0.00%	12.90%	0.00%	100.00%	-	547	-	49
Total					**32,429**	**31,958**	**6,319**	**2,992**

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.

To enhance correct risk model outputs, that also support management decision-making, an independent Model validation department is in place.

Control mechanisms for the Internal Rating System

Model documentation

Documentation should be 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 Model Governance Committee (MGC), and ALCO Group is notified. However, if there is a negative decision from the Model Governance Committee only the Group Risk Committee (GRC) is allowed to make the decision.

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 2012 SNS REAAL executed three stress tests for its banking operations.

- **DNB "firm-wide"stress test**
  DNB requested SNS REAAL in Q3 2012 to perform a firm-wide stress test on the portfolio of SNS Bank. This stress test is based on figures end of June 2012 and evaluates a future period of 2 years. The stress scenario is prescribed by DNB and based on a worsening of the economy and financial markets. This implies a substantial decline of housing and real estate prices and an increase of unemployment. The results of the stress test indicate that, due to large impairments on the portfolios of Property Finance and SNS Zakelijk and the negative revaluation reserve, the solvency of SNS Bank decreases below the internal norm (of SNS Bank) after stress.
- **DNB "Housingmarket" stress test**

In Q3 2012, DNB requested SNS REAAL to perform a stress test on mortgages portfolio of SNS Bank. This stress test is based on figures end of June 2012 and evaluates a future period of 5 years. Just like the DNB firm-wide stress test the scenario is prescribed by DNB. The stress scenario assumes a (negative) adjustment of the fiscal regime regarding ownership of houses in the Netherlands. The outcome of this stress test is difficult to compare to the results of the DNB firm-wide stress test, because the scenarios of these stress tests are different.

- **ICAAP**
  In Q3 2012, SNS REAAL executed a stress test as part of the ICAAP 2012 based on the banking activities of SNS REAAL. This stress test is based on the DNB firm-wide stress test, but SNS Bank formulated its own stress scenario based on the specific portfolio of SNS Bank. The results of the stress test indicate that, due to large impairments on the portfolios of Property Finance and SNS Zakelijk and the negative revaluation reserve, the solvency of SNS Bank decreases below the internal norm (of SNS Bank) after stress.

Comparison between expected and actual losses

For retail mortgages, which is the only asset class running IRB advanced approach in 2008, 2009, 2010, 2011 and 2012 the expected loss for non-defaulted exposures was € 86.2 million during the year 2012. This is to be compared to the realised loss of € 23.6 million. The counterparty weighted probability of default (including defaulted exposure) for 2012 was 4.4% and the corresponding observed default frequency was 3.14%.
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:

- Collection processes, early and late collections
- Provisioning process
- Pricing
- Portfolio management
- Marketing

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.
Provisioning 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.

30.4.5 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. The appraisal at origination is 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 (as of 1.1.2013 market value) 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 price development of the residential housing market.

Collateral Valuation - foreclosure

Collateral of the retail mortgage portfolios is subject to revaluation after a client is transferred to restructuring & recovery services department, so as 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 helps to set the impairment allowance at an appropriate level 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 2012

	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	12,118	-	-	-
Institutions	4,228	305	-	1,471
Corporate	12,835	1,268	-	2,301
Retail	2,687	9	-	332
Equity	13	-	-	-
Total standardised approach	**31,881**	**1,582**	**-**	**4,104**
IRB exposure classes				
Retail	32,429	10,848	-	-
Securitisation	19,655	-	-	-
Total IRB approach	**52,084**	**10,848**	**-**	**-**
Other	1,820	-	-	-
Total exposure	**85,785**	**12,430**	**-**	**4,104**

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**

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

	2012	2011
Guarantees	75%	69%
Collateral:		
- of which real estate	14%	22%
- of which financial collateral	11%	9%

30.4.6 Information about credit risk management, impaired loans and loan losses

30.4.6.1 *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 21.4.1 Credit Risk, subsection Credit management for loans and advances to customers.

Restructuring & Recovery departments of SNS Bank

An essential part of the risk policy is the timely deployment of the Restructuring and Recovery department. The Restructuring and Recovery departments distinguish between loans to private customers and small and medium enterprises (SME) on the one hand and loans provided by Property Finance on the other hand. The business units SNS Retail Bank and Property Finance each have their own Restructuring and Recovery Department.

30.4.6.2 *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 usually 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 1-90 days are included in the IBNR provisioning models.

For detailed information on impaired loans and loan losses for SNS Retail Bank and Property Finance we refer to the chapter on Risk management, paragraph 21.3 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.

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.

Loans and advances to customers in arrears SNS Retail Bank

In € millions	2012	2011
No arrears	52,274	52,750
< 3 months	1,031	1,153
3 - 6 months	268	206
6 - 12 months	237	175
> 1 year	272	258
Provision	(265)	(204)
Total	**53,817**	**54,338**

Provisions

in € millions	Specific 2012	Specific 2011	IBNR 2012	IBNR 2011	Total 2012	Total 2011
Balance as at 1 January	851	946	19	27	870	973
Reclassification	28	(52)	3	-	31	(52)
Usage	(252)	(123)	(7)	-	(259)	(123)
Additions	1,043	483	15	6	1,058	489
Releases	(107)	(189)	(10)	(11)	(117)	(200)
Foreclosures	(33)	(212)	-	-	(33)	(212)
Other changes	23	(2)	-	(3)	23	(5)
Balance as at 31 December	**1,553**	**851**	**20**	**19**	**1,573**	**870**

Loan impairment by geography 2012

in € millions	Book value non-provisioned loans	Book value provisioned loans (gross receivable)	Specific provision	IBNR provision	**Total book value**	Impairment charges
The Netherlands	57,683	4,088	(1,193)	(20)	60,558	750
EMU	534	618	(263)	-	889	183
Outside EMU	287	131	(97)	-	321	8
Total	**58,504**	**4,837**	**(1,553)**	**(20)**	**61,768**	**941**

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	60,344	3,173	(580)	(19)	62,918	252
EMU	1,129	325	(127)	-	1,327	17
Outside EMU	423	273	(144)	-	552	20
Total	**61,896**	**3,771**	**(851)**	**(19)**	**64,797**	**289**

Loan provisions by industry 2012

in € millions	Book value non-provisioned loans	Book value provisioned loans (gross receivable)	Specific provision	IBNR provision	**Total book value**
Construction and property	4,815	2,649	(850)	(10)	6,604
Public sector	2,295	-	-	-	2,295
Agriculture, horticulture, forestry and fishery	28	1	-	-	29
Industry	189	9	(3)	-	195
Service sector companies	799	32	(10)	(2)	819
Other commercial	563	66	(21)	-	608
Private clients	49,815	2,080	(669)	(8)	51,218
Total	**58,504**	**4,837**	**(1,553)**	**(20)**	**61,768**

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	52,257	1,885	(194)	(4)	53,944
Total	**61,896**	**3,771**	**(851)**	**(19)**	**64,797**

30.5 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 market risk in 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 21.6.

30.6 Operational risk

In accordance with the Basel II definition operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. SNS Bank manages its operational risks by planning, implementing and monitoring its activities effectively en efficiently, by observing:

- achieving predictable performance,
- protecting SNS Bank from unforeseen losses,
- and offering sufficient certainty on the reliability of information in order to realize (strategic) objectives.

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 (Risk Management Policy) for an adequate management of the risks. As a part of SNS REAAL, managing Operational Risks of SNS Bank is described in more detail in the SNS REAAL Operational Risk Management Framework. Activities related to Operational Risk Management include incident management and loss registration, risk self assessments, In Control statements, key risk indicators, monitoring the follow up of audit issues and capital requirements.
The capital requirements for operational risk are calculated according to the standardised approach, in which all of SNS Bank'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. This is based on a 12 months average, as a result for the year 2012 the capital requirements is the average of 2010, 2011 and 2012. The beta coefficients differ between business lines and are 12%, 15% or 18%. On a yearly basis the calculated capital requirement is challenged with the Internal Capital Adequacy Assessment Process (ICAAP).
Further information about the total amount of the capital requirements for Operational risk is included in paragraph 30.3.4.

30.7 Disclosure of off-balance items

30.7.1 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:

- Off-balance sheet items: main categories of off-balance sheet items are guarantees, credit commitments, and unutilised portion of approved credit facilities.
- 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 sheet 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 notional 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 2012

in € millions	On-balance sheet items	Off-balance sheet items	Derivatives	**Total**
Exposure	79,431	4,241	2,113	85,785
EAD	53,475	647	2,113	56,235
RWA	17,256	231	1,085	18,572
Capital requirement	1,381	18	87	1,486
Average risk weight	32%	36%	51%	33%

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%

30.7.2 Risk in derivatives

General information about derivatives

Derivative contracts are financial instruments that derive their value from underlying entities, such as 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 eligible counterparties, apart from three ASN funds.

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	**2012**	2011	**2012**	2011	**2012**	2011
Institutions	1,932	2,588	911	965	73	77
Corporate	181	187	174	187	14	15

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 2012

in € millions	Current exposure (gross)	Impact back-to-back swaps securitisation	Reduction from netting agreements/ collateral	**Current exposure (net)**
Total	3,661	(564)	2,112	2,113

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

30.7.3 Hedging

Information about hedging is included in the chapter on Risk Management, paragraph 22.2.

30.8 Securitisations

30.8.1 General

SNS Bank has securitised € 22.7 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 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 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.

30.8.2 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.

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 a collection foundation: "Stichting Hypotheken Incasso". The collection foundation is responsible for collecting the mortgage payments which are passed to the relevant SPV's.

30.8.3 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.

30.8.4 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.

30.8.5 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 a claim 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 (except for Hermes XVIII). The amount of the deferred selling price was € 5.3 million as at year-end 2012; the position in e-notes was € 14.4 million as at year-end 2012. Furthermore Lowland 1 (all bonds) was on balance for liquidity purposes.

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 2012

	Traditional		Synthetic	
in € millions	**Originator**	**Investor**	**Originator**	**Investor**
Residential mortgages	18,927	7,212	319	-
Total	**18,927**	**7,212**	**319**	**-**

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 and impaired 2012

	Impaired/past due		Losses	
in € millions	**Originator**	**Investor**	**Originator**	**Investor**
Residential mortgages	71	-	56	-
Total	**71**	**-**	**56**	**-**

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**	**-**

Exposure and capital charges of securitisation positions retained or purchased per risk weight band

in € millions	Exposure amount 2012	Exposure amount 2011	Capital charges 2012	Capital charges 2011
<= 10%	6,401	7,061	38	42
> 10% <= 20%	189	147	2	2
> 20% <= 50%	254	285	5	5
> 50% <= 100%	340	285	20	12
> 100% <= 650%	14	-	3	-
- E-notes Hermes XVIII	14	-	14	-
Total	**7,212**	**7,778**	**82**	**61**

Securitisation activity 2012

in € millions	Traditional			Synthetic	
	Originator	Investor	**Realised gains/losses on traditional securitisations**	Originator	**Investor**
Residential mortgages	948	-	-	-	-
Commercial mortgages	-	-	-	-	-
Total	**948**	-	-	-	-

SNS Bank uses the credit rating agencies to rate its securitisation positions. In 2011 no securitisation activities took place. The table above shows the securitisation activities in 2012.

30.9 Internal capital adequacy assessment process

In the ICAAP, the required amount of capital is determined by the Management Board of SNS Bank and the Executive Board. Points of departure are the balance sheet, (proposed) 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 also tried by performing stress tests. In 2012, SNS REAAL performed an internal stress test on the Banking activities as part of the 2012 ICAAP. For this stress test, the risks involved were thoroughly analysed and tested. SNS REAAL applies its own specific economic scenarios for this stress test. 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. The results of the 2012 ICAAP show that the Banking activities of SNS REAAL do not meet the internal standards either in the base case scenario or in a stress scenario. With reference to the Supervisory Review and Evaluation Process (SREP) SNS REAAL is in ongoing dialogue with the Dutch Central Bank on the ICAAP results.

The Dutch Central Bank (DNB) informed SNS REAAL through its Supervisory Review and Evaluation Process (SREP) that the risks regarding the property finance portfolio were far more material than was presumed. DNB also informed the company that an increase of the core capital would be necessary on short term notice. When SNS REAAL, according to DNB, could not meet the demands set out to accomplish this in time, DNB informed the Ministry of Finance it would not be justified for SNS Bank to continue its Banking activities. On 1 February 2013, the Ministry of Finance therefore decided to nationalise SNS REAAL.

30.10 Liquidity risk

Information about liquidity risk is included in the chapter Risk Management, paragraph 21.7.

30.11 Capital adequacy

30.11.1 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 (RWA).

30.11.2 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 earnings 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. Repurchase of these undated loans 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 is any surplus after applying the legal limit on tier 1 capital the exceeding amount can be transferred to tier 2 capital.
Deductions from Tier 1 capital
Intangible assets
A significant part of deducted intangible assets contains goodwill. Other intangible assets relate 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 capital base is adjusted for the difference between expected loss (EL) and actual provision made for the related exposures. Note that this is only relevant for the IRB exposures. A 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 equally divided into tier 1 capital and tier 2 capital. For the purpose of the CRD transitional rules, calculation 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. 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 Act on Special Measures for Financial Enterprises (Intervention Act) surpasses the normal rank order of creditors as loans. With a ruling subordinated debt might be expropriated. The subordinated debt will - to some extent - prevent the institution to go into liquidation.
If the remaining maturity of dated subordinated loans is less than 5 years, a reduction factor on the outstanding notional amount is used to calculate the eligible amount for inclusion in tier 2 capital. Outstanding amount in the specific issue is deducted by 20% for each year beyond five years.
As of year end 2012, SNS Bank holds € 315 million (2011: € 416 million) in dated subordinated debenture loans and € 40 million (2011: € 41 million) in undated subordinated debenture loans.

A summary of items included in the capital base is shown in the table below. Please note that as a result of the nationalisation of SNS REAAL on February 1st, 2013, the capital base has changed substantially, as described in chapter 3.

Calculation of total capital base

in € millions	2012	2011
Tier 1 capital		
Paid up capital	381	381
Share premium	1,186	967
Eligible capital	**1,567**	**1,348**
Reserves	538	500
Income (positive/negative) from current Year	(719)	38
Eligible reserves	**(181)**	**538**
Tier 1 capital (before hybrid capital and deductions)	**1,386**	**1,886**
Hybrid capital loans subject to limits	331	626
Intangible assets	(75)	(125)
IRB provisions excess (+) / shortfall (-)	(31)	(1)
Securities capital	-	156
Other items, net	(27)	(37)
- of which eligible reserves SPVs	(17)	(20)
- of which result tier 1 exchange	(1)	(5)
- of which result tier 2 exchange	(9)	(12)
Deductions from Tier 1 capital	**(133)**	**(7)**
Tier 1 capital including hybrid capital (net after deduction)	**1,584**	**2,505**
- of which hybrid capital	331	626
Tier 2 capital		
Subordinate loan capital	315	416
Other additional own funds	40	41
Tier 2 capital (before deductions)	**355**	**457**
IRB provisions excess (+) / shortfall (-)	(31)	(1)
Deductions from Tier 2 capital	**(31)**	**(1)**
Tier 2 capital (net after deductions)	**324**	**456**
Capital base	**1,908**	**2,961**

30.12 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 REAAL's Group report on remuneration. This separate 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 2012 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).