# SNS BANK NV

# Banking to help people move forward

## Annual Report 2014

ASN BANK BLG wonen RegioBank SNS Zwitserleven

The original financial statements were drafted in Dutch. This document is an English translation of the original.
In the case of any discrepancies between the English and the Dutch text, the latter will prevail.

# Contents

# SNS BANK NV

## One bank with five strong brands: ASN Bank, BLG Wonen, RegioBank, SNS and ZwitserlevenBank

| | ASN BANK | BLG wonen | RegioBank | SNS | Zwitserleven |
|---|---|---|---|---|---|
| **Products** | **Payments – Savings – Investments** | **Mortgages** | **Payments – Savings – Mortgages** | **Payments – Savings – Mortgages – Insurance products** | **Savings** |
| **Distribution** | **Online – Mobile** | **1,935 Independent advisers** | **535 Indepedent advisers RegioBank Online – Mobile** | **188 SNS shops Online – Mobile** | **Online** |
| | ASN Bank is a sustainable bank that wants to contribute to a more sustainable society respecting the following pillars: climate, human rights and biodiversity. | BLG Wonen serves customers through intermediaries and wants to offer housing-related solutions that meet the needs of the customer's financial situation. | RegioBank wants to be a truly local bank with face-to-face contact for every customer and a full range of services. | SNS presents itself as a no-nonsense bank with simple products that benefit the customer. We thus change course and challenge the major banks. | ZwitserlevenBank offers various savings products based on the 'Simplicity for later' strategy. |

## ... with a clear focus on the Dutch retail segment

**Payments** **Savings** **Mortgages**

SNS Bank is the **4th largest bank in the Netherlands** with **2.8 million** customers,

**people-oriented**
**Objective NPS>0**
Net Promoter Score

with a **balance sheet total** of **€ 68 billion**

and substantial market shares in **retail savings** **€ 36 billion**

and **€ 46 billion** **in retail mortgages**.

With an **efficiency ratio** of **44.7%**

we realised a profit of **€ 151 million** in 2014

with a **robust capitalisation**. **18.3%** Common Equity Tier 1 ratio

## Our mission: Banking with a human touch

- **Personal banking**
- **Financial resilience**
- **Benefit rather than return**
- **Sustainability**

| We are a **people-oriented** bank | We are a **social** bank | We are a **sustainable** bank |
|---|---|---|
| Objective: **Our customers characterise SNS Bank as a people-oriented bank** | Objective: **Dutch people see SNS Bank as a social bank** | Objective: **SNS Bank is carbon neutral** |

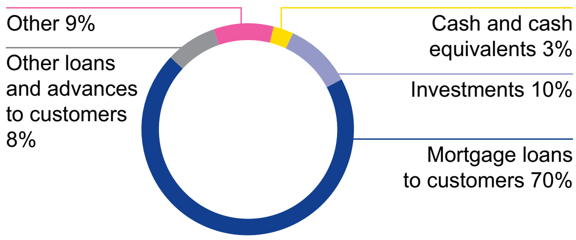
# Key figures

## Balance sheet

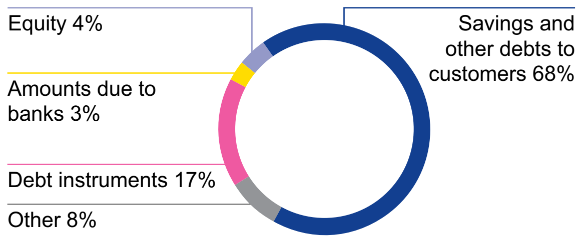
(in € millions)

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Balance sheet total | 68,159 | 74,537 | 81,341 | 81,272 | 78,918 |
| Loans and advances to customers | 52,834 | 53,405 | 61,768 | 64,797 | 65,013 |
| Of which mortgages | 47,608 | 48,458 | 50,841 | 52,920 | 50,888 |
| Amounts due to customers | 46,208 | 43,904 | 42,344 | 40,557 | 37,880 |
| Of which savings | 35,666 | 33,276 | 32,815 | 30,342 | 27,398 |
| Debt instruments | 11,252 | 16,439 | 21,990 | 27,361 | 29,523 |
| Equity | 2,963 | 2,582 | 1,337 | 1,723 | 1,580 |
| Risk Weighted Assets (RWA) | 13,771 | 15,121 | 20,592 | 20,534 | 22,131 |

## Total assets




## Total liabilities




## Capital, funding and liquidity ratios

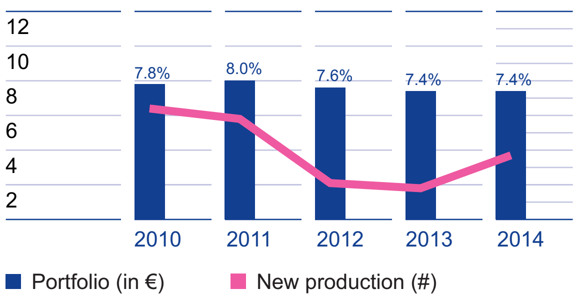
| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Common Equity Tier 1 ratio (prudential consolidated) | 15.6% | 15.1% | | | |
| Common Equity Tier 1 ratio (stand-alone) | 18.3% | 15.0% | 6.1% | 9.2% | 8.1% |
| Tier 1 ratio (stand-alone) | 18.3% | 15.0% | 7.7% | 12.2% | 10.7% |
| Total capital ratio (stand-alone) | 18.4% | 15.0% | 9.3% | 14.4% | 16.7% |
| Fully loaded Common Equity Tier 1 ratio (stand-alone) | 17.4% | 12.3% | | | |
| Transitional leverage ratio (stand-alone) | 3.8% | 3.1% | | | |
| Fully phased-in leverage ratio (stand-alone) | 3.6% | 2.5% | | | |
| Loan-to-Deposit | 113% | 122% | 148% | 159% | 172% |
| LCR | 455% | 436% | | | |
| NSFR | 130% | 120% | | | |

## Quality loan portfolio

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Loan-to-Value mortgage portfolio | 86% | 89% | 87% | 82% | 77% |
| Loans in arrears (%) | 4.3% | 4.5% | 3.9% | 3.6% | 3.1% |
| Impaired ratio | 3.1% | 3.1% | | | |
| Coverage ratio | 27% | 25% | | | |

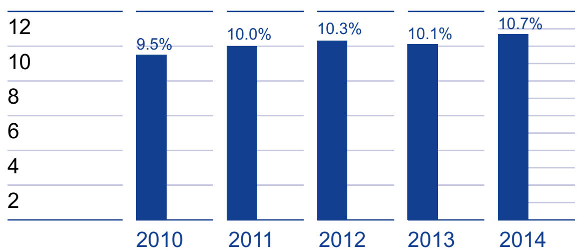
## Market share mortgages

(in %)

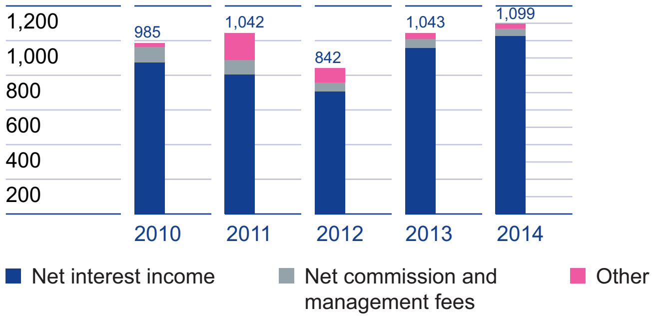



## Market share savings

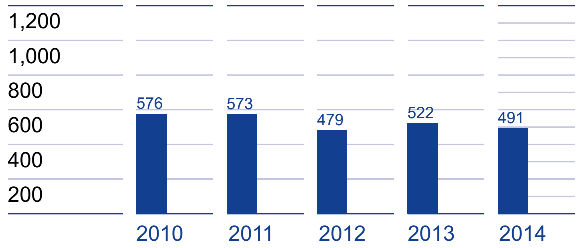
(in %)



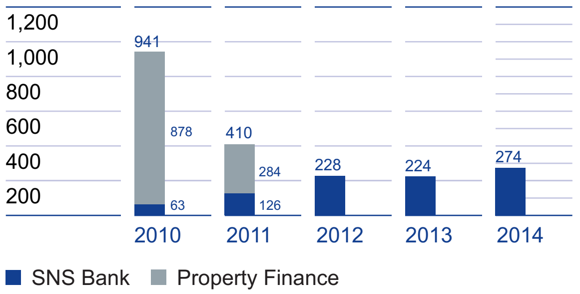
## Total income
(in € millions)



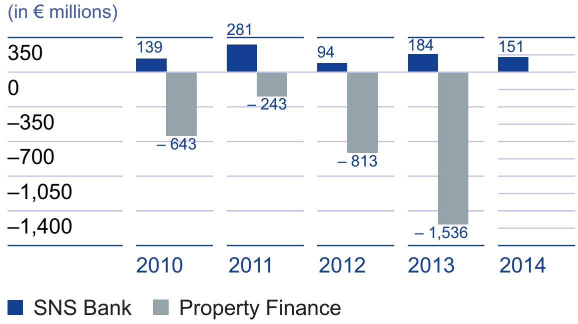

## Operating expenses
(in € millions)




## Impairments
(in € millions)



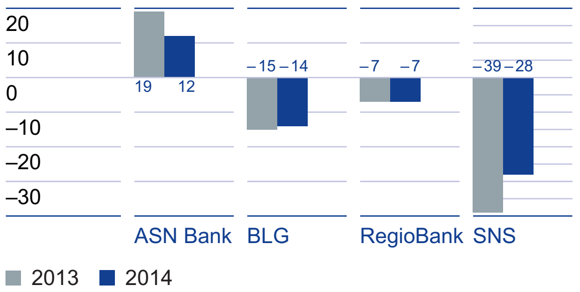

## Net result
(in € millions)



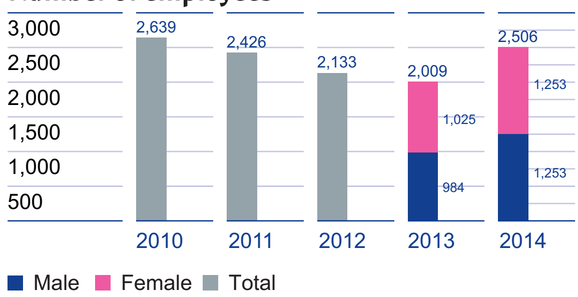

## Performance indicators

| Performance indicators | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| NIM (Net Interest Margin as % average assets) | 1.43% | 1.23% | 0.87% | 1.00% | 1.09% |
| Efficiency ratio | 44.7% | 50.0% | 57.4% | 49.9% | 57.8% |
| Loan impairments als % of gross loans | 0.38% | 0.39% | 0.40% | 0.17% | 0.15% |
| Return on Equity (ROE) | 5.4% | –52.4% | –53.8% | 2.2% | –27.3% |
| Return on assets | 0.22% | –1.81% | –0.88% | 0.05% | –0.64% |

## Net Promoter Score




## Number of employees




## Other key figures

| Other key figures | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Number of SNS Shops | 188 | 166 | 162 | 155 | 143 |
| Number of independent advisers RegioBank | 535 | 526 | 536 | 529 | 537 |
| Number of ATMs | 539 | 537 | 519 | 507 | 490 |
| ***Emissions and carbon footprint*** | | | | | |
| $CO_2$ emissions business operations (x 1,000 tons $CO_2$) | 13 | 15 | 15 | 17 | 20 |
| $CO_2$ emissions per FTE (ton $CO_2$) | 2.7 | 3.2 | 3.7 | 3.6 | 6.0 |

**‘When we expect** a customer to fall behind in his mortgage payments, we immediately get in touch. We will try to prevent real problems together.’

**Cengiz Topsakal** – Mortgage specialist
Marketing Strategy & Innovation
SNS Bank NV

Personal banking

# 1 SNS Bank at a glance

SNS Bank, the fourth largest bank of the Netherlands, operates in the Dutch retail market with a focus on mortgages, savings and payments. The company has five bank brands – ASN Bank, BLG Wonen, RegioBank, SNS and ZwitserlevenBank – each displaying its own identity and profile. SNS Bank aims to meet the specific financial needs of its customers in a people-oriented, efficient and sustainable manner. Together, the SNS Bank brands position themselves as challengers of the major Dutch banks. At the end of 2014, SNS Bank was part of SNS REAAL.

## 1.1 Mission

SNS Bank's mission is: banking with a human touch. We have further defined this mission in our Manifesto, which serves as a beacon guiding our thoughts and actions. Starting from this Manifesto, we have determined our key task and our views on what banking should look like in today's world and what role SNS Bank plays in that regard.

We have formulated the following three longer-term ambitions to translate these views into specific goals:

1. We are a people-oriented bank: we aim for high appreciation scores from both customers and employees.
2. We are a social bank: we aim to create value for our customers with simple, responsible products and services. In addition, we pursue financial resilience initiatives and strive for responsible returns.
3. We are a sustainable bank: we are working towards the creation of a carbon-neutral bank, making our own business operations more sustainable and actively encouraging customers to save energy.

## 1.2 Strategy

SNS Bank stands out from the major banks in the Netherlands through its focus on the Dutch retail segment: private individuals, self-employed persons and SMEs. We have expressly chosen for mortgages, savings and payments. With our five brands (ASN Bank, BLG Wonen, RegioBank, SNS and ZwitserlevenBank) we wish to deliver the right financial products and services to specific groups of people, whose various needs are also given due consideration in our distribution. In that, we are supported by a single back office, a strong IT organisation and a central staff organisation, which enable us to work effectively and efficiently.

We have translated our strategy into the following Group-wide objectives for the longer run:

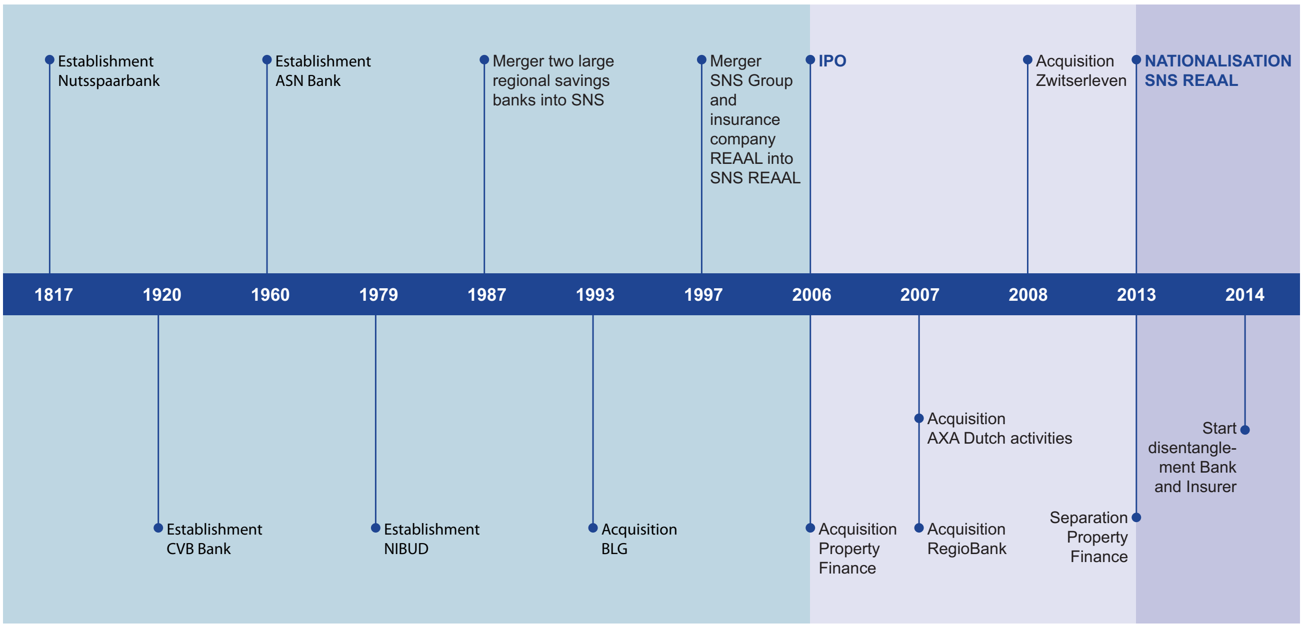
- Satisfied customers: a positive Net Promoter Score for all brands.
- Satisfied staff: a Net Promoter Score of our staff in excess of 20.
- Achievement of the desired market shares: new sales of our own mortgage products between 5 and 8 percent, savings more than 10 percent.
- A Common Equity Tier 1 ratio of more than 14 percent, based on current regulations.

## 1.3 History

Established almost 200 years ago, SNS stands for '*Samenwerkende Nederlandse Spaarbanken*', or Cooperating Dutch Savings Banks. The first Savings Bank for the Common Good (*Nutsspaarbank*) was founded in 1817, and in 1987 two major regional savings banks merged into SNS. Mergers and acquisitions drove the Group's rapid expansion in the 1990s. In 1997, SNS Group and the Insurer REAAL Group merged into SNS REAAL. The company was listed at the stock exchange in 2006.

A number of acquisitions were completed in the years following SNS REAAL's IPO. Bouwfonds' property finance activities (Property Finance) were acquired and added to the Bank in 2006. Subsequent acquisitions were those of RegioBank (2007) and, at the Insurer the Dutch activities of AXA (2007) and Zwitserleven (2008).

SNS Bank's retail bank activities have remained structurally profitable throughout the years. Despite this business unit's positive results, however, from 2009 onwards rising losses at Property Finance put increasing pressure on SNS Bank's results and solvency. This ultimately led to the nationalisation of SNS REAAL and its subsidiaries, including SNS Bank, on 1 February 2013. As a consequence of the nationalisation, the Dutch State is the sole shareholder of SNS REAAL (through NLFI).

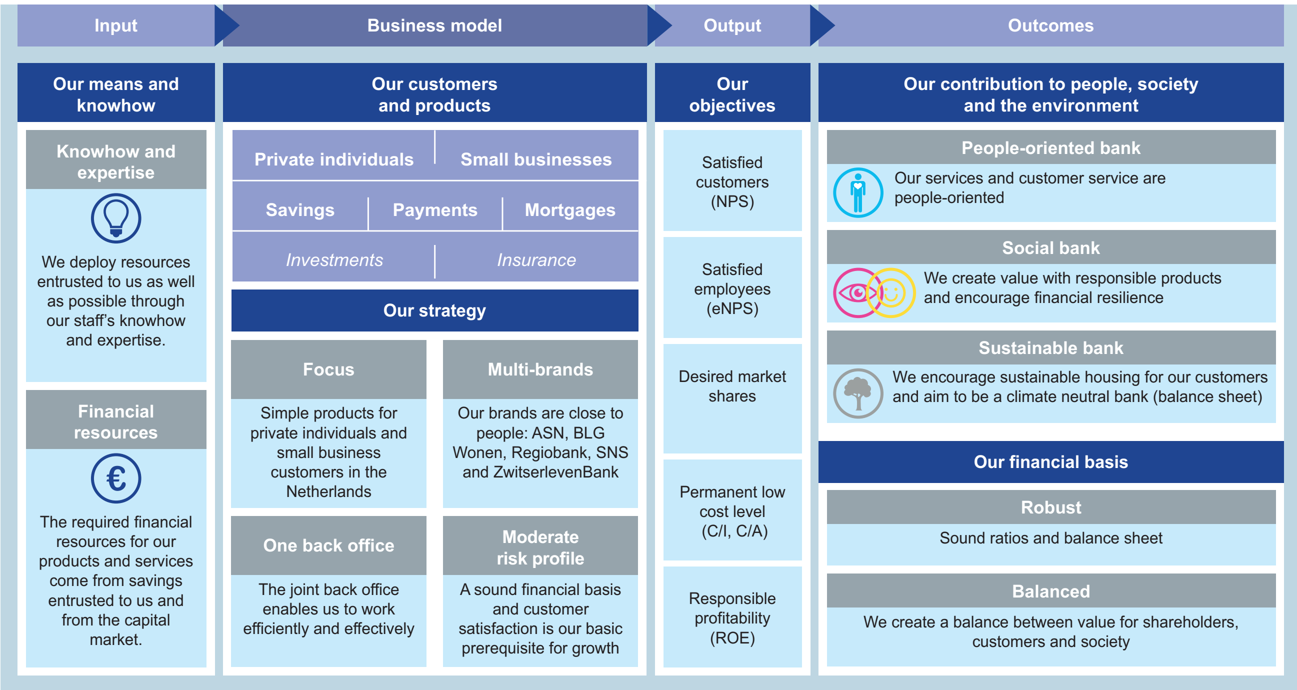



As part of the restructuring plan drafted for SNS REAAL, Property Finance was isolated from SNS Bank and transferred to NLFI at the end of 2013. In 2014, initial steps were taken to disentangle the holding company and the Banking and Insurance activities in preparation for the proposed sale of the Insurance activities. The sale is also part of the restructuring plan, based on which the European Commission approved the nationalisation.

In February 2015, SNS REAAL reached agreement on the conditional sale of the Insurance activities to the Chinese insurance company Anbang. This will be explained in more detail in section 4.5.3. The sale, subject to the conditions as mentioned in 4.5.3, is expected to be completed in the third quarter of 2015 and will be followed by the transfer of SNS Bank from SNS REAAL to the Dutch State. After that, SNS Bank will no longer be part of SNS REAAL. In due course SNS Bank will be privatised.

## 1.4 SNS Bank disentanglement

The disentanglement of the holding company and the Banking and Insurance activities of SNS REAAL required organisational adjustments in 2014. For example, the Group’s senior management structure was changed, a new Managing Board was appointed for the Bank and part of the employees of SNS REAAL transferred to the Bank in the course of 2014. Mutual connections still exist between the Bank and the Insurer, including in the areas of loans, solvency, finance and IT. The disentanglement is due to be completed in the course of 2015.




## 1.5 Value creation

The figure above shows how SNS Bank creates value for customers and society and defines the value chain in which we operate. Created in accordance with the reporting framework of the International Integrated Reporting Council, this visualisation consists of three elements: input, our business model and output/outcomes.

Our input consists of two different types of capital – our staff's know-how and expertise and our financial resources – that make our business model work. Our business model focuses primarily on savings, payments and mortgages for the Dutch retail market using a multi-brand strategy.

The framework furthermore provides insight into the objectives (outputs) that we monitor and pursue. With our business model, we ultimately create outcomes that not only ensure a sound and balanced financial basis to support our business, but also contribute to people, society and the environment.

Chapter 4.5 describes the specifics of our vision on our contribution to people, society and the environment in the form of longer-term ambitions and goals.

‘**Never thought I could** get used to living on less money. Thanks to the course I actually succeeded! I now even have enough money to save some every month.’

**John** – participant ‘Getting a grip on my money’ course provided by Geldinzicht, an SNS Bank initiative

Financial resilience

# 2 Foreword

While focusing on regaining the trust of our customers, SNS Bank also saw the year 2014 dominated by the disentanglement from the SNS REAAL organisation and the review of our strategy.

Preparations for SNS Bank's stand-alone future are in full swing. Last year, the Bank welcomed part of SNS REAAL's staff department employees and restructured many of its processes, including in governance and risk management.

Looking back to the bank we were 200 years ago, we opt for a modern-day interpretation in reviewing our strategy. Our mission is banking with a human touch, which means that we aim to be a people-oriented, social and sustainable bank. Guiding our actions now and in the future, the Manifesto that we have drafted for ourselves provides the details of our mission.

In this Annual Report we render account to our customers and staff and to financial and social parties. The Corporate Responsibility results are fully integrated into the report.

Based on our mission, we have defined three strategic priorities: we seek excellent customer experience, excellent business operations and a moderate risk profile.

## Excellent customer experience

Excellent customer experience is a basic condition for customer trust and for customers to choose one of our banking brands.

SNS Bank developed various initiatives to optimise customer experience in 2014, for example in the management of the mortgage portfolio in terms of customer retention as well as in respect of preventive management for customers who could use some help. Other examples include innovations in the areas of mobile banking and complaints management. We also took on the role of challenger in the industry, for which purpose the SNS brand was positioned more distinctly in 2014. By breaking with convention and offering innovative solutions in the banking sector, we wish to widen the range of choice for customers. We believe that the choices we make, the products we offer and the services we provide must first and foremost benefit the customer. In this vein, SNS pays interest on current accounts, does not immediately charge high interest rates for the first few days of overdraft and opens bank shops where others close them. After its launch in 2013, our latest brand ZwitserlevenBank also experienced successful growth in 2014.

In part thanks to these initiatives, SNS Bank demonstrated an encouraging commercial performance in 2014. The SNS Bank brands welcomed 231,000 new customers last year. On a net basis, the number of customers rose by 98,000. Customer satisfaction showed an increase measured by a few external benchmarks, with the Net Promoter Score of the SNS brand continuing the upward trend started in 2013. The scores remained stable at RegioBank and BLG Wonen. Although slightly down from the end of 2013, ASN Bank's Net Promoter Score is still one of the highest in the sector. SNS Bank will continue to strive for improved customer experience: its ultimate aim is a positive Net Promoter Score for every brand.

SNS Bank's market share in new residential mortgages rose from 1.8 percent at year-end 2013 to 3.7 percent at year-end 2014. However, the difference with our 5-8 percent target indicates that there is still work to do in 2015 and beyond. Our savings market share edged up to 10.7 percent and was in line with our target of more than 10 percent.

Not only for our customers, but for our staff as well, 2014 was a year of growing satisfaction to a score of 7.5, with commitment even scoring 8. Our employees endorse our Manifesto and act accordingly. Flexible working (HNW) allows many employees to strike a sound work-life balance.

## Excellent business operations

Perfectly streamlined business operations make or break excellent customer experience. With our single back office and our flexible IT organisation, we are well-positioned to achieve excellent business operations at controllable cost. Even though we see room for improvement here. For example, we aim to further improve our internal business operations by further elaborating and implementing our Integrated Control Framework (ICF) and raising data quality and data management to a higher level.

In 2014, SNS Bank reached a € 151 million net profit, including a one-off charge of € 76 million for the resolution levy on Dutch banks related to the nationalisation of SNS REAAL, and a € 67 million impairment of goodwill paid upon the acquisition of RegioBank. Adjusted for these two items the net profit amounted to € 294 million, up 12 percent from the adjusted result for 2013.

The 12 percent improvement of the result excluding one-off items was mainly driven by higher interest income and lower impairment charges on loans. The increase of interest income was caused by lower funding costs. In 2014, higher impairment charges on SME loans were more than compensated by lower impairment charges on residential mortgages. This positive development was supported by a cautious recovery of the Dutch housing market.

Our operating expenses excluding one-off items rose by 5 percent in 2014, mainly as a result of higher costs of regulatory projects and dissynergies related to the disentanglement from SNS REAAL. The efficiency ratio excluding one-off items was 44.7 percent, a modest increase compared to 2013 (43.5 percent).

Excluding one-off items, the return on equity was 10.6 percent in 2014. Based on the net profit, this was 5.4 percent.

## Moderate risk profile

SNS Bank seeks to maintain a moderate risk profile, in part by focusing on the Netherlands and on our specific product and target groups. In 2014, we introduced improvements to the mortgage control process and redeveloped and implemented our acceptance and credit risk models. The credit quality of the loan portfolio showed a limited improvement in the course of 2014 and the inflow of non-performing loans was lower than in 2013.

The start of the implementation of the ICF also contributes to improving our risk profile.

We furthermore aim for a healthy balance sheet with solid capital ratios. With a Common Equity Tier 1 ratio of 18.3 percent (on a stand-alone basis), SNS Bank convincingly met current requirements at the end of 2014. New regulations will also set requirements in respect of non-risk-weighted capital ratios as from 1 January 2018. As SNS Bank is a retail bank primarily holding assets with a lower risk weight, such ratios (such as the leverage ratio and the MREL) are currently important factors in our capital management policy. To comply with these future regulations, SNS Bank intends to diversify and strengthen its capital position with subordinated loan capital.

By passing the European Central Bank's Comprehensive Assessment, which included the EBA stress test, SNS Bank has shown that it is a well-capitalised company able to withstand adversity.

## Banking with a human touch

In 2015, SNS Bank will be transferred from SNS REAAL to the Dutch State, immediately following the definitive transfer of VIVAT to Chinese insurance company Anbang. At that time, the disentanglement process will have been completed and SNS Bank will continue as a stand-alone company. The necessary preparations were made in 2014 to facilitate this process, which required great efforts of our employees. Their commitment and loyalty form the basis for last year's achievements. I would like to express my gratitude and appreciation for this and I thank our customers for their trust in our bank. In 2015, using our Manifesto, we will continue to build on satisfactory and long-term customer relationships and on banking with a human touch.

Dick Okhuijsen

Chairman of the Board, SNS Bank NV


**‘I view my statement** every day to check that debit card transactions in the store are correctly deducted. That log-in device is really convenient. Simple and easy to use. I am an enthusiastic customer indeed!’

**Theo Jansen** – SNS customer

**Benefit rather than return**

# 3 Corporate governance

This chapter addresses various topics in the field of Corporate Governance. First, the compositions of the Managing Board and the Supervisory Board are described, followed by the Report of the Supervisory Board. Subsequently, the Banking Code and the Corporate Governance Code will be discussed. The last section includes the management statements.

## 3.1 Composition, appointment and duties of the Managing Board

The Managing Board of SNS Bank NV consisted of the following persons as at 31 December 2014:
- Dick Okhuijsen, Chief Executive Officer
- Annemiek van Melick, Chief Financial Officer
- Martijn Wissels, Chief Risk Officer
- Rob Langezaal, Chief Commercial Officer
- Alexander Baas, Chief Operations Officer

For more information on the members of the Managing Board, please refer to Chapter 7 Additional information on the composition of the Managing Board.

SNS REAAL's new management and organisational structures were presented in May 2014 in anticipation of a definitive independent Bank and independent Insurer. The disentanglement also resulted in a change in the composition and division of duties of the Managing Board of SNS Bank NV. Effective 1 July 2014, this new governance was implemented and the aforementioned members of the Managing Board were appointed.

Members of the Managing Board are appointed by SNS REAAL in accordance with the Articles of Association. The Managing Board is composed in such a way that it is able to perform its tasks adequately through its combined knowledge and experience. Individual members have extensive expertise and knowledge of the financial or banking industry and collectively they have experience with and knowledge of governance, setting up organisations and (risk) management, communication, commerce, operational processes and the products and services that are important to SNS Bank. SNS Bank's policy is aimed at meeting the legal diversity requirements. In doing so, SNS Bank continually has due regard for its ability to fulfil its collective duties and responsibilities.

The Managing Board has adopted Regulations with the prior approval of the Supervisory Board of SNS Bank NV. Complementing the provisions of the law and the Articles of Association, these Regulations provide rules for SNS Bank NV's internal affairs. More specifically, they provide rules to be observed the Managing Board and its individual members.

The Articles of Association and Regulations list resolutions that require the approval of the Supervisory Board and/or SNS REAAL as sole shareholder. The Managing Board takes decisions by a majority of votes.

The Managing Board manages SNS Bank NV within the parameters agreed with the Executive Board of SNS REAAL.

Taking into account the risk appetite approved by the Supervisory Board and the Executive Board of SNS REAAL, the Managing Board ensures a balanced assessment between the commercial interests of SNS Bank NV and the risks to be taken. The Managing Board is responsible for creating and maintaining a corporate culture in which the duty of care towards customers is embedded.

## 3.2 Composition, appointment and duties of the Supervisory Board

The SNS Bank NV Supervisory Board consisted of the following persons as at 31 December 2014:
- Jan Nooitgedagt (Chairman)
- Charlotte Insinger
- Monika Milz
- Jos Nijhuis
- Jan Nijssen
- Jan van Rutte
- Ludo Wijngaarden

Six members of the Supervisory Board are Dutch nationals. One member of the Supervisory Board is a German national.

For more information about the members of the Supervisory Board, see Chapter 7 Additional information on the composition of the Supervisory Board.

Members of the Supervisory Board are appointed for a term of four years. Reappointment for a subsequent four-year term is only approved after careful consideration, and at most twice. When reappointing Supervisory Board members, due consideration is given to the profile of the Supervisory Board, the performance of the individual concerned, terms of office and other criteria to be determined.

The Supervisory Board meets at least six times a year in accordance with a schedule drawn up annually. Supervisory Board resolutions are passed with a majority of votes.

The Supervisory Board has adopted Regulations that specify and supplements various provisions of the Articles of Association. These Regulations also list additional powers. All members of the Supervisory Board have declared to agree to the contents of the Regulations and to abide by the rules contained therein.

The Supervisory Board has formed three committees from among its ranks. On 31 December 2014, the committees comprised the following members:

- Audit Committee: Jos Nijhuis (Chairman), Jan Nooitgedagt, Ludo Wijngaarden and Jan van Rutte.
- Remuneration and Nomination Committee: Ludo Wijngaarden (Chairman), Jan Nooitgedagt, Charlotte Insinger and Monika Milz.
- Risk Committee: Jan Nijssen (Chairman), Jan Nooitgedagt, Charlotte Insinger and Jan van Rutte.

The Supervisory Boards of SNS REAAL NV, SNS Bank NV, Reaal NV , SRLEV NV, Proteq Schadeverzekeringen NV and REAAL Schadeverzekeringen NV form a personal union, i.e. share the same members.

## 3.3 Report of the Supervisory Board

We look back on an extraordinary and demanding year in which much has been done to implement the restructuring plan as submitted to the European Commission in August 2013 and for which approval was obtained in December 2013. Part of this restructuring plan is to separate SNS Bank and the Insurer from SNS REAAL, resulting in major changes in the governance and organisational structure of SNS REAAL and SNS Bank. This also demanded a great deal of attention from the Supervisory Board. Likewise, it led to a new method of supervision of SNS Bank by the Supervisory Board.

The following is a brief outline of the developments over the past year:

In anticipation of a definitive disentangle into an independent Bank and an independent Insurer, the new governance and organisational structures of SNS REAAL were presented in May 2014. The disentangle also resulted in a change in the composition and division of duties of the Managing Board of SNS Bank. Employees who held a position in a Group staff department at SNS REAAL were transferred either to SNS Bank or to REAAL NV (hereinafter called VIVAT) as much as possible. This led to a different organisational structure affecting the governance, which in turn impacted the meeting procedures of the Supervisory Board in 2014.

The members of the Supervisory Board of SNS REAAL NV are also members of the Supervisory Board of SNS Bank NV. The boards form a personal union. Supervisory Board meetings for both entities were always combined until 1 July. The new governance came into force as of 1 July 2014. Although there is a personal union as of that date, meetings of the Supervisory Board of SNS Bank are held separately, each having its own agenda.

The meetings of the Supervisory Board committees of SNS REAAL NV, SNS Bank NV, REAAL NV, SRLEV NV, Proteq Levensverzekeringen NV and Reaal Schadeverzekeringen NV were still combined meetings. Where applicable, the business to be transacted at the committee meetings is differentiated according to topics pertaining to SNS Bank, VIVAT or the financial holding company. This is reflected in the agenda of the relevant committee meeting.

In 2014, SNS Bank and VIVAT increasingly operated as independent companies. SNS REAAL NV thus transformed from an operational holding company into a financial one in 2014. The financial holding ensures adequate management and control of the SNS REAAL Group and is financially accountable for the entire Group. The financial holding is also ultimately responsible for the implementation of the restructuring plan. Effectively, this means that the holding manages and controls the demerger and defines the framework for an appropriate strategy for both SNS Bank and VIVAT.

### 3.3.1 Themes

#### Main topics and discussions

2014 was not only marked by the preparations for the disentanglement of the Banking and Insurance activities, but also by the future of SNS Bank, of course. In addition to its supervisory task, the Supervisory Board played a major advisory role for the SNS Bank Board of Directors. The Supervisory Board talked at length with the management about the business strategy and way in which the future spin-off of SNS Bank can be effectuated. Improving operational efficiency and profitability of the Banking activities were discussed. Other topics brought up for discussion were the changes in models and cost parameters and the envisaged cost dissynergies related to the disentanglement. The Supervisory Board meetings obviously also focused on the ECB's comprehensive assessment and the impact that the sale of VIVAT will have on the Bank.

Other major topics were the financial statements for the financial year 2013, the remuneration policy, SNS Bank's capital position, the EC commitments, risk management and risk appetite, customer interests, (the blueprint of) the Integrated Control Framework (ICF), and the large number of current (strategic) projects within SNS REAAL. The section 'Meetings of the Supervisory Board' provides a more detailed description of the content of the SNS Bank Supervisory Board meetings.

#### Performance of the Supervisory Board

The Supervisory Board annually evaluates its own performance. This year an external agency assisted in that evaluation, which focuses on the Supervisory Board's own performance as well as on the performance of individual committees and individual Supervisory Board members, the relationship with the Executive Board of SNS REAAL NV and the effectiveness of Lifelong Learning (*PE*).

The evaluation entailed individual interviews conducted by the external evaluator, which also addressed the areas of attention described above. Besides specific questions, these interviews also gave ample opportunity to those interviewed to provide free input on the performance of the Supervisory Board, the committees and the individual Supervisory Board members. The evaluator then drafted a report containing the results of these interviews. The Supervisory Board discussed this report in January 2015.

The results were also shared with the SNS REAAL Executive Board and the SNS Bank Managing Board. The criteria applied in the evaluation revealed that the Supervisory Board performs its duties properly. In substantive and relational terms, the Supervisory Board is equal to its task. The report shows that this supervisory board membership a weighty one in terms of complexity and demand on time and that the members are very committed. The Supervisory Board seeks to consider the interests of all parties concerned and of all stakeholders in a careful and well-balanced manner. The Supervisory Board is properly composed and has sufficient expertise. Communication between the Supervisory Board, Executive Board and the Board of Directors is effective. Areas for improvement are meeting (time) management and, occasionally, drawing clearer conclusions. Given the situation, there is much discussion about downward risks and perhaps too little about upward potential.

In the Supervisory Board's opinion all Supervisory Board members are independent, which means that best practice provision III.2.1 of the Corporate Governance Code has been complied with.

More information about the composition of the Supervisory Board and its members may be found in Chapter 7.

## Cooperation

### *Cooperation with committees*

Working relations between the Supervisory Board and its committees in 2014 were good. Committees discuss subjects in depth, allowing for a careful preparation for the Supervisory Board's decision-making. Feedback on issues addressed at committee meetings is provided at the meeting of the Supervisory Board, so that all Supervisory Board members are fully up to date and decisions can be made with due care.

### *Cooperation with the Board of Directors*

The Supervisory Board supervises and advises the Board of Directors by taking a critical stance where necessary, giving advice where required and giving support where possible. The Supervisory Board ascertains whether the resolutions adopted or to be adopted by the Board of Directors are well-founded and have been or will be based on careful deliberations. Evaluation of the Supervisory Board shows that the Board of Directors makes better and/or more alert judgments as a result of this attitude of the Supervisory Board. The Supervisory Board assumes responsibility where necessary and desirable. Although the new governance did not come into force until 1 July 2014, we may conclude that cooperation between the Supervisory Board and the Board of Directors was good in 2014. Nonetheless, it is still a little too early for a full assessment of the cooperation with the Board of Directors and the way in which the members of the Board of Directors cooperate and perform. The Supervisory Board will specifically address the assessment of the implications of the new governance in the course of 2015.

### *Cooperation with external experts*

External expertise is requested when considered necessary for the Supervisory Board to properly perform its supervisory duties, hence the regular contact between the Audit Committee and the Risk Committee with the external auditor. Furthermore, the Supervisory Board has its own legal and financial advisors with whom relevant issues may be discussed when necessary.

SNS REAAL has appointed its external auditor, KPMG Accountants NV, for an indefinite period. SNS REAAL must engage a new external auditor as from 2016 as a consequence of the Accountancy Profession Act (*Wet op het accountantsberoep*). SNS Bank is currently conducting a tender process for this purpose.

## Personnel

The Supervisory Board and the Remuneration & Nomination Committee frequently discussed SNS REAAL's HR policy and the appraisal of SNS REAAL personnel. The impact of the disentanglement of SNS REAAL is another major topic for the Supervisory Board and the ReNomCo.

The Supervisory Board and the Central Works Council meet on a regular basis. Monika Milz, who was appointed to the Supervisory Board in accordance with the reinforced right of recommendation of the SNS REAAL Central Works Council, has regular meetings with the Central Works Council's day-to-day management, together with Jan Nijssen and the Chairman of the Supervisory Board. In 2014, they met eight times, which included the attendance of one Central Works Council meeting. These regular consultations involved constructive discussions on the change of the legal employer status of employees as from 1 January 2015. On that date, all employees formally entered the employ of SNS Bank NV. This helped bring this change to a successful close.

2014 saw many changes having an impact on personnel on the back of the separation of activities. Despite the sometimes uncertain circumstances, the 2014 employee survey revealed that satisfaction and commitment at SNS Bank improved compared to the previous year, see section 4.7.3.

### 3.3.2 Meetings of the Supervisory Board

#### Frequency

In line with the annual schedule, formal meetings of the Supervisory Board are held eight times per year. Similar to 2013, however, a number of additional meetings were held in 2014. These were, inter alia, related to the 2013 year-end close, SNS Bank's strategy and the ECB's comprehensive assessment.

The Supervisory Board convened 18 times in total (see table at the bottom of the page), including conference calls.

#### Attendance

Despite the additional meetings, often scheduled on short notice, the entire Supervisory Board was generally present. As a rule, absent Supervisory Board members gave input on the business to be transacted to the Chairman of the Supervisory Board beforehand, or to the entire Supervisory Board. Based on a normal frequency of eight meetings per year, the rate of attendance was high. This attests to the Supervisory Board's high level of commitment.

#### Items on the agenda

Until 1 July 2014, updates on the SNS REAAL business units, including the Bank, were given at every regular Supervisory Board meeting. After 1 July 2014, updates for the Bank were given at the separate Supervisory Board meetings of SNS Bank.

Discussions on the business updates also focused on the theme of putting customers' interests first, in which regard the Supervisory Board checked the continuity and quality of customer service. Additional attention was devoted to this subject during a Lifelong Learning (*PE*) session in May. Following this session, the Supervisory Board requested the SNS REAAL business units, including SNS Bank, to submit customer experiences to the Supervisory Board members. This resulted in a menu, as it were, in September 2014, from which the Supervisory Board members can annually select a customer experience. These customer experiences are offered throughout SNS REAAL and consequently pertain to all business units within SNS Bank and the Insurer. Examples include (i) listening in on calls at SNS Customer Service or REAAL Customer Service, (ii) visiting a RegioBank branch and (iii) attending a meeting of the Zwitserleven customer panel. The majority of the Supervisory Board members attended such a customer experience in 2014. Evaluations of these customer experiences will translate into feedback on the relevant experiences within the entire Supervisory Board.

Throughout the year, the Supervisory Board paid attention to the control of the various risks within SNS Bank. Internal control was under pressure, in part as a result of a major workload increase ensuing from new laws and regulations, which also sparked a strong rise in regulatory questions and requirements, the separation of Banking and Insurance activities and the sales process of VIVAT. The changes to the IT infrastructure (user, data and application migration), organisational changes and large projects, such as the ECB's comprehensive assessment, also put pressure on internal control. The Supervisory Board supervised the

#### Meetings Supervisory Board

| Month | Frequency | |
|---|---|---|
| January | Once (informal meeting) | Combined meeting of the Supervisory Boards of SNS REAAL NV, SNS Bank NV, REAAL NV and SRLEV NV. |
| February | Three times | Combined meetings of the Supervisory Boards of SNS REAAL NV, SNS Bank NV, REAAL NV and SRLEV NV. |
| March | Twice | Combined meetings of the Supervisory Boards of SNS REAAL NV, SNS Bank NV, REAAL NV and SRLEV NV. |
| April | Twice | Both a combined meeting of the Supervisory Boards of SNS REAAL NV, SNS Bank NV, REAAL NV and SRLEV NV, and a meeting of the Supervisory Board of SNS Bank NV. |
| May | Twice | In May, a separate meeting of the Supervisory Board of SNS Bank NV was held. In addition. In addition, a combined conference call was held by the Supervisory Boards of SNS REAAL NV, SNS Bank NV, REAAL NV and SRLEV NV. |
| June | Twice | Combined meetings of the Supervisory Boards of SNS REAAL NV, SNS Bank NV, REAAL NV and SRLEV NV. |
| July | Twice | Combined meetings of the Supervisory Boards of SNS REAAL NV, SNS Bank NV, REAAL NV and SRLEV NV. In addition a session to discuss the Bank's strategy was held. |
| August | Once | A meeting of the Supervisory Board of SNS Bank NV. |
| October | Once | Conference call of the Supervisory Board of SNS Bank NV. |
| November | Once | A meeting of the Supervisory Board of SNS Bank NV. |
| December | Once | A meeting of the Supervisory Board of SNS Bank NV. |
| **Total** | **18** | |

individual components that are used to control risks and their effectiveness. In the new governance structure, the Board of Directors continued its complete focus on the further development of the design and existence of the Integrated Control Framework (ICF), which sets frameworks and provides tools to strengthen internal control.

Partly in the light of the disentanglement of SNS Bank and VIVAT, the Supervisory Board devoted attention to the financial structure of the holding company and the operating companies and the intra-group positions in particular.

Other items on the agenda in 2014 included the:
- 2013 full-year results, the Annual Report and the financial statements of SNS Bank for 2013 (*February and March*)
- various aspects relating to the disentanglement of SNS Bank and VIVAT, including employee and IT aspects and risks (*throughout the year*)
- management changes at SNS Bank (*February*)
- governance structure of the Supervisory Board (*March and April*)
- amendments to the regulations of the Board of Directors of the Bank and of the (committees of the) Supervisory Board (*May and September*) and the amendment to the Articles of Association of SNS Bank NV (*May*)
- communication with various stakeholders
- strategy of SNS Bank (*March, August*) and preparations for SNS Bank's spin-off (*September*)
- assessment of an Integrated Control Framework (under development) (*November*)
- monitoring of actions ensuing from the EC restructuring plan (*throughout the year*)
- introduction of disciplinary rules (*tuchtrecht*) for bank employees (*December*)
- 2015 – 2017 Operational Plan (*December*)

In addition, feedback on issues addressed at committee meetings is provided at Supervisory Board meetings.

#### Lifelong Learning sessions
In 2014, the Supervisory Board (together with the Executive Board of SNS REAAL NV) followed three Lifelong Learning sessions, focusing on cybercrime, Putting Customers' Interests First and the retail bank of the future.

#### Presence of the Board of Directors
Meetings are opened (the first 30 minutes) without any members of the Board of Directors being present. After 30 minutes, the Supervisory Board meets in the presence of the members of the Board of Directors. At the beginning of 2015, a Supervisory Board meeting was held without any members of the Board of Directors attending. One of the topics discussed at that meeting was the external evaluation (see section 'Performance').

#### 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. In 2014, the external auditor did not attend any meetings of the Risk Committee. In early 2015, a Risk Committee meeting was held at which the external auditor was present. The external auditor has a standing invitation to attend meetings of the Supervisory Board. The external auditor was in fact present at one of the meetings held in February 2014.

### 3.3.3 Committee meetings
The three committees – Audit Committee, Risk Committee and Remuneration and Nomination Committee – prepare the decision-making in respect of the duties assigned to them and report to the plenary Supervisory Board.

#### Audit Committee
On 31 December 2014, the composition of the Audit Committee (AC) was as follows: Jos Nijhuis (Chairman), Jan Nooitgedagt, Ludo Wijngaarden and Jan van Rutte.

Apart from the AC members, meetings were attended by the Chairman of the Executive Board, the CFRO, the Company Secretary, the Group Audit Director, the Group Finance Director and the external auditor. As a result of the changes made to the governance structure, since 1 July 2014 the CFO of SNS Bank NV has attended the AC meeting discussions on SNS Bank. Of course, the AC may, of course, also invite others to attend a meeting as necessary. In 2014, the AC convened nine times.

In 2014, the AC discussed and assessed the following topics in respect of SNS Bank in particular:
- The structure and operation of SNS REAAL's financial reporting and the corresponding audits, with due attention to new IFRS rules (including IFRS 10).
- Compliance with the EC commitments.
- Financial and audit reports.
- Tax issues.
- Internal reports by Group Audit and management on subjects including data quality, model validation, application of the Banking Code, the ICF and the results of the Operational Plan.
- Preparations for the engagement of a new auditor as from 2016.

- Reports and activities of the external auditor were also discussed at length, including the annual plan, the mandate of the external auditor and Group Audit and the management letter.

The external auditor is present at every AC meeting to ensure an effective dialogue between the AC members and the external auditor. The Chairman of the AC also maintains regular contact with internal and external auditors.

### Risk Committee

The composition of the Risk Committee (RC) was as follows on 31 December 2014: Jan Nijssen (Chairman), Jan Nooitgedagt, Charlotte Insinger and Jan van Rutte.

Apart from the RC members, the RC meetings are attended by the Chairman of the Executive Board, the CFRO, the Company Secretary, the Group Audit Director, the Group Risk Management Director and the Compliance Manager. As a result of the changes made to the governance structure, since 1 July 2014 the CRO of SNS Bank has attended the RC meeting discussions relating to SNS Bank. The RC may, of course, also invite others to attend a meeting as necessary. In 2014, the committee convened five times.

The RC mainly focuses on preparing and assessing the financial and non-financial risk policies and the operation of risk management. In 2014, the RC devoted its attention to the following topics that also relate to SNS Bank NV:

- Risk appetite
- Risk reports
- Litigation risks
- Compliance with applicable codes and the risk aspects of the remuneration policy
- Particular attention was paid to the impact of the disentanglement of SNS Bank and VIVAT in the field of IT.

The RC will gain an even better understanding of the risk aspects with the ICF that SNS Bank has begun to set up.

### Remuneration & Nomination Committee

The Remuneration & Nomination Committee (ReNomCo) consists of: Ludo Wijngaarden (Chairman), Jan Nooitgedagt, Charlotte Insinger and Monika Milz. The meetings are attended by the Chairman of the Executive Board, the CFRO, the HR Director and the Company Secretary. The committee convened nine times in 2014.

The ReNomCo's duties are selecting and nominating persons for appointment to the Executive Board of SNS REAAL NV, the Managing Boards of the business units and the Supervisory Board. It prepares the decision-making with regard to the remuneration policy applicable to the Managing Board members and senior management and with regard to the principles of the remuneration policy for all other SNS Bank personnel, insofar as this responsibility ensues from the Regulation on Sound Remuneration Policies pursuant to the Financial Supervision Act 2011 (*Regeling beheerst beloningsbeleid Wft 2011*) or any superseding regulation. More details on the main principles of the remuneration policy, including accountability on this subject, are provided in the section on employment conditions, section (4.7.8), as well as in the Remuneration Report included in the Annual Report of SNS REAAL.

The ReNomCo discussed the following topics that also relate to SNS Bank NV:

- Key Performance Indicators (KPIs) for senior management (including ex ante risk analysis).
- Adjustment of SNS REAAL's senior management structure, including the composition of the Managing Boards of SNS Bank and VIVAT.
- The total amount and payment of the variable remuneration for senior management. Due attention in this respect was given to the Bill on Remuneration Policies of Financial Undertakings (*wetsvoorstel beloningsbeleid financiële ondernemingen*), which is to take effect in 2015 and which imposes a 20 percent bonus cap.
- Ex post risk analysis of (the execution of) SNS REAAL's remuneration policy.
- Evaluation of (the profiles of) the Supervisory Board.
- Monitoring and safeguarding continuity in management.
- Reporting on the annual assessment of the 2013 remuneration policy.
- Regulation on Sound Remuneration Policies pursuant to the Financial Supervision Act 2014.

## 3.3.4 Financial statements

The 2014 financial statements were discussed in several meetings of the AC and the Supervisory Board prior to their publication. KPMG, the external auditor, issued an unqualified auditor's report on the financial statements.

### 3.3.5 Closing words

The Supervisory Board wishes to express its gratitude and appreciation to all employees of SNS Bank, particularly for their engagement and commitment. Great demands were placed on them over these last months, both inside and outside the office. Exceptional dedication was also demanded of SNS Bank's management this year. Good progress has nonetheless been made on all plans in close collaboration with the Supervisory Board. The Supervisory Board would therefore like to express its appreciation for this too.

Utrecht, 15 April 2015

On behalf of the Supervisory Board
Jan Nooitgedagt, Chairman

## 3.4 Banking code

On 9 September 2009, the Board of the Dutch Banking Association (NVB) adopted the Banking Code. In doing so, the NVB built on the findings and recommendations of the report entitled *Restoring Trust*. This report was published by the Advisory Committee on the Future of Banks in the Netherlands (Maas Committee) on 7 April 2009. The Banking Code contains principles that relate to the Supervisory Committee and the Executive Board, risk management, audit and remuneration policies. The Code came into effect on 1 January 2010.

The Banking Code applies to all banks with a banking licence, but banks that are part of a group can apply parts of the Banking Code at group or consolidated level. The Banking Code also applies to all legal entities with a banking licence within SNS Bank. As at 31 December 2014, the Code thus applied to SNS Bank NV, RegioBank NV and ASN Bank NV; SNS Securities NV had a banking licence until mid-2014 and since then has a licence as an investment company.

Right after the publication of the *Restoring Trust* report in April 2009, we started implementing the recommendations from the report within our organisation where necessary.

We aim to contribute to restoring trust in the Dutch financial sector by implementing the Manifesto and our strategy and, in doing so, to stabilise and improve the functioning of the financial sector.

The Banking Code uses the ‘comply or explain’ principle, which means that banks shall, theoretically, apply the principles of the Banking Code. However, applying the principles also depends on the activities and other specific characteristics of the bank and the group of which they are part. Departures from the Code, if substantiated, can therefore be justified.

In 2014, SNS Bank made great strides in monitoring compliance with the Banking Code by the first line. This has provided more insight into the way in which the Code’s principles were implemented. These insights were used as a basis for internal monitoring by the second line. Monitoring has shown that, with a few exceptions, the Banking Code is fully applied within SNS Bank. The website of SNS Bank provides information on these exceptions. The aforementioned website will also include a report on the way in which SNS Bank NV made preparations for implementation of the new Banking Code, which entered into force on 1 January 2015.

## 3.5 Corporate Governance Code

The Dutch Corporate Governance Code is a code of conduct for listed companies. The aim of this Code is to promote good corporate governance in Dutch listed companies through increased transparency in financial reporting, improved accountability to the Supervisory Board and strengthened shareholder influence and protection. Although its shares are not listed on any stock exchange, SNS REAAL NV, parent company of SNS Bank NV, applied the Dutch Corporate Governance Code in 2014, rendering account of its compliance in its annual report according to the ‘comply or explain’ principle. For more relevant information on the way in which SNS REAAL NV applies the Dutch Corporate Governance Code, please refer to the website of SNS REAAL.

## 3.6 Management statements

### 3.6.1 In-control statement

The Board of Directors of SNS Bank NV hereby declares that it has ascertained with a reasonable degree of assurance that the material risks SNS Bank NV is facing are actually identified and that these risks are adequately monitored and controlled. The basis for this is the risk management organisation (control framework). Over the past year, SNS Bank NV focused its attention to the ongoing development of the Integrated Control Framework as described in chapter 5. The effectiveness of the key control measures and monitoring is regularly inspected and tested. SNS Bank NV implemented a ‘three lines of defence’ model with a clear underlying organisational structure and accompanying accountability structure as laid down in governance and risk committees. SNS Bank NV’s risk management is centred around risk appetite, which expresses the amount of reasonably foreseeable risk SNS Bank NV is prepared to accept in pursuing its objectives, taking its business model into account. In the annual Operational Plan (OP) cycle, the risk appetite and strategic objectives for the year ahead are translated into operational objectives, budgets and investment needs. The OP cycle forms the basis for the monthly and quarterly control cycle. This cycle is carried out throughout the company and includes reports on performance data and related risks.

SNS Bank NV has a structured process of completion of internal in-control statements at department level, which are then aggregated at board level. Grounds on which the results of the in-control statements are based are discussed with the relevant persons (experts) and subsequently weighted, reviewed and adopted by the Board of Directors.

SNS Bank NV aims at controlled and responsible business operations and has ascertained that certain areas require improvements. These improvements are mainly directed at strengthening the risk governance, redesigning value chain management-based processes, improving data quality and internal control accountability. In doing so, SNS Bank NV ensures that processes are carried out appropriately, reports are reliable, laws and regulations are complied with, thus showing that SNS Bank NV is demonstrably in control.

As from 1 July 2014, SNS Bank NV operates under an independent and tightened governance structure within SNS REAAL. As a result of the new set-up of our organisation, a clear risk organisation tailored to SNS Bank NV was set up in July 2014, including the appointment of the Chief Risk Officer to the Managing Board of SNS Bank NV. With this change, the financial and non-financial risks are brought together under one management, as are the responsibilities for compliance and legal affairs. In 2014, the principles of the Manifesto were made more specific and partly embedded in the change programmes. The Manifesto contains the key core values that give direction to a clear cut, guiding and motivating mission and strategy. The Manifesto thus forms the basis for the Bank's risk management philosophy: a culture in which SNS Bank NV puts the interests of its customers first, on the basis of reliable business processes.

In 2014, SNS Bank's ambition with respect to controlled and responsible business operations was further determined and the starting points of the ICF following from this were established. The implementation of these starting points in the business operations will also be a point of focus for the Managing Board this year. Various initiatives, measures for improvement and change programmes will lay a solid foundation for achieving a more mature level of control.

The Managing Board of SNS Bank NV is responsible for the set-up and presence of an integrated risk management system that operates effectively. This system is designed to manage the risks that may prevent SNS Bank NV from achieving its objectives. This system cannot, however, provide absolute assurance that material misstatements, fraud or violations of laws and regulations can be avoided.

### 3.6.2 Internal control over financial reporting

The management and control systems for financial reporting constitute an integral part of the entire risk management and control system of SNS Bank NV. The key elements for the management of financial reporting are:

- The Finance Management Team that establishes the framework for policies and the structure of financial accounting systems and processes.
- The business units and staff departments that are responsible for the execution of the work and thus for the accurate and complete recording of transactions and reporting thereon.
- A system of financial key controls within the accounting and reporting departments, to monitor the proper functioning of the management and control system for financial reporting.
- The Finance Management Team's assessment of the financial reporting, based in part on the results from the financial key controls. Approval is subsequently given by the Board of Directors of SNS Bank NV. The findings from the reporting process are, together with the financial reporting itself, discussed in the Audit Committee.
- The internal auditor examines the effectiveness of this system. Moreover, the external auditor reports on the system of financial key controls to the extent he has findings in this respect in the context of his audit of the financial statements. The findings are discussed with the financial and risk committees of the Bank and the Insurer, the Executive Board and the Audit Committee.

We are of the opinion that the measures will lead to an adequate control over the financial reporting.

### 3.6.3 Transparency statement

The members of the Managing Board state the following: "SNS Bank NV prepares the 2014 consolidated and company financial statements 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 and, 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 at 31 December 2014 and the financial results and other companies included in the consolidation. The annual report gives, to the best of our knowledge, a true and fair view of the position as at the balance sheet date and the development and performance of the business during the financial year. The principal risks SNS Bank NV faces are described in the Annual Report."

Utrecht, 15 April 2015

Dick Okhuijsen (Chairman)
Annemiek van Melick
Alexander Baas
Rob Langezaal
Martijn Wissels

‘**SNS Bank wants** to make its mortgage portfolio more sustainable.

Ecofys helped SNS Bank determine its $CO_2$ strategy.’

**Giel Linthorst** – Managing Consultant at Ecofys

**Sustainability**

# 4 Strategy & developments

This chapter discusses economic, industry-specific and regulatory developments. After that, our SWOT analysis, mission and strategy are included. Then, the progress on the EC Decision is specifically addressed, followed by business, operational and financial developments. And lastly we address the developments in the field of human resource management in Our people.

## 4.1 Business and economic environment

### 4.1.1 Limited growth in Dutch economy

After two years of contraction, the Dutch economy showed modest growth in 2014. The gross domestic product in the Netherlands increased by approximately 0.7 percent, a shade below the 1percent growth projected for the entire euro area. A limited acceleration of growth is expected for 2015: 1.5 percent for the euro area and 1.25 percent for the Netherlands.

Mainly driven by exports in 2014 and 2015, Dutch economic growth strongly relies on growth of the relevant international trade. Domestic spending is also believed to improve again in 2015. For the first time in a long period consumption will contribute to economic growth, albeit still to a very limited degree.

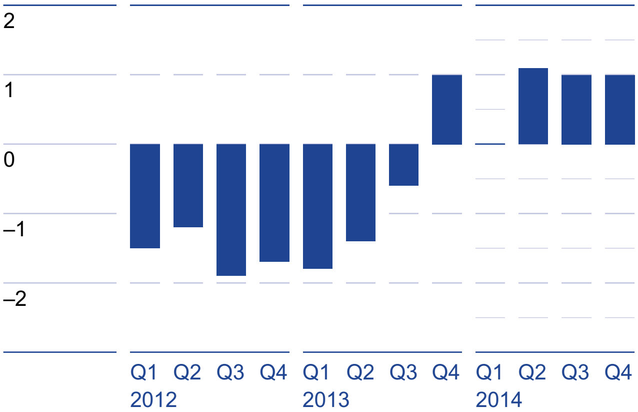
The increase in purchasing power on the back of falling average pension contributions and a stabilising housing market play a major role here. Investments are expected to expand moderately, underpinned by the low interest rates, the economic upturn and rising occupancy rates. However, the export of goods and services will be the strongest-growing spending category in 2015 as well, offering the most promising opportunities as well as the largest threats, as geopolitical tensions pose a significant risk to global economic growth.

The Dutch economy is picking up and despite its low growth this development may still limitedly push down unemployment levels and reduce the government deficit in 2015 as inflation remains low. These trends were already apparent in the final quarters of 2014. Macroeconomic improvements, in all their fragility and limited scope, can be considered positive for SNS Bank as well – the heightened economic activity may after all boost the number of mortgage, savings and payment transactions and reduce the number of payment arrears.

### 4.1.2 Long-term interest rates hit record low

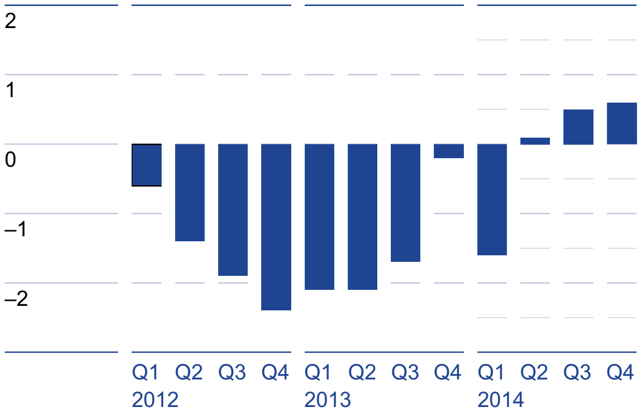
The ECB's accomodating monetary policy, combined with persistently low inflation, increasingly translated into exceptionally low European interest rates in 2014. The long-term interest rate even hit a record low in December 2014. The German 10-year yield dropped below 0.7 percent, down from 3.4 percent five years ago. Slightly above 10 basis points, the risk surcharge of Dutch yields, compared to German interest rates, is very limited at the moment. A striking trend in 2014 was that the risk surcharges of Spanish and Italian bonds, for example, also

**Gross Domestic Product**
(Percentage change compared to same period last year)



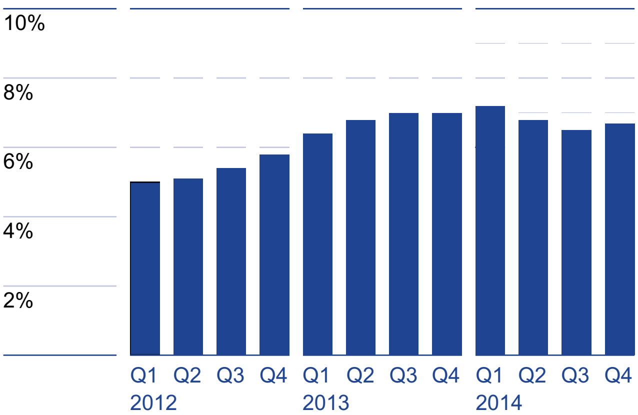

*Source: CBS*

**Retail consumption**
(Percentage change compared to same period last year)




*Source: CBS*

**Unemployment**
(Inter. definition seasonally adjusted)




*Source: CBS*

**Inflation**
(consumer prices)


*Source: CBS*

went down sharply, triggered by growing confidence in the eurozone and improvements in government deficits and deficits in the balance of payments.

Looking ahead to 2015, it would be fair to expect a limited rise in long-term interest rates in lockstep with the economic upturn. However, the ECB's quantitative easing policy and the limited level of economic growth that is expected give cause to suspect that this will not happen any time soon, at least not in Europe's core countries. It is quite likely that today's low risk surcharges of peripheral countries will rise if it turns out that their fundamental problems have not been solved in the short run.

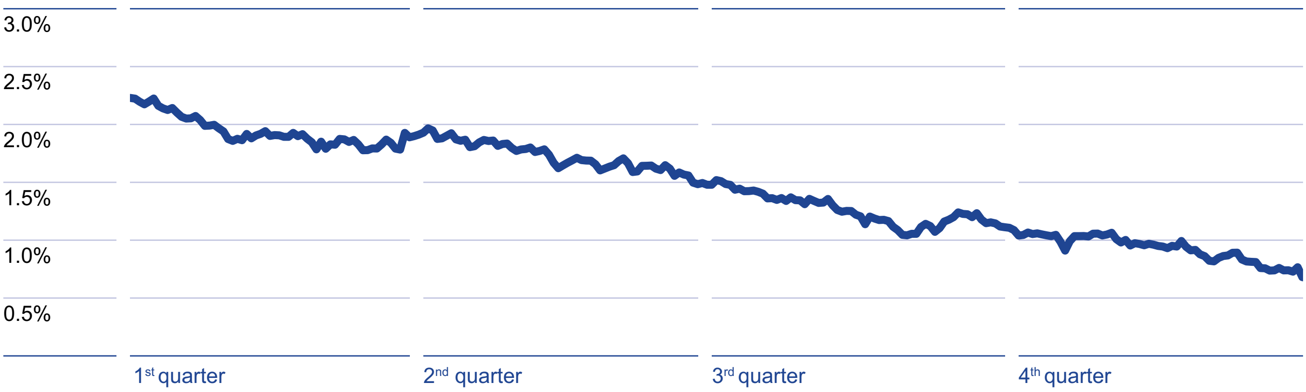
### 4.1.3 Mortgage and housing markets show signs of cautious recovery

The decline in house prices, which set in in 2008, came to an end in 2014. Where 2013 still saw a 6 percent drop in average sales prices, prices showed an increase of 4 percent in 2014. We anticipate a similar increase in 2015.

The number of homes sold is likewise moving upwards from its low point mid-2013, showing a 39 percent increase in the number of existing homes sold in 2014. Still, pre-2008 levels are as yet a long way off.

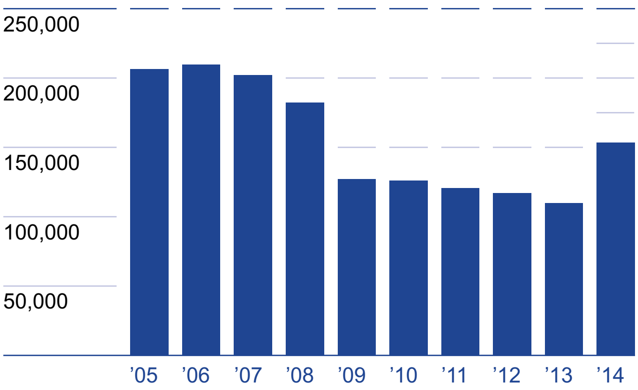
A moderate rise in house prices, a limited drop in unemployment, lower (mortgage) interest rates and a rising trend in the number of building permits granted are signs of a further cautious recovery of the Dutch housing market. However, a number of factors are dampening a more exuberant recovery. The National Institute for Family Finance Information for example, applies lower mortgage cost-to-income ratios for 2015, reflecting the maximum portion of income that may be spent on mortgage payments. Mortgage lenders have a legal obligation to take these ratios as a basis in their mortgage calculations. Another dampening factor is the gradual reduction of the maximum Loan-to-Value (LtV) for mortgages to 100 percent in 2018 (2015: 103 percent, including 2 percent property transfer tax) and the fact that many mortgages are

**Ten-year yield Dutch Government bonds in 2014**



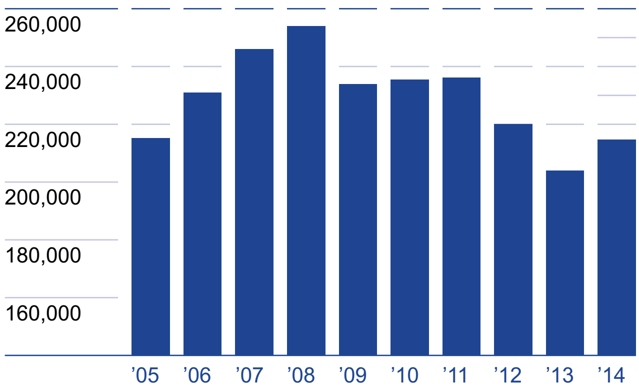

*Source: Bloomberg*

**Number of houses sold**




*Source: CBS*

**Average sales price residential property**
(in €)




*Source: CBS*

still underwater. Approximately one million Dutch households have an outstanding mortgage debt that exceeds the value of their homes. Recovery is also held back by the gradual reduction of the National Mortgage Guarantee maximum, set to fall from € 265 thousand in 2014 to € 245 thousand in 2015 and € 225 thousand in 2016.

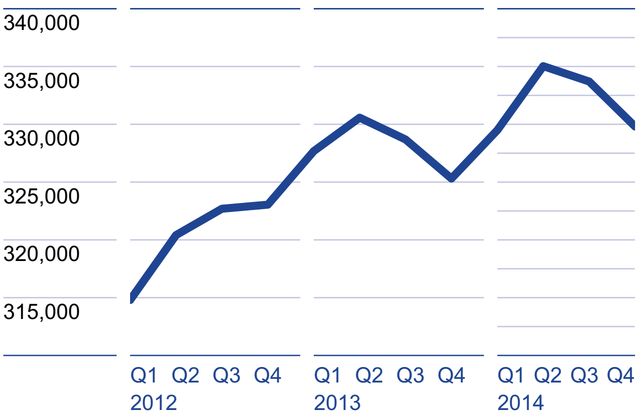
The turnaround in the mortgage and housing markets was also reflected in developments at SNS Bank in 2014. Loans in default declined limitedly in the course of 2014 and the LtV of the mortgage portfolio improved slightly. Improved prospects in the housing market is boosting competition among lenders, putting a limited degree of pressure on net interest income on new mortgages. At the same time, however, credit losses may also drop as the market picks up.

### 4.1.4 Rise in Dutch savings

In 2014 (based on end-of-November figures), Dutch households added almost € 6 billion to their savings. At the end of November € 331 billion was held in domestic savings accounts, up 2 percent from year-end 2013. This boils down to a private household average of around € 44,000. Instant-access deposits saw the largest net inflow, but term deposits also experienced limited inflow.

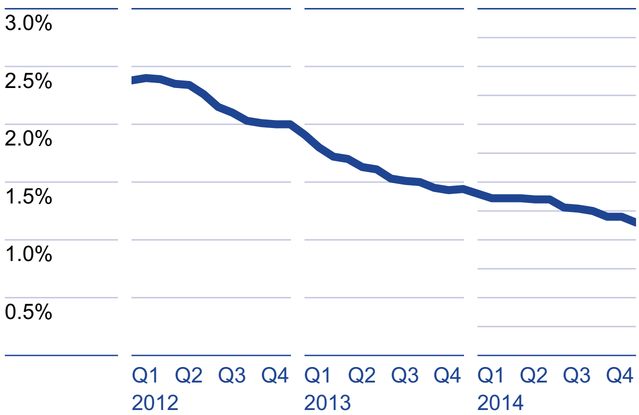
The savings increase contrasts with the steady decline in interest rates on savings in 2014: the average interest rate on instant-access deposits dropped from 1.4 percent at the beginning of 2014 to 1.2 percent at the end of the year.

**Total savings**
(in € millions)




*Source: CBS*

**Savings rates**
(period of notice < 3 months)

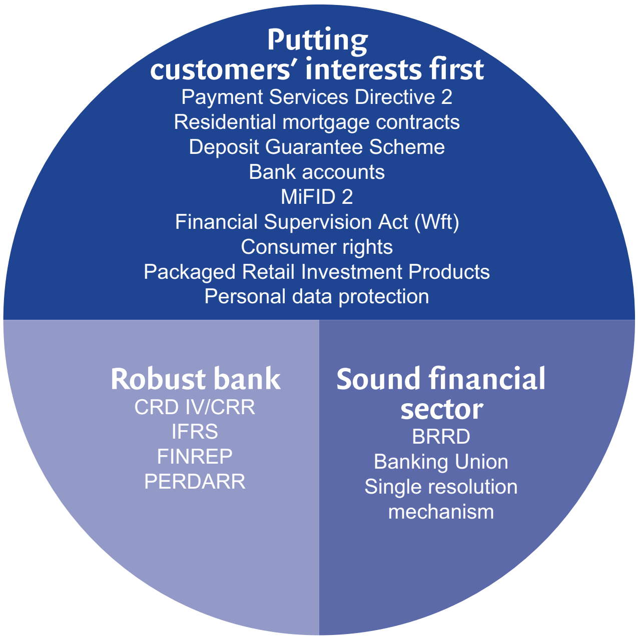



*Source: CBS*

## 4.2 Developments in the regulatory environment

In 2014, we faced many new developments in the regulatory environment, especially in the area of banking supervision (prudential regulations). The number of laws and regulations applicable to us increased both at the national and the international level, which also created a higher workload to fully and correctly implement the new rules in our organisation. We set up a Regulatory Board to safeguard the timely identification and implementation of new regulations. Various working groups work under this Board to further develop identification, implementation and compliance monitoring practices.

Besides the prudential regulations, we have worked hard on the implementation of laws and regulations applicable to the products and services provided to our customers. These laws and regulations and prudential rules are shown in the figure below.




In the following sections, we will elaborate on the most important new prudential rules that are, or will be, applicable to SNS Bank:

### 4.2.1 CRD IV

The Capital Requirements Directive IV (CRD IV) is a European Directive for the implementation of the Basel III regulations published in 2011. The CRD IV laws and regulations have the biggest impact on SNS Bank. The directive specifically monitors the reinforcement of the capital and liquidity of banks and investment firms. CRD IV is supplemented by the implementing regulation Capital Requirements Regulation (CRR). Together, they form the core of the new prudential framework. The Directive was implemented in the Financial Supervision Act (Wft) in 2014. The Regulation has direct effect.

In 2014 non-risk-weighted capital ratios were given more attention, for which purpose the leverage ratio was developed within CRD IV. In addition, the Basel Committee initiated consultation on credit, market and operational risk.

#### Leverage ratio

The leverage ratio is defined as Tier 1 capital divided by on and off-balance sheet items according to CRD IV. From 2018, this ratio is subject to a minimum of 3 percent under CRD IV. Member states may deviate from this. A minimum of 4 percent will possibly apply to Dutch banks in the future.

The impact of non-risk-weighted requirements on SNS Bank is relatively large as a retail bank with a large number of (mortgage) loans on its balance sheet with a low risk weighting. Nevertheless, we expect to comply with new regulations in time. We monitor the leverage ratio on a monthly basis.

#### Credit, market and operational risk consultations from Basel

Rules issued by the Basel Committee are generally considered to be paving the road for European regulations. In 2014, the Basel Committee initiated consultations focusing on the introduction of a capital floor in internal (Internal Rating Based) capital models and tightening of the standardised approaches for calculating credit, market and operational risks. When these new rules become final, they are likely to translate into a further increase in capitalisation. Consultations from Europe mainly pertain to further elaborations of previously published directives and regulations – not only the implementation standards of CRD IV/CRR, but also those of the BRRD (mentioned below).

SNS Bank keeps a close eye on these consultations and avails itself of national and international opportunities for the public to comment.

### 4.2.2 BRRD

The European Bank Recovery and Resolution Directive (BRRD) took effect on 1 January 2015. Its implementation in Dutch legislation has not yet been completed.

The BRRD introduces a Minimum Requirement for own funds and Eligible Liabilities (MREL). The liability items qualifying for the bail-in buffer are referred to as Eligible Liabilities. These 'own funds and eligible liabilities' form a buffer to absorb losses. In this connection, the BRRD is to introduce a bail-in regime with effect from 1 January 2016. This means that, in the event of a bank failure, first the shareholders and lenders are 'charged' for an amount of at least 8 percent of the balance sheet total or 20 percent of the risk-weighted assets. Only then can any public funds be used.

In line with this, the Financial Stability Board launched its own proposal for what it refers to as a Total Loss Absorbing Capacity ratio (TLAC). Like the MREL in the BRRD, it is a bail-in instrument. The TLAC is a standard loss absorption indicator, intended first and foremost for large, internationally operating systemically important financial institutions. This standard is still being developed.

SNS Bank is currently exploring the optimum capital structure in view of the above regulatory developments. The capital and financing structure will be set up in such a way that saving accounts with a balance exceeding € 100 thousand will not fall under the 8% 'bail-in'.

We monitor the MREL on a monthly basis. The TLAC proposals are not yet applicable to SNS Bank, but we still keep a close watch on them.

### 4.2.3 IFRS

In addition to rules on banking supervision, changes to IFRS standards and interpretations also affect us. The main change for the years ahead relating to us is the replacement of IAS 39 ‘Financial Instruments’ by IFRS 9. Expectations are that this new standard will have consequences for the classification and measurement of SNS Bank’s financial assets and liabilities.

Please refer to the accounting principles in the financial statements for a further explanation of relevant IFRS changes in 2014 and future changes with a potential impact on SNS Bank’s financial statements.

### 4.2.4 FINREP

As part of the financial reporting to the regulatory authorities (FINREP), SNS Bank must report new data for 2014. These data relate to assets that have been pledged or used as collateral, repayment arrangements (forbearance) and loans in arrears. We have developed a separate programme that allows us to provide the information in accordance with the FINREP timelines set for that purpose. We have also set up work processes and systems in order to meet the reporting requirements.

### 4.2.5 PERDARR

At year-end 2015, SNS Bank must comply with the PERDARR principles (Principles for Effective Risk Data Aggregation and Risk Reporting) developed by the Basel Committee on Banking Supervision. These principles are meant to improve the quality of systems that combine risk data and of systems that are used for internal risk reporting, with the ultimate goal of strengthening risk management and enhancing decision-making processes in banks. We have developed a programme to identify all the corresponding and required technical and organisational changes and to properly manage their implementation.

## 4.3 SWOT Analysis

### Strengths

- **Focus** on a limited number of savings, payment and mortgage products to the Dutch retail segment: private individuals, self-employed persons and SMEs.
- **Several distinctive brands** that are close to their specific customer groups and respond to needs and preferences in their own way.
- **Effective and efficient business model** as the brands are supported by centrally managed mid and back offices and staff departments.
- **Sound IT platform** ensures stability and enables us to act as a 'smart follower'.
- **Manifesto** binds employees together to achieve the goal of becoming the most people-oriented bank.

### Weaknesses

- Focus on the Dutch retail segment entails a certain **concentration risk**.
- The **brand awareness** of some SNS Bank brands is less than that of the largest players.
- **Controlled and responsible business operations** require improvement in the areas of risk governance, processes and data quality.
- Loan impairment charges on SNS Bank's **loan portfolio** are higher compared to the major Dutch banks.

### Opportunities

- With its profile and its size, SNS Bank has **room for innovation** in a period in which developments take place in rapid succession.
- SNS Bank uses its brands to capitalise on the trend towards a **greater** consumer **demand for simple, transparent products** and, at the same time, for an individual approach.
- Its **multi-brand retail strategy** allows SNS Bank to respond quickly to shifts in customer group needs by introducing a new brand.
- ASN Bank is well-positioned for the trend towards consumers' increased preference for **sustainability**.

### Threats

- The **increasing regulatory and supervisory burden** is putting a material pressure on the sector and SNS Bank and is leading to higher costs.
- **New capital requirements** regarding the amount and quality of capital to be maintained may result in lower returns.
- **Tightening margins in the mortgage market** as a result of increasing competition.
- **New entrants** into specific parts of the value chain, including non-financial players.

## 4.4 Mission and strategy

SNS Bank's strategy uses the Manifesto as a beacon guiding our thoughts and actions. Defining our mission of banking with a human touch, the Manifesto lies at the heart of our key task and our vision. What form should banking take in today's world and what role can SNS Bank play in that regard?

### 4.4.1 Banking with a human touch

The verbatim text of the Manifesto is as follows:

*A society that allows people to live confidently and full of optimism and to do the things that benefit the next generation – that is the kind of society we wish to build. It is our raison d'être:* **to help every single individual** *– in a personal way – to be* **financially resilient***, each in his own way.*

*Accordingly, reaching back to our social roots, we are taking our responsibility to shape the banking trade based on what people really need. It means that our financial services are about* **benefit rather than return** *– about value rather than money. It particularly means that we are sincere in putting our customers' interests first in order to safeguard fundamental things in life such as housing, education and a buffer for unexpected expenses, now and in the future.*

*We also understand that the Netherlands today is very diverse and that every individual wants to be 'financially resilient' in his own way. That is why SNS Bank is a diverse family of brands: ASN Bank, BLG Wonen, SNS, RegioBank and ZwitserlevenBank. Together, yet each in our own way, we choose to build a future based on the principle of* **sustainability***. We choose to offer people insight, clarity and prospects in finance, to make 'good housing' accessible and to reinstate sincere personal contact as the cornerstone of banking. We are continuously inspired to work closely with our customers and develop simple services that bring back the human dimension in finance.*

*Every single day, all of our staff are fully committed to the task of making the Netherlands financially resilient and doing this in a personal way. All those people together are building a society in which people can live with confidence and optimism.*

SNS Bank has been a unique element in the Dutch financial landscape for almost 200 years now. All legal predecessors of the '*Samenwerkende Nederlandse Spaarbanken*' (SNS), or Cooperating Dutch Savings Banks, were associated savings banks or savings banks for the common good – banks whose local and social nature enabled them to know their customers and to be close to them.

Today, SNS Bank shapes socially responsible banking by means of its Manifesto. The Manifesto is the key common denominator of the five SNS Bank brands (ASN Bank, BLG Wonen, RegioBank, SNS and ZwitserlevenBank).

Banking with a human touch inspires us to be a socially responsible bank, for our customers and for society, and to break with existing conventions in the financial world.

We have formulated the following three longer-term ambitions to translate our views into specific goals:

- We are a **people-oriented** bank
  Both customers and staff give us high appreciation scores.
- We are a **social** bank
  We create social value with simple, responsible products and services and financial resilience initiatives. In doing so, we strive for a profit level that is appropriate for this role and ensures a sound financial basis for the Bank.
- We are a **sustainable** bank
  We are working towards the creation of a carbon-neutral bank, making our own business operations more sustainable and actively encouraging customers to save energy.

In 2015, we will further elaborate these ambitions, assess their feasibility and translate them into measurable targets and performance indicators (KPIs).

## 4.4.2 Our strategy

SNS Bank stands out from other banks through its focus on the Dutch retail segment: private individuals, self-employed persons and SMEs. In our activities, we limit ourselves to simple financial products that are within our area of knowledge and expertise. These are primarily products in the areas of savings, payments and mortgages. In addition, we offer insurance products and investment funds.

We are close to our customers with our multi-brand strategy. With our five brands (ASN Bank, BLG Wonen, SNS, RegioBank and ZwitserlevenBank) we wish to deliver the right financial products and services to specific groups of people, whose various needs are also given due consideration in our distribution. For example, ASN Bank is an internet-only bank, BLG Wonen primarily distributes its products via independent intermediaries, and SNS and RegioBank combine online and local presence, with RegioBank specifically targeting the smaller communities.

All our brands are supported by a single back office, a strong IT organisation and a central staff organisation, which enable us to work effectively and efficiently. Our size, focus and flexible IT organisation ensure a short time to market, enabling us to introduce innovations efficiently and quickly by means of a smart-follower strategy.

We have set ourselves a number of strategic priorities for the medium term:

### 1 Excellent customer experience

Excellent customer experience is a basic condition to ensure that we win customers' trust and that customers make a positive choice for one of our bank brands. Only when customers are enthusiastic about us and our products and services, will they remain our customers or encourage others to become customers. Customer contact is key to customer experience and will therefore be given explicit attention.

Various improvements were made to optimise customer experience in 2014, for example in the management of our mortgage portfolio in terms of customer retention as well as in respect of preventive management for customers who could use some help. Other examples include innovations in the areas of mobile banking and complaints management. Chapter 4.6 further describes the various initiatives taken to achieve excellent customer experience, both at brand and  Group level.

By focusing on excellent customer experience, we aim to increase our customers' appreciation and our market shares.

### 2 Excellent business operations

Flawless, perfectly streamlined business operations make or break excellent customer experience. It is only when we do our work well and consistently that we can promise customers that we stand by every agreement we make and provide every product in the same manner and with the same level of quality and reliability. A high level of quality and reliability in our work will also push down costs as error resolution costs are rare or non-existent and risks can be controlled.

With our single back office and our sound and flexible IT organisation, we are well-positioned to achieve excellent business operations at controllable cost. We still see room for improvement here. For example, we aim to further improve our internal business operations by further elaborating and implementing our Integrated Control Framework and raising our data quality and data management to a higher level.

### 3 Moderate risk profile

We seek to maintain a moderate risk profile, in part by focusing on the Netherlands and on specific product and target groups. Our risk is primarily fuelled by credit risk and, to a lesser extent, by market risk. We will further explain these risks in Chapter 5.

One of our priorities is to reduce our risk costs for residential mortgages by pursuing further improvements in the mortgage management process, planning, acceptance and management until redemption. In this vein, much attention was devoted in 2014 to preventive management in order to respond at an early stage to indications that a customer might run into mortgage payment problems. We also redeveloped and implemented our acceptance and credit risk models. The implementation of the Integrated Control Framework also contributes to improving our risk profile.

We furthermore aim to strike a healthy balance with sound capital ratios. With a sound Common Equity Tier 1 ratio of 18.3 percent (on a stand-alone basis), SNS Bank convincingly meets current requirements. New regulations will also set requirements in respect of non-risk-weighted capital ratios as from 1 January 2018. As SNS Bank is a retail bank primarily holding assets with a low risk weight, such ratios (such as the leverage ratio and the MREL) are currently important factors in our capital management policy. In order to comply with these future regulations, we intend to diversify and strengthen our capital position with subordinated and senior unsecured funding.

A moderate risk profile cannot exist without sustained profitability. Our actions in this respect are predicated on the premise of a healthy balance between value for customers, staff and the shareholder and our contribution to society. In other words, we aspire to maintain a profit level that is in line with our Manifesto and business model and at the same time contributes to a healthy financial basis for a moderate risk profile.

### 4.4.3 Our Group-wide objectives

We have translated our strategy into the following Group-wide objectives for the longer run:

- Satisfied customers: a positive Net Promoter Score for all brands.
- Satisfied staff: a Net Promoter Score of our staff in excess of 20.
- Achievement of the desired market shares: new sales of our own mortgage products between 5 and 8 percent, savings more than 10 percent.
- A Common Equity Tier 1 ratio of more than 14 percent, based on current regulations.

# 4.5 Progress EC decision

## 4.5.1 Nationalisation and EC decision

### The decree and the decision

On 1 February 2013 the Minister of Finance decreed to nationalise SNS REAAL by virtue of the Dutch Financial Supervision Act, which also entailed the expropriation of:

- all subordinated bonds of SNS Bank NV, including the participation certificates issued by SNS Bank NV;
- subordinated private debts of SNS Bank NV.

All subordinated bonds were expropriated for the benefit of the State. The subordinated private debts were expropriated by expropriating the liability capital components of SNS Bank NV corresponding to those debts for the benefit of *Stichting Afwikkeling Onderhandse Schulden SNS REAAL* (Private Debt Settlement Foundation SNS REAAL). By way of an immediate measure, SNS REAAL NV was appointed sole director of this Foundation.

After the expropriation, the Dutch State submitted a restructuring plan to the European Commission (EC) in 2013, the key components of which were the sale of VIVAT Group by SNS REAAL and the separation of Property Finance.

On 19 December 2013, the EC gave final approval for the measures and the restructuring plan of the Minister of Finance. The EC imposed a number of conditions and restrictions on SNS REAAL NV that, unless provided otherwise, apply until the end of the restructuring period in late 2017. The principal conditions and restrictions are:

- An acquisition ban applies for a period of three years starting from the date of the EC decision.
- SNS REAAL is not permitted to advertise the fact that it is State-owned or make any reference to the State aid received in its communications with existing and/or potential customers or investors.
- SNS REAAL is to refrain from making any payments on hybrid debt instruments outstanding at the time of the EC decision, unless those payments stem from a legal obligation, and will not repay or buy back those instruments without prior approval from the EC.
- Restrictions apply to the remuneration of employees and senior management until the end of the restructuring period or until SNS REAAL has repaid the State aid.
- SNS REAAL undertakes to transfer the administrative structure currently borne by the holding company to the Bank and the Insurer.
- SNS REAAL undertakes to phase out all financial interdependence between the Banking and the Insurance activities.

### Repayment of Propertize funding

Property Finance was separated in late 2013. On 1 January 2014, Property Finance changed its name to Propertize BV. Propertize fully refinanced itself for an amount of € 4.1 billion in early 2014 by issuing State-guaranteed Medium Term Notes totalling € 2.3 billion. Furthermore, it issued Commercial Paper Notes to institutional investors under a funding programme with a State guarantee up to the funding programme's maximum issue amount of € 4.1 billion. On 4 April 2014, Propertize fully repaid the € 4.1 billion in funding provided by SNS Bank NV. SNS Bank NV's credit risk on Propertize was hedged by means of a guarantee from the State in the period from 1 January until 4 April 2014.

### Claims and legal actions

At the time of drawing up this Annual Report, no court proceedings had (yet) been initiated against SNS Bank NV in connection with the nationalisation other than those described in note 19 to the financial statements.

### Resolution levy contribution

As part of the measures following the nationalisation, the Minister of Finance asked all banks to make a contribution in the form of a one-off resolution levy of € 1 billion in 2014. SNS Bank NV's contribution in 2014 was € 76 million, which was charged to the 2014 result.

## 4.5.2 Disentanglement

Major progress was made in 2014 with the disentanglement of the Banking and Insurance activities of SNS REAAL. Increasingly operating as a stand-alone company in 2014, SNS Bank adjusted its governance structure by appointing a new Managing Board on 1 July 2014 and restructured all SNS Bank risk committees (see Section 5.2.1). Where necessary, the Bank still provides services to SNS REAAL on the basis of service level agreements. In addition, part of the employees of SNS REAAL's staff departments transferred to SNS Bank in the course of 2014. The employees of the SNS REAAL's staff departments IT&C, Investor Relations and Audit will also transfer to SNS Bank in the first six months of 2015. Effective 1 January 2015 all of the Bank's employees have transferred to, and are now formally employed by, SNS Bank NV.

These measures were implemented in collaboration with SNS REAAL in order to transfer the administrative structure from the holding company to SNS Bank. In this context, the parties also worked on phasing out the financial interdependence between the Banking and Insurance activities and between the holding company and SNS Bank, which were two important conditions set by the EC. This process will be continued in 2015. The sales process of VIVAT Group was set in motion in the second half of 2014.

The disentanglement will ensure that any and all operational interdependence between the Bank and the Insurer will be terminated. Commercially, the Bank and the Insurer intend to continue their collaboration, as will be laid down in a long-term distribution agreement. On the one hand, SNS Bank NV will be the 'driving force' behind the savings proposition that the Zwitserleven brand offers to retail customers. And, on the other, VIVAT's Non-Life insurance operations will, through an underwriting structure, continue to be the 'driving force' behind the insurance policies offered under its own brand through SNS Bank.

### 4.5.3 Sale of REAAL NV and intended transfer of SNS Bank NV

#### Sale of REAAL NV

On 16 February 2015, SNS REAAL NV, the shareholder of SNS Bank NV, announced that it had signed an agreement for the sale of REAAL NV with Anbang Group Holdings Co. Ltd., a wholly-owned subsidiary of Anbang Insurance Group Co. Ltd. (Anbang), a leading Chinese insurance company.

Under the agreement, Anbang acquires 100% of the shares of REAAL NV for a consideration of € 150 million. This consideration may still vary due to changes in the IFRS equity of REAAL NV between 31 December 2014 and 30 June 2015, the anticipated effective date of the sale. As part of the agreement, € 302 million of subordinated intercompany loans from SNS REAAL NV to REAAL NV and SRLEV NV will be repaid after completion of the sale, subject to a deduction in the event of negative changes in REAAL NV's IFRS equity. Furthermore, an intercompany loan from SNS Bank NV to REAAL NV of € 250 million will be repaid in full. The solvency of REAAL NV will be strengthened to adequate levels through a capital injection by Anbang. Parties have agreed on a strengthening of the solvency ratio of REAAL NV to a level of between 140% and 150% under the Solvency II regime, which will enter into force on 1 January 2016.

Completion of the sale of REAAL NV to Anbang is subject to regulatory approvals in the Netherlands and China. Another condition is that the IFRS equity of REAAL NV does not decline beyond specific limits between 31 December 2014 and 30 June 2015. At the moment of publication of this report there is no reason to assume that the conditions of the sale will not be met. Nevertheless, at this moment there is no absolute certainty that the transaction will be completed.

Based on the book value of REAAL NV as of 31 December 2014, the transaction will result in a book loss of € 1,659 million for SNS REAAL NV in 2015.

If the conditions for completion of the transaction cannot be fullfilled with, SNS REAAL NV will reassess what measures must be taken if, at that moment, the solvency of REAAL NV under Solvency I is still below an adequate level and it is not expected that the solvency requirement under Solvency II (Solvency Capital Requirement, SCR) can be met. In that case, SRLEV NV will expressly consider not to accept any new policyholders and to manage the risk exposures of existing policyholders in a closed portfolio. The going-concern assumptions for various balance sheet items will be adjusted accordingly. This will have a material adverse impact on SNS REAAL NV's financial position and SNS Bank's capitalisation at the prudential consolidated level, which includes SNS REAAL. It may also impact the valuation of receivables that SNS Bank NV has against SNS REAAL NV and REAAL NV, including a € 250 million loan from SNS Bank NV to REAAL NV.

#### Intended transfer of SNS Bank NV

On 16 February 2015, SNS REAAL NV announced that, following completion of the sale of REAAL NV, a next step in the restructuring process will be taken.

Based on the CRR/CRD IV regulations, SNS REAAL NV, as a mixed financial holding company, is part of the prudential consolidated group of SNS Bank NV. As a consequence, SNS Bank NV is required to report its capital position, based on the capital position of SNS REAAL NV and its subsidiaries. This means that developments at REAAL NV and SNS REAAL NV may impact SNS Bank NV's capital position and ratios on a prudential consolidated basis. The related uncertainty may negatively impact SNS Bank's ability to further strengthen and diversify its financial position through capital market issuances, with a view to future regulations.

Consequently, in consultation with the Dutch State, shortly after completion of the sale of REAAL NV, SNS Bank will be transferred from SNS REAAL NV directly to the Dutch State. The Dutch State will purchase SNS Bank NV from SNS REAAL NV at fair value. The transfer of SNS Bank NV requires approval from the European Central Bank and may lead to a loss for SNS REAAL NV.

Following transfer of SNS Bank NV, its regulatory capital position and capital ratios will solely be evaluated on a stand-alone basis.

At the time of nationalisation, the State provided SNS REAAL NV with a bridge loan of € 1.1 billion. This bridge loan will be offset against the sales consideration received for SNS Bank NV. The remaining amount will be recognised by SNS REAAL NV as a receivable from the Dutch State and will be settled to the extent needed to cover the liquidity requirements until SNS REAAL NV is dismantled.

An unsuccessful sale of REAAL will create uncertainty as a result of which SNS Bank NV will face obstacles, such as in the necessary further reinforcement and diversification of its capital position. Management of SNS REAAL NV, in close collaboration with the Dutch State, will consider what measures need to be taken in this case in order to protect SNS Bank NV from any ensuing adverse consequences, including a possible transfer of SNS Bank NV to the Dutch State.

Impact of the sale of REAAL NV on SNS Bank NV's capital position and ratios

The tables below reflect the impact of the various steps in the sales process of REAAL NV on SNS Bank NV's capital position on both a prudential consolidated and stand-alone basis, based on the situation as of 31 December 2014.

## Pro forma capitalisation SNS Bank on a prudential consolidated basis

| in € millions | As reported 31-12-2014 | Signing SPA Sale REAAL NV | Closing sale REAAL NV | Pro forma balance 31-12-2014 |
|---|---|---|---|---|
| *Transitional* | | | | |
| Common Equity Tier 1 capital | 3,485 | -1,507 | -- | 1,978 |
| Risk-weighted-assets (RWA) | 22,370 | -6,636 | -3,058 | 12,676 |
| Mutation Common Equity Tier 1 ratio | | -3.0% | 3.0% | |
| **Common Equity Tier 1 ratio** | **15.6%** | **12.6%** | **15.6%** | **15.6%** |
| | | | | |
| Exposure measure as defined by the CRR | 127,360 | -- | -60,114 | 67,246 |
| **Leverage ratio** | **2.7%** | **1.6%** | **2.9%** | **2.9%** |

## Pro forma capitalisation SNS Bank stand-alone

| in € millions | As reported 31-12-2014 | Signing SPA Sale REAAL NV | Closing sale REAAL NV | Pro forma balance 31-12-2014 |
|---|---|---|---|---|
| *Transitional* | | | | |
| Common Equity Tier 1 capital | 2,520 | -- | -- | 2,520 |
| Risk-weighted-assets (RWA) | 13,771 | -- | -1,250 | 12,521 |
| Mutation Common Equity Tier 1 ratio | | | 1.8% | |
| **Common Equity Tier 1 ratio** | **18.3%** | **18.3%** | **20.1%** | **20.1%** |
| | | | | |
| Exposure measure as defined by the CRR | 66,724 | -- | -- | 66,724 |
| **Leverage ratio** | **3.8%** | **3.8%** | **3.8%** | **3.8%** |

On the date of the agreement for the sale of REAAL NV (14 February 2015), SNS REAAL NV has to recognise an expected loss of € 1,659 million against the book value of REAAL NV as at 31 December 2014. This leads to a deterioration of the Common Equity Tier 1 ratio (and total capital ratio) at the prudential consolidated level from 15.6% to 12.6% (fully phased-in: from 15.3% to 12.1%). The decline is driven by a decrease in Common Equity Tier 1 capital due to the book loss, which is only partially offset by a decline in risk-weighted assets of SNS REAAL NV.

Common Equity Tier 1 capital decreases by € 1,507 million, as the book loss of € 1,659 million is partly offset by the expiry of prudential filters related to REAAL NV, which are taken into account in the capitalisation of SNS Bank on a prudential consolidated basis. These mainly relate to the deduction of the cash flow hedge reserve and the fair value reserve from Common Equity Tier 1 capital.

Risk-weighted assets decrease by € 6,636 million as the book value of REAAL NV, which has a risk-weighting of 400%, decreases by € 1.659 million to € 150 million.

The leverage ratio on a prudential consolidated basis falls from 2.7% to 1.6% due to the decrease of Common Equity Tier 1 capital as a result of the book loss, while REAAL NV is still included in the risk exposure measured as defined by the CRR.
The CET1 ratio and the leverage ratio of SNS Bank NV on a stand-alone basis are not impacted by the agreement for the sale of REAAL NV.

Apart from any potential impact from the price adjustment mechanism, completion of the sale of REAAL NV – expected in the third quarter of 2015 – will result in SNS REAAL NV receiving the sales price of € 150 million, (risk weighted at 400%). In addition, the outstanding loans to REAAL NV and SRLEV NV from both SNS REAAL NV (€ 302 million, risk weighted at 400%) and SNS Bank NV (€ 250 million, risk weighted at 500%) will be redeemed. As a result of the completion of the sale, total risk-weighted assets of SNS Bank NV, on a prudential consolidated basis, will fall by more than € 3 billion. This will result in an increase of the Common Equity Tier 1 ratio (and the total capital ratio) on a prudential consolidated basis to 15.6% (fully phased-in: 15.0%). The leverage ratio on a prudential consolidated basis will increase to 2.9%.

As mentioned above, upon completion of the sale, REAAL NV will repay the loan of € 250 million to SNS Bank NV. This will reduce the amount of risk-weighted assets of SNS Bank NV on a stand-alone basis by € 1,250 million. This, in turn, will result in an increase of the CET1 ratio of SNS Bank NV on a stand-alone basis from 18.3% to 20.1% (fully phased-in from 17.4% to 19.2%). The stand-alone leverage ratio of SNS Bank NV is not affected.

## 4.6 Business, operational and financial developments

SNS Bank has several banking brands, each focusing on a specific target group based on its own mission with a clear-cut and recognisable range of products and with services specifically tailored to that group. The restoration of trust in these brands attests to their appeal to customers. In 2014, the SNS Bank brands welcomed 231,000 new customers (on a gross basis) including 69.000 customers who chose one of the SNS Bank brands to be their primary bank, through a current account. Adjusted for the impact of the sale of SNS Fundcoach, inactive customers and the impact of a customer due diligence project, SNS Bank realised a net growth of the customer portfolio of 98,000. At year-end 2014, the total number of customers amounted to 2.8 million. The total market share in savings increased from 10.1 to 10.7 percent and the market share in mortgages (number of new mortgages) rose from 1.8 to 3.7 percent.

### 4.6.1 Profile, ambitions and operational developments per brand

#### 4.6.1.1 ASN Bank

*For the world of tomorrow*

ASN Bank's mission is to be a bank that contributes to a more sustainable society, based on its pillars of climate change, human rights and biodiversity. ASN Bank fulfils this role by means of its investments, loans (including project loans) and sustainable investment funds. But also by joining forces with other organisations, sharing knowledge, and addressing and helping solve social issues, while also contributing to social and green initiatives by facilitating the online sustainability community 'For the World of Tomorrow'.

ASN Bank positions itself as an independent bank. Its independence is inextricably linked to its own sustainability policy and responsibility for comprehensive customer processes. ASN Bank customers want to know how their savings are used – it is the reason why they chose our sustainable bank. In addition, ASN Bank wants to make the right – socially responsible – investments to be true to its mission and be a bank that helps create a more sustainable society.

As sustainable banking is becoming ever more relevant, competition is growing. The reason is that corporate social responsibility is no longer something that companies do on the side: it has become a hygiene factor as well as a business opportunity. This enhances ASN Bank's relevance and 'appeal' also to those who were sceptical at first. However, other financial service providers (established as well as new ones) also capitalise on this development, creating more competition in ASN Bank's playing field. It has become more important to have a distinctly competitive edge and to prove that the bank has really earned its sustainable reputation. That is why ASN Bank must continue to invest in its clear positioning and pioneering role.

ASN Bank seeks to further strengthen its established reputation and persistently live up to customers' high expectations. Responses it received from customers about the nationalisation were reason for the bank to intensify its customer contact and to provide more information about its history and sustainable profile, as well as the ensuing philosophy and actions. Initiatives such as the Manifesto and a more sustainable mortgage portfolio are a vital link in ASN Bank's aim to be a credible, independent partner of SNS Bank.

*What does ASN Bank want to achieve*

ASN Bank is ambitious: although growth is not a goal in itself, the bank aims to have 1 million satisfied customers within 10 years and € 20 billion in assets under management. ASN Bank wants to use this growth to make an even bigger difference in building a more sustainable society. For 2015, this translated into a net growth target of 20,000 customers, € 500 million in savings inflow and € 200 million in investment inflow.

In addition, the bank is developing a business current account designed primarily for self-employed persons.

Sustainable investment of savings

ASN Bank 'in balance' means that the bank wants to use the growing share of customer savings to increase the share of sustainable loans to € 5 billion in 10 years. Achieving this ambition and growing responsibly require major investments in capacity and expertise in 2014 and subsequent years. The main purpose is to obtain more expertise in sustainable loans as well as in asset & liability management. To achieve responsible growth, it is also necessary to safeguard the culture and commitment of employees; the permanent target is a high employee satisfaction score of more than 8.

Customer satisfaction

This growth will not affect the basic premise of securing customers' trust. The programme Putting customers' interests first will be a further elaboration of current policy. ASN Bank strives for a customer appreciation score (Net Promoter Score, NPS) of more than 25 and a customer satisfaction score of more than 8.

Carbon neutral by 2030

Carbon-neutral banking by 2030 is a key strategic priority for ASN Bank. By pursuing this goal the bank shows that banking activities can truly help protect the climate, which reinforces its reputation as a sustainable bank. To this end, ASN Bank has developed management methods that are due to be implemented in 2015. The bank engaged in conversation with various parties to discuss this ambition, which was appreciated by parties within and outside the financial sector.

### *What did ASN Bank achieve in 2014*

#### Brand positioning

Surveys have revealed that customer trust is strong, even if ASN Bank's sustainable reputation has become more vulnerable due to questions about the investment of savings and its connection with SNS REAAL.

#### Customer base

ASN Bank's customer base showed net growth compared with 2013, bringing the total number of customers to more than 600,000. Most of them were customers purchasing savings and/or payment products. As in 2013, 2014 also saw a growing interest among customers in purchasing investment products.

#### Savings

ASN Bank's proposition of saving at a sustainable bank remains as popular as ever. Yet we see that the declining trend in interest rates on savings has a relatively large impact on customers' experience as to the purpose of saving. The concept of interest was regarded as something positive in the past, but now customers are wondering whether the cost of saving does not in fact outweigh the gain. In addition, we perceived a clear trend towards withdrawing savings to repay a mortgage in 2014. Despite this trend, savings were up 4.3 percent from 2013.

#### Investments

2014 saw a clear interest in the in-house funds offered by ASN Bank. The total assets invested in these in-house funds rose from € 1.6 billion in 2013 to € 2.0 billion at year-end 2014. In addition, ASN Bank's *ASN Duurzaam Milieu & Waterfonds* won the *Groene Stier* ('Green Bull') award for best sustainable investment fund in 2014.

#### Customer satisfaction

Trust and willingness to recommend recovered since the nationalisation in early 2013 thanks to ASN Bank's customer service, online and offline customer engagement, transparent communication, as well as to the introduction of mobile banking. Surveys have revealed that customer trust is strong, even if ASN Bank's sustainable reputation has become more vulnerable. This is partly due to questions about the investment of savings and its connection with SNS REAAL.

## 4.6.1.2 BLG Wonen

### *Feel at home*

BLG Wonen believes that having your own home is a basic condition for happiness and well-being. It is for this reason that, for the past 60 years, BLG Wonen has helped customers make their Housing Wishes come true. To this end, it works together with a network of independent advisers who provide Housing Advice. Housing Advice is about more than just mortgages, insurance and savings products – it enables people to build a home for themselves knowing that everything is taken care of, now and in the future.

### *What does BLG Wonen want to achieve*

#### Brand positioning

BLG Wonen seeks to create a society in which every person has a house where he feels at home. Before that can be achieved, a diverse range of housing issues must be resolved. BLG Wonen wants to be an authority in the areas of housing and finance. To this end, it makes a social contribution to a healthy housing market by means of knowledge development about the housing market and a cross-sector network of players in the housing market. Making homes more sustainable is given particular attention in this respect.

#### Product volumes

BLG Wonen's product range includes mortgages, (bank) savings, term life insurance and home insurance, which are offered under the product names *WoonLenen*, *WoonSparen* and *WoonVerzekeren*. In the years ahead, BLG Wonen will devote particular efforts to increasing its mortgage market share and maintaining its bank savings position. BLG Wonen also actively wants to further develop home-related services, such as the Energy Saving Advice.

#### Distribution channel

Its sights firmly set on the collaboration with prominent independent advisers, BLG Wonen is in the process of building a network of top advisers. A quality segmentation programme and *WoonAcademie* training courses are used to monitor and guarantee the quality of advice. In this context, BLG Wonen develops specific instruments to help advisers with their customer contact. BLG Wonen conducts regular adviser satisfaction surveys to measure advisers' satisfaction with the collaboration.

#### Customer contact strategy

BLG Wonen will continue on the path taken as regards consumer campaigns. It continually inquires into customers' needs by means of customer panels and customer satisfaction surveys. This information is used as input for a variety of projects that the bank is executing to make its business processes more customer friendly and to enrich its customer contact.

### *What did BLG Wonen achieve in 2014*

#### Brand positioning

With a view to increasing its brand awareness, BLG Wonen launched the consumer campaign 'making Housing Wishes come true'. As part of the campaign, BLG Wonen was the official partner of the TV show *RTL Woonmagazine*, took part in the *WoonBeurs* home and design fair (70,000 visitors) and launched the online platform woonwensen.nl, offering customers inspiration in respect of housing and finance. The Housing Wish Contests related to the campaign were a success, with more than 10,000 customers participating.

BLG Wonen celebrated its 60th anniversary in 2014. The celebrations included special local events for advisers and Housing Wish Contests for customers. The values of living that BLG Wonen holds dear were underlined by Mr Blok, the Dutch Minister of Housing and the Civil Service, in his foreword to the anniversary publication of the same name. 4,500 copies of the book were published, and the book was offered to BLG Wonen's business relations.

#### Customer base

BLG Wonen's total customer base was more than 110,000 at the end of 2014, showing a small decline compared to 2013. Still, this was lower than the decline seen in 2012. Nevertheless, the customer volume is still shrinking, which can partly be explained by the lower inflow of mortgage applications and an upward trend in the number of redemptions.

#### Home-related services

BLG Wonen was the first bank to launch the Energy Saving Advice (ESA), which serves to remove customers' worries in four steps by introducing energy-saving measures to limit their housing costs. ESA sessions were organised to train advisers in offering the ESA.

#### Mortgages

Despite the persistent lack of any solid improvement in housing market and mortgage market growth, BLG Wonen posted good results. Its mortgage origination was up 45 percent from 2013. The positive figures reveal that BLG Wonen has made a comeback on the mortgage market since the nationalisation and has reactivated its network of advisers.

#### Savings

Savings grew. The growth of the savings portfolio slowed down in 2014 due to lower interest rates on savings on the one hand and the cancellation of arrangements regarding 'Golden Handshake' severance payments on the other. In addition, more insurers launched competitive initiatives that are successful in retaining expiration funds.

#### Customer satisfaction

BLG Wonen's NPS was -14 in 2014, up 6 percent from the first measurement the year before. The upward trend of the past 18 months came to an end in the fourth quarter of 2014. The average customer satisfaction score remained virtually stable at 7.5 in the past two years.

## 4.6.1.3 RegioBank

### *Nearby and committed*

RegioBank is a bank that works with 535 independent advisers having a franchise relationship with this brand. As the name implies, RegioBank deliberately opts for offices in villages and small towns as people deserve to have a local bank. They are served by local independent advisers who know their customers and who know what is going on in the area. RegioBank offers a range of easy-to-understand products, serving retail customers and corporate clients in the areas of payments, savings and mortgages.

### *What does RegioBank want to achieve*

Good opportunities are arising for RegioBank now that other banks are withdrawing from villages and small towns by closing their offices. RegioBank deliberately chooses to remain the bank nearby.

#### Improving quality of life and self-reliance

In November 2014, housing minister Blok and RegioBank signed a letter of intent, which provides that the government is to support RegioBank in improving liveability in areas of current and projected population decline.
With this letter of intent, the government underlines the importance of RegioBank's pilots with ATMs and Service Desks. RegioBank is joining hands with municipalities, local entrepreneurs, residents and advisers to offer these in villages that now have to do without an ATM or bank. By making personal financial services and cash available, RegioBank contributes to people's financial self-reliance and to the local economy.

#### VoordeBuurt

The letter of intent also refers to the other liveability initiative that RegioBank has set up: the online platform *VoordeBuurt*. People who wish to make an active contribution to their neighbourhoods can find inspiration on this platform and propose solutions for improvement.

### *What did RegioBank achieve in 2014*

#### Brand positioning

RegioBank boasted a sharp increase in its brand awareness in 2014 as well. Its constant presence on radio and TV (via billboard advertising), door-to-door advertising and local visibility contributed to this growth. The *Zilvervlootparade* allowed independent advisers to show in a playful way that they are 'the local banks'.

#### Customer base

The number of new savings and current-account customers grew sharply in 2014 as well. RegioBank's customer base totalled more than 560,000 customers at the end of 2014.

#### Savings and payments

Savings rose by almost 10 percent.
The savings products were again greatly appreciated. MoneyView, for example, again gave the *Spaar-op-Maat Vrij* savings account the maximum score of 5 stars for flexibility.
RegioBank also experienced strong growth of new current-account customers, in part triggered by the 'get € 50 for free with our current account' campaign.

#### Mortgages

In 2014, RegioBank reached *and* maintained a top 3 position in its segment with its competitive pricing. This means that it achieved its mortgage origination target.

#### Customer satisfaction

RegioBank won an award for 'best management' during the Mortgage Event. For this 'best management' category, research agency Gfk asked consumers with a current mortgage about their experiences with their mortgage providers. RegioBank emerged as the best service provider, especially because of its advisers' good after-sales service.

#### RegioBankAdviseurs.nl

RegioBank introduced a new online commercial concept: RegioBankAdviseurs.nl, linking prospective customers to an Adviser. The website combines the Advisers' distinctive features – nearby and truly personal – with the latest online technologies. This closes the gap between the online and offline worlds and creates a consistent focus on personal service.

## 4.6.1.4 SNS

### *Perfectly normal. SNS*

SNS is a retail bank that chooses to be a bank for ordinary Dutch consumers – a course that fits in well with SNS's roots as a bank for the common good with a social purpose. It is a bank that shows that banking can be different, more normal, and that wishes to surprise its customers with this. And if it is in their interests, SNS will break with unreasonable banking practices. Based on this 'perfectly normal' mindset, SNS wants to position itself as a no-nonsense bank for ordinary Dutchmen and as a clear alternative to the major banks.

### *What does SNS want to achieve*

SNS explicitly wants to stand out in the banking market, showing customers that they really have a choice when selecting a bank in the Netherlands. The bank aims to prove this by offering unique products and services. It is the bank's ambition to be a larger, visible player, including in the mortgage and payments markets. In this respect, SNS takes on the role of challenger of the major banks.

#### Simple and easy-to-understand products

Presenting a clear and simple product range, SNS is able to offer its customers comprehensive solutions for payments, savings, (bank) savings, mortgages, insurance, borrowing and profile investment. SNS actively invites customers to face-to-face meetings. Customers who make online comparisons can, for example, use SNS's online tool *Voordeelvergelijker*, which clearly displays the rates that the major banks charge for a range of financial products in the areas of payment, savings and insurance. The objective is to increase the number of SNS products per customer by proactively giving advice, listening carefully and discovering any additional wishes that customers may have. By taking on this advisery role, the bank intensifies the relationship with its customers. This should eventually translate into significant growth in product density among SNS customers.

#### Satisfied customers

In order to achieve the commercial objectives that SNS has set itself, it is vital for customers to be satisfied with the banking products, how they can purchase them via the various sales channels, and SNS's service and communications. One way to improve customer satisfaction is to seamlessly connect the various contact options (website, mobile, shop, call centre, adviser). Customers should find this completely natural and surprising at the same time. It is the customers who decide how, where and when they take care of their financial affairs. It goes without saying that customer processes must be simple and error-free.

#### Cost efficiency in the shop organisation

SNS continues its efforts to enhance the cost effectiveness and distribution capabilities of its advisery organisation. SNS has no large offices, but small SNS Shops. The franchise formula also makes the organisation enterprising and cost-effective.

SNS is strengthening its distribution capabilities by expanding the number of shops. Its ambition is to open around 50 more shops in due time and grow to over 230 shops, approximately one-third of which staffed by SNS employees and the rest run by franchisees.

### *What did SNS achieve in 2014*

#### Brand positioning

Launched in September, the campaign ‘Perfectly Normal. SNS’ serves to support the new brand positioning in the years ahead. Even in 2014 it resulted in a significant increase in brand preference and brand consideration among consumers.
This positioning is accompanied by proper evidence in the form of concrete products and services that testify to SNS’s leading role in serving ‘ordinary Dutchmen’. For example, customers do not need to work their way through an options menu when calling the call centre. Also, the bank is open on Saturdays and customers receive a replacement debit card within an hour if they have lost theirs.

Further, SNS asks customers to share their views on banking matters and is receptive to comments it receives from the online Community or the Customer Panel. The Community has more than 12,000 members.
The bank’s message and services are clearly appreciated: customer and product inflow are increasing.

#### Customer base

The growth in the number of new savings and current-account customers led to an increase of SNS’s total customer base to nearly 1.5 million.

#### Payments

In 2014, the Netherlands was reintroduced to receiving interest on current accounts. SNS has not charged any high overdraft interest for the first three days of overdraft since September 2014. The inflow in SNS Betalen was up 65 percent and the inflow for the switching service was no less than 150 percent.
The private current account was awarded five MoneyView stars for price and flexibility.

#### Savings

Savings is also benefiting from SNS’s successful new course. The bank offers good interest rates on savings without imposing any conditions, and not just for long-term deposits. Despite lower market interest rates on savings, SNS has been experiencing a significantly higher inflow of savings customers since September. SNS’s savings were up more than 5.4 percent from 2013. One trend that can be observed, however, is that consumers choose to use part of their savings as an additional early repayment of their mortgages.

Growth in the bank savings market was lagging as tax changes made it less attractive to opt for this product. This was reflected in the bank savings balance at SNS, which dropped by 4.7 percent from 2013.

#### Mortgages

SNS wants to be a bigger player in the mortgage market. The bank is creating a distinct position as a mortgage provider in the market by offering more competitive rates. It is the only bank to offer a selection of other lenders in addition to its own mortgages. These are complementary, offering the SNS customers and adviser a better choice in finding the right mortgage.

#### Customer satisfaction

Customer satisfaction (NPS) rose from -39 to -28, mainly on the back of the new course and message, which are highly appreciated by the target group. The satisfaction of our staff also plays a major role in this, as satisfied and proud employees constitute a sound basis for further improving services to our customers.

## 4.6.1.5 ZwitserlevenBank

### *Saving for later*

In partnership with Zwitserleven, SNS Bank offers savings products aimed at ‘saving for later’ under the name of Zwitserleven. These Zwitserleven savings products are offered through ZwitserlevenBank, a trade name of SNS Bank. ZwitserlevenBank has been operating in this way in the savings market since July 2013 and has demonstrated its ability to appeal to a specific target group in what is known as the ‘mass affluent’ segment. The strength of the Zwitserleven brand, the services provided as well as the interest rates for savings play a key role in this respect, as customer surveys have revealed.

### *What does ZwitserlevenBank want to achieve*

Increasing market share
By specifically focusing on its target group, ZwitserlevenBank expects to further increase its market share in savings in the near future.
Further, the development of a mobile app is on the agenda to expand the range of services. A number of processes required improvement in order to make it easier for customers to open a savings account. This is to increase customer satisfaction and the percentage of satisfied applicants opening a savings account with ZwitserlevenBan

### *What did ZwitserlevenBank achieve in 2014*

#### Customer base

The number of customers welcomed by ZwitserlevenBank was well above the figure projected.

Savings

Savings grew sharply, overshooting the target set for 2014. ZwitserlevenBank has a favourable interest rate position within its target group compared with its competitors. It is no surprise, therefore, that a large portion of this balance was deposited by this target group.

Customer satisfaction

One year after its establishment, ZwitserlevenBank has not yet performed an NPS measurement among its savings customers. That said, other forms of customer surveys were conducted to improve services. Research is ongoing for 2015 to start NPS measurements.

## 4.6.2 Group-wide themes

### Putting customers' interests first

In 2014 as well, we strongly accentuated important aspects of our services to clearly express our commitment to actually putting customers' interests first. Our ways of promoting and safeguarding this in our methods and the results achieved are reported to the Netherlands Authority for the Financial Markets (AFM). A self-assessment is also carried out each year. This leads to improvements, as will be discussed for each brand individually. This self-assessment is also annually shared with the AFM.

At various levels within the organisation and within our brands, we have taken initiatives to embed customers' interests in our minds and actions.

Board of Directors and Supervisory Board

Committed to firmly anchoring the Manifesto's philosophy, we also place the subject of Putting customers' interests first on the agenda at the top of our company. A lifelong learning session was organised for the Board of Directors and the Supervisory Board to discuss the theme Putting customers' interests first starting from various dilemmas. One of the wishes expressed by the Board of Directors and the Supervisory Board was to intensify contact with customers and staff. The brands followed up on this wish by creating a programme for members of the Board of Directors and the Supervisory Board to visit the business units and meet employees and customers on site.

Management and employees

We also organised sessions with all our managers to discuss the Manifesto and strategy. Such sessions will again be held in 2015 to include managers (and their staff) in the further incorporation of the Manifesto in the services we provide to our customers.

New employees are briefed about the Manifesto and what form it is to take in customer contact, as they are the ones who must put the theme of Putting customers' interests first into practice. The same information is given to new management team members transferring from the holding company to the Bank. In recent months, we worked together with all managers to further implement the Manifesto themes.
We started translating the Manifesto into HR policy, defining three core competencies for all employees (Know Your Customer, Be Professional and Be audacious) that are also included in the appraisal cycle.
The training of all new staff and the various talent development programmes allocate time to giving employees pointers for taking the Manifesto from the mind to the heart.

*Brands*

The brands define Putting customers' interests first each in their own way, as a few examples show.

In 2014, SNS embarked on its redefined course with a new campaign entitled 'Perfectly Normal. SNS'. Starting from this strategy, SNS always aims to provide simple and easy-to-understand products and services that are of use and value to the customer. SNS demonstrated in 2014 that banking can be different, more normal. In this vein, SNS customers receive interest on their current accounts and the bank explains in easy-to-understand videos how particular products and services work. Since September, customers have been permitted to have an overdraft for three days per month without having to pay any overdraft interest. The rationale behind this is that half of people in the Netherlands occasionally have an unplanned overdraft for a few days. SNS finds it unreasonable to immediately charge overdraft interest. That said, however, the bank has no intention to promote structural overdrafts and offers customers a range of tools to make them aware of any overdrafts. This campaign was widely covered by the media and triggered both positive ('bank that looks from my perspective') and critical responses ('should not encourage overdrafts'). The number of new customers with current accounts has grown substantially since SNS embarked on its new course and launched its campaign.

ASN Bank organised two regional 'ASN Live' events and the nationwide event 'TomorrowToday'. The goal was to inspire and to have a broad debate about the sustainability issues to which ASN Bank is committed. Speakers from the worlds of business, science, journalism, politics and owners of start-ups gave their views on tomorrow's world. The bank also personally engaged in conversation with customers and visitors.

Teaming up with local communities, RegioBank installed ATMs in smaller villages. This is how RegioBank – coinitiator of the current public debate about the availability of ATMs – responded to a clear public need.

During its transformation from ‘mortgage advice to a wide range of Housing Advice’, BLG Wonen inspired advisers in various ways to place the emphasis on customers’ housing wishes rather than on products. To this end, the brand launched the online inspiration platform woondenken.nl, published a ‘home book’ and organised a series of workshops in the year of its 60th anniversary. In its own organisation, BLG Wonen made further progress in increasing its focus on customers and their interests. Customer panels were formed to continuously assess the company’s services and measure customer satisfaction in an ongoing process. A customer satisfaction survey was commenced as well.

Based on customer surveys and customer feedback, ZwitserlevenBank improved several key customer and communication processes for its online savings proposition (from application to availability of the savings product).

### *Customer satisfaction with our brands*

We measure customer satisfaction at all our brands on the basis of the Net Promoter Score (NPS), a method to indicate how many customers recommend a particular provider to others. This method is widely used by service providers, including financial service providers. The scores are expressed as a range from -100 to +100.
Our brands include the other Dutch banks in the peer group for their NPS scores.

SNS showed marked improvement of its NPS score in 2014 and BLG Wonen showed a slightly positive increase. RegioBank maintained its NPS position, which, at -7, is among the best of banks. Two banks in the Netherlands have a positive NPS, one of which is ASN Bank with an NPS of +12. This year, too, ASN Bank was judged to be the most customer-friendly bank in the Netherlands for the fifth consecutive year. This is an excellent result. ASN Bank’s NPS score nevertheless showed a decline, which obviously is a point of focus.

### NPS-score by brand

| Brand | 2014 | 2013 |
|---|---|---|
| SNS | -28 | -39 |
| ASN Bank | 12 | 19 |
| RegioBank | -7 | -7 |
| BLG Wonen | -14 | -15 |

In the 2013 Annual Report was determined at the end of October 2013 (instead of year-end 2013).

## Social and Green Housing

In April 2014, we published our Housing Vision entitled ‘Sustainable Housing’ as part of our vision of sustainability. It is also one of the key themes of the Manifesto. Our Housing Vision describes how the brands aim to – and can – contribute to the two pillars: social living and green living in the Netherlands. The vision is every brand’s point of departure, both in respect of mortgage loans and in their services to retail customers.

The Housing Vision explains what the brands mean by living well and how people’s living environment can be improved. The vision also addresses the prevention of customers’ payment difficulties in order to increase their financial resilience. This theme is reflected in how we handle preventive management in the area of mortgages.

#### Preventive Management for mortgages

There are various reasons why it may be difficult for customers to keep up with their monthly mortgage payments. They may be confronted with rising fixed charges, job loss, divorce or sickness, to name but a few. Problems may even get so out of hand that a customer is forced to sell his home. This is a very unfortunate turn of events for the customer in particular, but also has consequences for the bank providing the mortgage.

In order to respond at an early stage to indications that a customer might run into mortgage payment problems, the brands BLG Wonen, RegioBank and SNS have set up a Preventive Management service. Here, advisers and the Mortgage Support Team explore options to make the mortgage affordable again and to keep it affordable so the customer can continue to ‘live at ease’. Sometimes Budget Support is called upon to give customers a better understanding and more control of their income and expenses. The initiative may be taken by customers who contact us for Preventive Management or we ourselves proactively get in touch with customers who may run an increased risk of arrears based on the information available to us.

Preventive Management was launched in 2014. The following activities were undertaken in order to bring this development to the attention of our customers.

### Preventive Management

| | | 2014 |
|---|---|---|
| Letters sent by Prenetive Management | number | 10,028 |
| E-mails sent on mortgage test tool | number | 10,243 |
| SNS Bank and BLG Wonen visits of mortgage test tool | number | 42,656 |

The Mortgage Support Team ultimately assisted 314 customers in 2014. The good news for both customers and the Bank is that 83.2 percent of customers who received preventive support from us did not end up in procedures of the Special Credits department. We will continue to monitor this success rate, as it will be a key indicator going forward.

### Climate-friendly living

We are aware of the impact that lifestyle has on climate change and the environment. That is why we wish to contribute to sustainable homes for private homeowners, for example by encouraging energy-saving measures and renewable energy production.

One of the first concrete activities we performed in this context was organising the second Meeting with Experts on More Sustainable Housing and Real Estate in June 2014, in collaboration with the Fair Bank Guide and Rabobank. The objective was to share knowledge about how to make homes and real estate in the Netherlands more energy efficient.

Another specific example is that RegioBank, BLG Wonen and SNS supplemented their acceptance criteria with the statutory options (Temporary Rules for Mortgage Credit) to obtain additional mortgage credit for energy-efficient homes.

SNS Bank signed an arrangement promoting energy-neutral renovations of private owner-occupied homes, which fits in perfectly with the Sustainable Housing programme.

At the beginning of 2014, the government established the National Energy Saving Fund (*Nationaal Energiebespaarfonds*) to extend Energy Saving Loans: affordable loans to private homeowners who wish to introduce energy-saving measures in their homes. The National Energy Saving Fund holds € 300 million, € 50 million of which were contributed by ASN Bank and the remainder by Rabobank and the government.

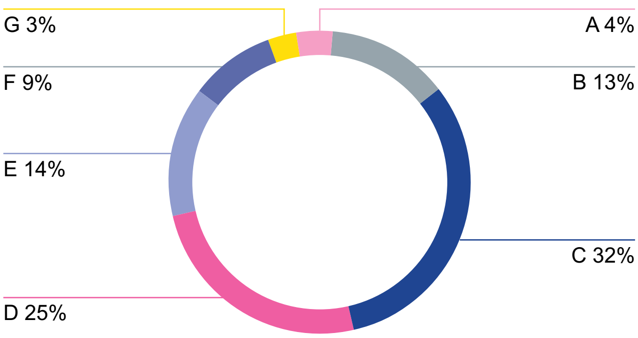
BLG Wonen will offer its customers Energy Saving Advice (ESA) to encourage sustainable conduct, which will make existing homes more sustainable. The ESA report will be drawn up by certified consultants of the company Susteen, with which BLG Wonen collaborates. The report is to give insight into structural, electrical and mechanical improvement measures that homeowners can implement to save energy, along with the corresponding payback periods and carbon reduction. Customers can take these measures to reduce their energy bills, create more comfort and a healthier indoor climate, and obtain an energy label for the home. BLG Wonen also introduced a training course for its own advisers, teaching them how to include ESA in their housing advice. Ten ESA courses were organised, attended by 144 advisers.

#### Baseline measurement for energy labels

We performed a baseline measurement to determine the energy labels of the homes funded by the individual brands. With the Housing Vision and the measurement results as our basis for improvement, we will set targets to make the mortgage portfolio more sustainable in the years ahead.

The baseline measurement reveals that the energy labels of our mortgages roughly correspond to the Dutch average. At the moment, 50 percent of our homes have energy label A, B or C. The other half offers opportunities for improvement. Our aim is to raise the average energy label to a more energy-efficient level by encouraging our customers to save energy. We do so by giving them information, providing advice on how to save energy and by offering sustainable home loans and products.

**Sustainable living 2014**
(Energy labels residential homes in mortgage portfolio)




Total $CO_2$ emissions: 1,150,799 tons

## Financial resilience

The financial resilience of our customers is one of our priorities. We encourage people to become financially resilient first and foremost by the quality of our services. The guiding principle in this respect is the concept of Putting customers' interests first. We seek to offer our customers insight, clarity and prospects to allow them to make the right financial decisions, big or small, now and in the future. Key elements of this service are:

- Providing simple, accessible and safe products and services;
- Ensuring that customer experiences and complaints are used to introduce improvements;
- Enabling customers to make responsible choices by providing clear and understandable product information and/or appropriate advice;

- Systematically testing customers' interests and customer integrity;
- Measuring and improving customer satisfaction.

In order to increase people's financial resilience and independence, we are also committed to providing financial education to those who could use some additional help or understanding, whether they be adults, youngsters or children. We do this through *Stichting Geldinzicht*, through our guest teaching programme and the website *Eurowijs* for primary schools, and by supporting the foundation *Weet Wat Je Besteedt (*Stay on Top of Your Spending), aimed at secondary schools. In addition, SNS Bank NV employees participate in the sector-wide initiative *Bank voor de klas*.

**Financial education**

| | | 2014 |
|---|---|---|
| *Geldinzicht* newsletter | subscribers | 327 |
| *Eurowijs* guest lessons | number of lessons | 466 |
| | number of participants | 11,899 |
| *Bank voor de klas* guest lessons | number of lessons | 906 |
| | number of participants | 22,650 |

### 4.6.3 The importance of information technology (IT)

Information technology (IT) is becoming increasingly important in ensuring excellent customer experience and excellent business operations. The strong rise of our mobile services, especially in the area of banking, testifies to our customers' great appreciation of digital services. Our IT services have had a clear focus on customers and customer contact for decades now, which has resulted in a customer-focused system. Thanks to a high degree of standardisation and re-use and a long-term horizon, SNS Bank boasts a modern technical infrastructure and a simple application environment. IT is developed and operated in-house on the basis of professionalism; application development control, for example, has been certified at CMMI maturity level 3. The central IT organisation fulfils a leading role in setting up the unique Multi-Brand & Multi-Channel / Single System architecture.

Our IT infrastructure helps us further carve out our challenger role in the Dutch market, for example in terms of convenience and low cost brought about by the high degree of automation already achieved with the Straight-Through Processing (STP) of customer processes, in respect of reliability by means of automating IT itself, and thanks to digital innovations in key areas such as banking and mobile payments.

Our IT organisation's two main tasks in 2014 were to ensure the continuity of services and to separate the Bank and Insurer IT systems.

Continuity of services

Ensuring the continuity of our services (24/7) to our customers. Continuity and availability of IT systems is crucial to our customers. The availability of our core systems and our mobile and online channels was again among the highest in the market in 2014.

IT systems separation Bank and Insurer

In 2014 we started an ambitious, 18-month programme to separate the Bank and Insurer's IT systems within the framework of the disentanglement of SNS REAAL. We execute this programme under our own management.

The execution commenced in January 2014. In the first phase, running until July 2014, the physical infrastructure was split up and new infrastructure was set up for the Insurer in two new data centres. Business units and their corresponding applications were migrated in the second half of 2014. The goal is to conclude the entire separation in July 2015.

#### IT objectives

In part in response to the separation, attention will be devoted to three improvements in the IT domain in the years ahead:

- professionalising the Finance & Risk information supply; we wish to utilise the consolidation and rationalisation opportunities created by the separation;
- further implementing the Multi-Brand & Multi-Channel / Single System architecture for mortgages, savings, payments and services to support our ambition to grow;
- professionalising data management, for the purposes of improving data control and quality.

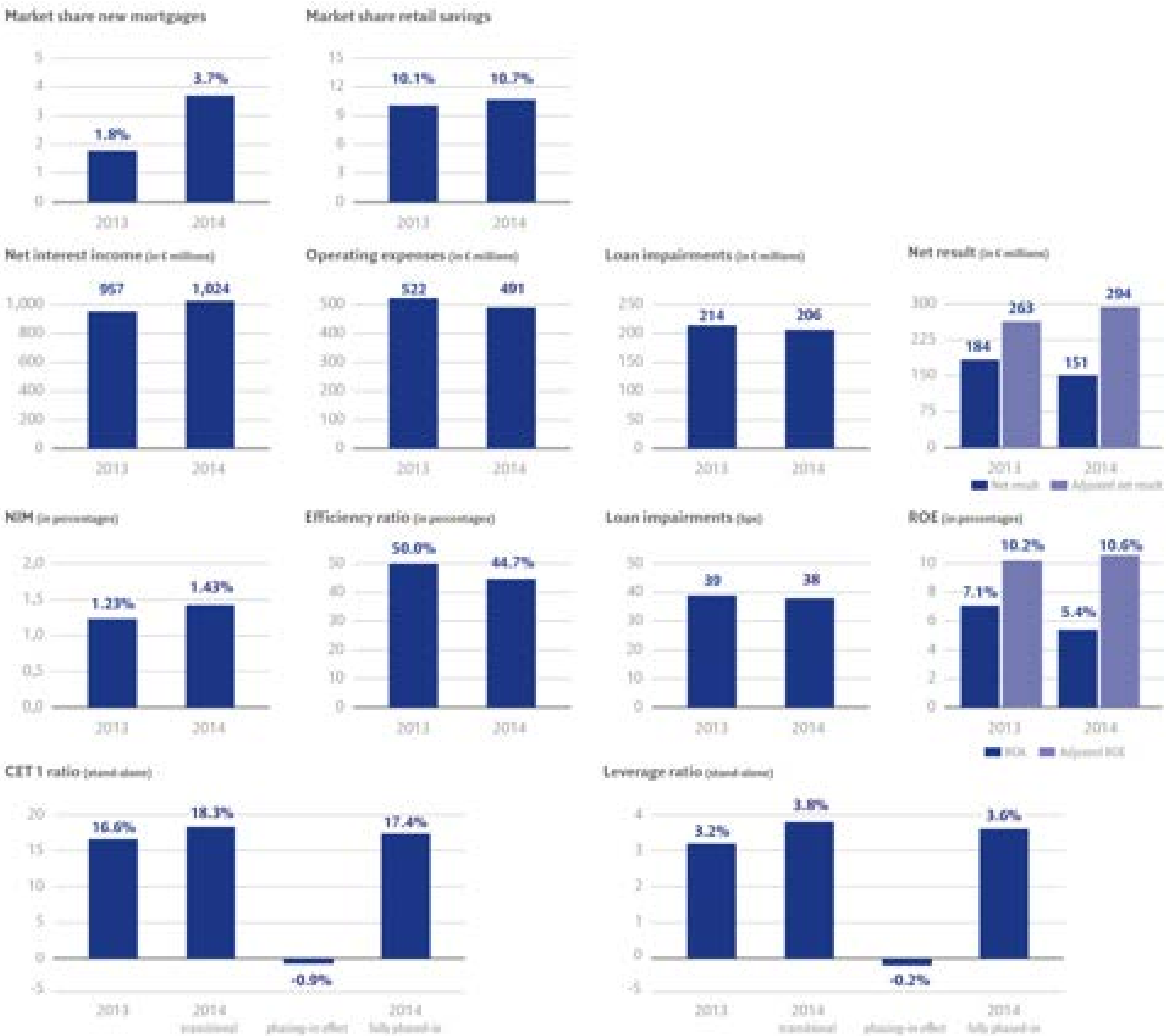
#### Information security and fight against cybercrime

The use of IT and the dependence on it are still increasing, which means that cybercrime may have a major impact on the security and continuity of our online banking and mobile banking channels. We saw continued growth in the attempts at cybercrime in 2014, including phishing, malware and Distributed Denial of Service (DDoS) attacks. Cybercrime is undeniably here to stay.

Throughout 2014, we made continuous investments in the further strengthening of our resilience against cybercrime. Our cybercrime experts closely monitor cyber developments and take appropriate measures where necessary. Our short internal lines of communication enabled us to successfully counter these attacks in most cases and to minimise the inconvenience they caused for our customers. Collaboration with other financial institutions and public parties such as the National Cyber Security Centre (NCSC) is a vital element in setting up an effective defence against cybercrime. SNS Bank plays an active role in this respect.

## 4.6.4 Financial outlines

- Encouraging commercial developments at all brands: 231,000 gross new customers; market share new retail mortgages more than doubled to 3.7%; market share retail savings increased to 10.7%; share in new payments accounts increased to 21% in the fourth quarter of 2014
- Higher net profit excluding one-
off items of € 294 million, supported by higher net interest income and lower loan impairments
- Net profit of € 151 million, including a one-off charge of € 76 million for the resolution levy on Dutch banks related to the nationalisation of SNS REAAL and a goodwill impairment (€ 67 million)
- Strong efficiency ratio despite increase in adjusted operating expenses
- First signs of improvement in credit quality mortgage portfolio: lower inflow of new defaulting loans and lower impairments
- Solid (stand-alone) Common Equity Tier 1 ratio of 18.3%, up compared to year-end 2013 (16.6%) driven by net profit and a decline in risk-weighted assets; Leverage ratio (stand-alone) of 3.8% up compared to year-end 2013 (3.2%)



### Income statement

| in € millions | 2014 | 2013 | Change |
|---|---|---|---|
| Net interest income | 1,024 | 957 | 7% |
| Net fee and commission income | 44 | 50 | -12% |
| Other income | 31 | 36 | -14% |
| **Total income** | **1,099** | **1,043** | **5%** |
| Impairment charges | 207 | 224 | -8% |
| Impairment charges goodwill | 67 | -- | 0% |
| Total operating expenses | 491 | 522 | -6% |
| Other expenses | 83 | 8 | 938% |
| **Total expenses** | **848** | **754** | **12%** |
| **Result before tax** | **251** | **289** | **-13%** |
| Taxation | 100 | 105 | -5% |
| **Net result for the period** | **151** | **184** | **-18%** |
| One-off items | -143 | -79 | 81% |
| **Adjusted net result for the period** | **294** | **263** | **12%** |
| Efficiency ratio | 44.7% | 50.0% | |
| Return on Equity (ROE) | 5.4% | 7.1% | |
| Net interest margin (NIM) | 1.43% | 1.23% | |
| Net interest margin (NIM) | 0.69% | 0.67% | |

### Result 2014 compared to 2013

SNS Bank's net profit declined to € 151 million from € 184 million in 2013, driven by the impact of one-off items. In 2014, one-off items consisted of a € 76 million charge for SNS Bank's share in the resolution levy on Dutch banks related to the nationalisation of SNS REAAL and an impairment of the goodwill of € 67 million related to the acquisition of RegioBank in 2007. The goodwill impairment was driven by the declining savings margins attributed to RegioBank NV's balance sheet, which contains more savings balances than retail mortgages (Loan-to-Deposit ratio of below 60%). Furthermore, goodwill was negatively impacted by the partial attribution of costs associated with the ex-ante European Deposit Guarantee Scheme as from 1 July 2015 and the European Bank Resolution Funds as from 1 January 2015 as well as other new regulatory requirements, most notably the anticipation of 4% leverage ratio requirement.

### Adjusted net result

| in € millions | 2014 | 2013 | Change |
|---|---|---|---|
| **Net result for the period** | **151** | **184** | **-18%** |
| Impairment goodwill | -67 | -- | |
| Resolution levy | -76 | -- | |
| Direct impact of nationalisation measures | -- | 7 | |
| Derivatives related to securitised mortgage portfolio | -- | -86 | |
| **Total one-of items** | -143 | -79 | |
| **Adjusted net result for the period** | **294** | **263** | **12%** |

In 2013, one-off items of € 79 million negative had included a charge of € 86 million net related to potentially early settlement expenses of securitised mortgage portfolios. Furthermore, there was a € 7 million one-off gain from nationalisation measures, consisting of € 80 million gains on the expropriation of subordinated debt and related derivatives (included in Results on financial instruments), partly offset by a € 53 million provision charge for the compensation of former holders of participation certificates (included in Operating expenses) and a tax effect of € 20 million negative.

Adjusted for one-off items, SNS Bank's net profit increased to € 294 million from € 263 million in 2013. This increase was driven by higher net interest income, lower loan impairments and higher realised gains on investments, partly offset by higher operating expenses and lower gains on the buy-back of own debt.

### Income

Net interest income showed an increase of € 67 million to € 1,024 million (+7%), driven mainly by declining interest rates on retail and wholesale funding and the impact of an adjustment of the effective interest calculation of impaired loans. As a result of this adjustment, both net interest income (€ 27 million) and impairment charges on retail mortgage loans (€ 26 million) increased. On balance, the adjustment had only a limited positive impact on net result. The full redemption of funding provided to Propertize, in the course of 2014, in combination with the subsequent redemption of the ECB facilities, declining interest rates on mortgage loans and a slight decrease of the mortgage portfolio negatively impacted the interest result.

**Breakdown income**

| in € millions | 2014 | 2013 | Change |
|---|---|---|---|
| Net interest income | 1,024 | 957 | 7% |
| Net fee and commission income | 44 | 50 | -12% |
| Investment income | 72 | 38 | 89% |
| Result on financial instruments | -46 | -8 | 475% |
| Other operating income | 5 | 6 | -17% |
| **Total income** | **1,099** | **1,043** | **5%** |

Net fee and commission income decreased by € 6 million to € 44 million mainly due to lower asset management fees following the sale of SNS Fundcoach.

Investment income increased by € 34 million to € 72 million, driven by higher realised gains on fixed income investments, sold in order to optimise the investment portfolio. This portfolio is used for liquidity management. The proceeds have been reinvested.

The result on financial instruments was € 46 million negative due to amortisation results of derivatives related to the fixed income portfolio. Furthermore, results of derivatives used for hedging purposes and trading results on financial instruments were negative. The latter were more than compensated by positive trading results on related investments, included in investment income. Compared to 2013, the result on financial instruments fell by € 38 million, driven by sharply lower buy-back results on own funding paper. In 2013, these gains had been exceptionally high at € 44 million, benefiting from the situation on financial markets at that moment, in 2014 they were nil. Results of fair value movements of mortgages were also lower. On the other hand, in 2013 the result on financial instruments was negatively impacted by one-off items. These consisted of a € 115 million charge related to the potentially early settlement of securitised mortgage portfolios, partly compensated by a € 80 million gain from unwinding derivatives related to expropriated subordinated debt.

### Expenses

Total impairment charges on loans and advances decreased slightly by € 8 million to € 206 million, 38 basis points (bps) of gross outstanding loans (2013: 39 bps).

### Breakdown impairment charges

| in € millions | 2014 | 2013 | Change |
|---|---|---|---|
| Impairment charges on retail mortgage loans | 146 | 173 | -16% |
| Impairment charges on other retail loans | 16 | 5 | 220% |
| Impairment charges on SME loans | 44 | 36 | 22% |
| **Total impairment charges on loans and advances** | **206** | **214** | **-4%** |
| Impairment charges on tangible assets | 1 | 10 | -90% |
| **Total impairment charges** | **207** | **224** | **-8%** |
| Impairment charges on loans and advances as a % of average gross outstanding loans to customers | 0.38% | 0.39% | |
| Impairment charges on retail mortgage loans as a % of average gross outstanding retail mortgage loans | 0.31% | 0.36% | |
| Impairment charges on retail mortgage loans as a % of average gross uotstanding retail mortgage loans | 3.65% | 2.84% | |

Impairment charges on retail mortgages decreased by € 27 million to € 146 million. This equated to 31 bps of gross outstanding retail mortgages compared to 36 bps in 2013.

Impairment charges in both years included some negative non-recurring items. In 2014, based on the outcome of the ECB Asset Quality Review (AQR), SNS Bank lengthened the Loss Identification Period1 (LIP)[1] related to the retail mortgage portfolio, which is applied to determine the provision for incurred but not reported (IBNR) losses from an average of 6 months to 10 months. This resulted in an addition of € 23 million to the IBNR provision. Furthermore, impairment charges in 2014 were negatively impacted by an adjustment to the effective interest calculation of impaired loans. Impairment charges in 2013 had included a charge related to an additional provisioning for lower recovery amounts due to the weak housing market.

The positive development in impairment charges on retail mortgages was supported by a declining net inflow of loans in default.

Impairment charges on other retail loans increased from € 5 million to € 16 million. This was entirely due to parameter adjustments in the provisioning models for other retail loans. As a result, the coverage ratio increased to 74%, compared to 58% at year-end 2013.

Impairment charges on SME loans increased by € 8 million to € 44 million, mainly reflecting the impact of updated appraisals of collateral and, to a lesser extent, the still fragile economic situation.

1 Loss Identification Period (LIP) is the time lag between actual loss event and observation of loss event by lender

### (Adjusted) efficiency ratio

| in € millions (gross) | 2014 | 2013 | Change |
|---|---|---|---|
| **Total income** | **1,099** | **1,043** | **5%** |
| Adjustments (one-off items): | | | |
| Direct impact of nationalisation measures | -- | 80 | |
| Derivatives related to securitised mortgage portfolio | -- | -115 | |
| **Adjusted income** | **1,099** | **1,078** | **2%** |
| | | | |
| **Operating expenses** | **491** | **522** | **-6%** |
| Adjustments (one-off items): | | | |
| Provision charge for compensation participation certificates | -- | 53 | |
| **Adjusted operating expenses** | **491** | **469** | **5%** |
| | | | |
| Efficiency ratio | 44.7% | 50.0% | |
| Adjusted efficiency ratio | 44.7% | 43.5% | |

Total operating expenses decreased by € 31 million to € 491 million. In 2013 operating expenses had included a one-off charge of € 53 million for the compensation of former holders of participation certificates. Adjusted for this one-off item, total operating expenses increased by € 22 million (+5%) mainly driven by increased regulatory costs, including costs related to the AQR, costs for customer due diligence projects and cost dis-synergies related to the transfer of staff members from the SNS REAAL holding company. These cost dis-synergies were partly compensated by a release of restructuring provisions formed in prior years and a release of € 9 million related to adjustments of SNS Bank's share in the Deposit Guarantee Scheme for Icesave and DSB Bank. In 2013 operating expenses had included release of € 7 million related to adjustments of SNS Bank's share in the Deposit Guarantee Scheme for DSB Bank.

The efficiency ratio (total operating expenses divided by total income) in 2014 was 44.7% compared to 50.0% in 2013. The adjusted efficiency ratio was also 44.7%. The two one-off items in 2014 did not impact either adjusted operating expenses or adjusted total income: the resolution levy was included in other expenses and the goodwill impairment was accounted for in a separate line in the income statement. In 2013, the efficiency ratio of 50.0% was negatively influenced by one-off items. The adjusted efficiency ratio in 2013 was 43.5%. The slight increase of the adjsuted efficiency ratio compared to 2013 was driven by higher adjusted operating expenses.

Other expenses of € 83 million consisted of a charge for SNS Bank's share in the resolution levy on Dutch banks related to the nationalisation of SNS REAAL (€ 76 million) and the banking taxation that is charged to banks operating in the Netherlands since 2012 (€ 7 million).

The effective tax rate in 2014 (40%) is relatively high as the resolution levy, the goodwill impairment and the banking tax were not tax deductible. Also in 2013 the effective tax rate was relatively high (36%), mainly due to the charge for the compensation of former holders of participation certificates and the banking tax, which were both not tax deductible.

## 4.7 Our People

SNS Bank sets great store by being a good employer. Only truly motivated, professional and customer-focused employees enable us to achieve our mission: to become a bank that reinstates the human touch in banking. To do this, we need dedicated people who are fully committed to the task at hand.

Much happened in 2014 that also affected our employees: in 2014, SNS Bank was preparing for a future as a fully independent bank. Despite all the changes that the Bank is going through, we observe that our employees really relate to our mission. This was confirmed by the annual employee survey, in which employees express their increased commitment to the organisation. They endorse the Manifesto as a beacon guiding our thoughts and actions.

### 4.7.1 Implications of the disentanglement for our employees

In 2014, great progress was made with the disentanglement of SNS REAAL into an independent Bank and Insurer. This disentanglement had implications for our employees. We changed the Group's governance structure, for example, and part of the employees of SNS REAAL's staff departments was transferred to the Bank in the course of 2014. On 1 January 2015, all these employees got a new employer: SNS Bank NV.

The Central Works Council played a key role in the restructuring of the Bank. In early 2014, the Central Works Council issued a positive advice on the disentanglement of the first part of the staff departments and their allocation to the Bank. The Bank's Works Council also issued a positive advice on the Bank's restructuring.

### 4.7.2 Employer practices

Restoring the human touch in banking is not only the starting point for our banking operations, but also for our HR policy. We aspire to be an attractive and responsible employer.

In 2014, we harmonised our view on employer practices to match the Manifesto. In this view, restoring the human touch in banking is the basic premise of our culture and leadership style. Every employee can make a difference and contributes to the common result. Our role as employer is to provide our employees with opportunities to develop their talents and put them to good use. The Manifesto guides our work, allowing us to work together to create a better bank for our customers.

#### Putting the mission into practice

We challenge our employees to incorporate our mission *Banking with a human touch* in their daily work. This mission comprises three values:

1. Know your customer
   Every employee has one annual performance objective to put customers' interests first in their work. Not only employees who talk to customers on a daily basis, but employees who do not have any direct customer contact too.
2. Be professional
   Every employee must be fully qualified. For employees who deal with customers this means that they must obtain Wft (Financial Supervision Act) certificates and keep their financial knowledge permanently up to date. We provide our employees with tools to support them in this.
3. Show audacity
   It takes audacity and courage to achieve our mission, which is why audacity is a mandatory competence for all our employees. This does not include reckless behaviour, but rather the courage to speak out and question undesired behaviour. Audacity also means standing up for customers' interests and aiming to provide the best solution for every customer.

### 4.7.3 Employee satisfaction

Employee satisfaction scored 7.5 and commitment 8.0 in 2014. An increase compared with the previous year, as shown in the annual employee survey . Employees endorse the Bank's Manifesto and strategy. Many colleagues recommend our products and services to others and also recommend our organisation as an employer. Flexible working (HNW), which creates a sound work-life balance, receives particular praise. Employees also greatly appreciate the informal work atmosphere.

Some aspects require attention, however. Career development opportunities and career guidance, for example are good, but can still be improved on, such is the view of our employees. They would also like to see better collaboration between departments. Finally, they recommend to properly implement the strategy and translate it into the work.

#### Superpromoters

Employees who proudly make every effort to put our Manifesto into practice can become Superpromoters. They are enthusiastic and constructively critical colleagues, who employ their talents and drive to promote our Manifesto even further. The group of Superpromoters grew fast in 2014: by now, more than one hundred employees have completed the SNS In-house Superpromoter Academy. Together, they inspire colleagues and achieve improvements for customers. The group's diversity in terms of departments, brands and disciplines enhances collaboration within the organisation.

### 4.7.4 Integrity

The annual integrity survey was for the first time incorporated into the annual employee survey in 2014. It included eighteen questions on integrity and, in line with this, another 4 questions on putting customers' interests first. It provides insight into each department's individual scores on the various aspects of integrity (openness to discussion, exemplary conduct, etc.), allowing targeted action to be taken.

To familiarise themselves with the bankers' oath, to be introduced in 2015, employees follow an e-learning programme (Common Sense, Clear Conscience). The contents of the programme are based on real-life incidents, helping employees to make a proper estimate of the risks in particular situations and take the right course of action. In 2014, 68 percent of our employees completed the e-learning programme.

### 4.7.5 Attracting and developing talent

Each and every one of our employees has talents and we encourage all of them to develop and use those talents. For specific groups, such as trainees and high potentials, we provide specific programmes.

#### Traineeships

In September 2014 three management trainees, three financial trainees and one IT trainee started their traineeship with us. They follow an ambitious programme in which they perform a different assignment in a different role or department every six months. They also take a variety of courses. Being introduced to various elements of the business, they develop a broad scope on the organisation and discover what would be a suitable place for them.

#### Talent development programmes

Twenty-two employees took part in our 2014 *talent development* programme revolving around personal development. Participants discover how enterprising, creative and innovative they are and how they can further enhance these characteristics. In Challenge teams, the participants share ideas on what the Bank and they themselves can do to incorporate the Manifesto into day-to-day operations even more. Managers from all of our business units support them in the process.

In 2014, the *management development* programme and the *specialist development* programme took place for the last time in an SNS REAAL setting. We will continue these programmes at SNS Bank in our own way.

### 4.7.6 Diversity

Every person is different. This is also the basic premise of our HR policy. We are closer to our customers if our workforce is a reflection of society and the labour market. For this reason, we seek to be a diverse organisation of people with varying personalities, backgrounds and ages and to strike a balance between the number of men and women. As we know that diversity produces more creativity and better performance, we also add diversity to our management and other teams.

#### Network of women in key positions

The Management and Supervision Act (*Wet bestuur en toezicht*) prescribes a minimum target of 30 percent female and 30 percent male Executive Board and Supervisory Board members. Among the seven members of the Supervisory Board are two women, which, at 29 percent, is close to the target ratio. In the Managing Board of SNS Bank NV this is 20 percent, i.e. one out of five members is a woman. In March 2014, we joined the Women in Financial Services (WIFS) network, a network of women in key positions in the financial sector who are dedicated to achieve a sustainable financial sector. By joining WIFS, we aim to reinforce the position of these women.

#### People with disabilities

Our active commitment to employing people with disabilities goes hand in hand with the Manifesto's guiding principle of 'Banking with the human touch'. Our ambition is to hire twenty people with disabilities in 2015. At the same time, we are actively engaged in the regional partnership *Utrecht Onbeperkt aan de Slag* to facilitate contact between this target group and employers. In 2014, SNS Bank also joined *De Normaalste Zaak* (The Most Normal Thing), a network of SME entrepreneurs and large employers who find it 'the most normal thing' that everyone gets a chance to participate in the labour market according to one's ability. SNS Bank thus contributes to the social returns (*inclusief ondernemen*).

### 4.7.7 Sustainable employability

We took various initiatives in 2014 to promote our employees' employability now and in the future. This is necessary as the banking industry is changing rapidly. It offers employees opportunities to further their personal development, while at the same time demanding a high level of adaptability. As the number of jobs in the banking industry is declining, it is particularly important to ensure our employees' employability in the long term.

The initiatives focus on three conditions of long-term employability:

Vitality

In order to promote the vitality of our employees, we offer every employee the opportunity to undergo a health check. Many employees availed themselves of this option. We started a new round in 2014: the BETTER LIFE health survey.

Work-related stress is an issue, especially in view of the many changes taking place within our organisation. It was reason for us to raise this subject among our employees. They may consult a company doctor or a counsellor of the occupational health and safety service. In addition, the health and safety plan provides solutions to prevent or reduce the workload and work-related stress. Employees can take part in various training sessions, including Life in Balance and Stress Management. Managers and employees may also sign up for the *Tackling Workload* intervention programme, consisting of three workshops.

Personal development

At our company employees have many personal development opportunities. In their work, for example, by taking on different tasks or by following a training course or development programme. We have a wide range of courses, training programmes and workshops. Personal development is also in our own interest as employer. It is, therefore, not without obligation. Every year employees must present at least one personal development goal, which is discussed during the annual performance and competencies interview cycle.

In 2014, we introduced the opportunity for employees to prepare their own planning, performance and appraisal interviews by means of an e-learning tool. This tool encourages employees to take control of their own careers and to create a link between their own performance and the department targets. This is how they put personal leadership into practice. Employees and managers can follow workshops during each round of interviews.

LoopBaanPlaza

Our career and mobility centre LoopBaanPlaza helps employees to take action to further their careers under the motto ‘Your future is our mission’. Employees can take self-reflection tests and use the results to draw up a career or development plan.

A more comprehensive programme is available for more intensive career counselling. In 2014, 147 programmes and/or tests were completed by colleagues wishing to take action in defining their careers. All employees also have the option of meeting a LoopBaanPlaza advisor. To minimise the threshold, various locations held walk-in sessions in 2014.

In the third quarter of 2014, LoopBaanPlaza started organising a series of workshops in which employees learn how to personally further develop a range of skills during their careers: from increasing their self-reflection abilities to applying for a job and networking.

### 4.7.8 Employment conditions

**Remuneration policy**

SNS Bank’s remuneration policy is adopted at SNS REAAL level. The basis for this remuneration policy has been laid down in the SNS REAAL Group Remuneration Policy, which is applicable to all employees, including the Executive Board. SNS REAAL aims to pursue a socially responsible remuneration policy that can be properly explained to all stakeholders and does justice to their interests. The SNS REAAL Group Remuneration Policy also provides that the Supervisory Board and the staff departments Risk, Compliance, Legal Affairs, Finance and HR play a key supervisory and monitoring role both in the implementation and in the execution of the remuneration policy. In addition, Group Audit periodically and independently tests the execution of the remuneration policy. The Corporate Governance section of the SNS REAAL website contains various annual remuneration reports.

The fixed annual salaries of all SNS Bank employees are linked to specific salary scales associated with their positions, in which the amount of remuneration is determined on the basis of a market comparison. The principle applied in that comparison is that the ultimate remuneration awarded by SNS REAAL does not exceed the median of the market at large. In addition to the fixed annual salary, employees subject to the collective labour agreement are eligible for a result-related bonus of 2.25 percent of the annual salary for good performance. It is a one-off bonus that is awarded in January, the amount of which depends on the employee’s performance in the preceding calendar year.

Some groups of employees have a variable remuneration scheme instead of a result-related bonus, such as senior management. The amount of variable remuneration differs according to position and is capped at (on average) 20 percent of the fixed annual salary. The managing board of SNS Bank NV is not eligible for variable remuneration or a result-related bonus.

In anticipation of the introduction of the *Act* on *Remuneration Policies* of *Financial Undertakings* (Wbfo), it was decided at the end of 2014 to adjust the remuneration policy in conformity with the Wbfo requirements as early as 1-1-2015.

## Remuneration Management Body 2014 (Pillar 3)

| in € thousands | Direct remuneration | Deferred | Total fixed (cash) | Variable remuneration | Total remuneration |
|---|---|---|---|---|---|
| G. Van Olphen | 550 | -- | 550 | -- | 550 |
| M.B.G.M. Oostendorp | 440 | -- | 440 | -- | 440 |
| D.J. Okhuijsen | 440 | -- | 440 | -- | 440 |
| W.H. Steenpoorte | 440 | -- | 440 | -- | 440 |
| A.T.J. van Melick (from 1-7-2014) | 145 | -- | 145 | -- | 145 |
| V. A. Baas (from 1-7-2014) | 119 | -- | 119 | -- | 119 |
| R.G.J. Langezaal (from 1-7-2014) | 145 | -- | 145 | -- | 145 |
| M. Wissels (from 1-7-2014) | 142 | -- | 142 | -- | 142 |
| Total Remuneration | **2,421** | **--** | **2,421** | **--** | **2,421** |

The Pillar 3 report goes into greater detail on the remuneration policy of the Managing Board and senior management. The table below includes the remuneration of the Executive Board of SNS REAAL and the Managing Board of SNS Bank NV. A more detailed description of the remuneration policy and remuneration of the members of the Managing Board of SNS Bank NV can be found in the Pillar 3 report, Remuneration disclosures, included in this report in paragraph 8.9.

Direct remuneration is the fixed remuneration excluding the contributions towards social security contributions and health insurance and the benefit of a company car made available for private use.

### Collective labour agreement

After an intensive period of many complex negotiations, SNS REAAL concluded a new collective labour agreement at the end of 2014 for the period from 1 January 2014 to 1 January 2016. In the summer, we already reached an agreement in principle on the result-related bonus and the Social Plan.  The Social Plan is valid from 1 August 2014 up to and including 31 December 2016.

The organisation's current situation justifies only a very limited collective pay rise of 0.3 percent as from 1 January 2015 in exchange for the cancellation of Good Friday as a paid day off and of 1 percent as per 1 July 2015. It was also agreed that the activities in the area of long-term employability will be continued and intensified. The collective labour agreement is applicable to 98 percent of the employees.

### Pension scheme

The pension scheme was changed on a number of points effective 1 January 2014. The main change was the raise in pension age to 67 from 62. The pension scheme changed again effective 1 January 2015. Due to adjustments to the Witteveen Regulation, the pension accrual rate is lowered from 2.15 percent to 1.875 percent as from that date.

## Key figures employees

| | 2014 | 2013 |
|---|---|---|
| Average number of FTEs[1] | 2,258 | 2,107 |
| Number of FTEs at year-end[1] | 2,506 | 2,009 |
| Male/female ratio | 50%/50% | 49%/51% |
| Female managers | 30% | 23% |
| Full-time/part-time ratio | 69%/31% | 66%/34% |
| Temporary contract | 11% | 10% |
| Training costs (in € per FTE) | 1,930 | 1,390 |
| Absenteeism | 4.5% | 4.6% |
| Employee survey response | 79% | 79% |
| Inflow | 10.7% | 7.4% |
| Outflow | 5.4% | 13.0% |

1 Excluding FTEs in IT&C and Group Audit, which were still part of SNS REAAL in 2014.

# 5 Risk, Capital & Liquidity management

Adequate risk management is key in our group to support and execute our strategy. Risk management contributes to excellent business operations in which financial and non-financial risks are managed in a controlled way.

## 5.1 Summary and reader's guide

The risk domain at SNS Bank was restructured in 2014 as a result of the disentanglement of the risk management organisation, which was previously established at the Group level. This gave us the opportunity to introduce improvements in the risk management organisation (section 5.2). A Chief Risk Officer was appointed to the Managing Board, and risk appetite and measures were reformulated. Reporting and risk appetite control were expanded. SNS Bank focused specifically on propagating a sound risk culture, in which the tone at the top is decisive for the risk culture within the company.

SNS Bank seeks to maintain a moderate risk profile. In 2014, its risk profile met the organisation's objectives and remained well within the risk appetite standards. See section 5.3 for a more detailed explanation.

**Capitalisation**
On a stand-alone basis SNS Bank has a strong Common Equity Tier 1 ratio of 18.3% as at year-end 2014. The main risk-unweighted capital ratio, the leverage ratio, rose in 2014 from 3.1% at year-end 2013 to 3.8% at year-end 2014.

SNS Bank is in a good position to meet the capital requirements ensuing from future regulations, such as the leverage ratio, the Minimum Required Eligible Liabilities ratio (MREL) and the Total Loss Absorbing Capacity ratio (TLAC) well within the timelines set.

We will use the next few years to further reinforce and diversify our capital position, for example by issuing subordinated debt and through profit retention. See section 5.4 for a more detailed explanation.

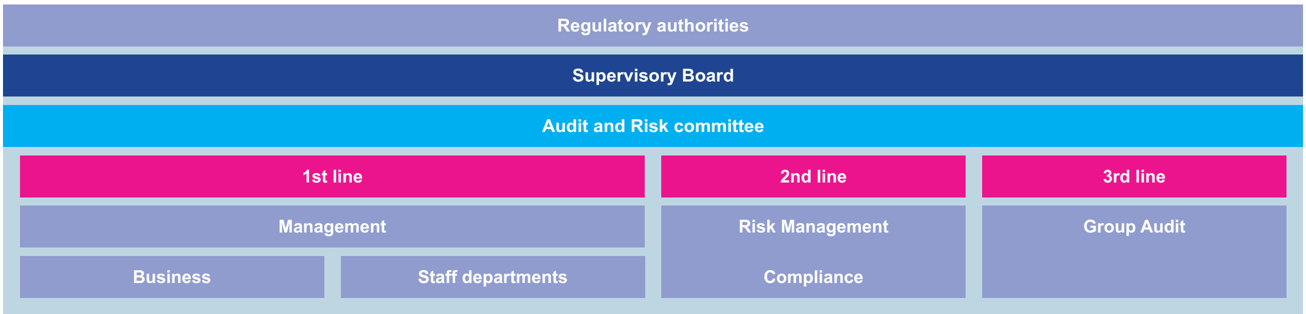
**Credit risk**
The credit risk of SNS Bank's investments improved limitedly in 2014, particularly because the residential mortgage market showed signs of recovery while additional attention was given to the follow-up of customers in arrears and risk monitoring. The portfolio of overdue mortgages decreased marginally to € 2.0 billion, which was partly the result of a lower inflow of mortgages in arrears. SNS Bank's provision to take any losses from overdue mortgages rose slightly to € 326 million.

The SME loan portfolio decreased limitedly to € 1.0 billion, while the coverage ratio (provisions) of loans in arrears increased to 60%. The portfolio of private loans to the (semi-)public sector dropped to € 1.8 billion; there were no items in arrears in this portfolio at the end of 2014. The credit quality of counterparties for investments in financial instruments (€ 7 billion; mainly government bonds) remained good. See section 5.5 for a more detailed explanation.

**Market risk**
Market risk relates mainly to interest rate risk. The market risk remained relatively limited within the limits set. The interest rate sensitivity of shareholders' equity is low. See section 5.6 for a more detailed explanation.

**Liquidity risk**
The liquidity position further improved in 2014 and comfortably meets the targets. The Loan-to-Deposit ratio improved from 122% at year-end 2013 to 113% at year-end 2014, while the Net Stable Funding Ratio (NSFR) increased from 120% to 130%. The Liquidity Coverage Ratio (LCR) remained high at 455% at year-end 2014. The funding of SNS Bank is robust and consists largely of savings. See section 5.7 for a more detailed explanation.

**Non-financial risks**
SNS Bank used additional resources in 2014 to sustainably reinforce operational risk management and the compliance function. Lasting several years, the roll-out of an Integrated Control Framework will contribute to controlling the processes and data quality. See section 5.9 for a more detailed explanation.




## 5.2 Risk management restructuring

As a result of our organisation's new structure, a new risk governance and risk management organisation was set up in July 2014, geared entirely to SNS Bank. In the new risk management organisation, financial and non-financial risks are managed by the Chief Risk Officer, as are compliance and legal affairs.

SNS Bank aims to maintain a moderate risk profile. In 2014, our risk profile was readopted and applied in our risk management. The emphasis in 2014 was on detailing and controlling financial risks in particular. In 2015, we will place additional focus on non-financial risks and on further integrating risk appetite in the planning and budgeting cycle.

An important element in this integration is the further roll-out of the Integrated Control Framework, which, in the next few years, will allow us to develop risk management in which the various tools are perfectly aligned and integrated even further. This requires additional investments in knowledge, expertise and systems to make information and analyses more readily available to management, customers, stakeholders and regulatory authorities.

In addition to increasing the speed with which reports become available, investments are also made in increasing the quality of integrated risk reports by refining (risk) definitions, unambiguity of data and information. Embedding legislation and regulations in the organisation goes hand in hand with the further development of the right risk culture, as provided in our Manifesto and our risk profile.

### 5.2.1 Risk governance

#### 5.2.1.1 Three lines of defence

Risk governance was developed further last year based on the three lines of defence model.

**First line – Business**
The (line) management of SNS Bank's business units is responsible for structuring and executing its own processes, for the risks taken and for the ensuing results. This is done within the parameters of the risk management policy and the risk appetite agreed.

**Second line – Risk Management**
Risk Management determines the boundaries for the first line by setting policy frameworks and policy standards. In addition, the second line supports and advises first-line management and monitors whether the first line is performing its responsibilities correctly. The second line reports on this, advises the Managing Board or the risk management committees, and escalates where necessary.

The Chief Risk Officer is supported by risk management, compliance, special credits and legal departments within what is known as the risk domain. Independently positioned within this domain, the Model Validation department performs an independent role in assessing and validating risk models.

**Third line – Group Audit**
Group Audit periodically tests the risk-based design and operating effectiveness of the first-line and second-line processes. Group Audit also evaluates the effectiveness of governance, risk management and control processes and presents an independent opinion in this regard to the SNS Bank Managing Board and Supervisory Board.

We will elaborate on the responsibilities pertaining to each risk area for the first and second lines in the description of the main risk types.

### 5.2.1.2 Risk committees

The Managing Board of SNS Bank bears ultimate responsibility for risk management within the Bank. In this process, it is supported by the risk committee structure with representatives from the first and second lines.

- The Bank Risk Committee (**BRC**) is the highest body reporting to the SNS Bank Managing Board in respect of risk management. Its chairman is the Chairman of the Managing Board. The BRC 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 Bank and all legal entities that come under the Bank.
- The Product Approval and Review Committee (**Bank PARC**) is charged with the periodic evaluation and approval of new and existing products that are offered to our customers. The Chairman of the Managing Board chairs the meeting. The risk profile of existing and new products and services is controlled on the basis of legislation and regulations, customers' interests and our Manifesto. The Bank PARC assesses financial and non-financial risks during the development of new products or the revision of existing products.
- The Non-Financial Risk Committee (**Bank NFRC**) is responsible for controlling the risk frameworks and risk appetite for non-financial risks. The meeting is chaired by the Chairman of the Managing Board. The Bank NFRC's responsibilities include setting standards and limits in the area of non-financial risks, within the BRC frameworks. In addition, the Bank NFRC monitors compliance with relevant legislation and regulations and regulatory instructions, risk appetite and the functioning of the Integrated Control Framework.
- The Asset & Liability Committee (**Bank ALCO**) identifies, monitors and manages market risks with a view to controlled value growth of the Bank's balance sheet both in the short term and in the long term. The Bank ALCO is chaired by the CFO. The Committee takes decisions on how to control aspects including interest income, the market and book values of shareholders' equity and the liquidity position. The Bank ALCO also follows up on tactical choices for risk criteria, the specification of model parameters and decisions made in respect of interest rate, foreign exchange or cash management transactions.
- The Credit Committee (**Bank CC**) is responsible for controlling credit risks and is chaired by the CRO. This Committee adopts policies and frameworks and monitors their practical application. The Bank CC sets acceptance criteria for retail funding, approves Bank lines, accepts or rejects credit proposals and determines the provisions and depreciation. Finally, the Committee controls and monitors the credit risk in the portfolios.
- The Management Pricing Committee (**Bank MPC**) aims for a sustainably profitable portfolio by weighing volume, risk and return within the frameworks of external regulations, risk policy and the Manifesto. The Chairman of the Managing Board chairs the meeting. The pricing policy is used to create a match between the product range and the target markets.
- The Model Governance Committee (**Bank MGC**) monitors the quality and uniformity of all financial risk and valuation models by setting model development principles and approving new or adjusted models. The CRO chairs this Committee.

In addition to the risk committee structure, a **Regulatory Board** was formed in 2014. Its duties are to identify new, relevant legislation and regulations and to ensure their correct implementation within our Bank. We also set up the **Information Board** in 2014, which adopts data management policies and monitors their implementation. The Information Board is also responsible for determining the data definitions applied by SNS Bank.

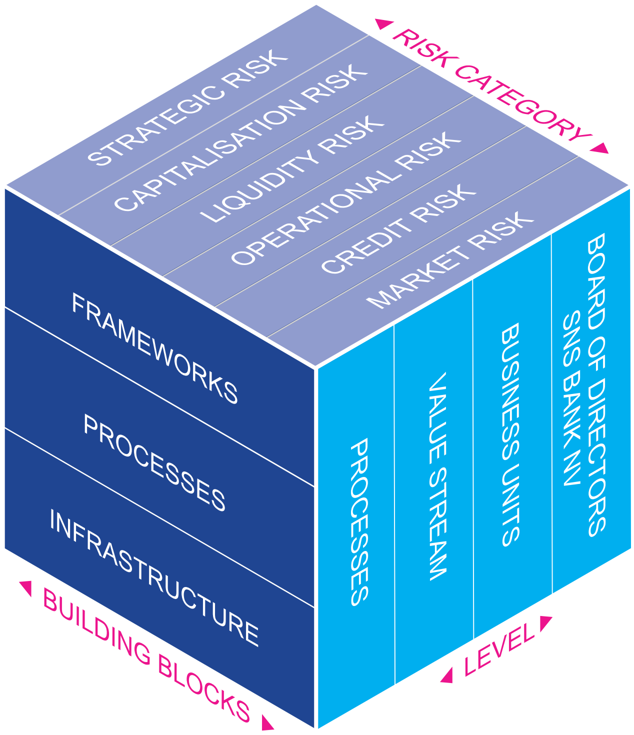
The Regulatory Board and the Information Board both come under the responsibility of the CRO and the CFO and are formed by the relevant representatives from the risk domain and the finance domain. The IT department is also represented on the Information Board.

### 5.2.1.3 Risk control - Integrated Control Framework

In 2014, we started setting up the ICF as the framework for the risk control methods. The ICF comprises various building blocks, which create clear frameworks and ensure streamlined control processes with the appropriate infrastructure, thereby also steering the organisation towards the right risk culture.

We perform periodic risk assessments to identify the main risks exceeding the process level that may affect our strategic objectives. The results of these assessments may be reason to revise the strategic objectives.

Current developments in the types of risk may affect our risk appetite. We monitor these regularly to readily detect any situations where we exceed our risk appetite so that proposals for mitigating measures may be presented to the risk management committees.




SNS Bank has adopted several types of control measure within the ICF to comply with and monitor risk appetite. The main types are:

- **Entity level controls** are organisation-wide control measures. The assessment of the entity level controls is a review of an organisation's control structure, such as the overall control environment, management's organisation-wide risk analysis and the information and communication lines within the organisation.
- **Process controls** are control measures focusing on control at the process level.
- **Preventive controls** limit foreseeable risks, for example by using passwords to prevent abuse.
- **Detective controls** identify risks at the moment they occur, for example by monitoring complaint trends to identify the risk of poor services.
- **Key controls** hedge key risks. These are control measures that (1) hedge key risks relating to a critical step in the process and/or a critical substantive check, or (2) hedge several risks simultaneously, or (3) hedge one or more risks that have a strategic impact.

The ICF provides for periodic reports on the degree to which the organisation is in control. These reports are also used to substantiate the annual in-control statements.

### 5.2.2 Risk culture

SNS Bank's Manifesto is the beacon guiding our thoughts and actions in shaping our strategic ambitions and it provides the frameworks for the risk culture we seek to maintain.

The tone at the top is important to gain support for our risk culture. SNS Bank demonstrably put this into practice in 2014 by appointing a Chief Risk Officer to the Managing Board, revising the risk committee organisation and pursuing a balanced remuneration policy with due attention to the ratio between volume, risk and return.

Part of SNS Bank's strategy is to achieve 'excellent business operations', which includes predictable and controlled business operations within the moderate risk profile. We expect employees to be aware of the risks within their own areas of responsibility and to deal with those risks in a conscious manner.

The risk culture has been translated into the remuneration policy and the planning and appraisal cycles of individual employees. Managers ensure that the risk guidelines are known and sufficiently clear to employees.

To underpin the desired risk culture, we implemented various initiatives in 2014 to further embed integrity in our culture. Several training courses and workshops were held, including a training and awareness programme to enhance integrity awareness. All staff have individually been offered the e-learning programme Common Sense, Clear Conscience, which focuses on SNS Bank's rules of conduct. We also organised employee meetings at which we explored the theme of Putting Customers' Interests First. Specific target groups followed a customer integrity course and, lastly, we started workshops on ethical and controlled business operations.

In the years ahead, we will further develop our risk culture and execute a risk awareness programme to further improve risk management.

## 5.3 Risk profile and risk appetite

### 5.3.1 Key risks

We regard credit risk as our main financial risk. The loan portfolio has a strong focus on Dutch mortgages. Despite this (strategically chosen) concentration, the loan portfolio has a very diversified base of underlying borrowers. We also take measures to monitor the quality of our loan portfolios. We will record additional information about customer integrity on a portion of the existing client portfolio.

SNS Bank's funding ability constitutes an important risk. The years ahead will be used to further strengthen our capital position in order to achieve the diversification desired in the loss-absorbing capacity of capital.


We are optimising the mortgage distribution chain to limit operational risks, including by simplifying the IT landscape and improving data quality. These measures dovetail with our strategy to achieve excellent business operations.

SNS Bank recognises that cybercrime risk is a relevant and ongoing threat. In order to offer our customers and organisation better protection against this threat, we will continue to invest in improving our defence against cybercrime in 2015.

### 5.3.2 Risk classification

Risk classification forms the framework for the risk control and risk appetite organisation. Each type of risk is further detailed in underlying sub-risks and in qualitative and internally measurable criteria. The risk classification is evaluated every year to determine whether all relevant risks have been identified and specified in the risk profile.

### 5.3.3 Risk appetite and measures

Risk appetite is a specification of our risk profile and indicates how much risk we are willing to take in achieving our strategic objectives. Our aim in determining risk appetite is to safeguard the financial viability and to properly weigh risk and anticipated earnings, all within the parameters of our Manifesto.

All risks included in the risk classification are part of the risk appetite.

- We use the risk classification as a basis to formulate a Risk Appetite Statement for each type of risk, which statement describes the risk appetite in qualitative terms.
- We formulate internal measures, making our risk profile measurable.
- We assign capped risk indicators to the measures and assess whether the current values of the risk indicators meet the criteria and, accordingly, whether we are still in compliance with our desired risk profile.

This process of adopting and limiting risk indicators is part of our annual planning and control cycle.

The table below details our risk classification, Risk Appetite Statements and measures:

| Type of risk with definition | Risk Appetite Statement | Risk measure |
|---|---|---|
| **Strategic risk** | | |
| The risk that strategic objectives are not achieved due to the company's lack of response or inadequate or late response to changes in the environment and the business climate. | We seek to be a people-oriented, social and sustainable retail bank that is capable of adapting quickly to changing business conditions with the aim of providing excellent services to our customers. | **Adaptability**<br>Our ability to flexibly respond to opportunities and threats in the market and our environment and to implement changes in a timely fashion and in a controlled and cost-efficient manner. |

## Financial risks

| Type of risk with definition | Risk Appetite Statement | Risk measure |
|---|---|---|
| **Capitalisation risk** | | |
| The risk that the capital position is insufficient to serve as a buffer for the occurrence of unexpected losses that may arise if one or more risks to which the company is exposed manifest themselves. | We aim for solid capitalisation meeting the requirements of regulatory authorities and market parties, allowing us to consistently fulfil our role as retail bank now and in the future. | **Capitalisation ratio**<br>The degree of capitalisation of our company, including our subsidiaries. |
| **Liquidity risk** | | |
| The risk that the company has insufficient liquid assets available in the short term to meet financial obligations, whether under normal circumstances or in times of stress. In addition, liquidity risk is understood to mean the likelihood that the balance sheet structure will develop in such a way that the company is excessively exposed to disruptions in its funding sources. | We are maintaining an adequate and flexible liquidity position, explicitly taking account of the various types of liquidity risk. | **Balance sheet structure**<br>Our level of access to funding by raising retail money due on demand plus additional capital market funding.<br>**High-quality liquid assets**<br>Qualification of the overall level of liquidity under normal circumstances, taking account of limited stress.<br>**Total liquidity position**<br>Qualification of the overall level of liquidity in extreme circumstances. |
| **Credit risk** | | |
| The risk that a borrower/counterparty does not meet a financial or other contractual obligation. | **Mortgage credit risk**<br>Our aim is to control the credit risk ensuing from mortgage lending in such a way as to keep credit losses acceptable to the Bank. The mortgage acceptance policy therefore seeks to protect customers from irresponsible financial risks. | **New inflow**<br>Qualification of volume and quality of new inflow.<br>**Performing**<br>Qualitative assessment of the current portfolio.<br>**Outflow**<br>Qualification of volume and quality of outflow. |
| | **Commercial credit risk**<br>Our aim is to control the credit risk ensuing from commercial activities in such a way as not to jeopardise our financial position (capitalisation, liquidity). | **Non-performing**<br>Qualification of arrears and the level of provisions.<br>**Degree of concentration**<br>Degree of exposure concentration at affiliated counterparties/debtors. |
| **Market risk** | | |
| The risk that equity, the result or continuity is threatened by movements in the level and/or volatility of market prices to which the company is exposed. | We aim to adequately control the impact of market risk on shareholders' equity and profit. | **Interest rate monitor**<br>Qualification of the overall impact of interest rate movements and credit spreads on our Group's equity and profit based on an aggregated assessment of the underlying market risk indicators. |

## Non-financial risks

| Type of risk with definition | Risk Appetite Statement | Risk measure |
|---|---|---|
| **Operational risk** | | |
| The risk of direct or indirect losses resulting from inadequate or deficient internal processes and systems, from inadequate human behaviour or human error, or from external events (such as fraud and crime risks). | Our effective and efficient processes guarantee high quality. We accept a low rate of performance error and learn from mistakes if and when they occur. | **Value flow performance monitor**<br>Our ability to efficiently and effectively execute our key value flows at an excellent level of quality.<br>**Business partner monitor**<br>The degree to which business partners operate in line with our objectives, rules and requirements. |
| | In order to support our customers and business processes, we have an efficient IT system and a low level of tolerance regarding disruptions in system integrity and continuity and the reliability, confidentiality and integrity of information. | **Model monitor**<br>The degree to which we adequately adapt our financial models to current conditions.<br>**IT performance monitor**<br>The degree to which we can avail ourselves of effective and efficient IT systems for our customers and our own business operations, including the measures taken to safeguard the availability, integrity, confidentiality and continuity of communications. |
| | We work with a sufficient number of competent staff and offer them an environment that enables them to achieve the organisation's objectives with pleasure and courage. | **Staff monitor**<br>The degree to which we can avail ourselves of motivated, competent, critical and satisfied staff. |
| | | **Culture monitor**<br>The degree to which our culture contributes to ethical and responsible business operations.<br>**Fraud and crime monitor**<br>Our ability to readily identify losses caused by internal and external fraud and crime, including cybercrime, and to take appropriate measures. |
| | | **Environment monitor**<br>Our ability to limit the damage caused by external events. |
| **Reporting risk** | | |
| The risk that the company provides its internal and external stakeholders and the regulatory authorities with unreliable information. | We provide our internal and external stakeholders with a reasonable degree of assurance that the information is reliable. | **Reporting monitor**<br>The degree to which the reliability of information (including financial data), reporting processes and underlying data is guaranteed. |
| **Compliance risk** | | |
| The risk that the company's integrity is harmed by actions (or omissions) contrary to its internal (core) values, social standards and values or behavioural laws and | We do not tolerate any violations of company rules or legislation and regulations. | **Compliance monitor**<br>The degree to which our integrity is harmed by products and services provided, by staff conduct, by the conduct of business partners and/or by (dishonest) customers. |

| Type of risk with definition | Risk Appetite Statement | Risk measure |
|---|---|---|
| regulations or requirements to be observed by the company when providing its financial services or translating these into internal rules. | | |
| **Legal risk** | | |
| The risk that the company is held liable for current and future losses. | Our business operations contribute to the prevention of claims. Any claims that do occur are settled with due care. | **Litigation monitor** The degree of exposure to material risks ensuing from stakeholder and third-party claims |
| **Reputation risk** | | |
| The risk that objectives are not achieved or cannot be achieved because insufficient account is taken of the picture and opinion that external parties have of the company (including customers, counterparties, shareholders and regulatory bodies). | Our brands (SNS, BLG Wonen, SNS Bank, RegioBank, ZwitserlevenBank) evoke trust with our stakeholders through our financial products and services, the integrity of our employees and compliance with laws and regulations. To safeguard this trust, we take adequate measures to manage the risk of harm to our stakeholders' trust. | **Trust monitor** The degree of trust we receive from stakeholders (including customers, business partners, shareholders and regulatory bodies). |

**Internal stress testing**
In addition to risk measures, SNS Bank also avails itself of stress testing. Stress testing is used as a tool to gain insight into the risks of SNS Bank. This risk is measured by the effect that an extreme yet plausible scenario will have on our positions and objectives. Stress tests complement existing (quantitative) risk models and measures and are a vital component of internal capital and liquidity adequacy assessment processes. See sections 5.4 and 5.7 for a more detailed explanation.

### 5.3.4 Connection to IFRS 7 and Pillar 3

In this chapter, 'Risk, capital and liquidity management', we provide the information that is required on the basis of IFRS 7 and IAS 1. This information is part of the audit of the financial statements. The Pillar 3 report also contains additional information about the risks, risk management and capital adequacy of SNS Bank. This information is required on the basis of CRD IV and CRR, but is not covered in the auditor's report.

Following this year's introduction of the new CRD IV Directive, we have included a number of newly required tables compared to 2013. Additionally, the tables include more exposure classes. The comparative figures for 2013 have been brought in line with these adjustments. In case comparative figures have been adjusted for tables that had not been adjusted compared to the tables included in the 2013 Risk Management Section, the adjustment is shown in the table.

### 5.3.5 EDTF references

An initiative of the Financial Stability Board, the Enhanced Disclosure Task Force (EDTF) is an international task force consisting of users and authors of financial institutions' annual reports. The task force issued 32 recommendations for the disclosure of banks. SNS Bank endorses the recommendations and has incorporated many of them in this Annual Report. Chapter 7 explains how the EDTF recommendations have been incorporated in the Annual Report and the Pillar 3 report.

## 5.4 Capital management

Capital provides a buffer for the risks that SNS Bank takes. To ensure continuity and protect stakeholders, market participants and regulatory bodies set requirements for both the amount and the composition of the capital base. SNS Bank also applies internal standards that must be met.

**Main developments in 2014**
As stated in the summary at 5.1, the main developments are:

On 16 February 2015, SNS REAAL announced the sale of VIVAT to Anbang Group Holdings Co. Limited.
The transaction is subject to regulatory approval and is expected to be completed in the third quarter of 2015. In view of this sale, the Dutch State and SNS REAAL have decided to work towards a stand-alone position of SNS Bank under the Dutch State. Following completion of the sale, SNS Bank will be transferred from SNS REAAL to the Dutch State. At that time, SNS Bank will no longer be part of the prudential consolidated group.

On a stand-alone basis SNS Bank had a strong Common Equity Tier 1 ratio of 18.3% (fully phased in: 17.4%) as at year-end 2014 (section 5.4). The main risk-unweighted capital ratio, the leverage ratio, rose in 2014 from 3.1% at year-end 2013 to 3.8% at year-end 2014 (from 2.5% to 3.6% fully phased in), but is still not above the future requirement of 4%.

For a bank focused on retail mortgages, the anticipated unweighted capital ratio requirements, such as the anticipated Dutch leverage ratio requirement of 4% Tier 1 capital, lead to a higher amount of required capital than based on the risk-weighted ratios, at least on the basis of risk weights currently in place. SNS Bank expects its capital ratios to improve further by means of profit retention and the issuance of subordinated debt in 2015 and onwards

SNS Bank is well positioned to comply with capital requirements arising from future regulations such as the leverage ratio, MREL and TLAC. SNS Bank aims for a diversified capital structure with adequate subordinated and senior unsecured funding such that depositors with a balance above € 100,000 are not subject to bail-in. We will use the next few years to further reinforce and diversify our capital position.

In 2014, SNS Bank participated in the Comprehensive Assessment conducted by the ECB and the EBA at 128 major banks in the eurozone as part of the establishment of a European banking union. The Comprehensive Assessment can be seen as an admission test to the European supervisory framework: the Single Supervisory Mechanism. SNS Bank passed the EU-wide stress test. In this test SNS Bank's Common Equity Tier 1 capital would be 6.8% in the adverse scenario based on the figures at year-end 2013, which is above the 5.5% Common Equity Tier 1 capital threshold, while the figure would be 4.9% fully phased in.

As SNS Bank passed this EU-wide test, we are admitted to the Single Supervisory Mechanism, which is part of the European banking union.

### 5.4.1 Management and control

The primary goal of capital management is to ensure permanent compliance with internal objectives and external capital requirements and to guarantee the availability of sufficient capital to support SNS Bank's strategy.

Our capital requirements are determined on the basis of risk appetite and business plans, taking into account expectations and requirements of external stakeholders, including customers, regulatory authorities and investors.

SNS Bank's capital adequacy is continuously monitored and assessed in relation to the risk appetite and strategy. This is part of the Internal Capital Adequacy Assessment Process (ICAAP).

SNS Bank's capital management consists of the following main activities:
- Determining the minimum capital required;
- Determining the desired amount of capital;
- (Qualitative) capital adequacy assessment;
- Stress testing on capital adequacy;
- Steering the capital adequacy to the desired level through capital actions.

As part of the Operational Plan, SNS Bank annually drafts a Capital and Liquidity Plan in which multiple scenarios are detailed and compared with the risk appetite. The strategic objectives are evaluated and established in the framework of the annual planning and control cycle.

The quantitative assessment of the capital position compares the capital available and its composition with the external requirements under the current regulatory framework as well as with our own internal targets and economic capital. In this respect, we also consider projected developments in legislation and regulations concerning capitalisation. We apply instruments both to manage the capital required and associated risks and to raise the capital available to the desired level.

Each month, the Bank ALCO discusses the development of the Capital and Liquidity Plan based on a concise version of this plan. Based on this, additional measures may be taken if necessary.

The regulatory authority annually assesses the outcome of the ICAAP in the Supervisory Review and Evaluation Process (SREP) and discusses it with us.

*Stress testing on capital adequacy*
The robustness of the capitalisation is assessed by performing stress tests. In 2014, SNS Bank participated in the EU-wide stress test. Results of stress tests are periodically compared with the regulatory capital required and the economic capital. The economic capital is calculated and reported to the Bank ALCO on a quarterly basis.

The key objectives of stress testing are:
- The stress test results are used to determine and monitor our risk capacity, risk appetite and targets. The results are included in the capital planning;
- Stress tests are used to assess and refine the triggers in SNS Bank's capital contingency plans.

*ECB Comprehensive Assessment*
In the period from November 2013 to October 2014, prior to its new role as European regulatory body, the ECB performed a Comprehensive Assessment of 128 European banks, including SNS Bank. The purpose of the Comprehensive Assessment was:
- To provide transparency about the current position of the individual banks;
- To identify problems at the individual banks and take appropriate measures;
- To restore trust in the European banking sector as a whole and the individual banks in particular.

The Comprehensive Assessment consisted of an Asset Quality Review (AQR) and an EU-wide stress test.

*Asset Quality Review*
During the AQR, the ECB extensively audited (at the loan level) the quality of the portfolios of individual banks. The audit at SNS Bank focused on the residential mortgages and on loans in excess of € 1 million.

Compared to SNS Bank's stand-alone Common Equity Tier 1 capital at year-end 2013 in the amount of € 2,266 million (calculated according to CRD IV on a transitional basis), the calculation of capital according to the AQR approach resulted in a gross adjustment of minus € 101 million. The net adjustment of € 76 million corresponded to a decrease of the CET1 ratio of 15.5% to 14.9% (calculated according to CRD IV on a transitional basis).

The € 101 million gross adjustment was the result of a few differences in parameters and assumptions between loan provision models used in the AQR on the one hand and those used by SNS Bank NV in-house on the other. The main differences were the use of a longer assumed loss identification period[2] and a different method for the determination of the assumed recovery of loans in default. In this respect, internal assessment
of data recovery has not resulted in changes to the internal model approved by the regulator.

Based on the AQR results, we made some changes to the provision process in the second half of 2014. For example, we extended the average loss identification period (LIP) for residential mortgages, as part of the calculation of provisions, from 6 to 10 months. This resulted in a one-off addition to the provision for residential mortgages (IBNR provision) of € 23 million.

*EU-wide stress test*
The EU-wide stress test assessed the resilience of the European banking sector using hypothetical external shocks over a period of three years (2014-2016) based on two economic scenarios.

This EU-wide stress test has revealed that SNS Bank's CET1 ratio remains virtually stable at 15.0% in the baseline scenario, thus comfortably meeting the 8% minimum requirement In the adverse scenario of the stress test, the adjusted CET1 ratio dropped from 14.9% in 2013 to 6.8% in 2016, which is a drop of 8.1 percentage points. This is above the 5.5% threshold for the adverse scenario set by the ECB.

The 8.1% drop was the result of stringent methodology assumptions (-5.7%) and SNS Bank-specific components (-2.4%). The results of the stringent methodology assumptions included:
- net interest income under high pressure due to higher calculated funding costs, an increase of loans in arrears, higher impairments; and
- an increase of risk-weighted assets driven by a higher risk weight of loans in arrears. Further, loans in arrears were not assumed to recover during the horizon of the stresstest.

2 The Loss Identification Period, or LIP, is the difference in time between the occurrence of the actual loss and the identification thereof by the Bank.

SNS Bank-specific components were:

- relatively high deferred tax assets. The losses at Property Finance, currently operating under the name Propertize, created relatively high deferred tax assets for SNS Bank in the years prior to the nationalisation, as did the nationalisation measures. Under CRD IV such deferred tax assets are deducted from the Common Equity Tier 1 capital (which is phased in by 20% each year as from 2014);
- the accounting treatment of the portion of the mortgage portfolio that is recognised at fair value. In the stress test methodology, mortgage portfolios included in the balance sheet at fair value and discounted using RMBS spreads are stressed as RMBS. This resulted in a considerably lower valuation of these mortgage portfolios in the stress test, despite the fact that SNS Bank does not hold this portfolio for trading purposes, but to maturity.

The outcome of the Comprehensive Assessment demonstrates SNS Bank's resilience under adverse economic conditions and when applying stringent methodology assumptions. As the Comprehensive Assessment demonstrates that SNS Bank has no capital shortfalls, it is under no obligation to submit capital plans to the ECB.

As a result of, inter alia, a better starting position and a decrease of the deferred tax receivable, we expect an improved outcome if the adverse scenario of the EU-wide stress test would be applied taking the 2014 year-end CET1 capital ratio as a starting point for both the transitional and the fully phased-in CET1 ratio.

*Capital Contingency Plan and Recovery Plan*

SNS Bank has a Capital Contingency Plan and a Recovery Plan. The Capital Contingency Plan provides a framework for identifying capital adequacy problems at an early stage and for taking adequate action in that regard. It defines a set of measures available to us depending on the urgency and seriousness of potential problems.

The Recovery Plan provides which measures we can take to recover from major unforeseen, anticipated or current capital shortfalls. The Recovery Plan prepares us for serious financial difficulties, giving us the tools to quickly and effectively address such issues.

## 5.4.2 Capital structure

SNS Bank NV is a 100% subsidiary of SNS REAAL NV. Based on the CRR/CRD IV regulations, SNS REAAL NV, as a mixed financial holding company, is part of the prudential consolidated group of SNS Bank NV. As a consequence, from 1 January 2014 onwards, SNS Bank NV is required to report and disclose its capital position, based on the capital position of SNS REAAL NV and its subsidiaries.

In this section, we present the capital position from two perspectives. First, from the perspective of the mixed financial holding company. The capital position of the mixed financial holding company (Mixed Financial Holding or MFH) is ultimately decisive for SNS Bank for as long as it is part of SNS REAAL.

Second, we present SNS Bank's stand-alone capital position, which excludes the parent company. Following the announced transfer of SNS Bank to a position under the State, the stand-alone capital ratios will be decisive.

*Prudential capitalisation*

The table below  presents SNS Bank's capitalisation at the MFH level.

**Capitalisation of SNS Bank on a prudential consolidated basis**

| | 2014 | 2013 pro forma[1] | 2014 | 2013 pro forma[1] |
|---|---|---|---|---|
| **In € millions** | **CRD IV transitional** | **CRD IV transitional** | **CRD IV fully phased in** | **CRD IV fully phased in** |
| **Shareholders' equity SNS REAAL** | **3,999** | **4,496** | **3,999** | **4,496** |
| Increased equity securitised assets | -22 | -20 | -22 | -20 |
| Cash flow hedge reserve and fair value reserve | -369 | -157 | -242 | -94 |
| Other prudential adjustments | -5 | -7 | -5 | -7 |
| **Total prudential filters[2]** | **-396** | **-184** | **-269** | **-121** |
| Intangible assets | -15 | -102 | -15 | -102 |
| Deferred tax assets | -48 | -71 | -239 | -354 |
| IRB shortfall[3] | -56 | -104 | -56 | -104 |
| **Total capital deductions[2]** | **-119** | **-277** | **-310** | **-560** |
| **Total regulatory adjustments to shareholders' equity** | **-514** | **-461** | **-579** | **-681** |
| **CRD IV common equity Tier 1 capital** | **3,485** | **4,035** | **3,420** | **3,815** |
| Additional Tier 1 capital | -- | -- | -- | -- |
| **Tier 1 capital** | **3,485** | **4,035** | **3,420** | **3,815** |
| Tier 2 capital | -- | -- | -- | -- |
| **Total capital** | **3,485** | **4,035** | **3,420** | **3,815** |

1 For purposes of comparison with the 2014 figures, the 2013 figures have been restated (pro forma) in response to the introduction of CRD IV on 1 January 2014. The figures presented in the Annual Report for 2013 were Basel II figures.
2 The prudential filters and capital deductions reconcile the definition of shareholders' equity (own funds) with the definition under the IFRS accounting regime.
3 The IRB shortfall is the difference between the expected loss under the CRR/CRD IV Directives and the IFRS retail mortgages provision. As a result of the phasing-in of the CRD IV rules, 20% of the IRB shortfall is charged to the Common Equity Tier 1 capital, while the remainder is divided equally between the additional Tier 1 capital and the Tier 2 capital. As the mixed financial holding company does not have any additional Tier 1 capital or Tier 2 capital, the IRB shortfall is allocated to the Common Equity Tier 1 capital in full.

When the prudential filters and the capital deductions are determined under the CRR, account is taken of SNS Bank's data as well as of the value of these items at Insurer VIVAT and the holding company.

The change in the prudential filters is largely attributable to the development of the fair value reserve, specifically the unrealised revaluation of the Available-For-Sale (AFS) investment portfolio. The decline in intangible assets is the result of the impairment of RegioBank's goodwill.

The Deferred Tax Asset (DTA) related to losses carried forward decreased from € 354 million as per December 2013 to € 239 million at year-end 2014, due to taxable profits of the fiscal unity. This deferred tax asset is fully recognised by the entity SNS Bank, where the associated loss was recorded in previous years.

The introduction of CRD IV/CRR had a major impact on regulatory capital. The CRR prescribes a phased deduction of items including deferred tax assets, the IRB shortfall and intangibles for the calculation of regulatory capital. This deduction is 20% of these items with effect from 1 January 2014, increasing by 20% in each subsequent year until full deduction is reached in 2018.

*Stand-alone capitalisation*

SNS Bank's capital structure consists entirely of Common Equity Tier 1 capital, except for the Tier 2 loan of € 40 million that SNS REAAL provided to SNS Bank. No Tier 2 applies at the consolidated level as the subordinated loan between SNS REAAL and SNS Bank is eliminated in the consolidation.

The table below presents SNS Bank's stand-alone capitalisation.

### Capitalisation (stand-alone)

| | 2014 | 2013 pro forma[1] | 2014 | 2013 pro forma[1] | 2013 |
|---|---|---|---|---|---|
| **In € millions** | **CRD IV transitional** | **CRD IV transitional** | **CRD IV fully phased in** | **CRD IV fully phased in** | **Basel II** |
| **Shareholders' equity SNS Bank NV** | **2,963** | **2,582** | **2,963** | **2,582** | **2,582** |
| Net result second half year | **-40** | **--** | **-40** | **--** | **--** |
| **Shareholders' equity SNS Bank NV for CRD IV purposes** | **2,923** | **2,582** | **2,923** | **2,582** | **2,582** |
| Facility SNS REAAL | -100 | -100 | -100 | -100 | -100 |
| Increased equity securitised assets | -22 | -20 | -22 | -20 | -20 |
| Cash flow hedge reserve and fair value reserve | -179 | 30 | -83 | -51 | 53 |
| Other prudential adjustments | -5 | -7 | -5 | -7 | -7 |
| **Total prudential filters** | **-306** | **-97** | **-210** | **-178** | **-74** |
| Intangible assets | -15 | -85 | -15 | -85 | -74 |
| Deferred tax assets | -48 | -70 | -239 | -354 | -- |
| IRB shortfall[2] | -34 | -64 | -56 | -104 | -19 |
| **Total capital deductions** | **-97** | **-219** | **-310** | **-543** | **-93** |
| **Total regulatory adjustments to shareholders' equity** | **-403** | **-316** | **-520** | **-721** | **-167** |
| **CRD IV common equity Tier 1 capital** | **2,520** | **2,266** | **2,403** | **1,861** | **2,415** |
| Additional Tier 1 capital | -- | -- | -- | -- | -- |
| **Tier 1 capital** | **2,520** | **2,266** | **2,403** | **1,861** | **2,415** |
| Eligible Tier 2 | 40 | 40 | 40 | 40 | 40 |
| IRB shortfall[3] | -22 | -40 | -- | -- | -18 |
| Tier 2 capital | 18 | -- | 40 | 40 | 22 |
| **Total capital** | **2,538** | **2,266** | **2,443** | **1,901** | **2,437** |

1 For purposes of comparison with the 2014 figures, the 2013 figures have been restated (pro forma) in response to the introduction of CRD IV on 1 January 2014. The figures presented in the Annual Report for 2013 were Basel II figures.
2 The IRB shortfall is the difference between the expected loss under the CRR/CRD IV Directives and the IFRS retail mortgages provision. As a result of the phasing-in of the CRD IV rules, 20% of the IRB shortfall is charged to the Common Equity Tier 1 capital, while the remainder is divided equally between the additional Tier 1 capital and the Tier 2 capital. As SNS Bank (stand-alone) does not have any additional Tier 1 capital, the portion of the IRB shortfall that would be related to the additional Tier 1 capital has been deducted from the Common Equity Tier 1 capital.
3 The IRB shortfall is the difference between the expected loss under the CRD IV/CRR Directives and the IFRS retail mortgages provision. As a result of the phasing-in of the CRD IV rules, 20% of the IRB shortfall is charged to the Common Equity Tier 1 capital, while the remainder is divided equally between the additional Tier 1 capital and the Tier 2 capital. As SNS Bank (stand-alone) does not have any additional Tier 1 capital, the portion of the IRB shortfall that would be related to the additional Tier 1 capital has been deducted from the Common Equity Tier 1 capital.

CET1 capital increased to € 2,520 million from € 2,266 million in 2013, mainly due to the net profit for the first half of 2014, the absence of the deduction of goodwill related to RegioBank from CET 1 capital following such goodwill impairment and lower capital deductions for deferred tax assets, associated with tax losses carried forward, and for the IRB shortfall. SNS Bank did not request prior approval to include the net profit of the second half year of 2014. The latter is, therefore, not included in the CET1 capital.

The Tier 2 capital is comprised as follows:

### Capital instruments

| in € millions | | Nominal | amount |
|---|---|---|---|
| **Upper Tier 2** | **First possible call date** | **2014** | **2013** |
| EURO 40,25 million 4.082% | Jun-15 | 40.25 | 40.25 |

No capital transactions were concluded in 2014 in which additional Tier 1 capital or Tier 2 capital was raised.

The intended transfer of SNS Bank NV from SNS REAAL NV to the Dutch State has an effect on the capital position and ratios of SNS Bank NV. For a detailed explanation, see section 4.5.3 of this report.

### 5.4.3 Capital requirements and risk-weighted assets

Pillar 1 sets the minimum capital requirements for the three main types of risk: credit risk, operational risk and market risk. The table below shows the risk-weighted assets (RWA) per type of risk, exposure category and method of calculating capital requirements.

## Capitalisation RWA

| | EAD[1] | | Basel III RWA | | 8% Pillar 1 capital requirement | |
|---|---|---|---|---|---|---|
| **in € millions** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| **Credit risk Internal Ratings Based** | | | | | | |
| Retail Mortgages[2] | 40,921 | 38,148 | 6,804 | 7,723 | 544 | 618 |
| Securitisation positions | 1,124 | 1,638 | 142 | 385 | 11 | 31 |
| Other | -- | -- | 810 | 581 | 65 | 46 |
| **Total credit risk Internal Ratings Based** | **42,045** | 39,786 | **7,756** | 8,689 | **620** | 695 |
| | | | | | | |
| **Kredietrisico** | | | | | | |
| Central governments and central banks | 9,728 | 15,848 | -- | -- | -- | -- |
| Regional governments or local authorities | 2,139 | 1,567 | -- | -- | -- | -- |
| Public sector entities | 160 | 164 | 35 | 36 | 3 | 3 |
| Multilateral developments banks | 232 | 174 | -- | -- | -- | -- |
| International organisations | 18 | 4 | -- | -- | -- | -- |
| Financial institutions | 2,299 | 2,394 | 769 | 897 | 61 | 72 |
| Corporates | 856 | 984 | 1,744 | 1,926 | 139 | 154 |
| Retail excl. mortgages | 261 | 284 | 185 | 214 | 15 | 17 |
| Secured by mortgages immovable property | 1,217 | 1,362 | 865 | 1,000 | 69 | 80 |
| Exposures in default | 131 | 134 | 157 | 166 | 13 | 13 |
| Covered bonds | 24 | -- | 2 | -- | -- | -- |
| Equity exposures | 10 | 11 | 10 | 11 | 1 | 1 |
| Other Items | 178 | 336 | 120 | 158 | 10 | 13 |
| **Total credit risk Standardised Approach** | **17,253** | 23,262 | **3,887** | 4,408 | **311** | 353 |
| | | | | | | |
| **Market risks (standardised)** | | | | | | |
| - Traded debt instruments | 2,928 | 1,234 | 274 | 187 | 22 | 15 |
| - Equities | 3 | 2 | 5 | 5 | -- | -- |
| **Operational risk** | | | | | | |
| - Standardised approach | -- | -- | 1,566 | 1,516 | 125 | 121 |
| **Total other risks** | **2,931** | 1,236 | **1,845** | 1,708 | **147** | 136 |
| Credit Valuation Adjustment (CVA) | -- | -- | 283 | 316 | 23 | 25 |
| **Total SNS Bank stand alone** | **62,229** | 64,284 | **13,771** | 15,121 | **1,101** | 1,209 |
| | | | | | | |
| **Credit risk Standardised Approach MFH** | | | | | | |
| Central governments and central banks | 8 | 64 | -- | -- | -- | -- |
| Financial institutions | 2 | 1 | -- | -- | -- | -- |
| Corporates | 2,098 | 2,784 | 8,434 | 11,096 | 675 | 888 |
| Equity exposures | 38 | 41 | 38 | 40 | 3 | 3 |
| Other Items | 48 | 130 | 49 | 194 | 4 | 16 |
| **Total credit risk Standardised Approach MFH** | 2,194 | 3,020 | 8,521 | 11,330 | 682 | 906 |
| | | | | | | |
| **Other risks MFH** | | | | | | |
| Operational risk | -- | -- | 79 | 255 | 6 | 20 |
| - of which Standardised Approach | -- | -- | 79 | 255 | 6 | 20 |
| **Total other risks MFH** | -- | -- | 79 | 255 | 6 | 20 |
| CVA | -- | -- | -1 | -10 | -- | -1 |
| **Total MFH sec** | 2,194 | 3,020 | 8,599 | 11,575 | 688 | 926 |
| **Total Prudential Consolidated** | **64,423** | **67,304** | **22,370** | **26,695** | **1,789** | **2,135** |

1 The EAD is the exposure to a counterparty at the reporting date. For the IRB weighted mortgages, the EAD is equal to the remaining principal amount of the mortgage plus three additional interest rate terms, default interest and any undrawn credit facilities.
2 To determine the RWA of private mortgages a regulator-approved model is used.

The Bank's EAD on a stand-alone basis declined from € 64.3 billion to € 62.2 billion at year-end 2014. This was particularly the result of the lower EAD in the category 'Central governments and central banks', which fell from € 15.8 billion to € 9.7 billion. This drop can be attributed to the full repayment of the loans to Propertize. This funding to Propertize was government guaranteed, which is why it was included in the 'Central governments and central banks' category.

The increase in the EAD of residential mortgages was € 2.8 billion. This increase came about as securitisation transactions were transferred terminated ( € 3.0 billion positive) and a mortgage transaction concluded with VIVAT in the framework of the disentanglement of SNS Bank and VIVAT Group was terminated (€ 0.4 billion positive), as well as through regular portfolio developments resulting from inflow and outflow (€ 0.6 billion negative).

The EAD of the mixed financial holding dropped from € 3.0 billion to € 2.2 billion, which was almost entirely due to a decrease in VIVAT's book value.

Compared to year-end 2013, risk-weighted assets for SNS Bank on a stand-alone basis decreased by € 1.3 billion to € 13.8 billion. At year-end 2014 risk weighted assets of € 7.5 billion related to retail mortgage loans (year-end 2013: € 8.2 billion). The impact of calls of securitisations and increases in probability of defaults (PDs) and loss given defaults (LGDs) was more than compensated by the implementation of updated risk assessment models as a result of which the risk-weight of retail mortgages decreased. At the end of 2014 SNS Bank implemented an updated version of its advanced internal rating based ( AIRB) model for retail mortgages. The model has been revised to reflect in a more granular way the specific characteristics of the underlying portfolio and is better aligned with respect to dampening the pro-cyclicality in risk-weighted assets.

The RWA of the MFH were down € 4.3 billion, from € 26.7 billion to € 22.4 billion at year-end 2014. For the purpose of calculating own funds at a prudential consolidated level, SNS REAAL applies CRR article 49. As a result, the equity value of VIVAT is assigned a risk weight of 400%. Due to the decreased equity value of VIVAT, risk-weighted assets decreased by € 3.1 billion (from € 10.4 billion at year-end 2013 to € 7.2 billion). The subordinated loans provided by SNS REAAL NV to the Insurance activities (€ 302 million) also have a risk weight of 400%. The loan provided by SNS Bank NV to REAAL NV (€ 250 million), with a risk weight equal to 500%, was included in the RWA of SNS Bank NV.

The RWA of residential mortgages also fell by € 0.9 billion, from € 7.7 billion to € 6.8 billion, mainly on the back of the introduction of a revised AIRB credit risk model for residential mortgages. This model was revised to facilitate a more refined assessment of the characteristics of the underlying portfolio, enhancing its ability to temper procyclical effects in the risk-weighted assets.

The method of calculating the item 'Traded debt instruments' was adjusted. Compared to 2013, derivatives are now also included in risk calculations to the extent that they serve to hedge the currency risks of traded debt instruments.

### 5.4.4 Capital ratios

The table below presents the MFH capital ratios on a prudential consolidated basis

### Capital ratios on a prudential consolidated basis

| in € millions | 2014 CRD IV transitional[1] | 2013 pro forma CRD IV transitional | 2014 CRD IV fully phased in[2] | 2013 pro forma CRD IV fully phased in |
|---|---|---|---|---|
| CRD IV common equity Tier 1 capital | 3,485 | 4,035 | 3,420 | 3,815 |
| Tier 1 capital | 3,485 | 4,035 | 3,420 | 3,815 |
| Total capital | 3,485 | 4,035 | 3,420 | 3,815 |
| Risk-weighted assets | **22,370** | **26,695** | **22,370** | **26,695** |
| Exposure measure as defined by the CRR | 127,360 | 128,299 | 127,273 | 128,038 |
| Common equity Tier 1 ratio | 15.6% | 15.1% | 15.3% | 14.3% |
| Tier 1 ratio | 15.6% | 15.1% | 15.3% | 14.3% |
| Total capital ratio | 15.6% | 15.1% | 15.3% | 14.3% |
| Leverage ratio | 2.7% | 3.1% | 2.7% | 3.0% |

1 Under CRR/CRD IV, additional capital deductions and prudential filters are phased in during a five-year adjustment period. The column ‘transitional’ presents the amounts of capital and the capital ratios according to current requirements. The column ‘fully phased in’ applies the requirements that will be applicable after full phase-in.
2 The column 'fully phased in' shows the requirements after fully phasing in of the requirements is applied.

At year-end 2014, the Common Equity Tier 1 ratio was 15.6% at the prudential consolidated level. Due to the absence of additional Tier 1 and Tier 2 capital, the Tier 1 ratio and the total capital ratio are also 15.6%.

The table below presents SNS Bank’s stand-alone capital ratios.

### Capital ratios on a stand-alone basis

| in € millions | 2014 CRD IV transitional[1] | 2013 pro forma CRD IV transitional | 2014 CRD IV fully phased in[2] | 2013 pro forma CRD IV fully phased in | 2013 Basel II |
|---|---|---|---|---|---|
| CRD IV common equity Tier 1 capital | 2,520 | 2,266 | 2,403 | 1,861 | 2,415 |
| Tier 1 capital | 2,520 | 2,266 | 2,403 | 1,861 | 2,415 |
| Total capital | 2,538 | 2,266 | 2,443 | 1,901 | 2,437 |
| Risk-weighted assets | **13,771** | **15,121** | **13,771** | **15,121** | **14,578** |
| Exposure measure as defined by the CRR | 66,724 | 73,913 | 66,607 | 73,508 | 74,629 |
| Common equity Tier 1 ratio | 18.3% | 15.0% | 17.4% | 12.3% | 16.6% |
| Tier 1 ratio | 18.3% | 15.0% | 17.4% | 12.3% | 16.6% |
| Total capital ratio | 18.4% | 15.0% | 17.7% | 12.6% | 16.7% |
| Leverage ratio | 3.8% | 3.1% | 3.6% | 2.5% | 3.2% |

1 Under CRR/CRD IV, additional capital deductions and prudential filters are phased in during a five-year adjustment period. The column ‘transitional’ presents the amounts of capital and the capital ratios according to current requirements. The column ‘fully phased in’ applies the requirements that will be applicable after full phase-in.
2 The column 'fully phased in' shows the requirements after fully phasing in of the requirements is applied.

At year-end 2014, the Common Equity Tier 1 ratio was 18.3% for SNS Bank NV on a stand-alone basis, up 3.3% from year-end 2013. The Tier 1 ratio was also 18.3% and the total capital ratio 18.4%. The increase of the ratios is explained by the increase in Common Equity Tier 1 capital of € 254 million, € 111 million of which was profit generated in the first six months, combined with a decline in RWA of € 1.4 billion. The capital ratios exclude the positive net result of € 40 million for 2014. € 0.9 billion of the decline in

RWA is the result of the transition to the revised risk model for the residential mortgage portfolio.

The table below presents the capital requirements applicable under Pillar 1 in respect of the Common Equity Tier 1 capital:

### Pillar 1 requirements SNS Bank under CRD IV/CRR

| | minimum | maximum |
|---|---|---|
| Basis | 4.5% | 4.5% |
| Capital conservation buffer | 2.5% | 2.5% |
| Other systemic important institutions buffer | 1.0% | 1.0% |
| Systemic risk buffer | n.a. | n.a. |
| Countercyclical buffer | 0.0% | 2.5% |
| Common Equity Tier 1 ratio | 8.0% | 10.5% |

In 2014, DNB set the 'other systemically important institutions' buffer at 1%. The 'systemic risk buffer' does not apply to SNS Bank. The 'countercyclical buffer' relates to the extent to which DNB believes there to be overheated lending, which has not been established at this time. A requirement of 8.0% Common Equity Tier 1 capital effectively applied to SNS Bank under Pillar 1 at year-end 2014.

## 5.4.5 Pro forma effect of sale REAAL NV in 2015

On 16 February 2015, SNS REAAL NV announced that it signed an agreement with Anbang Group Holding CO. Ltd., a wholly-owned subsidiary of Anbang Insurance Group Co. Ltd. (Anbang), a leading Chinese insurance company, for the sale of REAAL NV. More detailed information on the pro forma effect of the sales transaction on SNS Bank's capital position can be found in section 4.5.3.

## 5.5 Credit risk

SNS Bank is exposed to credit risk on its mortgage portfolio, retail loans, SME loans and investments. Credit risk is the most important financial risk for SNS Bank.

### 5.5.1 Risk profile

The credit risk of SNS Bank's investments improved limitedly in 2014. SNS Bank's credit risk is primarily determined by the credit risk profiles of the residential mortgage portfolio and the SME portfolio.

The residential mortgage market shows clear signs of recovery. At the same time, we are focusing more on the follow-up of customers in arrears and risk monitoring in the acceptance of new customers. The residential mortgage portfolio decreased from € 47.0 billion to € 46.2 billion and the volume of overdue mortgages dropped from € 2.2 billion to € 2.0 billion. The provision for the residential mortgage portfolio increased from € 306 million to € 326 million during 2014. SNS Bank increased its provisions in relation to the outstanding loan balance.

Investments in SME loans declined from € 1.3 billion to € 1.2 billion. The SME loans in arrears rose to € 204 million, which was caused by a reclassification of regular SME loans as overdue and by lower collateral values ensuing from re-appraisals performed in 2014. This reclassification was the result of the comprehensive assessment that the ECB conducted in 2014. This reclassification led us to form additional provisions, creating an increase in the coverage ratio of loans in arrears to 60%.

#### 5.5.1.1 Credit risk exposure

SNS Bank's strategy is aimed at offering payment, savings and mortgage products mainly to retail customers in the Netherlands. Most of the exposures (€ 52.8 billion or 77% of the IFRS balance sheet total) pertain to 'Loans and advances to customers', which have primarily been provided to retail customers for residential mortgages.

The other part of the exposures comprises 'Cash or cash equivalents' (€ 2.0 billion or 2.9%) and 'Loans and advances to banks' (€ 2.6 billion or 3.8%) or is related to 'Derivatives' (€ 2.7 billion or 4.0%) and 'Financial instruments' (€ 6.0 billion or 8.7%).

The categories 'Loans and advances to banks' and 'Cash and cash equivalents' are mainly exposures related to SNS Bank's liquidity management. The decrease in 'Cash and cash equivalents' is partly the result of repayment of the ESCB (LTRO) loan. The decrease in 'Loans and advances to banks' reflects the repayment by Propertize of the loan (€ 4.1 billion) that SNS Bank had provided to Propertize.

The (net) derivative position ensues from the hedging of the interest rate risk in the banking book. The financial instruments pertain to investments in government bonds in particular. Please refer to section 5.7 for an explanation of liquidity management.

### Credit risk exposure

| in € millions | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | 1,968 | 5,528 |
| Loans and advances to banks | 2,604 | 6,063 |
| Loans and advances to customers | 52,834 | 53,405 |
| Financial instruments (excl. equities) | 5,954 | 4,944 |
| Derivatives | 2,702 | 2,484 |
| Other | 715 | 1,239 |
| Assets held for sale | 149 | 0 |
| **On-balance sheet exposure to credit risk** | **66,926** | **73,663** |
| | | |
| Liabilities from irrevocable facilities | 1,471 | 2,414 |
| **Off-balance sheet exposure to credit risk** | **1,471** | **2,414** |
| | | |
| **Total exposure to credit risk** | **68,397** | **76,077** |

#### 5.5.1.2 Exposure at Default (EAD)

The exposure of loans to credit risk is included below based on the concept of Exposure at Default (EAD), using the figures as applied for IFRS. A few components specific to the determination of the EAD are added, such as the recognition of undrawn loan components and the addition of three months of arrears.

### Total Exposure at Default (EAD)

| in € millions | 2014 | 2013 |
|---|---|---|
| Total assets (IFRS balance sheet total) | 68,159 | 74,537 |
| Items that are not subject to credit risk exposure | -1,233 | -874 |
| On-balance sheet exposure to credit risk | 66,926 | 73,663 |
| | | |
| *Off-balance sheet* | | |
| credit facilities and guarantees | 1,471 | 2,414 |
| **Total exposure to credit risk** | **68,397** | **76,077** |
| | | |
| Adjustments on assets[1] | -2,403 | -5,685 |
| Valuation adjustments[2] | -5,773 | -5,349 |
| Recalculation off-balance credit facilities and guarantees to EAD | -923 | -1,995 |
| **Total Exposure at Default** | **59,298** | **63,048** |
| Credit risk risk-weighted assets/total exposure at default | 19.6% | 20.8% |

1 'Adjustments on assets' pertain to securitised mortgages.
2 Under 'Valuation adjustments' adjustments are made for hedge accounting, the balance of netting derivative positions and an add-on for potential future exposure and credit risk mitigating items (particularly collateral).

The following sections provide more detailed information or cross sections based on the IFRS exposure or based on the EAD. In the latter case it will be indicated explicitly in the title of the table and/or in the name of the relevant column in the table.

#### 5.5.1.3 Notes to 'Loans and advances to customers'

The table below provides a further breakdown of the 'Loans and advances to customers' category.

### Loans and advances to customers

| in € millions | 2014 | 2013 |
|---|---|---|
| Exposure to private individuals | 46,443 | 47,256 |
| Residential mortgages | 46,230 | 47,010 |
| Retail other loans | 213 | 246 |
| Exposure to SMEs | 3,133 | 3,848 |
| Commercial loans to SME | 1,035 | 1,149 |
| Private loans to (semi-) public sector[1] | 1,768 | 2,372 |
| Sustainable project funding ASN | 330 | 327 |
| Government[2] | 3,258 | 2,301 |
| **Total** | **52,834** | **53,405** |

1 Of the amount under 'private loans to the (semi-)public sector', € 693 million at year-end 2014 and € 745 million at year-end 2013 were loans and advances of ASN Bank.
2 Of the amount under 'public sector', € 837 million at year-end 2014 and € 958 million at year-end 2013 were loans and advances of ASN Bank.

Loans and advances to customers comprise three components:

- exposure to private individuals
- exposure to SMEs
- exposure to the public sector

The exposure to private individuals mainly consists of mortgages provided to private individuals. The volume of this portfolio decreased to a limited extent from € 47 billion at year-end 2013 to € 46.2 billion at year-end 2014, which is mainly attributable to increased efforts of customers to redeem their mortgages. In addition to residential mortgages, SNS Bank also provides credit products such as revolving credit, debit balances in current accounts, personal loans, credit cards and security-backed loans. This 'Other retail loans' portfolio totalled € 213 million in 2014, compared to € 246 million in 2013.

The exposure to SMEs, including private loans and ASN Bank sustainable loans, totalled € 3.1 billion in 2014, down from € 3.9 billion in 2013. € 1.0 billion of this amount was related to the commercial mortgage portfolio in 2014, compared to € 1.1 billion in 2013. The decline was caused by an increase in repayments by customers.

A second component of the exposure to SMEs is related to private loans granted to the (semi-) public sector, totalling € 1.8 billion in 2014, compared to € 2.4 billion in 2013. The private loans are provided by SNS Bank or ASN Bank. The decline in private loans was driven by redemptions of private loans and repayments of deposits placed. Exposures to ASN Bank sustainable loans remained virtually stable at € 330 million.

The third component of the 'Loans and advances to customers' category comprises loans to the public sector, mostly loans provided to lower tiers of government (municipalities, provinces). The volume of 'Loans and advances to the public sector' amounts to € 3.3 billion compared to € 2.3 billion in 2013.

### Provisions for loans and advances to customers

| in € millions | 2014 | 2013 |
|---|---|---|
| Loans and advances to customers | 53,344 | 53,858 |
| Specific provision | -441 | -405 |
| IBNR provision | -69 | -48 |
| **Total residential mortgages** | **52,834** | **53,405** |

The provision rose from € 453 million in 2013 to € 510 million in 2014. An explanation of each category is given in sections 5.5.2 – 5.5.6.

### Coverage ratio of loans and advances to customers

| in € millions | 2014 | 2013 |
|---|---|---|
| Loans in arrears[1] | 2,303 | 2,425 |
| Non default | 672 | 780 |
| Impaired default | 1,631 | 1,645 |
| Specific provision | -441 | -405 |
| Percentage loans in arrears | 4.3% | 4.5% |
| Impaired ratio | 3.1% | 3.1% |
| Coverage ratio | 27.0% | 24.6% |

1 'Loans in arrears' do not include mortgages that are stated at market value in the balance sheet (2014: € 34 million, 2013: € 36 million).

The credit risk in the 'Loans and advances to customers' category was subject to a limited decline. The volume of loans in arrears dropped by € 122 million to € 2.3 billion in 2014. The coverage ratio increased from 24.6% in 2013 to 27.0% in 2014. An explanation of each category is given in sections 5.5.2 – 5.5.6.

The following table provides details of the on-balance sheet maximum exposures by region. The table indicates the customer's place of residence, which does not necessarily correspond to the location of the collateral provided.

### Loans and advances to cutomers by region

| in € millions | 2014 | 2013 |
|---|---|---|
| the Netherlands | 50,081 | 52,249 |
| EMU excl. the Netherlands | 2,417 | 1,064 |
| Swiss | 255 | 7 |
| United Kingdom | 42 | 44 |
| Other | 39 | 41 |
| **Total** | **52,834** | **53,405** |

The table illustrates that, given SNS Bank's strategy and business model, there is a strong focus on Dutch customers. The increase of loans within the EMU is the result of more private loans being provided to foreign government institutions.

#### 5.5.1.4 Credit risk (Management)

In managing credit risk, SNS Bank distinguishes three subtypes:

**Default risk**: this risk arises when a borrower does not meet a financial or other contractual obligation to our company.

Default risk occurs when the Bank extends loans or makes investments. We distinguish between loans and advances to customers, loans and advances to banks and institutions, and investments. Loans and advances to customers are usually hedged on the basis of mortgage collateral. The loans and advances to banks and the investments are largely the result of liquidity management and have a low credit risk. Primary responsibility for credit risk management rests with the Mortgage Service Centre, the SME Special Credits Service Centre and ASN Bank. The Special Credits Service Centre is responsible for processing retail loans in arrears or loans requiring special attention.

**Concentration risk**: concentrations in factors such as affiliated customers, representation in a particular industrial sector or market segment, or geographical region determine the degree of credit risk.

SNS Bank's loan portfolio has a very strong focus on the Dutch market, and on the residential mortgage market in particular. Despite this (strategically chosen) concentration, the diversification in underlying borrowers is sufficient within the loan portfolio because of the large number of customers (270,000).

**Counterparty risk**: counterparty risk exists when the counterparty to a transaction defaults before the final settlement of the cash flows associated with the transaction has taken place. Counterparty risk ensues from derivatives, for example, rather than loan agreements.

In the context of asset & liability management, interest rate derivatives are used to control the interest rate risk. These derivative positions create a counterparty risk, which is hedged by collateral when it exceeds a contractually agreed value. The business units to which counterparty risk applies, i.e. SNS Financial Markets (SNS FM) and SNS Securities, are responsible for managing counterparty risk and using risk-mitigation tools. A credit line is available for each counterparty. Lines of credit are determined for each counterparty and each type of product individually according to the nature of the risk and the term. Credit lines are also linked to the counterparty's credit rating and SNS Bank's own funds. In principle, no lines of credit are granted to banks without a rating or banks with a credit rating below BBB.

**Credit Committee**:
The Bank CC is responsible for managing credit risks at SNS Bank and all of its legal entities. Its responsibilities include the following:

- Adopting limits and policy and determining the details of these in respect of credit risk for the Bank within the frameworks adopted by the BRC;
- Accepting or rejecting loans. Reviewing loans and revising the loan conditions if necessary;
- Supervising the practical application of policy and the responsible execution of lending and credit management, including arrears management;
- Adopting and monitoring procedures and measures to control credit risk;
- Adopting, approving, modifying, monitoring and evaluating loan provisions, credit losses and depreciation. Monitoring, evaluating and adjusting the risk in the loan portfolios and credit exposure.

**Reporting:**
Developments in the loan portfolio in relation to the risk measures are frequently reported and monitored.

- The Bank publishes weekly dashboards about mortgage portfolio developments.
- Monthly overviews are published stating the credit risk, provisions and business reviews for the retail and SME segments.
- Quarterly reports are published in the areas of credit risk and provisions.

Finally, a comprehensive stress test is performed at least once every year, usually as part of the ICAAP.

## 5.5.2 Residential mortgages

### 5.5.2.1 Risk profile

The residential mortgage market shows clear signs of recovery. This portfolio decreased from € 47.0 billion to € 46.2 billion and the volume of overdue mortgages dropped from € 2.2 billion to € 2.0 billion. The provision for the residential mortgage portfolio increased from € 306 million to € 326 million during 2014.

The residential mortgage portfolio consists almost entirely of private residential property loans in the Netherlands. Over two-thirds of the total portfolio consists of interest-only mortgage loan components. The portfolio will evolve in the years to come as savings mortgages and investment mortgages will no longer be sold and interest-only mortgages will no longer be tax efficient. The next few years will see a gradual shift towards annuities and linear mortgages. We already saw the percentage of annuity mortgages increase in 2014. These developments contribute to a steady decrease of the average Loan to Value (LtV) in the residential mortgage portfolio. The portfolio developments are reported to the Bank CC according to standard procedures.

### 5.5.2.2 Main developments in 2014

The portfolio decreased from € 47 billion to € 46.2 billion. The inflow of mortgages was € 2.0 billion in 2014, while the outflow from the portfolio amounted to € 3.4 billion. The inflow consists mainly of new mortgages, conversions and the acquisition of a VIVAT mortgage portfolio. 67% of the mortgage origination are mortgages provided under a National Mortgage Guarantee (NHG).

The volume of overdue mortgages (mortgages in arrears) decreased by € 143 million. The provision for the residential mortgage portfolio increased by € 20 million in 2014. SNS Bank thus adjusted its level of provisions, taking into account the outcomes of the comprehensive assessment.

We see a slowdown in the inflow of the number of customers in arrears. The slight economic recovery and improvements in the arrears management process resulted in fewer customers ending up in arrears and a gradual increase in the number of customers recovering from arrears to regular management. In 2014, we further intensified the follow-up of customers in arrears.

The acceptance conditions for new mortgages were tightened and brought in line with the Bank's more stringent risk appetite. The acceptance model used to assess the credit risks of (prospective) customers was updated and improved, allowing credit quality assessments of prospective customers to be made with a higher degree of reliability to ensure that suitable mortgage offers can be made to customers with a responsible risk profile for the Bank.

In 2014, the internal credit management of the mortgage portfolio was organised based on the credit cycle concept. All relevant professional disciplines are involved in the risk management of the mortgage portfolio subject to the aforementioned three lines of defence concept. It applies to each phase of the mortgage process (i.e. from acceptance to redemption and, if necessary, settlement of the mortgage) and allows us to respond to any arrears more quickly and also more adequately (by taking preventive action), which will further lower the inflow from the arrears category to the default categories.

In addition, we took several steps to professionalise arrears management, such as professional training, coaching aimed at motivating conversation techniques in customer contact, refinement of control indicators and method optimisation based on 'continuous improvement'.

Finally, the risk models have been adjusted. From now on, the credit risk of the mortgage portfolio will be determined in a more accurate and more granular way, and the risk data are calibrated based on recent loss data. The risk-weighted assets have decreased as a result of a declining mortgage portfolio and due to the new risk model. The risk-weighted assets amounted to € 8.2 billion in 2013 (€ 7.7 billion increased with a margin of conservatism of 6.5%) and € 7.5 billion in 2014 (€ 6.8 billion increased with a margin of conservatism of 10%).

#### 5.5.2.3 Key figures

The table below shows the book value of SNS Bank's residential mortgage loans, including the specific provision and the 'incurred but not reported' provision (IBNR).

### Provisions for residential mortgages

| in € millions | 2014 | 2013 |
|---|---|---|
| Residential mortgage loans | 46,556 | 47,316 |
| Specific provision | -266 | -265 |
| IBNR provision | -60 | -41 |
| **Total residential mortgage loans** | **46,230** | **47,010** |

The size of the total residential mortgage portfolio dropped due to repayments at the end of the term of the mortgage and due to repayments ensuing from mortgages being refinanced with other providers. Tax incentives such as the tax exemption for gifts of up to € 100,000 and the general trend towards partial repayments during the term of the mortgage led to a high outflow of mortgage volume. The inflow of new mortgages did not keep pace with the outflow.

The rise in the provision from € 306 million to € 326 million is due to customers remaining in default for a longer period of time, as a result of which the provision increases. In 2014 we intensified our efforts to find a solution for recovery of the arrears together with the customer. Consequently, the procedures aimed at the recovery of arrears require more time. With the result that the treatment programmes aimed at the recovery of arrears, require more time.

The second cause of the increase of the provision consists of two one-off adjustments: firstly, as a result of the AQR, SNS Bank brought the loss identification period (LIP) for the IBNR portfolio in line with the period observed. It is now 10 months (€ 23 million). Secondly, an adjustment was made to the accrued interest of the overdue mortgage portfolio (€ 27 million).

**Arrears in residential mortgages/arrears management**

The table below shows the arrears in residential mortgage loans. Loans overdue by no more than 3 instalments qualify as non-default arrears. A customer is 'in default' when he fails to meet his payment obligation for at least 3 instalments, if it is determined that further payment is unlikely or in the event of fraud, for example. Items only lose their default status once the arrears have been cleared in full.

The total outstanding amount of loans in arrears dropped by € 145 million in 2014 compared to 2013. The total amount of arrears of up to 12 months in loans decreased, but the category with an arrears period of more than 12 months increased. The provision rose despite the dropping volume of loans in arrears, which means that overdue mortgages are now provisioned to a greater

### Arrears in residential mortgages

| in € millions | 2014 | 2013 |
|---|---|---|
| No arrears | 44,508 | 45,123 |
| 1 - 3 months | 1,026 | 1,183 |
| 4 - 6 months | 254 | 287 |
| 7 - 12 months | 260 | 320 |
| > 12 months | 508 | 403 |
| Subtotal arrears[1] | 2,048 | 2,193 |
| Provision | -326 | -306 |
| **Total** | **46,230** | **47,010** |

1 'Loans in arrears' do include mortgages that are stated at market value in the balance sheet (2014: € 34 million, 2013: € 36 million). The 'loans in arrears' in the table coverage ratio do not include these amounts.

degree. Thus, the provisioning for loans in arrears has been increased.

We observed in 2014 that the number of private sales and/or auctions showed a limited increase compared to 2013. The improved economic outlook also has its effect on improved payment behaviour displayed by our customers.

The average period that customers remain in the arrears categories of 4 months and more increased, partly driven by the higher inflow and progression in recent years. Several measures are now being taken, such as reassessing the policy on how to treat customers in arrears and setting up a taskforce for customers in protracted arrears. We expect this to lead to a reduction of the average arrears of customers in default in 2015.

**Provision**

The table below shows the movements in the provision for 2014.

### Statement of changes in the provision for residential mortgages

| | Specific | | IBNR | | Total | |
|---|---|---|---|---|---|---|
| in € millions | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| Balance as at 1 January[1] | 265 | 199 | 41 | 15 | 306 | 214 |
| Reclassification | -- | -29 | -- | 29 | -- | -- |
| Withdrawals/usage | -102 | -80 | -- | -- | -102 | -80 |
| Additions | 162 | 209 | 17 | 17 | 179 | 226 |
| Releases | -35 | -34 | -21 | -20 | -56 | -54 |
| Change in estimate | -- | -- | 23 | -- | 23 | -- |
| Other changes | -24 | -- | -- | -- | -24 | -- |
| **Balance as at 31 December** | **266** | **265** | **60** | **41** | **326** | **306** |

1 In previous years, the provision for non-default loans was included in the specific provision. As from 2014, the provision for non-default loans is included in the IBNR provision. The comparative figures for 2013 have been adjusted accordingly.

Within the IBNR provision a ‘change in estimates’ is recognised of € 23 million in 2014. This is the result of the previously mentioned change in the Loss Identification Period.

In 2014 SNS Bank changed the discounting of the portfolio that is subject to impairment, which resulted in an interest adjustment. The release of the provision for this interest adjustment is equal to € 27 million and is shown in the table as ‘Other changes’.

**Coverage ratio**

The coverage ratio gives the coverage of the provision in relation to the impaired default items, expressed as a percentage, as defined for the table below.

### Coverage ratio of residential mortgages

| in € millions | 2014 | 2013 |
|---|---|---|
| Loans in arrears[1] | 2,014 | 2,157 |
| Non default | 657 | 762 |
| Impaired default | 1,357 | 1,395 |
| Specific provision | -266 | -265 |
| Percentage loans in arrears | 4.3% | 4.6% |
| Impaired ratio | 2.9% | 2.9% |
| Coverage ratio | 19.6% | 19.0% |

1 ‘Loans in arrears’ do not include mortgages that are stated at market value in the balance sheet (2014: € 34 million, 2013: € 36 million).

The coverage ratio of the portfolio rose limitedly in 2014, driven by the relative decrease of the non-default loans compared to the total loans in arrears in connection with the loss identification period stated at the beginning of this section and the accrued interest adjustment.

**Loan to Value breakdown**
SNS Bank tightened the lending conditions for new mortgages. The maximum mortgage to be provided is mainly based on the market value of the collateral. Rules in 2014 still permitted the provision of financing of up to 104% of the market value of the collateral. The maximum lending percentage of 104% will be gradually reduced to 100% in 2018.

As a major part of the current portfolio still consists of mortgages taken out prior to 2014, the changes with regard to loans granted are not visible in the tables at this time. SNS Bank's credit risk profile is set to improve in the years ahead on the back of the tightened lending conditions and criteria.

The level of security is indicated by the Loan to Value (LtV): the amount borrowed expressed as a percentage of the market value of the collateral. A low LtV percentage means that the collateral offers a relatively high degree of cover. Any National Mortgage Guarantee (NHG) issued serves as additional security.

The overview in the next table shows a breakdown of all mortgage loans categorised according to the relevant LtV class.

### Breakdown of residential mortgages by LtV bucket

| in € millions[1] | 2014 | | 2013 | |
|---|---|---|---|---|
| NHG | 12,656 | 28% | 12,344 | 27% |
| LtV <= 75% | 13,610 | 30% | 13,490 | 29% |
| LtV >75 <=100% | 7,775 | 17% | 8,052 | 17% |
| LtV >100 <=125% | 8,890 | 20% | 9,321 | 20% |
| LtV > 125% | 2,326 | 5% | 2,990 | 6% |
| **Total** | **45,257** | 100% | **46,197** | 100% |
| Fair value adjustments from hedge accounting | 973 | | 813 | |
| **Total residential mortgage loans** | **46,230** | | **47,010** | |

1 LtV based on indexed market value of collateral.

In 2014 we saw an outflow of customers who refinanced their mortgages, which created a limited decline of the mortgage portfolio. In general, the average risk profile of the mortgage portfolio improved; based on LtV, the volumes in the higher LtV ranges (>125% and between 100% and 125%) decreased and the volumes in the lower LtV range or of mortgages with a National Mortgage Guarantee (NHG) increased.

Many of the loans with an LtV of more than 125% were just a shade above the 125% level of year-end 2013. Based on the retail housing market developments, indexation of the collateral value in the portfolio by an average percentage of 2% translated into an improvement of the risk profile for the higher LtV classes. The LtV class exceeding 125% decreased from € 3.0 billion at year-end 2013 to € 2.3 billion at year-end 2014. The other LtV classes obviously also saw loans transferring to lower LtV classes due to the indexation. At year-end 2014, the average LtV was 86% (88% at year-end 2013).

Various factors ensured that the LtV dropped and will continue to improve. Firstly, we have more mortgage products that can be repaid during their term and tax incentives allowed customers to make additional repayments. Recent adjustments to the maximum lending percentage also translated into an improved average LtV. Finally, the average house price increase for 2014 resulted in a better risk profile.

**Credit quality breakdown for residential mortgages**
The table below provides in-depth information of the residential mortgages by credit quality class.

### PD exposure classses - residential mortages

| in € millions | 2014 | | 2013 |
|---|---|---|---|
| **PD Bands** | **EAD** | **Weight** | **Weight** |
| 0.07% | 10,002 | 24.4% | 22.1% |
| 0.19% | 5,079 | 12.4% | 13.1% |
| 0.32% | 4,567 | 11.2% | 10.2% |
| 0.43% | 4,994 | 12.2% | 10.7% |
| 0.71% | 7,364 | 18.0% | 19.5% |
| 1.23% | 1,783 | 4.4% | 5.9% |
| 1.26% | 1,869 | 4.6% | 5.2% |
| 2.01% | 882 | 2.2% | 2.4% |
| 3.44% | 832 | 2.0% | 2.1% |
| 6.87% | 1,027 | 2.5% | 2.5% |
| 13.36% | 416 | 1.0% | 1.0% |
| 21.80% | 439 | 1.1% | 1.1% |
| 41.85% | 441 | 1.1% | 1.2% |
| 100.00% | 1,226 | 3.0% | 3.0% |
| Total IRB based EAD residential mortgages | 40,921 | 100% | 100% |

The figures in table above are based on the rating model redeveloped in 2014. Comparative figures have been adjusted accordingly. For the portfolio at year-end 2013, the new model was used to calculate what part of the portfolio would have been included in which PD risk classes. For the residential mortgage portfolio, SNS Bank uses its own Internal Ratings Based (IRB) model, consisting of PD, LGD (Loss Given Default) and EAD models, to calculate the likelihood of a customer running into payment problems within one year and the resulting losses for the Bank. Its results are used to determine the risk-weighted assets (RWA) and form the basis of the IFRS loan provision calculations. The predictive ability and distinctive character of the internal rating model are continuously monitored and regularly revised.

In 2014, the model was redeveloped using recent loss data, statistics and expert opinions. At this point, specific improvements were made. For example, the situation in which the mortgage value exceeds the market value is explicitly taken into account, as it involves a considerably higher risk of any mortgage loan balance after sale. In addition, the model has been more closely aligned with other models and processes within the mortgage portfolio. By the end of 2014, the revised version was implemented following internal approval by the Model Governance Committee (MGC) and after having obtained final approval from the regulator.

The model was revised to facilitate a more refined assessment of the characteristics of the underlying portfolio, enhancing its ability to temper pro-cyclical effects in the risk-weighted assets. The introduction of this model results in a slightly lower average PD, because the model gives a more realistic estimate of the likelihood of default. In addition, the number of PD exposure classes for the performing portfolio was expanded from 10 to 14 in accordance with the credit quality classes used: performing (1-5), recently recovered (6-10), in arrears (11-13) and non-performing (14).

Finally, the relevant risk models have been adjusted. From now on, the credit risk of the mortgage portfolio will be determined in a more accurate and more granular way, and the risk data are calibrated based on recent loss data. In addition, a new downturn LGD method has been introduced that better expresses the long-term cycle of residential property prices. Finally, a higher conservatism factor has been assigned to the use of the risk model, resulting in an additional add-on for determining the risk-weighted assets.

There is only a limited difference between the total 2013 EAD from the original model and the revised model. This difference is caused by the elimination of the fixed administrative charges in the event of arrears and an adjustment in the calculation of the interest for overdue payment. In addition, the revised model provides for the EAD to be fixed for customers as soon as they enter into default.

The risk-weighted assets related to retail mortgages have decreased as a result of a declining mortgage portfolio and due to the new risk model. The risk-weighted assets amounted to € 8.2 billion in 2013 (€ 7.7 billion increased with a margin of conservatism of 6.5%) and € 7.5 billion in 2014 (€ 6.8 billion increased with a margin of conservatism of 10%). The RWA density of residential mortgages dropped from 21.6% at year-end 2013 to 18.3% at year-end 2014. The RWA density is defined as the risk-weighted assets divided by the mortgage exposures.

#### 5.5.2.4 Management of the portfolio

In credit risk management, we distinguish between management at the portfolio level and management at the individual customer level.

*Portfolio management*
At the portfolio level, we examine the portfolio's characteristics in terms of inflow, outflow and status of the performing and non-performing portfolios. Indicators for the quality of inflow are the LtV and any National Mortgage Guarantee (NHG). SNS Bank uses an internal credit score model for mortgage acceptance. The model carefully assesses the customers' ability to repay the loan. The assessment is based on the acceptance policy adopted by

the Bank CC in combination with an acceptance scorecard. This model expresses the credit risk of a mortgage as a number – important information for the acceptance and management of a loan. With outflow, the focus is on natural versus unnatural outflow. We gain additional insight into the evolution of the portfolio quality by examining the loss expected as a result of the outflow. Expected loss and average LtV are relevant for the performing portfolio.

We manage the credit risk for existing individual customers by actively monitoring and responding to arrears or signs indicating the possibility of future arrears. We curb credit risk by requesting collateral, including residentials mortgages.

Improvements in the management of the mortgage portfolio produced more active and integrated control procedures, from planning and acceptance of a mortgage to management and redemption. It allows us, for example, to respond to arrears more quickly and to take preventive action, which will further lower the inflow from the arrears category to the default categories. We expect that this approach will lead to lower provisions and will reduce total depreciation.

**Arrears management process for the residential mortgages**

The Special Credits Service Centre and the brands' advisors take action to respond at an early stage to indications that a customer is running into mortgage payment difficulties. Sometimes we advise customers on how to make their mortgages affordable again and how to keep them affordable. Where necessary, we help customers gain a better understanding and more control of their income and expenses. Customers contact us for preventive management and we also take the initiative at an early stage by approaching customers who run an increased risk of arrears based on the information available to us.

Once a customer is in arrears, we explore options with the customer to restore the balance between his income and expenses, allowing the customer to stay in his home and continue his mortgage payments in the future.

If necessary, a budget coach is called into action. We discuss the situation with the customer and may decide to restructure the debt. If recovery is impossible, the customer will be given support in the private sale of his home. Minimising losses for the customer and the Bank are key in this process. Should the customer be unwilling to cooperate in changing the situation even after several attempts have been made or should there be any special circumstances such as fraud or crime, we may proceed to a forced sale of the home.

In 2014, several steps were taken to further professionalise arrears management, such as professional training, coaching aimed at motivating conversation techniques in customer contact, refinement of control indicators and method optimisation based on 'continuous improvement'.

## 5.5.3 Other retail loans

### 5.5.3.1 Risk profile

In addition to the residential mortgage portfolio, SNS Bank has a relatively small portfolio of other retail loans. Comprising 0.4% (2013: 0.5%) of the total loans and advances to customers of SNS Bank, this € 268 million portfolio covers products such as revolving credit, debit balances in current accounts, personal loans, credit cards and security-backed loans. The portfolio developments are reported to the Bank CC according to standard procedures.

### 5.5.3.2 Main developments in 2014

The portfolio of other retail loans decreased from € 293 million to € 268 million during 2014, with the provision rising from € 47 million to € 55 million. The parameters of the provision model for other retail loans were reviewed in the fourth quarter of 2014. The parameters with regard to the potential for recovery and funds recovered upon foreclosure were adjusted on the basis of recent data, resulting in a higher provision.

### 5.5.3.3 Key figures

The table below presents the advances and provisions for other retail loans.

**Provisions for other retail loans**

| in € millions | 2014 | 2013 |
|---|---|---|
| Other retail loans | 268 | 293 |
| Specific provision | -52 | -46 |
| IBNR provision | -3 | -1 |
| **Total other retail loans** | **213** | **246** |

**Arrears in other retail loans**

| In € millions | 2014 | 2013 |
|---|---|---|
| No arrears | 183 | 196 |
| 1 - 3 months | 17 | 21 |
| 4 - 6 months | 3 | 6 |
| 7 - 12 months | 5 | 7 |
| > 12 months | 60 | 63 |
| Subtotal arrears | 85 | 97 |
| Provision | -55 | -47 |
| **Total** | **213** | **246** |

The total amount of the loans in arrears dropped from € 97 million to € 85 million at year-end 2014. The share of performing loans (no arrears) as a percentage of total loans remained stable at around 68%.

**Provision**
The table below shows the movements in the provision for 2014.

### Statement of changes in provision for other retail loans

| | Specific | | IBNR | | Total | |
|---|---|---|---|---|---|---|
| in € millions | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| Balance as at 1 January[1] | 46 | 51 | 1 | 1 | 47 | 52 |
| Withdrawals/usage | -7 | -9 | -- | -- | -7 | -9 |
| Additions | 15 | 5 | 2 | -- | 17 | 5 |
| Releases | -1 | -1 | -- | -- | -1 | -1 |
| Transfer assets held for sale | -1 | -- | -- | -- | -1 | -- |
| **Balance as at 31 December** | **52** | **46** | **3** | **1** | **55** | **47** |

1 In previous years, the provision for non-default loans was included in the specific provision. As from 2014, the provision for non-default loans is included in the IBNR provision. The comparative figures for 2013 have been adjusted accordingly.

Over the past few years, the relative size of the provision for other retail loans compared to the total increased on the back of deteriorating economic conditions for our customers and the review of the provision model.

### Coverage ratio of other retail loans

| in € millions | 2014 | 2013 |
|---|---|---|
| Loans in arrears | 85 | 97 |
| Non default | 15 | 18 |
| Impaired default | 70 | 79 |
| Specific provision | -52 | -46 |
| Percentage loans in arrears | 31.7% | 33.1% |
| Impaired ratio | 26.1% | 27.0% |
| Coverage ratio | 74.3% | 58.2% |

The portfolio's coverage ratio rose to 74% in 2014 on the back of a decline in loans in arrears and an increase in specific provisions.

## 5.5.4 SME loans

### 5.5.4.1 Risk profile

The SME portfolio of the SNS brand comprises a retail SME portfolio and a corporate SME portfolio. The SME loans are characterised by mortgage collateral. The focus of SNS's SME portfolio is on the management of existing customers and risk profile reduction by means of a steady phase-out of SME loans.

The portfolio has approximately 4,500 customers. Less than 5% of the customers has a loan amount in excess of € 1 million. The size of the loan portfolio with credit limits in excess of € 1 million is over € 300 million. The portfolio developments are reported to the Bank CC according to standard procedures.

### 5.5.4.2 Main developments in 2014

The portfolio size declined last year from € 1,149 million to € 1,035 million, which was caused by higher repayments made by customers. The total outstanding principal of SME loans in arrears rose in 2014 from € 171 million to € 204 million at year-end 2014. The provision increased to further strengthen the coverage ratio of overdue mortgages from 55% to 60%.

The focus of SME portfolio management is on risk profile reduction in light of customers' collateral position. The goal is to phase out the portfolio in a steady and controlled manner, in particular the loans with principals in excess of € 1 million.

### 5.5.4.3 Key figures

The table below presents the breakdown of loans and advances to corporate clients.

We reduced part of the SME portfolio with principals in excess of € 1 million. In 2014, we included a number of

### Provisions for corporate clients

| in € millions | 2014 | 2013 |
|---|---|---|
| SME loans | 1,164 | 1,249 |
| Specific provision | -123 | -94 |
| IBNR provision | -6 | -6 |
| **Total retail other loans** | **1,035** | **1,149** |

one-off items in the provisions. Excluding these one-off items, the level of provisions fell.

**Arrears in SME loans/arrears management**
The table showing arrears in the SME loans of SNS Bank is as follows:

### Arrears in SME loans

| in € millions | 2014 | 2013 |
|---|---|---|
| No arrears | 960 | 1,078 |
| Total arrears | 204 | 171 |
| Provision | -129 | -100 |
| **Total** | **1,035** | **1,149** |

The total outstanding principal of SME loans in arrears rose in 2014 from € 171 million to € 204 million at year-end 2014. This is equal to 18% of the outstanding SME loan amount. The increase can largely be attributed to the reclassification of loans as overdue, in part the result of the comprehensive assessment that the ECB conducted in 2014. To this end the provision was increased further to € 129 million, corresponding to a coverage ratio of 60%.

**Movements in provision**
The movements in the provision for SME loans for 2014 were as follows:

### Statement of changes in provision for SME loans

| | Specific | | IBNR | | Total | |
|---|---|---|---|---|---|---|
| in € millions | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| Balance as at 1 January[1] | 94 | 87 | 6 | 1 | 100 | 88 |
| Withdrawals/usage | -15 | -25 | -- | -- | -15 | -25 |
| Additions | 59 | 54 | -- | 5 | 59 | 59 |
| Releases | -15 | -22 | -- | -- | -15 | -22 |
| **Balance as at 31 December** | **123** | **94** | **6** | **6** | **129** | **100** |

1 In previous years, the provision for non-default loans was included in the specific provision. As from 2014, the provision for non-default loans is included in the IBNR provision. The comparative figures for 2013 have been adjusted accordingly.

In 2014, the provision rose from € 100 million at year-end 2013 to € 129 million at year-end 2014. The provision increased as we put more emphasis on recovery and restructuring of loan conditions when dealing with customers in arrears. The period of default becomes longer as a result, and the provision must be retained for a longer period for each customer. In addition, the aforementioned reclassification of loans contributes to the increase in provisions.

Approximately two-thirds of the total additions pertain to loans with an outstanding balance exceeding € 1 million. The IBNR provision was relatively constant in 2014 at a size ranging between € 6 and € 8 million.

Coverage ratio
The coverage ratio for the SME loan portfolio is as follows:

### Coverage ratio of SME loans

| in € millions | 2014 | 2013 |
|---|---|---|
| Loans in arrears | 204 | 171 |
| Non default | -- | -- |
| Impaired default | 204 | 171 |
| Specific provision | -123 | -94 |
| Percentage loans in arrears | 17.5% | 13.7% |
| Impaired ratio | 17.5% | 13.7% |
| Coverage ratio | 60.3% | 55.0% |

Compared to 2013, the coverage ratio on loans in arrears was higher.

#### 5.5.4.4 Management of portfolio
Steps were also taken to improve the management cycle to reduce impairments for the SME portfolio. We further fine-tuned and improved risk-driven process control by using the Probability of Default model. Integral management offers better opportunities to find solutions with and for customers at an early stage and makes it easier to predict the level of impairments.

As for the SME portfolios, the credit risk measures focus on the concentration of risks at an individual customer by applying an 'item for item' approach in addition to the portfolio approach. This involves an examination of the total credit risk profile, with account being taken of the potential credit facility still available to the customer.

Behavioural scoring models are used to estimate the probability of default (PD) and the loss given default (LGD) for SNS's SME portfolio. SNS Bank aims to obtain regulatory approval to start using these models as from 1 January 2016 in accordance with the Internal Ratings Based approach.

Arrears management process for corporate clients

The SME Special Credits Service Centre gets in touch with a corporate client if the client is in arrears or if the client indicates that payment difficulties have arisen. We also proactively seek contact if we receive other signs of possible payment problems. Together with our client, we explore the options to restore the client's liquidity position, based on the key principles of continuity of the client's business and loan recovery. In this process, the business owner is supported by an account manager of the SME Special Credits Service Centre, who discusses the debt restructuring plan together with the business owner and the auditor/advisor.

Recovery may not always be possible. In such a situation, the SME Special Credits Service Centre supports the client in the private sale of the collateral, with the aim of limiting the losses for the client and the Bank. In special cases, such as fraud, crime or a client's repeated refusal to cooperate, we may proceed to a forced sale of the collateral.

## 5.5.5 Private loans to the (semi-)public sector

### 5.5.5.1 Risk profile

The 'Private loans' category includes private loans provided to (semi-)public sectors recognised in the balance sheets of SNS and ASN Bank. The portfolio mainly consists of loans (or deposits made) to housing corporations, healthcare institutions, water boards and companies owned by or affiliated with the government. Most of these loans are secured by a government guarantee, a WSW guarantee for social housing or a WfZ guarantee for the healthcare sector, resulting in very low risk for this portfolio. The portfolio developments are reported to the Bank CC according to standard procedures.

### 5.5.5.2 Main developments in 2014

The portfolio decreased from € 2,372 million to € 1,768 million as a result of repayments upon maturity of the loan. At year-end 2014, this portfolio had no items in arrears and there were no loans requiring a provision.

### 5.5.5.3 Key figures

| in € millions | 2014 | 2013 |
|---|---|---|
| SNS Bank | 1,075 | 1,627 |
| ASN Bank | 693 | 745 |
| **Total** | **1,768** | **2,372** |

The category 'SNS Bank' decreased by € 552 million due to repayments of deposits placed for the purpose of liquidity management. The size of ASN Bank's private loan portfolio decreased this year by € 52 million due to repayments of existing loans.

The line 'SNS Bank' includes a € 250 million loan to REAAL NV, which will be repaid after completion of the sale of VIVAT. Please refer to section 4.5.3 in this Annual Report for a detailed explanation.

### 5.5.5.4 Management of the portfolio

The purpose of the private loan portfolio at SNS Bank is to support SNS Bank's liquidity management.

The ASN Bank portfolio is managed by asset manager ACTIAM. ASN Bank has granted ACTIAM a mandate subject to strict requirements. A loan must meet every requirement to be included in the portfolio. One major condition is that the private loans may not be subject to any capital requirements, so that only private loans with a very low credit risk are included in the portfolio. Most of these loans are guaranteed by the State. We are currently discussing a revision of the mandate with ACTIAM to involve a broader set of risk indicators in the mandate structure and reports. This will further improve risk management for this portfolio.

## 5.5.6 ASN sustainable loans

### 5.5.6.1 Risk profile

ASN Bank aims to achieve growth in its SME loan portfolio in sectors that it considers indispensable to a sustainable society, particularly the renewable energy sector. The exposure to the renewable energy sector may give rise to a concentration risk, which is mitigated by a thorough knowledge of the sector and a careful diversification of investments across geographical areas, types of energy production (solar, wind, biogas, other), underlying sponsors and suppliers (solar panels, wind turbines, etc.). In addition, sufficient collateral and conditions are stipulated to enable recovery under the loan agreement when negative deviations occur, for example in the form of frozen financial reserves, an accelerated repayment of loans, a client's contribution of additional funds of his own, etc. The portfolio developments are reported to the Bank CC according to standard procedures.

#### 5.5.6.2 Main developments in 2014

ASN Bank's sustainable loan portfolio showed a limited increase in 2014, growing from € 327 million to € 330 million. Funds released as a result of repayments within the portfolio were invested in new loans. The SME loan portfolio comprises two small loans in arrears. A provision was made for this in the amount of € 0.4 million.

The risk profile of the sustainable loan portfolio does not display any negative developments and is performing well. With a view to facilitating ASN Bank in the controlled growth of its loans, the risk management for ASN was scaled up and adjusted in 2014. We expect that this will place us in a good position to achieve the controlled-growth ambition in the years ahead.

#### 5.5.6.3 Management of the portfolio

ASN Bank provides and manages SME loans for itself and, on the instructions of ASN Beleggingsinstellingen Beheer BV (ABB), for two investment funds. ASN Bank discusses both the loans issued for its own account and the loans for the benefit of ABB in the ASN Bank Credit Committee.

ASN Bank has developed, and now uses, a supervisory slotting rating model. This model quantifies credit risk and is used in project financing in the sustainable loan portfolio. An assessment is made of the characteristics of the financial structure, the financial strength of the project and the parties involved, the project's legal environment and the collateral provided. This assessment produces a score that enables a comparison of the credit quality of projects and monitoring of the portfolio developments.

In addition, ASN Bank uses a credit class model to monitor the credit quality of corporate clients. This model determines the credit risk scores for all loans in the sustainable loan portfolio. The model incorporates business funding standards for (adjusted) solvency, profitability and liquidity as evident from the annual accounts, while also taking account of collateral provided. The outcome is a rating of creditworthiness, with a strong emphasis on the annual accounts. The scores are used in portfolio reports to monitor movements in the portfolio.

### 5.5.7 Loans and advances to the public sector

This section discusses loans and advances to the public sector. Most of these loans have been provided to local authorities. These loans and advances to the public sector are part of the larger category 'Loans and advances to customers' and are therefore separate from exposures for the purpose of liquidity management as listed in section 5.5.5.

**Loans and advances to the public sector**

| in € millions | 2014 | 2013 |
|---|---|---|
| Private loans and cash loans to the public sector | 3,258 | 2,301 |
| Specific provision | -- | -- |
| IBNR provision | -- | -- |
| **Total private loans and cash loans to the public sector** | **3,258** | **2,301** |

Approximately 25% of the loans and advances to the public sector have been provided by ASN Bank. The other part has been provided by SNS Bank. ASN Bank did not extend any new private loans in 2014.

Regional governments and local authorities

The table below reflects the 'Regional governments and local authorities' and 'Public Sector Entities' as shown in Table 'Capitalisation RWA' in section 5.4.3.

**Regional governments and local authorities (EAD)**

| in € millions | 2014 | 2013 |
|---|---|---|
| Provinces | 1,271 | 60 |
| Municipal authorities | 567 | 1,179 |
| Water boards | 301 | 334 |
| Medical institutions | 156 | 158 |
| Other | 4 | -- |
| **Total** | **2,299** | **1,731** |

Loans to regional governments are guaranteed by the next higher public authority; in two-thirds of the cases this is the Dutch government. The other loans are mainly guaranteed by the Swiss and Belgian governments. As a result, the exposure rating is at least AA.

### 5.5.8 Central governments and central banks

The geographical breakdown of central governments and central banks as shown in Table 'Capitalisation RWA' in section 5.4.3 is as follows:

**Central governments and central banks (EAD)**

| in € millions | 2014 | 2013 |
|---|---|---|
| **Geography** | | |
| the Netherlands | 3,264 | 11,197 |
| Belgium | 1,554 | 576 |
| Germany | 2,824 | 2,435 |
| France | 881 | 751 |
| Italy | 401 | 326 |
| Ireland | 118 | 132 |
| Other | 686 | 431 |
| **Total** | **9,728** | **15,848** |
| | | |
| **Ratings** | | |
| AAA to AA- | 9,209 | 13,631 |
| A+ to A- | 118 | 1,759 |
| BBB+ to BBB- | 401 | 458 |
| BB+ to B- | -- | -- |
| CCC to D | -- | -- |
| Not-rated/withdrawn rating | -- | -- |
| **Total** | **9,728** | **15,848** |

In addition to the exposures listed in section 5.5.5, the exposures in table above can be used for SNS Bank's liquidity management. The large reduction in the AAA category is the result of full repayment of the loans to Propertize, which also explains most of the decrease in the loans and advances to banks.

## 5.5.9 Loans and advances to banks

The exposure to banks as shown in Table 'Capitalisation RWA' in section 5.4.3 is as follows, broken down by rating:

**Financial institutions (rating) (EAD)**

| in € millions | 2014 | 2013 |
|---|---|---|
| AAA to AA- | 1,201 | 823 |
| A+ to A- | 1,047 | 1,507 |
| BBB+ to BBB- | 19 | 15 |
| BB+ to B- | -- | -- |
| CCC to D | -- | -- |
| Not-rated/withdrawn rating | 32 | 49 |
| **Total** | **2,299** | **2,394** |

The concentration risk on individual financial institutions that are counterparties to derivative transactions was further reduced. The 'AAA to AA-' category includes a significant claim on Rabobank in respect of derivative transactions for the benefit of the securitisation programmes. We engage a central clearing party for the settlement of new and existing derivative transactions where possible. In addition, we introduced stricter limits for counterparty exposures and phased out a number of existing positions, which are monitored on a daily basis.

## 5.5.10 Investments

Almost all of SNS Bank's investments are fixed-income investments. One exception is a limited amount (€ 11 million) of ASN Bank investments in renewable energy/ infrastructure funds. The investments can be divided into three types: investments for liquidity management, exposures for ASN Bank and strategic investments.

**Breakdown of fair value of fixed-income investments (rating)**

| in € millions | 2014 | 2013 |
|---|---|---|
| AAA | 3,631 | 3,093 |
| AA | 1,929 | 1,830 |
| A | 1,023 | 236 |
| BBB | 406 | 466 |
| < BBB | -- | 18 |
| No rating | -- | -- |
| **Total** | **6,989** | **5,643** |

Due to Dutch, German and Austrian government bonds, the AAA-rated investments increase. The single A rating includes a short-term position of Japanese government paper in the amount of € 578 million.

**ASN Bank**

Out of a total of € 7.0 billion in investments, € 4.4 billion pertain to positions of ASN Bank. The table below provides a breakdown of ASN Bank's investments.

**Investments porfolio ASN Bank**

| in € millions | 2014 | 2013 |
|---|---|---|
| Government bonds | 3,650 | 3,105 |
| Greenbonds and sustainable bonds | 321 | 171 |
| Other (corporate)bonds | 475 | 418 |
| Equity | 9 | 11 |
| **Total** | **4,455** | **3,705** |

**Government bonds ASN Bank**

ASN Bank evaluates countries that issue government bonds using its sustainability criteria relating to human rights, climate change and biodiversity. As ASN Bank does not wish to run any currency risk, only government bonds denominated in euros qualify. The government bonds on ASN Bank's balance sheet have a relatively low risk profile.

As at year-end 2014, 69.2% of the loans were rated AAA and 30.8% were rated AA. In 2014 the government bond portfolio grew by € 544 million, € 239 million of which related to an increase of the fair value of the loans.

**Green bonds and sustainable bonds ASN Bank**

'Green bonds' allow ASN Bank to invest in fixed-income securities in the fields of renewable energy, energy reduction and biodiversity. This relatively new investment category is a desired addition to the Bank's balance sheet, because these bonds contribute considerably to achieving ASN Bank's internal objective of being fully carbon neutral by 2030. ASN Bank contributes to development cooperation by investing in what are known as 'sustainable bonds'.

**Other (corporate) bonds ASN Bank**

ASN Bank holds a small portfolio of other (corporate) bonds with an average AA rating. No significant changes were made in this portfolio in 2014.

## 5.5.11 Risk mitigation

### 5.5.11.1 Offsetting of financial assets and liabilities

As disclosed in the table below, balances are not offset on the face of the balance sheet. The amounts eligible for offsetting are related to certain derivatives with a total amount of € 1,646 million (2013: € 1,121 billion) due to related ISDAs. Besides cash collaterals SNS Bank has provided sovereign bonds as other financial collateral on its derivative liabilities for the amount of € 138 million (2013: € 115 million). The amounts due to banks of € 487 million (2013: € 83 million) are related to sovereign bond repos.

**Financial assets and liabilities SNS Bank 2014**

| | | | | Related amounts not set off in the balance sheet value | | | |
|---|---|---|---|---|---|---|---|
| in € millions | Gross recognised balance sheet value | Offsetting balance sheet value | Net balance sheet value | Financial instruments | Cash collateral | Other financial collateral | Net value |
| **Financial assets** | | | | | | | |
| Derivatives | 2,701 | -- | 2,701 | 1,646 | 410 | -- | 645 |
| Loans and advances to banks | 2,604 | -- | 2,604 | -- | -- | -- | 2,604 |
| **Total financial assets** | **5,305** | **--** | **5,305** | **1,646** | **410** | **--** | **3,249** |
| | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Derivatives | 3,266 | -- | 3,266 | 1,646 | 805 | 138 | 677 |
| Other amounts due to customers | 10,542 | -- | 10,542 | -- | -- | -- | 10,542 |
| Amounts due to banks | 2,099 | -- | 2,099 | -- | -- | 487 | 1,612 |
| **Total financial liabilities** | **15,907** | **--** | **15,907** | **1,646** | **805** | **625** | **12,831** |

### Financial assets and liabilities SNS Bank 2013

| | | | | Related amounts not set off in the balance sheet value | | | |
|---|---|---|---|---|---|---|---|
| **in € millions** | **Gross recognised balance sheet value** | **Offsetting balance sheet value** | **Net balance sheet value** | **Financial instruments** | **Cash collateral** | **Other financial collateral** | **Net value** |
| **Financial assets** | | | | | | | |
| Derivatives | 2,484 | -- | 2,484 | 1,121 | 644 | -- | 719 |
| Loans and advances to banks | 6,063 | -- | 6,063 | -- | -- | -- | 6,063 |
| **Total financial assets** | **8,547** | **--** | **8,547** | **1,121** | **644** | **--** | **6,782** |
| | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Derivatives | 2,670 | -- | 2,670 | 1,121 | 685 | 114 | 750 |
| Other amounts due to customers | 11,255 | 627 | 10,628 | -- | -- | -- | 10,628 |
| Amounts due to banks | 7,457 | -- | 7,457 | -- | -- | 83 | 7,374 |
| **Total financial liabilities** | **21,382** | **627** | **20,755** | **1,121** | **685** | **197** | **18,752** |

**5.5.11.2 Collateral**
The two tables below show how exposures were collateralised as at year-end 2014 and 2013.

The collateral used for 'Financial institutions' primarily includes collateral under derivative transactions, while the guarantees are bonds with guarantees issued by regional or central governments. Exposures to 'Corporates' are hedged by means of government guarantees for, for example, healthcare institutions or housing corporations. Nearly 29% (€ 11.8 billion) of the IRB exposure class ‘Residential mortgages’ is hedged with guarantees, specifically NHG guarantees.

SNS Bank does not use credit derivatives as collateral.

### Exposure secured by collateral, guarantees and credit derivatives 2014

| in € millions | 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 | 8,108 | -- | -- | -- |
| Regional Governments or Local Authorities | 1,442 | -- | -- | 6 |
| Public Sector Entities | 161 | -- | -- | -- |
| Multilateral Developments Banks | 232 | -- | -- | -- |
| International Organisations | 18 | -- | -- | -- |
| Financial institutions | 4,909 | 1,463 | -- | 1,135 |
| Corporates | 2,849 | 861 | -- | 1,078 |
| Retail excl. Mortgages | 892 | 1 | -- | 1 |
| Secured by Mortgages Immovable Property | 1,243 | 15 | -- | 2 |
| Exposures in Default | 280 | -- | -- | -- |
| Covered Bonds | 24 | -- | -- | -- |
| Equity Exposures | 10 | -- | -- | -- |
| Other Items | 177 | -- | -- | -- |
| **Total standardised approach** | **20,345** | **2,340** | **--** | **2,222** |
| | | | | |
| **IRB exposure classes**[1] | | | | |
| Retail mortgages | 40,921 | 11,792 | -- | -- |
| Securitisation | 1,124 | -- | -- | -- |
| **Total IRB approach** | **42,045** | **11,792** | **--** | **--** |
| | | | | |
| **Total exposure** | **62,390** | **14,132** | **--** | **2,222** |

1 The IRB exposure class relates to retail mortgages. These mortgages are secured by residential real estate. The value of this real estate has already been included in the LGD calculations and is not included as collateral in this table.

### Exposure secured by collaterals, guarantees and credit derivatives 2013

| in € millions | 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 | 9,632 | -- | -- | -- |
| Regional Governments or Local Authorities | 1,525 | -- | -- | 6 |
| Public Sector Entities | 165 | -- | -- | -- |
| Multilateral Developments Banks | 174 | 30 | -- | -- |
| International Organisations | 4 | -- | -- | -- |
| Financial institutions | 9,174 | 4,771 | -- | 1,180 |
| Corporates | 3,830 | 1,497 | -- | 1,297 |
| Retail excl. Mortgages | 957 | -- | -- | 17 |
| Secured by Mortgages Immovable Property | 1,393 | 16 | -- | 7 |
| Exposures in Default | 240 | -- | -- | -- |
| Covered Bonds | -- | -- | -- | -- |
| Equity Exposures | 11 | -- | -- | -- |
| Other Items | 327 | -- | -- | -- |
| **Total standardised approach** | **27,432** | **6,314** | **--** | **2,507** |
| | | | | |
| **IRB exposure classes**[1] | | | | |
| Retail mortgages | 38,148 | 10,670 | -- | -- |
| Securitisation | 1,638 | -- | -- | -- |
| **Total IRB approach** | **39,786** | **10,670** | **--** | **--** |
| | | | | |
| **Total exposure** | **67,218** | **16,984** | **--** | **2,507** |

1 The IRB exposure class relates to retail mortgages. These mortgages are secured by residential real estate. The value of this real estate has already been included in the LGD calculations.

The table above shows the ratios of the collateral obtained as mentioned in the table 'Exposure secured by collateral, guarantees and credit derivatives'.

### Collateral concentration

| | 2014 | 2013 |
|---|---|---|
| Guarantees | 86% | 87% |
| | | |
| **Collateral:** | | |
| - of which real estate | 7% | 7% |
| - of which financial collateral | 7% | 6% |
| **Total** | **100%** | **100%** |

'Guarantees' represent an extremely large share of the collateral obtained (€ 14.1 billion of € 16.3 billion in total at year-end, i.e. 86%). As stated above, the collateral of residential mortgages is not included in this table.

**5.5.11.3 Derivatives and collateral management**
In order to curb the counterparty risk on derivative transactions, SNS Bank applies the following risk-mitigating order when entering into such transactions:

- Transactions are preferably concluded via what is known as a central clearing party (CCP) if possible. Exceptions are the type of transaction not supported by the CCP or very short-term transactions entailing extremely high costs of central clearing. We consult with counterparties to further increase the share of existing transactions transferred to a CCP;
- Transactions are concluded by means of ISDA-standardised contracts with a Credit Support Annex agreed in advance with each counterparty, laying down the collateral arrangements.

Other risk-mitigating measures include the following:

- SNS Bank makes sure to hedge derivative transactions with sufficient collateral at all times. SNS Bank checks

every day whether the market value development of positions with collateral arrangements are proportionate to the collateral to be received or to be provided;
- Forward exchange transactions are settled via the Continuous Linked Settlement system, a global settlement system that limits settlement risk by means of payment versus payment and payment netting;
- We continuously monitor the market conditions to assess whether the assets available to us still meet the requirements to serve as collateral for lending and in the various transactions (for example, repo transactions);
- A valuation function assesses whether the market value used for the collateral is plausible.

## 5.6 Market risk

Market risk arises if the operating result and the market value of shareholders' equity are adversely impacted by market price fluctuations (interest rates, credit risk surcharges, share prices and exchange rates). Market risk affects positions in the banking book and the trading portfolio. SNS Bank limits this risk by hedging the risk in the banking book and applying a system of limits to the trading portfolio.

### 5.6.1 Risk profile

We recognise the following sub-risks within market risk:
- **Interest rate risk**: arises due to movements in the level or volatility of interest rates and credit spreads (credit risk surcharges). These movements may be triggered by changes in the term structure of market interest rates or by unequal movements of interest received and interest paid, or, in the case of credit spreads, by changes in SNS Bank's creditworthiness.
- **Currency risk**: arises due to movements in the level or volatility of exchange rates.
- **Price risk**: arises due to movements in the level or volatility of market prices of securities, commodities, property and derivatives.

SNS Bank's market risk is relatively limited. Interest rate and spread risks occur both in the banking book and in the trading portfolio. Currency risk is not permitted in the banking book. Exposures in foreign currencies are taken to the trading portfolio and managed from there, within the Value at Risk (VaR) limits.

**Main developments in 2014**
Market risk remained well within the risk appetite throughout 2014.

Interest rate risk ensuing from mortgage quotes was previously measured separately. The interest rate position is fully managed as quotes and renewals are included in the term to maturity gap profile and the duration measure.

The Earnings-at-Risk methodology was also improved. As a result of the methodology adjustment, interest rate scenarios can now also show negative rates. Further, the degree to which the rates of demand deposits keep pace with market rates has been made subject to the market rate scenario.

In 2014, risk control of the (limited) trading portfolio was fine-tuned even more, for example with the further detailing of frameworks and responsibilities of the first and second lines.

### 5.6.2 Interest rate risk management

Interest rate risk in the banking book
Interest rate risk in the banking book is measured, monitored and controlled on the basis of, inter alia, the duration of equity, the outlier criterion, Earnings at Risk (EaR) and the gap profile. Interest rate risk is managed in respect of the total of interest-bearing assets and liabilities including interest rate derivatives used to adjust the interest rate position.

An important measure of market value sensitivity is the duration of equity, which measures the relative drop in the economic value of shareholders' equity in the event of a parallel rate hike of 1%. Throughout 2014, the strategic bandwidth for equity duration was 0 to 8. For purposes of duration control, within that bandwidth the Bank ALCO sets a tactical bandwidth every month based on the envisaged risk profile and the market outlook.

EaR is the key measure of interest income sensitivity. EaR measures the maximum loss of interest income within a year based on ten interest rate scenarios (both instantaneously and gradually), while allowing for portfolio developments expected in the next twelve months. The EaR calculation takes account of the degree to which customer rates for demand deposits keep pace with market rates. The presumed degree of keeping pace depends on the interest rate scenario.

In addition to controlling the duration of equity and the EaR, SNS Bank also applies other measures, such as the net nominal interest rate position for each interest rate period. These net nominal interest rate positions (assets less liabilities) produce the gap profile, which provides insight into the interest rate position when determining the maturities of interest rate swaps in order to steer the interest rate position towards the desired level.

The interest rate measures are reported to ALCO Bank on a monthly basis. In the assessment and management of interest rate risks we take future prepayments on mortgage loans and behavioural maturities of demand deposits into account. The prepayment rate assumption is based on recent historical data. The behaviour of demand deposit holders is modelled through a so-called replicating portfolio.

The reports submitted to DNB prescribe the measurement of the ‘outlier criterion’. The outlier criterion pertains to the maximum loss of market value expressed as a percentage of own funds (excluding Tier 3) in the event of a parallel rate hike or drop of 200 basis points (2%). The outlier criterion is subject to a limit of 20%.

The following market instruments are permitted to control interest rate risk:

- Interest rate swaps
- Futures
- Swaptions, caps and floors
- Future Rate Agreements (FRAs)
- Bonds or other fixed-income investments

Interest rate risk in the trading portfolio

The interest rate risk in the trading portfolio is measured on a daily basis using Value at Risk (VaR) and stress testing. Both VaR and the stress tests look ahead to the next day (one-day horizon), applying a confidence interval of 99%.

The VaR methodology is based on Monte Carlo simulations, with underlying probability distributions being based on historical data. The VaR models take account of interest rate, credit spreads, currency risk and share price risk on the basis of Monte Carlo simulations. Stress testing is based on twelve stress scenarios.

## 5.6.3 Market risk profile in figures

### 5.6.3.1 Market risk exposure traded and non-traded risk

The overview below shows SNS Bank’s balance sheet broken down by the risks associated with the banking book and the trading portfolio.

### Market risk exposure traded and non-traded risk

| | Carrying amount | Market risk measure | | Carrying amount | Market risk measure | | Primary Risk Sensitivity |
|---|---|---|---|---|---|---|---|
| in € millions | | Non-traded risk | Traded risk | | Non-traded risk | Traded risk | |
| **Assets subject to market risk** | **2014** | **2014** | **2014** | **2013** | **2013** | **2013** | |
| Investments held for trading | 817 | 1 | 816 | 713 | 2 | 711 | interest rate, exchange rate, credit spread |
| Investments available for sale | 6,184 | 6,184 | -- | 4,944 | 4,944 | -- | interest rate, credit spread |
| Derivatives | 2,702 | 2,524 | 178 | 2,484 | 2,325 | 159 | interest rate, exchange rate, credit spread |
| Loans and advances to customers | 52,834 | 52,834 | -- | 53,405 | 53,405 | -- | interest rate |
| Loans and advances to banks | 2,604 | 2,604 | -- | 6,063 | 6,063 | -- | interest rate |
| Cash and cash equivalents | 1,968 | 1,968 | -- | 5,528 | 5,528 | -- | interest rate |
| Assets held for sale | 149 | 24 | 125 | -- | -- | -- | interest rate, exchange rate, credit spread |
| Other | 901 | 901 | -- | 1,400 | 1,400 | -- | |
| **Total assets** | **68,159** | **67,040** | **1,119** | **74,537** | **73,667** | **870** | |
| | | | | | | | |
| **Liabilities subject to market risk** | | | | | | | |
| Subordinated debts | 40 | 40 | -- | 40 | 40 | -- | interest rate |
| Debt certificates | 11,252 | 11,252 | -- | 16,439 | 16,439 | -- | interest rate, exchange rate |
| Derivatives | 3,266 | 3,082 | 184 | 2,670 | 2,527 | 143 | interest rate, exchange rate, credit spread |
| Savings | 35,666 | 35,666 | -- | 33,276 | 33,276 | -- | interest rate |
| Other amounts due to customers | 10,542 | 10,542 | -- | 10,628 | 10,628 | -- | interest rate |
| Amounts due to banks | 2,099 | 2,099 | -- | 7,457 | 7,457 | -- | interest rate |
| Other | 5,294 | 5,294 | -- | 4,027 | 4,027 | -- | |
| **Total liabilities** | **68,159** | **67,975** | **184** | **74,537** | **74,394** | **143** | |

Given its activities, SNS Bank is most sensitive to the interest rate risk in the banking book.

The positions in the trading portfolio are of a limited size.

## Interest rate risk

| | 2014 | 2013 | limit (2014) |
|---|---|---|---|
| Equity duration | 3.2 | 1.7 | 0 to 8 |
| Earnings at Risk | € 30 mln | € 21 mln | € 60 mln |
| Outlier criterium | 13.4% | 6.4% | 20% |

SNS Bank managed the duration of equity up to a level of 3.2 at year-end 2014 (year-end 2013: 1.7).

At year-end 2014, the Earnings at Risk (EaR) was € 30 million (€ 21 million at year-end 2013). The interest income is most sensitive to a steepening of the yield curve. In this scenario, the yield curve revolves around the 1-year point: the short end of the yield curve drops by 2%, while we limit negative interest rates to -0.25%. The 10-year yield curve increases by +2% and the interest rates of the other maturities are interpolated between the aforementioned points.

The EaR outcome is higher than in 2013, partly because more prudent assumptions were made for passing interest rate hikes on to demand deposit rates.

The outlier criterion describes the change of equity value following a parallel yield curve shift of 200 basis points. Rising in line with the increased duration of equity in 2014, the outlier was 13.4% at year-end 2014 (year-end 2013: 6.4%), well within the regulatory limit of 20%.

Sensitivity analyses illustrate the interest rate risks run by the Banking activities. Such analyses calculate the impact of an immediate parallel shift of the yield curve of +100 basis points or -100 basis points.

## Sensitivity interst rates

| | Fair value equity | | Result | | Shareholders' equity | |
|---|---|---|---|---|---|---|
| in € millions | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Interest rate + 1% | -54 | -16 | -14 | -1 | -242 | -145 |
| Interest rate - 1% | 63 | 42 | -13 | -5 | 169 | 148 |

The column ‘Fair value equity’ shows the sensitivity of the fair value of shareholders’ equity, including embedded options. Sensitivity to both rate hikes and rate drops increased in line with the duration of equity, which was higher at year-end 2014 than at year-end 2013.

The ‘Result’ column shows the sensitivity of the result to interest rate fluctuations for the first 12 months. In an increasing and decreasing interest rate scenario interest income at year-end 2014 is negatively impacted. The negative impact ensuing from rising interest rates is caused by a prudent passing-on of rate hikes to customer rates for demand deposits. The negative impact ensuing from falling interest rates is caused by SNS Bank’s sizeable liquidity position. The latter negative impact is limited by an interest cut-off of minus 0.25%.

The ‘Shareholders’ equity’ column expresses the sensitivity resulting from the available-for-sale investment portfolios and the cash flow hedge derivatives to a parallel 100 basis point interest rate increase or decrease, and from the equity portfolio in case of a direct 10% increase or decrease of share prices. The value of the investment portfolios increased in 2014 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.

*Currency risk*
The currency risk in the banking book is minimised on a daily basis by means of hedging. At year-end 2014, the exposure in foreign currencies amounted to € 0.05 million.

*Share price risk*
SNS Bank has a limited position in equities, which totalled € 11 million at year-end 2014.

The table below emphasises the limited sensitivity to share price risk.

### Sensitivity shares

| | Fair value equity | | Result | | Shareholders' equity | |
|---|---|---|---|---|---|---|
| in € millions | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Shares +10% | 1 | 1 | -- | -- | 1 | 1 |
| Shares -10% | -1 | -1 | -- | -- | -1 | -1 |

#### 5.6.3.2 Sensitivity analysis for interest rate risk and other market risk

In addition to indicators such as EaR and duration of equity, the gap profile also provides insight into our interest rate position. The overview below presents the expected nominal amounts due based on the behavioural term to maturity for assets and liabilities. This results in an interest rate sensitivity gap, which is presented in the last line of the tables.

From the perspective of interest rate risk, nothing extraordinary occurred between 2013 and 2014.

### Term to maturity gap profile 2014

| in € millions | < 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | > 5 years | Provision | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Investments (interest bearing) | 238 | 113 | 485 | 2,467 | 3,686 | -- | **6,989** |
| Derivatives | 593 | 720 | 551 | 566 | 271 | -- | **2,701** |
| Loans and advances to customers | 14,227 | 1,280 | 5,872 | 23,055 | 8,911 | -511 | **52,834** |
| Loans and advances to banks | 2,604 | -- | -- | -- | -- | -- | **2,604** |
| Other assets | 913 | -- | -- | -- | -- | -- | **913** |
| Cash and cash equivalents | 1,968 | -- | -- | -- | -- | -- | **1,968** |
| Assets held for sale | 149 | -- | -- | -- | -- | -- | **149** |
| **Subtotal** | **20,692** | **2,113** | **6,908** | **26,088** | **12,868** | **-511** | **68,158** |
| Off-balance sheet products | 14,492 | 12,440 | 8,850 | 5,898 | -649 | -- | **41,031** |
| **Total assets** | **35,184** | **14,553** | **15,758** | **31,986** | **12,219** | **-511** | **109,189** |
| **Liabilities** | | | | | | | |
| Subordinated debts | -- | 40 | -- | -- | -- | -- | **40** |
| Debt certificates | 5,087 | 5,564 | 121 | 260 | 220 | -- | **11,252** |
| Derivatives | 725 | 541 | 629 | 979 | 391 | -- | **3,265** |
| Savings | 1,818 | 3,163 | 8,581 | 16,078 | 6,027 | -- | **35,667** |
| Other amounts due to customers | 4,313 | 993 | 1,684 | 2,738 | 814 | -- | **10,542** |
| Amounts due to banks | 1,234 | 865 | -- | -- | -- | -- | **2,099** |
| Other liabilities | 2,311 | -- | -- | -- | -- | -- | **2,311** |
| Liabilities held for sale | 18 | -- | -- | -- | -- | -- | **18** |
| **Subtotal** | **15,506** | **11,166** | **11,015** | **20,055** | **7,452** | **--** | **65,194** |
| Off-balance sheet products | 9,112 | 6,796 | 7,905 | 12,304 | 4,915 | -- | **41,032** |
| **Total liabilities** | **24,618** | **17,962** | **18,920** | **32,359** | **12,367** | **--** | **106,226** |
| **Interest rate sensitivity gap** | **10,566** | **-3,409** | **-3,162** | **-373** | **-148** | **-511** | **2,963** |

### Term to maturity gap profile 2013

| in € millions | < 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | > 5 years | Provision | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Investments (interest bearing) | 1,109 | 509 | 508 | 1,118 | 2,399 | -- | **5,643** |
| Derivatives | 547 | 635 | 375 | 679 | 248 | -- | **2,484** |
| Loans and advances to customers | 15,810 | 1,559 | 6,305 | 21,248 | 8,936 | -453 | **53,405** |
| Loans and advances to banks | 5,618 | 440 | 5 | -- | -- | -- | **6,063** |
| Other assets | 1,415 | -- | -- | -- | -1 | -- | **1,414** |
| Cash and cash equivalents | 5,528 | -- | -- | -- | -- | -- | **5,528** |
| Assets held for sale | -- | -- | -- | -- | -- | -- | **--** |
| **Subtotal** | 30,027 | 3,143 | 7,193 | 23,045 | 11,582 | -453 | **74,537** |
| Off-balance sheet products | 14,585 | 13,157 | 6,706 | 9,315 | 431 | -- | **44,194** |
| **Total assets** | **44,612** | **16,300** | **13,899** | **32,360** | **12,013** | **-453** | **118,731** |
| **Liabilities** | | | | | | | |
| Participation certificates and subordinated debts | -- | 40 | -- | -- | -- | -- | **40** |
| Debt certificates | 6,168 | 9,396 | 260 | 298 | 317 | -- | **16,439** |
| Derivatives | 596 | 459 | 394 | 911 | 310 | -- | **2,670** |
| Savings | 1,745 | 3,132 | 8,339 | 14,323 | 5,737 | -- | **33,276** |
| Other amounts due to customers | 4,620 | 1,538 | 1,447 | 2,321 | 702 | -- | **10,628** |
| Amounts due to banks | 7,457 | -- | -- | -- | -- | -- | **7,457** |
| Other liabilities | 1,445 | -- | -- | -- | -- | -- | **1,445** |
| Liabilities held for sale | -- | -- | -- | -- | -- | -- | **--** |
| **Subtotal** | 22,031 | 14,565 | 10,440 | 17,853 | 7,066 | -- | **71,955** |
| Off-balance sheet products | 9,610 | 8,484 | 6,368 | 14,719 | 5,010 | -- | **44,191** |
| **Total liabilities** | **31,641** | **23,049** | **16,808** | **32,572** | **12,076** | **--** | **116,146** |
| **Interest rate sensitivity gap** | 12,971 | -6,749 | -2,909 | -212 | -63 | -453 | **2,585** |

The positive 1-month interest rate gap is mainly driven by the variable interest rates for part of the mortgage portfolio, and by cash and cash equivalents and short-term loans to banks. This is offset on the liability side, where we see demand deposits modelled based on behavioural aspects, such that the volume of these savings is not entirely allocated to the 1-month interest rate gap. This explains the negative interest rate gaps of up to 1 year.

Off-balance sheet products are presented as the notional amount of interest rate derivatives. The interest components are recorded under 'Derivatives'.

#### 5.6.3.3 Market risk exposure in the trading portfolio

The table below shows the limits of the trading portfolio.

### Market risk profile of trading portfolio

| | Value-at-risk (99% on daily basis) | | Stress test | |
|---|---|---|---|---|
| **in € millions** | **2014** | **2013** | **2014** | **2013** |
| Limit | | | | |
| SNS Financial Markets | 2.2 | 1.7 | 6.7 | 5.0 |
| SNS Securities | 1.0 | 0.5 | 3.0 | 1.4 |
| **Total** | **3.2** | **2.1** | **9.7** | **6.4** |

The total VaR limit of the trading portfolio was € 3.2 million at year-end 2014 (2013: € 2.1 million). The VaR limit was raised limitedly by € 350 thousand at SNS Financial Markets to accommodate a change in the trading strategy.

For SNS Securities[3] the spread risk – which was previously monitored separately – is now also measured and contained under the VaR limit, for which purpose we raised the VaR limit. The stress test limits were adjusted in accordance with the VaR limit changes.

Twelve stress scenarios apply to SNS Financial Markets, whereas previously one worst-case scenario from the past was used as a basis.

## 5.7 Liquidity management and funding

Liquidity risk is the risk that SNS Bank has insufficient liquid assets available in the short or long term to meet its financial obligations, under normal circumstances or in times of stress, without incurring unacceptable costs or losses.

In this section, we also explain our funding strategy.

### 5.7.1 Risk profile

We pay close attention to controlling our liquidity risk in order to continuously have adequate liquidity reserves available, allowing us to meet our financial obligations at all times.

Liquidity risk management has been organised in a way that allows us to absorb the impact of bank-specific stress factors and tensions in the money and capital markets.

#### Main developments in 2014

The liquidity and funding position of SNS Bank improved in 2014 and comfortably met the requirements. The loan-to-deposit ratio decreased from 122% at year-end 2013 to 113%, mainly due to an increase in retail funding in combination with a modest decrease in loans and advances to customers. The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are well above the expected future regulatory requirements of 100%. The funding of SNS Bank consists largely of savings and is otherwise diversified. During 2014, SNS Bank did not enter into any public capital market transactions in 2014 as it awaited clarity on the future of VIVAT.

3 As of 31 December 2014, all conditions of IFRS 5 for classifying the assets and liabilities of SNS Securities as 'held for sale' have been met. The presentation in the risk paragraph has not been adjusted accordingly.

### 5.7.2 Management and control

Liquidity management underpins SNS Bank's strategy. We determine our risk appetite in respect of liquidity based on the strategy, regulations and external stakeholders' expectations. We then establish our strategy and policy to meet our liquidity requirements.

Our liquidity requirements are determined on the basis of risk appetite, business plans, and expectations and requirements of external stakeholders, including customers, regulatory authorities and investors.
SNS Bank's position in the market as well as developments in the financial markets are decisive for such aspects as our ability to access the capital markets and the feasibility of liquidity actions.

The main activities of liquidity risk management are determining the desired amount of liquidity, making (qualitative) assessments of liquidity adequacy, performing stress tests on liquidity adequacy and steering the amount of liquidity available to the preferred level. These activities are also part of the Internal Adequacy Assessment Process (ILAAP).

SNS Bank's liquidity adequacy is continuously monitored and assessed in relation to risk appetite and strategy.

Every year, we adopt and evaluate the strategic objectives while identifying and classifying the associated risks. The risk appetite is established based on SNS Bank's risk capacity, with due regard for the interests of all stakeholders. Risk appetite forms an integral part of the frameworks for drafting the annual Operational Plan, which also comprises the Capital and Liquidity Plan.

The Capital and Liquidity Plan compares projected movements in the liquidity available, both the buffer and funding, with the required liquidity amount ensuing from the Operational Plan. Multiple scenarios are worked out to this end. The liquidity position assessment includes a comparison between the amount of liquidity available and the internal standards under the current regulatory framework. Instruments to raise funding and to increase liquidity are used for control purposes.

Liquidity management is an ongoing process. In addition to the long-term planning in the Capital and Liquidity Plan, we issue a concise update of the development of this plan each month, which plan is discussed in the Bank ALCO. Weekly and daily reports and projections are also issued, which we use as a basis for any adjustments that may be necessary.

Management instruments

**Cash position**

The key going-concern control instrument is the cash position, which SNS Bank generally uses to meet all its obligations. The cash position comprises the non-restricted and restricted demand deposits with DNB, current account balances held at other banks via SNS FM, and deposits with an original term of ten days or less. As a result, the cash position differs from the cash and cash equivalents balance stated in the balance sheet of the Banking activities.

**Liquidity buffer**

The key control instrument in respect of contingency liquidity risk is the liquidity buffer, which can be used to absorb unexpected changes in our liquidity requirements. We set high liquidity requirements on the underlying investments.

The liquidity buffer consists of investments capable of generating immediate liquidity as they are eligible as ECB collateral, can be encumbered in the framework of collateral management, can be sold in highly liquid markets or can be used in repo transactions. SNS Bank manages its liquidity buffer centrally.

The liquidity buffer largely consists of government bonds and Residential Mortgage Backed Securities (RMBS) of SNS Bank mortgages. The liquidity value of investments in the liquidity buffer is determined on the basis of the market value of the investments after application of the haircuts set by the ECB. The ECB periodically publishes a list of permitted collateral along with their corresponding haircuts – a mark-down on the value before lending. If desired, this collateral can be used to obtain liquidity up to the post-haircut value.

**Key liquidity ratios**

Two liquidity ratios have been introduced with CRD IV/CRR: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The purpose of the LCR is to test whether sufficient liquid assets are available to absorb a 30-day stress scenario. Having a longer horizon of one year, the NSFR serves to finance assets with more stable forms of funding. The regulatory standard is expected to be 100% for both liquidity measures following a phased introduction period. We focus on both the total liquidity position as reported in the liquidity reports to DNB and the new liquidity ratios, the LCR and NSFR.

**Liquidity stress testing**

The robustness of the liquidity position is determined by means of stress tests. The internal extreme stress test takes into account, among other things, an extreme outflow of savings and credit funds, a lack of funding in the money and capital markets, and a decline in the market value of liquid assets. The internal extreme stress test is updated every month in the liquidity reports submitted to the Bank ALCO and reviewed every year. Also, an annual review is performed to check whether this stress test is still the leading stress test.

The key objectives of stress testing are:

- Contributing to risk appetite determination and monitoring: the stress test results are used to determine our risk capacity, risk appetite and objectives;
- Contingency planning: assessing and refining the triggers in the contingency plans.

**Liquidity Contingency Plan**

The Liquidity Contingency Plan (LCP) enables us to take early measures in the event of a sudden deterioration of the liquidity position or an acute liquidity crisis. Its purpose is to safeguard SNS Bank's continuity. Updated every year, the LCP defines a series of available measures that may be taken depending on the urgency and severity of possible issues.

**Recovery Plan**

The key objective of the Recovery Plan is to prepare us for crises in a way that enables us to recover from a crisis independently. SNS Bank has various recovery measures at its disposal in such a situation.

The set of measures has a wide scope and comprises capital, operational and communication aspects as well as liquidity aspects. The Recovery Plan is updated every year.

### 5.7.3 Liquidity risk profile in figures

In 2014, SNS Bank amply complied with both internal and regulatory requirements for liquidity risk. The internal requirements are significantly stricter than the regulatory requirements. Although our funding profile became more savings-oriented in recent years (the Loan-to-Deposit ratio declined), we were also funded by means of various funding instruments in the capital market. Going forward, we will continue to aim for diversified funding.

The table below shows SNS Bank's liquidity position, with liquid assets being expressed as market value after ECB haircut.

**Development of liquidity position**

| in € millions | 2014 | 2013 |
|---|---|---|
| Cash | 2,537 | 5,334 |
| Liquid assets | 11,008 | 6,294 |
| **Total liquidity position** | **13,545** | **11,628** |

The cash position comprises the non-restricted and restricted demand deposits with DNB, current account balances held at other banks via SNS FM, and deposits with an original term of ten days or less. As a result, the cash position differs from the cash and cash equivalents balance stated in the balance sheet of the Banking activities.

The total liquidity position remained high and increased to € 13.5 billion. The increase was mainly caused by the redemption of the funding by Propertize. SNS Bank used these proceeds to redeem € 5.5 billion of ECB facilities, of which € 1.0 billion in the second half of 2014. This resulted in an increase of ECB eligible assets. The cash position decreased mainly through the redemption of € 5.5 billion wholesale funding, partly compensated by retail savings inflows of € 2.4 billion and the issuance of € 0.6 billion of securitisation notes held on own book.

The savings inflow totalled € 2.4 billion in 2014 and was achieved in the first six months of 2014 in particular.

#### Development of LCR, NSFR and Loan-to-Deposit ratio

| | 2014 | 2013 |
|---|---|---|
| LCR | 455% | 436% |
| NSFR | 130% | 120% |
| Loan to deposit ratio | 113% | 122% |

The LCR tests whether sufficient liquid assets are available to absorb a 30-day stress scenario. Having a longer horizon of one year, the NSFR serves to finance assets with more stable forms of funding and to limit dependence on short-term funding. Both the LCR and the NSFR are based on the Basel III monitoring definition. An adjusted definition of the LCR is expected to take effect by the end of 2015.

The Loan-to-Deposit ratio declined even further in 2014. The decrease from 122% at year-end 2013 to 113% at year-end 2014 was caused by an increase in retail loans combined with a modest decrease in loans and advances to customers. The LCR (455%) and the NSFR (130%) rose to well above the future criteria applicable to these measures. The LCR remained elevated as a result of the relatively large liquidity buffer. The increase in savings and the decrease of the mortgage portfolio contributed to a higher NSFR.

### 5.7.4 Maturity of assets and liabilities

This section provides an extensive maturity analysis of assets and liabilities, with a breakdown by remaining contractual maturity. An indication of liquidity risk can be obtained by presenting the net (assets minus liabilities) nominal amounts due as at maturity in what is known as a liquidity gap profile.

The table below reflects the liquidity gap profile of the Banking activities at year-end 2014 and 2013 on the basis of the remaining contractual maturity. Instant-access savings and savings due on demand are presented in the 'less than 1 month' column. For mortgages, the contractual maturity is maintained without taking into account any prepayments.

Asset & liability management takes behavioural aspects into account. For example, a shorter term to maturity is used for internal steering and when mortgages are provided because of expected prepayments. A longer term to maturity is used to instant-access savings and balances in customers' current accounts for internalsteering, because customers tend to keep such products for a longer period of time under normal conditions.

The tables below provide a breakdown of the above liquidity gap tables for financial liabilities and derivatives at year-end 2014 and at year-end 2013. Contrary to the tables above, these tables also present future cash flows.

### Liquidity risk 2014

| in € millions | < 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | > 5 years | Provision | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Investments (interest bearing) | 787 | 249 | 435 | 1,855 | 3,663 | -- | **6,989** |
| Derivatives | 20 | 20 | 115 | 966 | 1,581 | -- | **2,702** |
| Loans and advances to customers | 3,352 | 285 | 110 | 1,467 | 48,130 | -510 | **52,834** |
| Loans and advances to banks | 2,605 | -- | -- | -- | -- | -1 | **2,604** |
| Other assets | 1,951 | -- | -- | -- | 930 | -- | **2,881** |
| Assets held for sale | -- | -- | 149 | -- | -- | -- | **149** |
| **Total assets** | **8,715** | **554** | **809** | **4,288** | **54,304** | **-511** | **68,159** |
| **Liabilities** | | | | | | | |
| Shareholders' equity | -- | -- | -- | -- | 2,963 | -- | **2,963** |
| Participation certificates and subordinated debts | -- | -- | -- | -- | 40 | -- | **40** |
| Debt certificates | 20 | 65 | 951 | 2,547 | 7,669 | -- | **11,252** |
| Derivatives | 15 | 15 | 107 | 1,398 | 1,731 | -- | **3,266** |
| Savings | 29,550 | 133 | 549 | 2,703 | 2,731 | -- | **35,666** |
| Other amounts due to customers | 6,073 | 10 | 1,339 | 357 | 2,763 | -- | **10,542** |
| Amounts due to banks | 868 | 200 | 515 | 478 | 38 | -- | **2,099** |
| Other liabilities | 2,313 | -- | -- | -- | -- | -- | **2,313** |
| Liabilities held for sale | -- | -- | 18 | -- | -- | -- | **18** |
| **Total equity and liabilities** | **38,839** | **423** | **3,479** | **7,483** | **17,935** | **--** | **68,159** |
| **Net liquidity gap** | **-30,124** | **131** | **-2,670** | **-3,195** | **36,369** | **-511** | **--** |

### Liquidity risk 2013

| in € millions | < 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | > 5 years | Provision | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Investments (interest bearing) | 427 | 109 | 279 | 1,374 | 3,454 | -- | 5,643 |
| Derivatives | 34 | 87 | 47 | 1,165 | 1,151 | -- | 2,484 |
| Loans and advances to customers | 2,293 | 574 | 121 | 1,251 | 49,619 | -453 | 53,405 |
| Loans and advances to banks | 1,576 | 423 | 4,065 | -- | -- | -1 | 6,063 |
| Other assets | 5,527 | -- | -- | -- | 1,415 | -- | 6,942 |
| Assets held for sale | -- | -- | -- | -- | -- | -- | -- |
| **Total assets** | **9,857** | **1,193** | **4,512** | **3,790** | **55,639** | **-454** | 74,537 |
| **Liabilities** | | | | | | | |
| Shareholders' equity | -- | -- | -- | -- | 2,582 | -- | 2,582 |
| Participation certificates and subordinated debts | -- | -- | -- | -- | 40 | -- | 40 |
| Debt certificates | 72 | 2,787 | 1,530 | 3,774 | 8,276 | -- | 16,439 |
| Derivatives | 21 | 10 | 125 | 1,526 | 988 | -- | 2,670 |
| Savings | 26,923 | 53 | 397 | 3,109 | 2,795 | -- | 33,277 |
| Other amounts due to customers | 6,390 | 15 | 1,133 | 307 | 2,783 | -- | 10,628 |
| Amounts due to banks | 782 | 142 | -- | 6,496 | 37 | -- | 7,457 |
| Other liabilities | 1,444 | -- | -- | -- | -- | -- | 1,444 |
| Liabilities held for sale | -- | -- | -- | -- | -- | -- | -- |
| **Total equity and liabilities** | **35,632** | **3,007** | **3,185** | **15,212** | **17,501** | **--** | **74,537** |
| **Net liquidity gap** | **-25,775** | **-1,814** | **1,328** | **-11,423** | **38,138** | **-454** | **--** |

## Liquidity calendar financial liabilities 2014

| In € millions | < 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| Subordinated debts | -- | -- | -- | 1 | 61 | **62** |
| Debt certificates | 28 | 109 | 1,177 | 2,516 | 8,180 | **12,010** |
| Savings | 29,872 | 161 | 653 | 2,945 | 2,790 | **36,421** |
| Other amounts due to customers | 6,039 | 62 | 715 | 1,060 | 3,811 | **11,687** |
| Amounts due to banks | 1,069 | -- | 518 | 480 | 31 | **2,098** |
| **Total** | **37,008** | **332** | **3,063** | **7,002** | **14,873** | **62,278** |

## Liquidity calendar financial liabilities 2013

| In € millions | < 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| Participation certificates and subordinated debts | -- | -- | -- | 2 | 78 | 80 |
| Debt certificates | 82 | 2,937 | 1,938 | 4,342 | 9,154 | 18,453 |
| Savings | 26,978 | 93 | 567 | 3,339 | 2,826 | 33,803 |
| Other amounts due to customers | 6,568 | 32 | 2,074 | 800 | 4,801 | 14,275 |
| Amounts due to banks | 786 | 143 | 8 | 6,637 | 33 | 7,607 |
| **Total** | **34,414** | **3,205** | **4,587** | **15,120** | **16,892** | **74,218** |

## Liquidity calendar derivatives 2014

| in € millions | < 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| Interest rate derivatives | 52 | 85 | 404 | 1,627 | 1,021 | 3,189 |
| Currency contracts | 12 | 10 | 84 | 3 | -- | 109 |
| **Total** | **64** | **95** | **488** | **1,630** | **1,021** | **3,298** |

## Liquidity calendar derivatives 2013

| in € millions | < 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| Interest rate derivatives | 58 | 85 | 1,099 | 1,528 | 461 | 3,231 |
| Currency contracts | 19 | 45 | 750 | 76 | -- | 890 |
| **Total** | **77** | **130** | **1,849** | **1,604** | **461** | **4,121** |

### 5.7.5 Funding strategy

As a retail bank, SNS Bank primarily uses savings for its funding. Via our retail channel, we can raise term deposits, instant-access savings or retail or corporate current account deposits under the various brands. Further, SNS Bank obtains funding from the financial markets, in part depending on the current market conditions.

We aim to diversify our sources of funding by way of different funding instruments, maturities, markets, regions and investor types. It is vital to have access to a large number of funding sources: if one or several sources are unavailable, another source can be used.

That is why SNS Bank avails itself of senior unsecured funding, (mortgage) securitisation (RMBS) and a statutory covered bond programme for its funding in excess of one year. The latter programme permits not only the issue of public covered bonds but also the issue of private transactions. In addition, we obtain funding using our liquid assets as collateral, for example in repo transactions. Please refer to snsreaal.nl for more information on the various funding programmes available to SNS Bank.

The figure below presents an overview of the outstanding capital market funding with an original term of more than 1 year at year-end 2014 and year-end 2013. In the balance sheet, this funding is recognised under debt certificates, amounts due to banks and other amounts due to customers.The information presented is based on the nominal value of the loans that differs from the IFRS valuation in the balance sheet. The change in the capital market funding mix in 2014 is mainly the result of the repayment of the LTRO and the State-guaranteed funding.

In our funding strategy and planning, we take into account the introduction of the bail-in principle on 1 January 2016. We aim for a diversified capital structure with, as a minimum, sufficient subordinated and senior unsecured funding to ensure that savings customers with balances in excess of € 100 thousand are not included in the bail-in. The exact details of the MREL and TLAC regulations, market conditions and the current funding requirement may affect the specific details of our funding strategy in respect of funding from both savings and the capital market.

## 5.8 Credit ratings

### Main developments in 2014

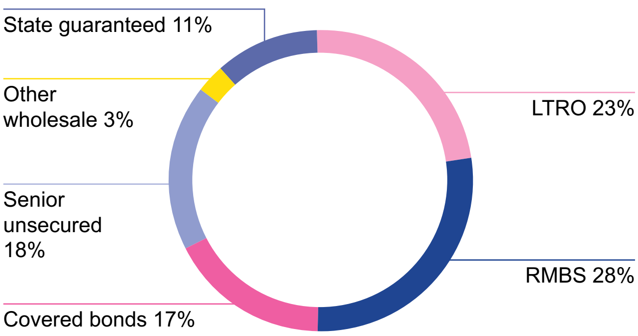
Further recovery of stand-alone ratings

In 2014, SNS Bank's long-term credit ratings remained virtually stable. Only Moody's raised its rating by one notch to Baa2 in April. However, the stand-alone ratings did show further improvement. These ratings reflect SNS Bank's creditworthiness without taking account of the option of external aid, for example from the State. SNS Bank's stand-alone rating at S&P (the Stand-Alone Credit Profile) was upgraded from bb+ to bbb-, Moody's Bank Financial Strength Rating was upgraded from D- (ba3) to D+ (ba1), and Fitch's viability rating was upgraded from bb- to bbb-. Both at S&P and at Fitch, the stand-alone credit rating has returned to investment grade level.

Changes ahead regarding State aid as part of long-term ratings

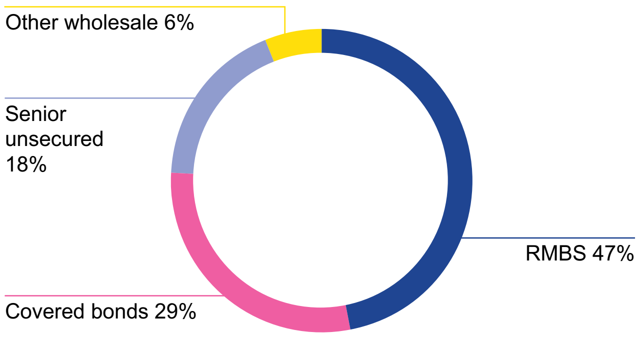
By today's methods, SNS Bank's long-term ratings are derived from the stand-alone ratings, supplemented with additional notches for any State aid ('sovereign support'). SNS Bank is regarded as a systemically important financial institution, for which S&P adds one notch of support and Moody's two notches to their stand-alone ratings. In Fitch's

**Wholesale funding mix 2013**




Year-end 2013: € 24.5 billion

**Wholesale funding mix 2014**




Year-end 2014: € 13.4 billion

current methodology, our rating cannot be downgraded below BBB+ as long as the Dutch State has an AAA rating, which also implies two notches of support on top of the stand-alone rating.

In the course of 2014, the rating agencies announced their intention to develop a new view of possible sovereign support for holders of senior unsecured debt instruments and how this will be reflected in ratings. Their announcement came on the back of the EU's proposed Bank Recovery & Resolution Directive (BRRD) and possible future bail-in regimes. The expectation is that possible State aid as part of ratings will decrease or disappear altogether ahead of the January 2016 introduction of EU powers with regard to the bail-in of senior unsecured debt. Put differently, rating agencies will start taking account of the possibility that sovereign support may involve losses in the future, not only for subordinated lenders but also for senior unsecured lenders. As a result, the ratings of a great number of European banks including SNS Bank were placed on a negative outlook in the course of 2014.

Rating changes in chronological order

On 26 March 2014, Fitch confirmed the BBB+ rating of SNS REAAL and SNS Bank and changed the rating outlook from stable to negative. At the same time, Fitch upgraded SNS Bank's viability rating by one notch to bbb-. This upgrade reflected an improvement of the Bank's stand-alone creditworthiness following the State's capital injection at the time of the nationalisation and the separation of Property Finance. The expectation fuelling the outlook adjustment is that sovereign support sparing senior lenders will become less likely in the future.

On 11 April 2014, Moody's upgraded both the long-term and the short-term rating of SNS Bank by one notch to Baa2/P-2 (outlook stable). SNS REAAL's rating was confirmed at Ba2 (outlook stable). Moody's also raised SNS Bank's BFSR to D+/ba1, mainly driven by the definitive implementation of nationalisation measures such as the capital injection and the separation of Property Finance. Moreover, Moody's noted that the SNS Bank franchise was stabilising and that structural profitability was improving.

On 30 April 2014, S&P confirmed the ratings of SNS REAAL and SNS Bank at BBB (outlook negative). S&P had already incorporated the nationalisation measures and the separation of Property Finance in its ratings in late 2013. The negative outlook reflects S&P's considerations that support for senior unsecured lenders may diminish as a result of new regulations such as the BRRD in the event of government intervention.

On 30 May 2014, Moody's confirmed the ratings of SNS REAAL and SNS Bank, but lowered the outlook to negative. At Moody's as well, the negative outlook reflects the developments regarding State aid to banks under the new BRRD rules.

On 4 November 2014, S&P upgraded SNS Bank's Stand-Alone Credit Profile by one notch to BBB-. The upgrade reflected improvements in the areas of funding and liquidity and the expectation that SNS Bank will regain access to the capital market in the course of 2015. The short-term credit rating was raised by one notch to A2, whereas the long-term credit rating remained the same at BBB (outlook negative).

**Credit ratings as per 31 December 2014**

| | S&P | Moody's | Fitch |
|---|---|---|---|
| Long-term | BBB (negative) | Baa2 (negative) | BBB+ (negative) |
| Short-term | A2 | P-2 | F2 |

On 17 March 2015, Fitch upgraded the viability rating of SNS Bank by one notch from bbb- to bbb, reflecting the progress made in the transformation of the Bank into a largely domestic mortgage lender. At the same time Fitch confirmed the BBB+ ratings of SNS REAAL and SNS Bank, both with negative outlooks.

## 5.9 Key non-financial risks

SNS Bank sets great store by controlling non-financial risks: controlled business operations form the basis of robust and efficient processes and excellent customer experience in which the customers' interests are put first.

External developments highlight the importance of firmly controlling non-financial risks, such as an increase in threats due to cybercrime, the great amount of new legislation and regulations and the intensive information needs of regulatory authorities and other stakeholders.

**Main developments in 2014**
We made improvements to our risk control and risk governance, assigning greater importance to identifying, analysing, controlling and mitigating non-financial risks.

The departments and committees focusing on non-financial risks were reorganised. We started introducing improvements to our process and data quality control, which will be underpinned by the new Integrated Control Framework. Our efforts in combating cybercrime were further intensified.

## 5.9.1 Management and control

Risk control is the primary responsibility of line management. Non-financial risks are omnipresent in an operational banking business and are controlled by several SNS Bank business units and departments. Analogous to financial risk control, non-financial risk control requires specialist expertise. This is why specialist departments have been set up, such as Security, Information Security, Business Continuity Management and Internal Control, which support the responsible first-line managers in managing the risks.

Each from their own role and focus area, the first-line managers are responsible for defining risks and controlling these. They do so within the frameworks of our risk policy and related processes, setting risk limits, performing risk control and monitoring risk exposures.

**Committees**
Non-financial risks comprise many different types of risk and are discussed in various risk committees. The Bank NFRC covers a broad range of non-financial risks. A number of topics are discussed in specific risk committees. The BRC, for instance, examines strategic risks while the Bank PARC assesses the non-financial risks of existing and new products. The Bank MPC adopts the pricing policy and, lastly, the Bank MGC sees to it that models applied in the processes are used correctly.

Non-financial risks occur depending on the nature of the activities undertaken by the various business units. We have set up processes at this level to control these risks. The table below presents an overview of the control organisation.

| Type of risk | Control |
|---|---|
| **Strategic risk** | This risk is controlled by means of annual strategic risk analyses with the Managing Board and management and incorporation in the business units' annual plans. |
| **Operational risk** | Operational risk is controlled in all aspects of our business operations.<br>The process risks are controlled at the business units where these processes are carried out. The service centres play a key role here, as many processes are performed within the service centres. Group Audit periodically performs risk-based reviews of the organisation, presence and functioning of the processes. In addition, the business units themselves periodically review the effectiveness of control, supported by the Internal Control department.<br>In charge of IT risk control, the IT & Change organisation is responsible for managing and maintaining the IT infrastructure and systems as well as supporting the business in implementing changes. When performing its duties, the IT & Change organisation uses strict guidelines and procedures based on market standards including Cobit and ITIL.<br>We control personnel risk by applying a recruitment and screening policy to new employees as well as embedding the yearly appraisal and training of current employees. The business units receive the appropriate support from the Human Resources department.<br>The Business Continuity Management department, which is responsible for business continuity, controls the external risk. Business Impact Analyses and disaster recovery tests are performed for all business units every year to control the external risk. |
| **Reporting risk** | We control the reporting risk by assuring data quality in the DataWareHouse and using automated reporting and information management solutions managed by IT.<br>This risk is mainly controlled by specialised departments within Finance and the Risk domain that are in charge of reporting reliability. |
| **Compliance risk** | Compliance risk is controlled by the first-line business units. From the second line, the Compliance department sets the frameworks for the compliance risk policy and advises about the implementation of compliance policy, while also assessing the effectiveness of control measures.<br>Compliance risk, with the accompanying control measures, has been further detailed by means of standards based on the four 'integrity pillars': customer, product, partnership and employee |
| **Legal risk** | This risk is controlled at the business units, which are supported in this respect by the specialised Legal Affairs department within the risk domain.<br>We control the legal risk by means of a strict and careful review process for new and existing products, with Legal Affairs reviewing the products in terms of compliance with statutory and regulatory requirements as well as the values of our Manifesto.<br>In addition, Legal Affairs supports our business units in the implementation of new legislation and regulations, the drafting of legal documents and during legal proceedings. Legal Affairs is furthermore responsible for increasing the organisation's legal knowledge and awareness by means of study and training courses. |
| **Reputation risk** | This risk is controlled at the business units, which are supported in this respect by specialised departments including the Corporate Communication department, the webcare team and the Legal Affairs and Operational Risk & Management Control departments within the Risk domain.<br>We control the reputation risk by reviewing both our products and the quality of our processes in terms of compliance with the Manifesto and customers' interests. Our service staff of the customer contact centre ensure that customers' questions or complaints are addressed immediately. Our webcare team actively monitors and responds to comments on social media. Where necessary, the team supports people when they have questions or complaints about our services.<br>We also increasingly develop our products and services in co-creation with our customers and, in doing so, keep a clear focus on our customers' needs. |

## 5.9.2 Key non-financial risks

SNS Bank management performed semi-annual risk assessments, which serve to substantiate the internal in-control statement issued by management. In this statement, management explains to what extent material risks are controlled and which measures are taken to control unacceptable risks. The following material non-financial risks have been identified for SNS Bank as a whole:

### Mortgage Service Centre business operations

Risk:

It is our objective to serve customers with efficient handling and service processes, performed by a service centre that is as efficient and scalable as possible. We also want this in order to bring the risk profile of the residential mortgage portfolio in line with the values of our Manifesto. The growth ambition to regain market share puts additional pressure on the Mortgage Service Centre's processes. In this manner, the risk arises that processes may not have the appropriate level of quality.

Measures:
In order to arrive at excellent business operations, we started optimising the processes of the mortgage distribution chain. Improvements are to be achieved by, for example, simplification of the IT landscape, improvements to mortgage process control and improvements to data quality in the systems.

### Data quality
Risk:
Both internal and external parties make increasing demands on the reliability of information and underlying data. Regulatory authorities, too, want to be informed better and faster. There is a risk of inaccurate, incomplete or out-of-date data quality, which may cause SNS Bank management to take the wrong decisions or which may result in regulatory authorities being misinformed.

Measures:
An Information Board has been set up to permanently safeguard the quality of data management within the organisation. In addition, a Data Management Programme has been initiated at SNS Bank to implement the data quality requirements ensuing from legislation and regulations throughout the organisation. A programme is also ongoing to achieve PERDARR compliance (BCBS 239) in the provision of information regarding risk reporting.

### Customer integrity
Risk:
SNS Bank wishes to provide services only to those customers whose conduct is in line with the principles laid down in the Manifesto. We want to minimize the risk not to comply with relevant legislation and regulations. Therefore. we must collect additional information on a portion of the existing client portfolio.

Measures:
A Bank-wide Customer Integrity programme was initiated with a view to further supplementing customer information and reinforcing various control measures in the customer management process. The programme approach has been discussed with the regulatory authority and the regulatory authority is periodically briefed about the programme progress.

### Cybercrime
Risk:
SNS Bank recognises that cybercrime risk is a relevant and ongoing threat that may lead to an interruption of services to our customers, loss of confidential information or erosion of trust and reputation.

Measures:
Despite the continued vulnerability of Dutch payment systems to disruptions resulting from cybercrime attacks, our services did not suffer any major or prolonged disruptions in 2014. Over the past few years, we took various control measures that are proving successful in protecting ourselves against cybercrime. In 2014, we continued to invest in early detection and real-time combating of fraudulent transactions. All transactions within SNS Bank are monitored by the Payments Service Centre and the Security Operations Centre. In addition, SNS Bank has teamed up with fellow banks in the fight against cybercrime and takes part in nationwide discussions between banks, police and judicial authorities. With a view to further protecting our customers against cybercrime, investments in improving our defences against cybercrime will continue in 2015.

### Internal control
Risk:
Both the regulatory authority and SNS Bank management set high requirements for controlled and responsible business operations, which translates into demonstrable risk control and an increasing demand for risk management. It also calls for a strengthening of first-line and second-line risk management.

Measures:
We strengthened our risk management in 2014 by means of a new risk governance structure and risk organisation. We started recruiting new staff to reinforce the risk management function and commenced the roll-out of the Integrated Control Framework (ICF). In the context of the ICF the project Value Flow Management was initiated in 2014, which is aimed at further improving demonstrable risk control within key integral processes.

In 2014, a Regulatory Board was formed to identify developments regarding new and future changes to legislation and regulations at an early stage. This allows us to start implementation processes earlier and to execute them in a more controlled manner. In addition, we decided to implement a central change organisation for the Bank as a whole.

**Capital requirements for non-financial risks**
SNS Bank maintains capital to absorb losses that may arise as a result of the occurrence of non-financial risks. We apply the standardised approach to calculate the statutory capital requirements for non-financial risks. We also perform the Internal Capital Adequacy Assessment

Process (ICAAP) every year, based on which we determine the amount of capital required. Please refer to section 5.4 for a further explanation of the ICAAP.

# 6 Annual report

## Contents

# Consolidated financial statements

## Consolidated balance sheet

| Before result appropriation and in € millions | Notes[1] | 31-12-2014 | 31-12-2013 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 1 | 1,968 | 5,528 |
| Loans and advances to banks | 2 | 2,604 | 6,063 |
| Loans and advances to customers | 3 | 52,834 | 53,405 |
| Derivatives | 4 | 2,702 | 2,484 |
| Investments | 5 | 7,001 | 5,657 |
| Property and equipment | 6 | 86 | 52 |
| Intangible assets | 7 | 15 | 89 |
| Deferred tax assets | 8 | 450 | 507 |
| Corporate income tax | 9 | 66 | 208 |
| Other assets | 10 | 284 | 544 |
| Assets held for sale | 18 | 149 | -- |
| **Total assets** | | **68,159** | **74,537** |
| | | | |
| **Equity and liabilities** | | | |
| Savings | 11 | 35,666 | 33,276 |
| Other amounts due to customers | 12 | 10,542 | 10,628 |
| **Amounts due to customers** | | **46,208** | **43,904** |
| | | | |
| Amounts due to banks | 13 | 2,099 | 7,457 |
| Debt certificates | 14 | 11,252 | 16,439 |
| Derivatives | 4 | 3,266 | 2,670 |
| Deferred tax liabilities | 8 | 287 | 174 |
| Other liabilities | 15 | 1,971 | 1,205 |
| Other provisions | 16 | 55 | 66 |
| Subordinated debts | 17 | 40 | 40 |
| Liabilities held for sale | 18 | 18 | -- |
| **Total other liabilities** | | **18,988** | **28,051** |
| | | | |
| Share capital | | 381 | 381 |
| Other reserves | | 2,431 | 3,553 |
| Retained earnings | | 151 | -1,352 |
| **Shareholders' equity** | | **2,963** | **2,582** |
| Minority interests | | -- | -- |
| **Total equity** | | **2,963** | **2,582** |
| **Total equity and liabilities** | | **68,159** | **74,537** |

1 The references next to the balance sheet items relate to the notes to the consolidated balance sheet.

## Consolidated income statement

| in € millions | Notes[1] | 2014 | 2013 |
|---|---|---|---|
| **Income** | | | |
| Interest income | | 2,081 | 2,230 |
| Interest expense | | 1,057 | 1,273 |
| **Net interest income** | 24 | **1,024** | **957** |
| Fee and commission income | | 95 | 103 |
| Fee and commission expenses | | 51 | 53 |
| **Net fee and commission income** | 25 | **44** | **50** |
| Investment income | 26 | 72 | 38 |
| Result on financial instruments | 27 | -46 | -8 |
| Other operating income | 28 | 5 | 6 |
| **Total income** | | **1,099** | **1,043** |
| **Expenses** | | | |
| Staff costs | 29 | 217 | 189 |
| Depreciation and amortisation of tangible and intangible assets | | 17 | 17 |
| Other operating expenses | 30 | 257 | 316 |
| Impairment charges | 31 | 274 | 224 |
| Other expenses | 32 | 83 | 8 |
| **Total expenses** | | **848** | **754** |
| **Result before taxation** | | **251** | **289** |
| Taxation | 33 | 100 | 105 |
| **Net result continued operations** | | **151** | **184** |
| Net result discontinued operations | | -- | -1,536 |
| **Net result for the period** | | **151** | **-1,352** |
| **Attribution:** | | | |
| Net result attributable to shareholder | | 151 | -1,352 |
| Net result attributable to minority interests | | -- | -- |
| **Net result for the period** | | **151** | **-1,352** |

1 The references next to the income statement items relate to the notes to the consolidated income statement.

# Consolidated statement of comprehensive income

## Other consolidated statement of comprehensive income

| in € millions | 2014 | 2013 |
|---|---|---|
| **Items that will not be reclassified subsequently to profit or loss** | | |
| Other changes in comprehensive income | 1 | -- |
| **Total items never reclassified to profit or loss** | **1** | **--** |
| | | |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Change in cashflow hedgereserve | 31 | -20 |
| Change in fair value reserve | 198 | 16 |
| **Total items that may be reclassified subsequently to profit or loss** | **229** | **-4** |
| **Change in other comprehensive income (after tax)** | **230** | **-4** |

## Total comprehensive income for the period

| in € millions | 2014 | 2013 |
|---|---|---|
| Net result continued operations | 151 | 184 |
| Net result discontinued operations | -- | -1,536 |
| Change in other comprehensive income (after tax) | 230 | -4 |
| **Total comprehensive income** | **381** | **-1,356** |
| | | |
| **Attribution:** | | |
| Total comprehensive income to shareholder | 381 | -1,356 |
| Total comprehensive income to minority interests | -- | -- |
| **Total comprehensive income** | **381** | **-1,356** |

# Consolidated statement of changes in equity

## Consolidated statement of changes in equity 2014

| in € millions | Issued share capital[1] | Share premium reserve | Cashflow hedge reserve | Fair value reserve | Other reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2014 | 381 | 3,787 | 48 | -101 | -181 | -1,352 | 2,582 |
| Transfer of net result 2013 | -- | -- | -- | -- | -1,352 | 1,352 | -- |
| Unrealised revaluations | -- | -- | 31 | 266 | -- | -- | 297 |
| Realised revaluations through profit or loss | -- | -- | -- | -67 | -- | -- | -67 |
| Other movements | -- | -- | -- | -- | 1 | -- | 1 |
| Impairments | -- | -- | -- | -1 | -- | -- | -1 |
| **Amounts charged directly to total equity** | **--** | **--** | **31** | **198** | **1** | **--** | **230** |
| Net result 2014 | -- | -- | -- | -- | -- | 151 | 151 |
| **Total result 2014** | **--** | **--** | **31** | **198** | **-1,351** | **1,503** | **381** |
| Capital injection | -- | -- | -- | -- | -- | -- | -- |
| Conversion subordinated debt | -- | -- | -- | -- | -- | -- | -- |
| **Transactions with shareholder** | **--** | **--** | **--** | **--** | **--** | **--** | **--** |
| **Total changes in equity 2014** | **--** | **--** | **31** | **198** | **-1,351** | **1,503** | **381** |
| **Balance as at 31 December 2014** | **381** | **3,787** | **79** | **97** | **-1,532** | **151** | **2,963** |

1 The issued share capital is fully paid and comprises of 840,008 ordinary shares with a nominal value of € 453.79 per share.

## Statement of revaluation reserve and other reserves 2013

| in € millions | Issued share capital | Share premium reserve | Cashflow hedge reserve | Fair value reserve | Other reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2013 | 381 | 1,186 | 68 | -117 | 538 | -719 | 1,337 |
| Transfer of net result 2012 | -- | -- | -- | -- | -719 | 719 | -- |
| Unrealised revaluations | -- | -- | -20 | 23 | -- | -- | 3 |
| Realised revaluations through profit or loss | -- | -- | -- | -8 | -- | -- | -8 |
| Other movements | -- | -- | -- | -- | -- | -- | -- |
| Impairments | -- | -- | -- | 1 | -- | -- | 1 |
| **Amounts charged directly to total equity** | **--** | **--** | **-20** | **16** | **--** | **--** | **-4** |
| Net result 2013 | -- | -- | -- | -- | -- | -1,352 | -1,352 |
| **Total result 2013** | **--** | **--** | **-20** | **16** | **--** | **-1,352** | **-1,356** |
| Capital injection | -- | 1,900 | -- | -- | -- | -- | 1,900 |
| Conversion subordinated debt | -- | 701 | -- | -- | -- | -- | 701 |
| **Transactions with shareholder** | **--** | **2,601** | **--** | **--** | **--** | **--** | **2,601** |
| **Total changes in equity 2013** | **--** | **2,601** | **-20** | **16** | **-719** | **-633** | **1,245** |
| **Balance as at 31 December 2013** | **381** | **3,787** | **48** | **-101** | **-181** | **-1,352** | **2,582** |

## Consolidated cashflow statement

| in € millions | 2014 | 2013 |
|---|---|---|
| **Cashflow from operating activities** | | |
| Operating profit before tax | 251 | 289 |
| Net result discontinued operations | -- | -1,536 |
| **Adjustments for:** | | |
| Depreciation and amortisation of tangible and intangible assets | 17 | 19 |
| Changes in other provisies and deferred tax | 159 | -61 |
| Impairment charges and reversals | 274 | 1,277 |
| Unrealised results on investments through profit or loss | -54 | -106 |
| Retained share in the result of associates | -- | 725 |
| **Changes in operating assets and liabilities:** | | |
| Change in advances and liabilities to customers | 485[1] | 4,556 |
| Change in advances and liabilities to banks | -1,899 | -560 |
| Change in savings | 2,390 | 461 |
| Change in trading portfolio | -232 | 143 |
| Change in other operating activities | 1,684[2] | -2,879 |
| **Net cashflow from operating activities** | **3,075** | **2,328** |
| | | |
| **Cashflow from investment activities** | | |
| Sale of property and equipment | 7 | 3 |
| Sale of subsidiaries | -- | -107 |
| Sale of investment property | -- | 23 |
| Sale and redemption of investments and derivatives | 2,501 | 2,114 |
| Purchase of intangible assets | -1 | -3 |
| Purchase of property and equipment | -53 | -2 |
| Purchase of investments and derivatives | -3,199 | -2,594 |
| **Net cashflow from investment activities** | **-745** | **-566** |
| | | |
| **Cashflow from finance activities** | | |
| Issue of shares and share premium | -- | 1,900 |
| Issues of debt certificates | 660 | -- |
| Redemption of debt certificates | -6,550 | -5,067 |
| **Net cashflow from financing activities** | **-5,890** | **-3,167** |
| | | |
| **Net decrease of cash and cash equivalents** | **-3,560** | **-1,405** |
| | | |
| Cash and cash equivalents as at 1 January | 5,528 | 6,933 |
| Cash discontinued operations | -- | -107 |
| Change in cash and cash equivalents | -3,560 | -1,298 |
| **Cash and cash equivalents as at 31 December** | **1,968** | **5,528** |
| | | |
| **Additional disclosure with regard to cashflows from operating activities** | | |
| Interest income received | 2,528 | 2,913 |
| Dividends received | 1 | 1 |
| Interest paid | 1,490 | 2,040 |

1 The movement relating to loans and advances, and amounts due, to customers includes a buy-back of a REAAL mortgage portfolio in the amount of € 416 million.

2 SNS Bank is part of the fiscal unity of SNS REAAL. In that capacity, corporate income tax received and paid is settled through the current account and is, therefore, not included separately in the cash flow statement.

Consolidated cashflow discontinued operations

| in € millions | 2014 | 2013 |
|---|---|---|
| **Cash and cash equivalents as at 1 January** | -- | **203** |
| Cashflow from operating activities | -- | -124 |
| Cashflow from investment activities | -- | 28 |
| Cashflow from finance activities | -- | -- |
| Cash discontinued operations | -- | -107 |
| **Cash and cash equivalents discontinued operations as at 31 December** | **--** | **--** |

The consolidated cashflow for discontinued operations for 2013 is fully related to Propertize (Property Finance).

# Notes to the consolidated financial statements

## Accounting principles for the consolidated financial statements

### General information

SNS Bank N.V. (referred to as '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. SNS REAAL N.V. is the parent company of SNS Bank (referred to as 'SNS REAAL').

Shares of SNS Bank are fully held by SNS REAAL.

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

*Adoption of the financial statements*

The consolidated financial statements of SNS Bank for the year ended on 31 December 2014 were authorised for publication by the Executive Board following their approval by the Supervisory Board on 15 April 2015. The financial statements will be submitted to the General Meeting of Shareholders for adoption.

Based on the articles of association of SNS REAAL, the adoption of the (consolidated) annual financial statements of SNS Bank by the Executive Board of SNS REAAL requires prior approval from the General Meeting of Shareholders of SNS REAAL (NLFI).

### Basis of preparation

*Statement of IFRS compliance*

SNS Bank prepares the annual accounts in accordance with International Financial Reporting Standards (IFRS), as adopted within the European Union. Pursuant to the option offered under Book 2, Title 9 of the Dutch Civil Code, SNS Bank prepares its company financial statements in accordance with the same accounting principles as those used for the consolidated financial statements (see also section Principles for the preparation of the company financial statements for the application of section 2:402 of the Netherlands Civil Code).

To combine disclosures where possible and to reduce duplication, we have integrated the IFRS 7 Risk disclosures of financial instruments into our Managing Board report. These are disclosed in chapter 5 Risk, Capital & Liquidity management on pages 56 to 109. These disclosures are an integral part of the Consolidated Annual Financial Statements and are covered by the audit of our external auditor

*Changes in published Standards and Interpretations effective in 2014*

New or amended standards become effective on the date specified in the relevant IFRS, but may allow early adoption. In 2014, the following standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) respectively, became mandatory, and are adopted by the European Union. Unless stated otherwise, the changes will have no material effect on the consolidated financial statements of SNS Bank.

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in Other Entities
- IAS 27 Separate Financial Statements (revised 2011)
- IAS 28 Investments in Associated and Joint Ventures (revised 2011)
- Amendments to IFRS 10, IFRS 12 and IAS 27 - “Investment Entities”
- Amendment to IAS 32 Financial Instruments: Presentation – “Offsetting Financial Assets and Liabilities”
- Amendment to IAS 36 Impairment of Assets - “Recoverable Amount Disclosures for Non-Financial Assets”
- Amendment to IAS 39 - “Novation of Derivatives and Continuation of Hedge Accounting”
- IFRIC 21 Levies

Notes to the main changes:

**IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements'. IFRS 12 ‘Disclosure of Interest in Other Entities’, IAS 27 ‘Separate Financial Statements’, IAS 28 ’Investment in Associates and Joint Ventures’**
IFRS 10 “Consolidated Financial Statements” supersedes IAS 27 “Consolidated and Seperate Financial Statements” and SIC-12 “Consolidation – Special Purpose Entities”. IFRS 10 provides a new single control model to determine which entities are controlled and need to be consolidated in the consolidated financial statements of the reporting entity. Control of entity requires the reporting entity to possess all three essential elements:
- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor’s returns.

IFRS 11 “Joint Arrangements” supersedes IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities – Non-Monetary Contributions by venturers”. IFRS 11 requires a party to a joint arrangement to classify the type of joint of joint arrangement it is involved in based on the rights and obligations arising from contractual arrangements. The classification of a joint arrangement dictates the accounting under this arrangement. IFRS 11 distinguishes the following classifications:
- Joint operations: the parties with joint control have rights to the assets and obligations for the liabilities of the arrangement (proportionate consolidation)
- Joint ventures: the parties with joint control have rights to the net assets of the arrangement (equity method).

IFRS 12 “Disclosures of Interests in Other Entities” requires additional disclosures which enables the user of financial statements to understand the nature of, and risks associated with, interests in other entities and the effect of those interests on financial position, financial performance and cashflows. Significant judgements and assumptions and regarding whether an entity has control (and changes thereto) are disclosed as well.

IAS 27 “Seperate Financial Statements” is currently limited to the company financial statements since consolidation requirements under IAS 27 are now superseded by IFRS 10.

IAS 28 “Investments in Associated and Joint ventures” has been changed, the equity method is now applicable to both minority interests and joint ventures, and is applicable in combination with IFRS 12.

SNS Bank assessed the impact of the amendments on the consolidated financial statements and determined that the amendments of standards has not resulted in significant changes in consolidation of investees and presentation and disclosure.

**Amendment to IAS 32 Financial Instruments: Presentation – “Offsetting financial assets and financial liabilities”**
This amendment clarifies the circumstances in which financial assets and financial liabilities should be offset. A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity: i) currently has a legally enforceable right to set off the recognised amounts; and ii) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. A legally enforceable right to set off arises when:
- it is not contingent on a future event;
- it is legally enforceable in the normal course of business, the event of default, and the event of insolvency or bankruptcy of the entity and all of the counterparties.

SNS Bank has verified that this amendment does not impact the presentation and disclosure of financial instruments in the financial statements.

**IFRIC 21 Levies**
This interpretation provides further guidance on the accounting for government imposed levies by the entity that is paying the levy. A levy is an outflow of resources embodying economic benefits that is imposed by governments (local, national or international) on entities in accordance with legislation, but other than those outflows that are within the scope of other standards such as income taxes that are within the scope of IAS 12 Income Taxes and fines or other penalties that are

imposed for breaches of the legislation. Among others, IFRIC 21 provides guidance on when and in which circumstances a liability to pay a levy should be recognised. The decisive activity that triggers the payment of the levy is the "obligating event" that gives rise to a liability to pay a levy, as identified by the legislation.

SNS Bank has verified that this new interpretation does not impact the financial statements regarding the accounting of levies.

### *Interpretations of existing standards or amendments to standards, not yet effective in 2014*

The following new standards, amendments to existing standards and interpretations, published prior to 1 January 2015 and effective for accounting periods beginning on or after 1 January 2015 were not early adopted by SNS Bank NV.

- IFRS 9 Financial Instruments
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15 Revenue from contracts with Customers
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate of Joint Venture
- Amendments to IAS 27 Equity Method in Separate Financial Statements
- Amendments to IFRS 11: Accounting for Acquisition of Interests in Joint Operations
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41: Bearer Plants
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Improvements to IFRSs 2012
- Improvements to IFRSs 2013
- Improvements to IFRSs 2014

Notes to the main changes:

#### IFRS 9 Financial Instruments

TThe first adoption date is set by the IASB for annual periods beginning on or after 1 January 2018. This new standard will replace the current standard IAS 39 and is subdivided into three phases: Classification and Measurement, Impairments and Hedge Accounting. The purpose of the new standard is to align the accounting of financial instruments in the financial statements with the business and risk management model of the reporting entity. The new standard is not yet endorsed by the EU, hence early adoption by SNS Bank is not possible. It is expected that the standard will have a significant effect on the classification and measurement of financial instruments, impairments and the application of hedge accounting.

#### IFRS 15 Revenue from Contracts with Customers

IFRS 15 introduces a new method for revenue recognition in which an entity allocates revenues to parts of contracts and related rendering of goods and services. Main principle is that an entity recognizes revenues based on what the expected receipts will be for the rendered goods and services. In order to apply this principle the following steps are required:

1. identify contracts with clients;
2. identify and differentiate contractual obligations;
3. determine the price of the transaction;
4. allocate the price of the contract to the identified obligations;
5. recognize revenue if contractual obligations are met and risk and rewards are transferred to the client.

SNS Bank does not expect IFRS 15 to have a significant impact on the financial statements.

### *Changes in principles, estimates and presentation*

**Changes in estimates**

#### Changed method of determination of fair value of mortgages

The valuation model for determining the fair value of the mortgage portfolio was redeveloped in 2014 and differs from the model applied last year. A decision was taken to redevelop because the previous model was no longer consistent with valuation methods that are presently in general use for such instruments.

The market value of mortgages is determined based on a discounted cashflow method. The yield curve used to determine the present value of expected cash flows of mortgage loans is the average of the five lowest mortgage rates in the market, adjusted for interest rates that are considered not to be representative (‘teaser rates’). These rates may differ for each sub-portfolio due to differences in maturity, advance funding class and form of repayment. In determining the expected cash flows, any expected future early redemptions are taken into account.

This valuation model is applied to both the mortgages measured at fair value in the balance sheet and the other mortgages for which the fair value is disclosed. The majority of mortgages measured at fair value concerns a portfolio of securitised mortgages. The fair values of these mortgages must be considered in relation to those of the corresponding derivatives and bonds. The fair values of the mortgages, as described in the previous section, swaps and bonds are calculated by discounting them with current customer interest rates, the swap curve and the swap curve plus a surcharge, respectively.

As at 31 December 2014, the impact on the result was a € 10 million charge due to the introduction of the new model.

#### Loss Identification Period

In comparison to prior year, SNS Bank has prolonged the loss identification period for the retail mortgage portfolio that is applied to determine the provision for incurred losses at balance sheet date. This change in estimate has resulted in an increase of the provision in the current year of 23 million. The resulting change in provision has been recorded in the income statement as additional impairment charges.

**Changes in presentation**

As at 31 December 2014, all criteria were met to classify the assets and liabilities of SNS Securities as "held for sale" under IFRS 5. SNS Securities' activities do not meet the definition of 'discontinued operations' and as such there is no change in the presentation of the results of SNS Securities in the income statement.

## Accounting principles for the consolidated 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.

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

In preparing the financial statements, the accounting principles ‘fair value’, ‘amortised cost’ and ‘historical cost’ are used.

Fair value is used for:

- land and buildings in own use;
- part of the loans and advances to customers;
- investments classified at fair value through profit or loss;
- investments classified as available for sale;
- derivatives;
- part of the debt certificates.

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 is part of a fair value hedge accounting relationship 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 cashflow information, the financial statements have been prepared on an accrual basis.

### *Functional currency and reporting currency*

The consolidated financial statements have been prepared in millions of euros (€). The euro is the functional and reporting currency of SNS Bank. All financial data presented in euros are rounded to the nearest million, unless stated otherwise. Counts are based on unrounded figures. Their sum may differ from the sum of the rounded figures.

The applied principles for conversion of transactions and translation of balance sheet items denominated in foreign currencies are further described in section 'Foreign currencies'.

## Main accounting principles, estimates and assumptions

**General**

The preparation of the consolidated financial statements requires SNS Bank to make estimations and assumptions based on complex and subjective opinions and best 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 the estimates are made to the best of the management's knowledge, actual results may differ from these estimates and the use of other propositions or data can lead to materially different results.

Estimations and underlying assumptions are reviewed on a regular basis. The resulting impact 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 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 sections and the notes to the financial statements items.

### *The use of estimates and assumptions in the preparation of the financial statements*

Valuation of certain balance sheet items are highly dependent on the use of estimations and assumptions. Further disclosure is made on the use of estimations and assumptions in the specified accounting principles of these balance sheet items. The use of estimations and assumptions regarding fair valuations of financial instruments, for balance sheet items and disclosures as well, are further described in section 'Fair value of financial assets and liabilities'.

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

The fair value of financial assets and liabilities is determined on the basis of quoted list prices where available. Such quoted list prices are primarily derived from transaction prices for listed instruments. If transaction prices are not available, market prices from independent market participants or other experts are used. SNS Bank applies a transfer price when determining fair value, therefore financial assets are initially recognised at their bid prices and financial liabilities at their offer prices.

In markets where activity has decreased or in inactive markets, the range of prices from different sources can be significant for a certain investment. Selecting the most appropriate price requires judgement. Available market information on fair value of the instrument is taken into account.

For certain financial assets and liabilities, no market price is available. The fair value of these financial assets and liabilities is determined using valuation techniques, which may vary from discounted cashflow calculation to valuation models that use accepted economic methodologies. Input into the models is as far as possible based on observable market information. All valuation methods used are assessed and approved in-house according to SNS Bank governance procedures.

## Accounting principles used for consolidation

### *Subsidiaries*

Subsidiaries, i.e. all companies and other entities (including special purpose entities) which are controlled by SNS Bank, are consolidated. Control over companies and entities is assumed if SNS Bank possesses all three essential elements:

- power over a company or entity by means of existing rights that give the current ability to direct the relevant activities of the company or entity;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

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

### *Associated companies and joint ventures*

Investments in associated companies (associates) are entities in which SNS Bank generally has between 20% and 50% of the voting rights, or over which SNS Bank can exercise significant influence on the operational and financial policies, but in which it has no control.

Joint ventures are entities over which SNS Bank NV has joint control, which arises from joint arrangements, and strategic decisions on the financial and operational policies are taken unanimously.

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

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

Under the equity method, SNS Bank's share in the result of associates and joint ventures is recognised in the income statement under 'share in the result of associates'. SNS Bank's share 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 depreciates to zero, no further losses are accounted for, unless SNS Bank has entered into commitments, made payments on its behalf or acts as a guarantor.

### *Elimination of group transactions*

Intra-group transactions, intra-group balances and unrealised gains and losses arising from intra-group transactions are eliminated in the preparation of the consolidated financial statements.

Unrealised gains on transactions between SNS Bank and its associates and joint ventures are eliminated to the extent of SNS Bank's interest in these investments.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### *Foreign currencies*

Upon initial recognition, transactions in foreign currencies are converted into euros against the exchange rate at the transaction date. Monetary balance sheet items denominated in foreign currencies are translated into euros at the exchange rate applicable on the reporting date. Exchange rate differences from these transactions and from converting monetary balance sheet items expressed in foreign currencies 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.

### Accounting based on transaction date and settlement date

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

### Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is 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. There is an enforceable right to set off provided: it is not dependent on a future event and is legally enforceable under normal circumstances as well as in bankruptcy. If these conditions are not met, amounts will not be offset.

### Discontinued operations or assets held for sale

Assets and liabilities that are part of discontinued operations and assets held for sale, of which it is highly probable that, on balance sheet date the discontinuation or sale is within twelve months, are recognised at the lower of the book value or fair value less expected costs to sell.

Financial instruments held for sale follow the measurement of the instrument in accordance with IAS 39.

## Specific balance sheet principles

### *Intangible assets*

**Goodwill**

Acquisitions are accounted for according to the purchase method, with the cost of the acquisitions being allocated to the fair value of the acquired identifiable assets, liabilities and contingent liabilities. Goodwill, being the difference between the cost of the acquisition and SNS Bank's interest in the fair value of the acquired identifiable assets, liabilities and contingent liabilities on the acquisition date, is capitalised as an intangible asset. Any negative goodwill is recognised directly in the income statement.

Any change, in the fair value of acquired assets and liabilities at the acquisition date, determined within one year after acquisition, is recognised as an adjustment charged to goodwill in case of a preliminary valuation. 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 to the extent that these are not already included in the purchase price, are included in the purchase price of the acquisition at the time 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 section 'Impairment charges of intangible assets and investments in financial instruments').

**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 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 software are included as an expense in the period during which they are incurred.

The capitalised development costs for 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.

**Other intangible assets**

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

**Impairments of intangible assets**

Intangible assets

An intangible 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; and
- 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.

Brand names are tested for impairment once every year. The recoverable value is determined by a value-in-use calculation. The key assumptions used herein are the discount rate and the use of the brand name which defined by the royalty rate.

### Reversal of impairments on intangible assets
Except for goodwill, impairment losses on intangible assets are reversed if there is proof that a change in 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.

## Property and equipment
**Land and buildings in own use**
Property in own use mainly comprises offices (land and buildings) and is measured at fair value (revaluation model) based yearly valuations, performed by external, independent valuators with sufficient profession expertise and experience in the specific location and categories of properties.

Property in own use is valued at fair value on an unlet or (partially) let basis, depending on the situation. The purpose of a valuation is to determine the value for which the asset would be transferred between willing parties in a transaction at arm's length. The capitalisation method is used to determine this value. This method uses an expected starting result and the market rental value to determine the fair value of an asset. The determination of the result on property in own use is also dependent on lease incentives, discount rates and expected vacancy, but also location, quality, age and liquidity of the concerning property.

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. The revaluation reserve cannot be negative. 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' at the moment the expenses incur. 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, within equity, is transferred to 'other reserves'.

**IT equipment and other assets**
All other 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 assets 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 3 to 10 years.

Periodic impairment tests are performed on the other 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’ at the moment the expenses incur. 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 property and equipment 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’.

### *Financial instruments*

SNS Bank classifies its financial instruments in one of the following categories: (1) at fair value through profit or loss, (2) loans and receivables and (3) available for sale. The category depends on the purpose for which the financial assets are acquired. 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 categories are explained in more detail in the following section.

**Investments**

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 is designated as such upon initial recognition ('designated'). Investments are only designated as valued at fair value through profit or loss if:

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

The investments are recognised at fair value . realised and unrealised gains and losses are recognised directly in the income staement under 'Investment income'.

Interest income earned on securities is recognised as interest income under the 'Interest income'. Dividend received is recorded under 'Investment income'.

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.

Interest income earned on securities is recognised as interest income under ‘Interest income’. Dividend received is recorded under 'Investment income'.

Impairment of investments

Each reporting date, SNS Bank 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 difficulties at the counterparty, declining 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.

### Investments in equity instruments

An investment in equity instruments (an investment in shares) 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 at least 5% 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:

- the price of the most recent transaction as an indication;
- current fair values of other, similar investments (in entities);
- 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 instruments

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively 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 equity securities, where an increase in value is always recognised through shareholders' equity.

## Derivatives

### General

Derivatives are recognised 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.

Changes in the fair value of derivatives that do not qualify for cash flowhedge 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 through profit or loss.

### Hedge accounting

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

1. a hedge of the risk of changes in the fair value of a recognised asset or liability or firm commitment (fair value hedge); or

2. a hedge of the possible variability of future cashflows that can be attributed to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cashflow hedge).

Hedge accounting is applied for derivatives designated as such and are in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

A hedge relationship is considered to be effective if SNS Bank, at the inception of and during the term, can expect that adjustments in the fair value or cashflows of the hedged item will be almost fully offset by adjustments in the fair value or cashflows of the hedging instrument, insofar as they are attributable to the hedged risk, and the actual results remain within a bandwidth of 80% to 125% of the expected outcome.

SNS Bank ceases the hedge 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; when the derivative expires, is sold or terminated; 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 fair value movements of recognised assets or of a firm commitments, are stated as fair value hedges. Changes in the fair value of the derivatives that are designated as a hedging instrument 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 item.

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

#### Cashflow hedge accounting

Derivatives can be designated to hedge the risk of variability of future cashflows 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 cashflow hedge and that meet the conditions for cashflow hedge accounting are stated in the cashflow hedge reserve as a separate component of shareholders’ equity. The portion of the gain or loss on the hedging instrument that is considered to be the ineffective portion is recognised in the income statement. The underlying measurement of the hedged item, which is designated as part of a cashflow hedge, does not change.

If the forecast transaction leads to the recognition of an asset or a liability, the accumulated gains and losses that were previously taken to the cashflow 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.

If the hedging instrument itself expires or is sold or terminated, or no longer meets the conditions for hedge accounting, the accumulated result that was included in the cashflow hedge reserve fully remains in the cashflow hedge reserve in other comprehensive income (OCI) until the expected transaction occurs.

If the hedged transaction is no longer expected to occur, the accumulated result reported in OCI is directly recycled to the income statement.

### *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 cashflows under the new terms and conditions deviates from the net present value of the cashflows under the current terms and conditions, this is considered an indication for an impairment test.

A number of securitised mortgages with mortgage collateral, mortgages to be securitised and related derivative 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. Further details of these mortgages are provided in the notes.

#### 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.

#### Provisions for loans and advances to 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 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 cashflows, including the amounts realised by virtue of guarantees and collateral, discounted at the initial effective interest rate of the loans and advances.

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

The provision for impairment also covers losses where there are objective indications of losses likely to be incurred in the loan portfolio (IBNR: incurred but not reported). Losses of mortgages and mortgage-backed property finance 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.

### 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.

### Cash and cash equivalents

Cash and cash equivalents include the non-restricted and restricted demand deposits with the Dutch Central Bank (DNB), 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 NV 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 impairments.

## Taxes

**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.

**Deferred tax assets and liabilities**

Deferred tax assets and liabilities are recognised for tax losses carried forward 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. Deferred taxes are recognised 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 will end and if it is likely that these differences will not end 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 income will 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 derivative 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 of the acquired net assets 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 revaluations.

## Other assets

Other assets consist of taxes (including VAT, payroll tax), other receivables and accrued assets. The net amount of advances and provisions in relation to the Deposit Guarantee Scheme (DSG) 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 counterparty regarding derivative positions

## Equity

**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 net of tax are deducted from the share issue income.

**Dividend ordinary shares**

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

**Revaluation reserve**

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

**Cashflow hedge reserve**

The cashflow hedge reserve consists of the effective part of cumulative changes to the fair value of the derivative designated in the context of the application of cashflow hedge accounting, net of taxes, provided the hedged transaction has not yet occurred; see section 'Hedge accounting'.

**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 recorded in the fair value reserve, net of taxes. If the particular assets are sold, settled or become due to other reasons, the assets are no longer recognised, the corresponding cumulative result will be transferred from the fair value reserve to the income statement (see section 'Investments'). In addition, exchange rate differences on non-monetary financial assets that are classified as available for sale are recorded in this reserve.

**Other reserves**
Other reserves mainly comprise SNS Bank ’s retained profits.

### Subordinated debt
The subordinated debt of SNS Bank has been included in the expropriation ruling of the Dutch State. In 2013, the subordinated bonds are contributed into SNS Bank for share premium. Subsequently, these subordinated bonds were terminated pursuant to amalgamation. The titles to the subordinated loans are expropriated in favour of Stichting AOS. The extinguishment of the subordinated loans has been accounted for in the income statement.

### Debt certifcates
Outstanding debt certificates are measured at fair value upon initial recognition, meaning, the issue income (the fair value of the received payment) net of the transaction costs incurred. Subsequently, these are measured at amortised cost, using the effective interest method.

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

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

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

**Restructuring provision**
The restructuring provision is a specific provision that consists of anticipated severance payments and other costs that are directly related to restructuring programmes. These costs are accounted for in the period in which a legally enforceable or actual obligation to make the payment arises. No provision is formed for costs or future operating losses stemming from continuing operations.

SNS Bank recognises severance payments if SNS Bank has demonstrably committed itself, either through a constructive or legally enforceable obligation, to:
- 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.

**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.

## Financial liabilities

**Derivatives**

See section 'Derivatives'.

**Savings, other amounts due to customers and amounts due to banks**

Savings consist 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, cash and mortgage deposits.

Amounts due to banks comprise unsubordinated debts to credit institutions. Bonds issued to or held by 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.

## 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 amounts due to the clearing counterparty regarding derivative positions.

## Specific income statement accounting principles

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

A number of SNS REAAL's corporate staff departments are shared. The costs of the corporate staff departments are charged to SNS Bank by SNS REAAL. The costs of the financial holding, including the costs of the Executive Board, the costs of the strategic reorientation of SNS REAAL and the resulting incidental costs are not allocated.

### *Segment reporting*

In the internal reports used by the Managing Board to allocate resources and monitor performance targets, SNS Bank is regarded as one single operating segment.

### *Income*

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

**Interest income**

The interest income comprises interest on monetary financial assets of the banking activities 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 cashflows, 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 cashflows 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 providing 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 cashflows.

**Interest expenses**

Interest expenses comprise the interest expenses arising from financial liabilities. Interest on financial liabilities which are valued at fair value through profit or loss are 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.

**Fee and commission income**

Fee and commission income include income from securities transactions of 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.

**Fee and commission expenses**

Commission expenses and management fees are accounted for as 'fee and commission expense' to the extent that services are acquired.

**Share in the result of associates**
Here the share of SNS Bank in the results of its associates is 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.

**Investment income**
Investment income consists of interest, dividend, rental income and revaluations.

Interest
The item interest comprises the interest income from investments.

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
Under revaluations, realised and unrealised increases and decreases in the value of investments in the category fair value through profit or loss are recognised. 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.

**Result on financial instruments**
The result on derivative 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 designated as an hedging instrument, 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 cashflow 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 at initial recognition and subsequent measurement, with value adjustments taken in the income statement.
In addition, buy-back results on own funding paper and results from the sale of full loans are accounted for under this item.

**Other operating income**
This comprises all the income that cannot be accounted for under the aforementioned line items of the income statement.

*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 do not generate any future economic benefits.

**Impairment charges**
This item includes downward revaluations of assets for which the book value exceeds the recoverable value. Intangible assets, property and equipment, associated companies, investments, property projects, receivables and other assets may

be subject to impairment. As soon as impairment is identified, it is included in the income statement. The specific principles for impairment are explained in more detail in section specific balance sheet principles under the applicable items.

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

**Depreciation and amortisation of fixed assets**
This item comprises all depreciation and amortisation of property and equipment and intangible assets. The specific principles for depreciation and amortisation are explained in more detail in section specific balance sheet principles under the applicable items.

**Other operating expenses**
This includes office, accommodation and other operating costs.

Lease
The lease agreements that SNS Bank NV 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.

**Other expenses**
Other expenses comprises all the expenses that cannot be accounted for under other headings in the income statement. These expenses have no direct relation with the primary and secondary business operations, happen occasionally, and occur in a single financial year, or arise in a single financial year, and are amortised over multiple financial years.

### 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.

### Cashflow statement
The cashflow statement is prepared according to the indirect method, and distinguishes between cashflows from operational, investment and financing activities. Cashflows in foreign currency are converted at the exchange rate applicable on the transaction date. With regard to cashflow 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 subsidiaries and associates are stated under cashflow from investing activities. The cash and cash equivalents available at the acquisition date are deducted from the purchase price.

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

## Acquisitions and disposals
In 2014 there are no material acquisitions or disposals.

## 1 Cash and Cash equivalents

### Specification cash and cash equivalents

| in € millions | 2014 | 2013 |
|---|---|---|
| Non-restricted demand deposits at Dutch Central Bank | 860 | 3,354 |
| Restricted demand deposits at Dutch Central Bank | -- | 1,000 |
| Short-term bank balances | 1,051 | 1,090 |
| Cash | 57 | 84 |
| **Total** | 1,968 | 5,528 |

Restricted demand deposits at the Dutch Central Bank are not available for use in SNS Bank NV's day-to-day operations and have a remaining maturity of less than one month. The decrease of demand deposits at the Dutch Central Bank relates to a redemption of the loan of the ESCB (LTRO).

At year-end 2014 the cash and cash equivalents of SNS Securities were classified as assets held for sale for an amount of € 14 million

## 2 Loans and advances to banks

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

In 2014 Propertize fully repaid its loan for an amount of € 4.1 billion.

Part of the loans and advances to banks was provided as collateral to third parties. The book value of the collateral is € 1.1 billion (2013: € 1.1 billion).

## 3 Loans and advances to customers

### Specification loans and advances to customers

| | Loans | | Provisions | | Net amount | |
|---|---|---|---|---|---|---|
| in € millions | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Mortgages Retail | 46,556 | 47,316 | -326 | -306 | 46,230 | 47,010 |
| Other Retail | 268 | 293 | -55 | -47 | 213 | 246 |
| SME | 1,164 | 1,249 | -129 | -100 | 1,035 | 1,149 |
| Other | 5,356 | 5,000 | -- | -- | 5,356 | 5,000 |
| **Total** | **53,344** | **53,858** | **-510** | **-453** | **52,834** | **53,405** |

SNS Bank NV has securitised a part of the mortgage loans. The remaining principal of the securitised portfolio amounts to € 21.0 billion (2013: € 23.0 billion), of which € 9.0 billion (2013: € 10.6 billion) is on own book . Further information on securitisation transactions is provided under debt certificates.

An amount of € 18.1 billion (2013: € 18.7 billion) of the mortgage loans has been provided as collateral to third parties under the Hermes, Pearl, Holland Homes securitisation programmes and issued Covered Bonds. The underlying obligations were sold to third parties. The collateralisations took place under normal market conditions.

Loans and advances include a loan to REAAL of € 250 million. The valuation of this loan depends on the intended acquisition of REAAL by Anbang.

### Statement of changes in loans and advances to customers 2014 (gross)

| in € millions | Mortgages Retail | Other | SME | Total |
|---|---|---|---|---|
| Balance as at 1 January | 47,316 | 5,293 | 1,249 | 53,858 |
| Purchases | 416 | -- | -- | 416 |
| Advances | 2,026 | 291 | -- | 2,317 |
| Redemptions | -3,365 | -228 | -92 | -3,685 |
| Disposals | -- | -- | -- | -- |
| Change in fair value as a result of hedge accounting | 36 | -- | -- | 36 |
| Change in mortgage loans at fair value through profit or loss | 105 | -- | -- | 105 |
| Movement in current accounts | -- | 277 | 7 | 284 |
| Other movements | 22 | -2 | -- | 20 |
| Transfer assets held for sale | -- | -7 | -- | -7 |
| **Balance as at 31 December** | **46,556** | **5,624** | **1,164** | **53,344** |

In 2014, SNS Bank bought back a mortgage loan portfolio from SRLEV for an amount of € 416 million.

Movement in current accounts of € 284 million (2013: € 52 million) relates to short-term exposures.

### Statement of changes in loans and advances to customers 2013 (gross)

| in € millions | Mortgages Retail | Other | SME | Total |
|---|---|---|---|---|
| Balance as at 1 January | 49,559 | 4,556 | 1,511 | 55,626 |
| Purchases | -- | -- | -- | -- |
| Advances | 1,428 | 882 | -- | 2,310 |
| Redemptions | -3,535 | -98 | -248 | -3,881 |
| Disposals | 121 | -- | -- | 121 |
| Change in fair value as a result of hedge accounting | -313 | -- | -- | -313 |
| Change in mortgage loans at fair value through profit or loss | 59 | -- | -- | 59 |
| Movement in current accounts | -- | 66 | -14 | 52 |
| Other movements | -3 | -3 | -- | -6 |
| Transfer assets held for sale | -- | -110 | -- | -110 |
| **Balance as at 31 December** | **47,316** | **5,293** | **1,249** | **53,858** |

In 2009, SNS Bank purchased a part of the mortgages from REAAL, which it held for trading and measured at fair value in REAAL's balance sheet at that time. Management changed the intention to hold these mortgages for trading purposes and decided to hold them for the foreseeable future or until maturity. In this respect, SNS Bank used the reclassification option under IAS 39.50D in 2009, reclassifying an amount of € 680 million in mortgages from the fair value through profit or loss category to loans and receivables. As a result of sales and redemptions, this portfolio had a value of € 538 million as at 31 December 2014 (2013: € 576 million; 2012: € 604 million; 2011: € 628 million; 2010: € 649 million; 2009: € 674 million). The fair value change of the portfolios was marginal and would not have significantly affected results. At the moment of reclassification, the weighted average effective interest rate of the reclassified mortgages was 5.2%. The expected recoverable cash flows amounted to € 700 million for the portfolio at the time of reclassification in 2009.

### Statement of changes in specific provision loans and advances to customers

| | Mortgages Retail | | Other Retail | | SME | | Total | |
|---|---|---|---|---|---|---|---|---|
| **in € millions** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Balance as at 1 January | 265 | 199 | 46 | 51 | 94 | 134 | 405 | 384 |
| Reclassifications | -- | -29 | -- | -- | -- | -- | -- | -29 |
| Foreclosures | -- | -- | -- | -- | -- | -- | -- | -- |
| Withdrawals | -102 | -80 | -7 | -9 | -15 | -25 | -124 | -114 |
| Additions | 162 | 209 | 15 | 5 | 59 | 54 | 236 | 268 |
| Releases | -35 | -34 | -1 | -1 | -15 | -22 | -51 | -57 |
| Other movements | -24 | -- | -- | -- | -- | -- | -24 | -- |
| Change in estimate | -- | -- | -- | -- | -- | -- | -- | -- |
| Transfer assets held for sale | -- | -- | -1 | -- | -- | -47 | -1 | -47 |
| **Balance as at 31 December** | **266** | **265** | **52** | **46** | **123** | **94** | **441** | **405** |

In previous financial reporting periods the collective provision for non-default loans was recognised within the specific provision. As of this financial reporting period this provision is presented under the IBNR provision. Comparative figures have been adjusted accordingly.

In 2014 SNS Bank changed the discounting method of the impaired portfolio for which impairment charges were applied. Following this change, the effective interest rate on provisioned loans is presented as interest income in the income statement. This is included in the statement of changes in provisions under other movements for € 27 million. A corresponding change in the provision on outstanding interest of provisioned loans in the amount of € 26 million is presented under additions and withdrawals. As a result of this adjustment there is a limited net impact on the level of the provision and the result for the current year. SNS Bank also acquired a mortgage portfolio for which € 3 million has been added to the specific provision for loans and advances to customers. This amount is accounted for as other movements.

### Statement of changes in IBNR provision loans and advances to customers

| | Mortgages Retail | | Other retail | | SME | | Total | |
|---|---|---|---|---|---|---|---|---|
| **in € millions** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Balance as at 1 January | 41 | 15 | 1 | 1 | 6 | 1 | 48 | 17 |
| Reclassifications | -- | 29 | -- | -- | -- | -- | -- | 29 |
| Withdrawals | -- | -- | -- | -- | -- | -- | -- | -- |
| Additions | 17 | 17 | 2 | -- | -- | 5 | 19 | 22 |
| Releases | -21 | -20 | -- | -- | -- | -- | -21 | -20 |
| Other movements | -- | -- | -- | -- | -- | -- | -- | -- |
| Change in estimate | 23 | -- | -- | -- | -- | -- | 23 | -- |
| Transfer assets held for sale | -- | -- | -- | -- | -- | -- | -- | -- |
| **Balance as at 31 December** | **60** | **41** | **3** | **1** | **6** | **6** | **69** | **48** |

As a result of the AQR, SNS Bank has extended the Loss Identification Period (LIP) for the retail mortgage portfolio compared to last year. The LIP is applied to determine the provision for incurred but not yet identified losses at balance sheet date. This change in estimate has resulted in an increase of the provision of € 23 million in 2014. The resulting change in provision has been recorded in the income statement as an additional impairment charge.

## 4 Derivatives

### Specification derivatives

| | Positive value | | Negative value | | Balance | |
|---|---|---|---|---|---|---|
| **in € millions** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Derivatives held for cashflow hedge accounting | 141 | 88 | 13 | 4 | 128 | 84 |
| Derivatives held for fair value hedge accounting | 1,992 | 1,725 | 2,382 | 1,792 | -390 | -67 |
| Derivatives held for asset and liability management that do not qualify for hedge accounting | 391 | 512 | 687 | 730 | -296 | -218 |
| Derivatives held for trading | 178 | 159 | 184 | 144 | -6 | 15 |
| Total | **2,702** | **2,484** | **3,266** | **2,670** | **-564** | **-186** |

Most derivatives are held to hedge against undesired markets risks. This is explained in note 21 Hedging and hedge accounting.

### Statement of changes in derivatives

| in € millions | 2014 | 2013 |
|---|---|---|
| Balance as at 1 January | -186 | 61 |
| Disposals | -52 | -97 |
| Revaluations | -337 | -107 |
| Exchange rate differences | 11 | -43 |
| **Balance as at 31 December** | **-564** | **-186** |

## 5 Investments

### Investments: overview

| in € millions | 2014 | 2013 |
|---|---|---|
| Fair value through profit or loss (held for trading) | 817 | 713 |
| Available for sale | 6,184 | 4944 |
| **Total** | **7,001** | **5,657** |

### Fair value through profit or loss: listing

| | Held for trading | | | | Designated | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Equity and similar investments | | Fixed income investments | | Equity and similar investments | | Fixed income investments | | Total | |
| **in € millions** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Listed | 1 | 2 | 816 | 711 | -- | -- | -- | -- | 817 | 713 |
| Unlisted | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| **Total** | **1** | **2** | **816** | **711** | **--** | **--** | **--** | **--** | **817** | **713** |

### Fair value through profit or loss: statement of changes

| | Held for trading | | | | Designated | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Equity and similar investments | | Fixed income investments | | Equity and similar investments | | Fixed income investments | | Total | |
| **in € millions** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Balance as at 1 January | 2 | 1 | 711 | 847 | -- | -- | -- | 103 | 713 | 951 |
| Reclassifications | -- | -- | -8 | -- | -- | -- | -- | -- | -8 | -- |
| Disposals and redemptions | -- | -- | -- | -- | -- | -- | -- | -103 | -- | -103 |
| Revaluations | -- | -- | 5 | 13 | -- | -- | -- | -- | 5 | 13 |
| Change in investments held for trading[1] | -- | 1 | 232 | -144 | -- | -- | -- | -- | 232 | -143 |
| Transfer to assets held for sale | -1 | -- | -124 | -- | -- | -- | -- | -- | -125 | -- |
| Other | -- | -- | -- | -5 | -- | -- | -- | -- | -- | -5 |
| **Balance as at 31 December** | **1** | **2** | **816** | **711** | **--** | **--** | **--** | **--** | **817** | **713** |

1 Purchases and disposals in the trading portfolio are reported as net amount under the line item “change in investments held for trading".

As a consequence of the volatilility in financial markets SNS decided in October 2008 to reclassify part of the investments worth € 590 million in the fair value through profit or loss held for trading category into the available for sale category. As from 31 December 2014, this portfolio decreased to nil (2013: €4 million; 2012: € 27 million; 2011: € 52 million; 2010: € 220 million; 2009: € 341 million; 2008: € 562 million) as a result of disposals and revaluations. The change in fair value over the year 2014 amounted nil (2013: € 0.5 million positive; 2012: € 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.

### Available for sale: listing

| | Equity and similar investments | | Fixed income investments | | Total | |
|---|---|---|---|---|---|---|
| **in € millions** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Listed | -- | 1 | 6,174 | 4,932 | 6,174 | 4,933 |
| Unlisted | 10 | 11 | -- | -- | 10 | 11 |
| **Total** | **10** | **12** | **6,174** | **4,932** | **6,184** | **4,944** |

### Available for sale: statement of changes

| | Equity and similar investments | | Fixed income investments | | Total | |
|---|---|---|---|---|---|---|
| **in € millions** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Balance as at 1 January | 12 | 11 | 4,932 | 4,340 | 4,944 | 4,351 |
| Purchases and advances | 1 | 1 | 3,198 | 2,593 | 3,199 | 2,594 |
| Disposals and redemptions | -1 | -- | -2,448 | -1,914 | -2,449 | -1,914 |
| Revaluations | -- | 1 | 506 | -82 | 506 | -81 |
| Impairments | -1 | -1 | -- | -- | -1 | -1 |
| Amortisation | -- | -- | -16 | -15 | -16 | -15 |
| Other | -1 | -- | 2 | 10 | 1 | 10 |
| **Balance as at 31 December** | **10** | **12** | **6,174** | **4,932** | **6,184** | **4,944** |

### Available for sale: valuation

| in € millions | Equity and similar investments 2014 | Equity and similar investments 2013 | Fixed income investments 2014 | Fixed income investments 2013 | Total 2014 | Total 2013 |
|---|---|---|---|---|---|---|
| (amortised) Cost price | 11 | 11 | 5,650 | 4,826 | 5,661 | 4,837 |
| Unrealised gains in value | -1 | 1 | 524 | 106 | 523 | 107 |
| **Total** | **10** | **12** | **6,174** | **4,932** | **6,184** | **4,944** |

Part of the investments has been pledged as collateral for amounts due to banks (repos) and subordinated debt (bonds). The book value of assets pledged as collateral at 31 December 2014 amounts to € 1.3 billion (31 December 2013: € 882 million) for SNS Bank.

The book value of the investments that have been plegded to the European System of Central Banks (ESCB) is € 11.7 billion (2013: € 12.5 billion).

## 6 Property and equipment

### Specification property and equipment

| in € millions | 2014 | 2013 |
|---|---|---|
| Land and buildings in own use | 23 | 30 |
| IT equipment | 14 | -- |
| Other assets | 49 | 22 |
| **Total** | **86** | **52** |

### Statement of changes in property and equipment 2014

| in € millions | Land and buildings | IT equipment | Other assets | Total |
|---|---|---|---|---|
| Accumulated acquisition costs | 60 | 30 | 82 | 172 |
| Accumulated revaluations | -16 | -- | -- | -16 |
| Accumulated amortisation and impairments | -21 | -16 | -33 | -70 |
| **Balance as at 31 December** | **23** | **14** | **49** | **86** |
| | | | | |
| Balance as at 1 January | 30 | -- | 22 | 52 |
| Reclassifications | 3 | -- | -3 | -- |
| Revaluations | 1 | -- | -- | 1 |
| Investments | -- | 1 | 17 | 18 |
| Divestments | -7 | -- | -- | -7 |
| Disposals | -- | -- | -3 | -3 |
| Depreciation | -1 | -1 | -7 | -9 |
| Impairments | -3 | -- | -- | -3 |
| Reversals | -- | -- | 2 | 2 |
| Change in group structures | -- | 14 | 21 | 35 |
| Transfer assets held for sale | -- | -- | -- | -- |
| **Balance as at 31 December** | **23** | **14** | **49** | **86** |

At year-end 2014 the renovations to the leased office premises, which are not yet in use, amount to € 4 million (2013: € 1 million).

As part of the change in the group structure and the resulting disentanglement of SNS REAAL, property and equipment was transferred against book value from respectively SNS REAAL (IT equipment: € 14 million) and VIVAT (other assets: € 21 million) to SNS Bank in 2014.

### Statement of changes in property and equipment 2013

| in € millions | Land and buildings | IT equipment | Other assets | Total |
|---|---|---|---|---|
| Accumulated acquisitions costs | 64 | 5 | 47 | 116 |
| Accumulated revaluations | -12 | -- | -- | -12 |
| Accumulated amortisation and impairments | -22 | -5 | -25 | -52 |
| **Balance as at 31 December** | **30** | **--** | **22** | **52** |
| | | | | |
| Balance as at 1 January | 40 | 1 | 30 | 71 |
| Reclassifications | -1 | -- | 1 | -- |
| Revaluations | -- | -- | -- | -- |
| Investments | -- | -- | 2 | 2 |
| Divestments | -3 | -- | -- | -3 |
| Disposals | -- | -- | -- | -- |
| Depreciation | -- | -1 | -6 | -7 |
| Impairments | -6 | -- | -3 | -9 |
| Reversals | -- | -- | -- | -- |
| Change in group structures | -- | -- | -- | -- |
| Transfer assets held for sale | -- | -- | -2 | -2 |
| **Balance as at 31 December** | **30** | **--** | **22** | **52** |

## Valuation of land and building in own use

Land and buildings in own use with a fair value of more than € 1 million are valued by an external surveyor every year. Other land and buildings in own use are valued once every three years.

The valuations were carried out in the period between September and December 2014.

### Valuation of land and buildings in own use

| in € millions | Appraised | Book value | Appraised value as % of total book value |
|---|---|---|---|
| 2014 | 14 | 23 | 61% |
| 2013 | 19 | 30 | 63% |
| 2012 | 28 | 40 | 70% |

## Determination of the fair value of property and equipment hierachy

The table below categorises property and equipment recognised in the balance sheet at fair value into 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 property and equipment

| In € millions | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Land and buildings in own use 2014 | -- | -- | 23 | **23** |
| Land and buildings in own use 2013 | -- | 30 | -- | **30** |

In 2014, land and buildings in own use are classified by SNS Bank as level 3 fair value hierarchy (2013: level 2). These assets are valued based on annual appraisals. The main parameters for these appraisals are market rental value and expected return. At year-end 2014 SNS Bank concluded that these parameters should be considered unobservable market data since they will vary per object and that the impact of these parameters on the vauation of the assets is significant. Consequently, these assets have been transferred from level 2 to level 3 in 2014.

## 7 Intangible assets

### Specification intangible assets

| in € millions | 2014 | 2013 |
|---|---|---|
| Goodwill | -- | 67 |
| Software | 6 | 11 |
| Other intangible assets | 9 | 11 |
| **Total** | **15** | **89** |

At year-end 2014, the book value of internally developed and capitalised software amounts to € 6 million (2013: € 11 million). Other intangible assets comprise the distribution network of RegioBank of € 9 million (2013: € 11 million).

### Statement of changes in intangible assets 2014

| in € millions | Goodwill | Software | Other intangible assets | Total |
|---|---|---|---|---|
| Accumulated acquisition costs | 67 | 23 | 34 | 124 |
| Accumulated amortisation and impairments | -67 | -17 | -25 | -109 |
| **Balance as at 31 December** | **--** | **6** | **9** | **15** |
| | | | | |
| Balance as at 1 January | 67 | 11 | 11 | 89 |
| Capitalised costs | -- | 1 | -- | 1 |
| Purchases | -- | -- | -- | -- |
| Depreciation capitalised costs | -- | -6 | -- | -6 |
| Depreciation purchases | -- | -- | -2 | -2 |
| Impairments | -67 | -- | -- | -67 |
| **Balance as at 31 December** | **--** | **6** | **9** | **15** |

### Statement of changes in intangible assets 2013

| in € millions | Goodwill | Software | Other intangible assets | Total |
|---|---|---|---|---|
| Accumulated acquisition costs | 69 | 36 | 34 | 139 |
| Accumulated amortisation and impairments | -2 | -25 | -23 | -50 |
| **Balance as at 31 December** | **67** | **11** | **11** | **89** |
| | | | | |
| Balance as at 1 January | 67 | 16 | 15 | 98 |
| Capitalised costs | -- | 2 | -- | 2 |
| Purchases | -- | 1 | -- | 1 |
| Depreciation capitalised costs | -- | -8 | -- | -8 |
| Depreciation purchases | -- | -- | -4 | -4 |
| Impairments | -- | -- | -- | -- |
| **Balance as at 31 December** | **67** | **11** | **11** | **89** |

### Recoverable amount of goodwill

Goodwill is not amortised. Instead, an impairment test is performed annually, or more frequently if there are indications of impairments, to assess if an impairment has occurred. The book value of related cashflow generating units (including goodwill) is compared to the calculated recoverable amount. The recoverable amount of a cashflow generating unit is determined by value-in-use calculations. The value-in-use calculations are prepared with the help of an independent external consultancy.

### Cash generating units - Goodwill

| in € millions | 2014 | 2013 |
|---|---|---|
| RegioBank | -- | 67 |

The goodwill of the cash generating unit RegioBank was fully impaired in 2014 (€ 67 million). The goodwill impairment is the result of declining margins on savings and new regulatory requirements that have a negative impact on the cash flows. These new regulatory requirements include the implementation of an ex-ante European Deposit Scheme as of 1 July 2015, the European Central Bank's resolution levy as of 1 January 2015 and the expected 4% leverage ratio as of 2018. In 2013, the excess capital was still calculated on the basis of risk weighted capital, whereas in 2014 it was calculated on the basis of the leverage ratio.

### Principle value-in-use calculations

### Specification principles value-in-use calculations

| | RegioBank |
|---|---|
| Long-term benefits after budget period per year | 1.5% |
| Cost of equity | 9.0% |
| Available solvency | 14.0% |
| Leverage ratio | 4.25% |
| Pre-tax discount rate 2014 | 14.2% |
| Pre-tax discount rate 2013 | 15.0% |

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

- interest income and return on (re)investment;
- (credit) provisions and risk-weighted assets;
- (operating) expenses (including allocated holding company costs);
- available and required solvency; and
- discount rate.

The value-in-use calculations are prepared on the basis of RegioBank's operational plans for the period 2015-2017. The assumptions are based on expected future market developments and past experiences, and on the long term characteristics of the markets in which RegioBank operates.

## 8 Deferred tax assets and liabilities

### Specification

| in € millions | 2014 | 2013 |
|---|---|---|
| Deferred tax assets | 450 | 507 |
| Deferred tax liabilities | -287 | -174 |
| **Total** | **163** | **333** |

### Origin of deferred tax assets and liabilities 2014

| in € millions | 1 January | Change through profit or loss | Change through equity | Other movements | 31 December |
|---|---|---|---|---|---|
| Intangible assets | 1 | -1 | -- | -- | -- |
| Property and equipment | 2 | 1 | -- | -- | 3 |
| Investments | -- | -24 | -66 | -- | -90 |
| Derivatives | 129 | 71 | -10 | -- | 190 |
| Loans and advances to customers | -178 | -16 | -- | -7 | -201 |
| Provisions | 19 | -3 | -- | -- | 16 |
| Tax-deductible losses | 354 | -115 | -- | -- | 239 |
| Other | 6 | -- | -- | -- | 6 |
| **Total** | **333** | **-87** | **-76** | **-7** | **163** |

### Origin of deferred tax assets and liabilities 2013

| in € millions | 1 January | Change through profit or loss | Change through equity | Other movements | 31 December |
|---|---|---|---|---|---|
| Intangible assets | 2 | -1 | -- | -- | 1 |
| Property and equipment | 1 | 1 | -- | -- | 2 |
| Investments | -25 | 30 | -5 | -- | -- |
| Derivatives | 221 | -99 | 7 | -- | 129 |
| Loans and advances to customers | -277 | 99 | -- | -- | -178 |
| Provisions | 17 | 2 | -- | -- | 19 |
| Tax-deductible losses | 89 | 265 | -- | -- | 354 |
| Other | 6 | -- | -- | -- | 6 |
| **Total** | **34** | **297** | **2** | **--** | **333** |

### Tax-deductible losses

| in € millions | 2014 | 2013 |
|---|---|---|
| Total tax-deductible losses | 956 | 1,418 |
| Deferred tax assets calculated on tax-deductible losses | 239 | 354 |
| Average tax rate | 25.0% | 25.0% |

Deferred tax assets as at year-end 2014 include an amount of € 239 million in tax losses carried forward (year-end 2013: € 354 million). This tax loss stems from the write-off on the real estate finance portfolio of Property Finance ( Propertize) in 2013. From a fiscal point of view, these losses initially pertain to the fiscal unity SNS REAAL. This deferred tax asset is fully recognised by SNS Bank, where the commercial loss was recorded. Within the fiscal unity SNS REAAL, the deferred tax asset can be offset against future fiscal gains over the coming eight years. However, at the time of publication of these financial statements it is likely that the fiscal unity will be broken up sooner. In this context, management made an analysis of the measures that might be taken before breaking up the fiscal unity in order to accelerate the realisation of the hidden reserves contained in the fiscal unity and to offset them against the tax-deductible losses. Based on this analysis, and after considering the associated uncertainties, management concluded that the deferred tax asset can be fully valued.

## 9 Corporate income tax

Corporate income tax relates to advances and amounts due and includes dividends withholding tax, which is settled through the corporate income tax return.

Corporate income tax receivable and payable for the years up to and including 2010 are irrevocable. Corporate income tax for the fiscal years 2011 and 2012 were filed in 2014. The corporate income tax due by the various subsidiaries based on the tax filings has been settled with the head of the fiscal unity. The tax assessments have not yet been finalised. Except for deviating tax assessments for these years, only the years 2013 to 2014 are still to be settled with the head of the fiscal unity. Settlement will take place when the corporate income tax for the years in question is determined.

At year-end 2014 corporate income tax payable by SNS Securities was classified as liabilities held for sale for an amount of € 3 million.

## 10 Other assets

### Specification other assets

| in € millions | 2014 | 2013 |
|---|---|---|
| Accrued interest | 191 | 208 |
| Other accrued assets | 93 | 253 |
| **Accrued assets** | **284** | **461** |
| Other advances | -- | 83 |
| **Total** | **284** | **544** |

Other accrued assets include the advanced contribution of SNS Bank to the Dutch Central Bank of € 63 million (2013: € 148 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 a provision of € 17 million (2013: € 20 million) for the estimated deficit of SNS Bank after foreclosure of the assets.

At year-end 2014 other assets of SNS Securities were classified as assets held for sale for an amount of € 4 million.

## 11 Savings

### Specification savings

| in € millions | 2014 | 2013 |
|---|---|---|
| Due on demand | 28,969 | 26,687 |
| Other savings | 6,697 | 6,589 |
| **Total** | **35,666** | **33,276** |

Savings comprise balances of savings accounts, bank savings accounts, savings deposits and term deposits of retail clients. The interest payable on savings is included under other liabilities.

Savings include an amount of € 3,056 million (2013: € 3,041 million) in bank savings and € 231 million (2013: € 216 million) in life-course savings.

## 12 Other amounts due to customers

### Specification other amounts due to customers

| in € millions | 2014 | 2013 |
|---|---|---|
| Private loans | 2,335 | 2,390 |
| Due on demand | 6,161 | 6,353 |
| Mortgage deposits | 89 | 61 |
| Savings deposits | 1,957 | 1,824 |
| **Total** | **10,542** | **10,628** |

At year-end 2014 the other amounts due to customers of SNS Securities were classified as liabilities held for sale for an amount of € 5 million.

## 13 Amounts due to banks

### Specification amounts due to banks

| in € millions | 2014 | 2013 |
|---|---|---|
| Due on demand | 580 | 576 |
| Deposits and certificates | 487 | 5,582 |
| Private loans | 1,032 | 1,295 |
| Other amounts due to banks | -- | 4 |
| **Total** | **2,099** | **7,457** |

Amounts due to banks comprise liabilities related to repurchase agreements (repos) amounting to € 487 million (2013: € 83 million). The liabilities arising from these repos are offset by investments, mainly consisting of highly rated government bonds. These debts will be settled at the same time as the corresponding investments.

The decrease of deposits and certificates is due to the full redemption of three-year ESCB loans (LTRO) amounting to € 5.5 billion.

At year-end 2014 the amounts due to banks of SNS Securities were classified as liabilities held for sale for an amount of € 4 million.

## 14 Debt certificates

### Specification debt certificates

| in € millions | 2014 | 2013 |
|---|---|---|
| Medium-term notes (MTN) | 5,004 | 9,672 |
| Debt certificates issued under Hermes and Pearl Securitisation programmes | 5,141 | 5,547 |
| Debt certificates classified at fair value through profit or loss (Holland Homes securitisation programme) | 1,107 | 1,220 |
| **Balance as at 31 December** | **11,252** | **16,439** |

Debt certificates include the non-subordinated bonds and other debt certificates with a fixed or variable interest rate.

### Medium Term Notes

### Specification Medium Term Notes

| | Coupon rate | Book value | Nominal value | Book value | Nominal value |
|---|---|---|---|---|---|
| in € millions | | 2014 | 2014 | 2013 | 2013 |
| SNS Bank NV | Fixed | 4,238 | 4,010 | 7,248 | 7,080 |
| SNS Bank NV | Structured | 503 | 437 | 598 | 581 |
| SNS Bank NV | Floating | 249 | 248 | 1,791 | 1,789 |
| SNS Bank NV | Zero | 14 | 21 | 35 | 44 |
| **Total** | | **5,004** | **4,716** | **9,672** | **9,494** |

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 EMTN programme. Debt certificates covered by the Debt Guarantee Scheme of the Dutch State were redeemed in 2014 (2013: € 2.7 miljard).

### Debt certificates issued under Hermes, Pearl and Lowland securitisation programmes

SNS Bank has securitised part of the mortgage loans. In these securitisation transactions, the economic ownership of mortgage loans is transferred to separate companies. These loans were transferred at nominal value plus a deferred selling price. A positive result within the separate companies leads to the creation of a positive value of the deferred selling price. SNS Bank thus retains an economic interest in the companies and has fully consolidated these companies in its consolidated financial statements.

Securitisation transactions have a so called call + step-up structure. This means that after a specific call date, the company will have the right to early redeem the bonds. 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. All notes issued under the securitisation programmes with a call date in 2014 have been called. An overview of the securitisations as at 31 December is provided below:

### Overview debt certificates issued under Hermes, Pearl and Lowland securitisation programmes

| | Initial principal | Start of securitisation | Book value | | First call-option date | Contractual expiration |
|---|---|---|---|---|---|---|
| **in € millions** | | | **2014** | **2013** | | |
| Hermes IX | 1,529 | 05-2005 | -- | 756 | 18-02-2014 | 01-02-2039 |
| Hermes X | 1,528 | 09-2005 | 762 | 849 | 18-03-2015 | 01-09-2039 |
| Hermes XI | 1,528 | 02-2006 | 888 | 971 | 18-09-2015 | 01-09-2040 |
| Hermes XII | 2,241 | 10-2006 | 1,107 | 1,212 | 18-03-2016 | 01-12-2038 |
| Hermes XV[1] | 1,618 | 04-2008 | 1,204 | 1,286 | 18-04-2015 | 01-04-2042 |
| Hermes XVIII | 960 | 10-2012 | 820 | 886 | 18-09-2017 | 01-09-2044 |
| Pearl I[1] | 1,014 | 09-2006 | 1,014 | 1,014 | 18-09-2026 | 01-09-2047 |
| Pearl II[1] | 852 | 05-2007 | 594 | 687 | 18-06-2014 | 01-06-2046 |
| Pearl IV | 1,000 | 07-2010 | 907 | 985 | 18-07-2015 | 01-07-2047 |
| Lowland I | 3,793 | 01-2012 | 2,898 | 3,198 | 18-02-2017 | 18-01-2044 |
| Lowland II | 1,917 | 07-2013 | 1,660 | 1,787 | 18-07-2018 | 18-10-2042 |
| Lowland III | 2,613 | 12-2013 | 2,335 | 2,525 | 18-12-2018 | 18-09-2045 |
| **Total** | **20,593** | | **14,189** | **16,156** | | |
| On own book | | | 9,048 | 10,609 | | |
| **Total** | | | **5,141** | **5,547** | | |

1 After restructuring

In 2014, SNS Bank holds bonds, issued under the securitisation programmes, with an amortised cost of € 9.0 billion (2013: € 10.6 billion) and, in addition, purchased subordinated bonds issued by various Pearl companies with an amortised cost of € 91 million (2013: € 91 million).

The senior tranches of Hermes XV, XVIII, Pearl IV and the Lowland securitisations were mainly held for own account and qualify as eligible assets at the European Central Bank.

The debt certificates issued under Hermes X were redeemed on 18 March 2015.

### Debt certificates designated at fair value with value movements recognised through profit or loss (Holland Homes securitisation programmes)

Besides its regular securitisation programmes, SNS Bank has securitised part of its mortgages through the Holland Homes transactions. Companies established for the purpose of these transactions (special purpose entities, SPEs) are funded through long-term bonds issued by these SPEs. The obligations to bondholders and the income from the mortgages are matched by means of interest rate swaps.

Since these derivative contracts were concluded with parties outside SNS Bank NV, an accounting mismatch could arise after consolidation of the companies since derivatives, unlike the bonds and the mortgages, are measured at fair value through profit or loss. By measuring not only the derivatives, but also the bonds and mortgages at fair value through profit or loss, this mismatch is partially eliminated. A mismatch may, however, occur when a maturity difference arises from early redemption of the bonds. This is taken into account in measuring the derivatives.

The securitisation transactions have a so-called clean-up call structure. This means that if the amount of outstanding notes is less than 10% of the initial outstanding notes (notional), the issuer has the option to redeem the bonds.

Apart from the above mentioned clean-up call these securitisation transactions also have a put plus step-down structure. This means that the bondholder is entitled to call for early redemption of the bonds from a predetermined date (put). If the bondholder exercises this right and neither SNS Bank, which will be offered the bonds first as it is the initiating party, nor a potential third party repurchase the bond, the interest rate of the coupon will be increased. The coupon rate on the bond will be lowered after this date if the bondholders do not exercise this right. Under normal market conditions, this will create an economic incentive to redeem the notes early.

### Specification Holland Homes securitisatisation programme

| | Initial principal | Start of securitisation | Book value | | Date put-option | Contractual expiration |
|---|---|---|---|---|---|---|
| in € millions | | | 2014 | 2013 | | |
| Holland Homes MBS 2000-1 BV | 350 | 11-2000 | 106 | 110 | n.a. | 24-09-2030 |
| Holland Homes MBS 2005-1 BV | 757 | 11-2005 | 462 | 513 | 20-12-2015 | 31-12-2083 |
| Holland Homes Oranje MBS BV | 1,601 | 04-2006 | 539 | 597 | 20-01-2018 | 31-12-2083 |
| **Total** | **2,708** | | **1,107** | **1,220** | | |
| On own book | | | -- | -- | | |
| **Total** | | | **1,107** | **1,220** | | |

The contractual non-discounted amount that will have to be redeemed at the maturity date of the bonds amounts to € 1,168 million (2013: € 1,258 million).

## 15 Other liabilities

### Specification other liabilities

| in € millions | 2014 | 2013 |
|---|---|---|
| Other taxes | -- | 1 |
| Other liabilities | 1,253 | 245 |
| Accrued interest | 718 | 959 |
| **Total** | **1,971** | **1,205** |

At year-end 2014 the other liabilities included a cash loan of € 952 million, which has been disbursed on 2 January 2015.

At year-end 2014 the other liabilities of SNS Securities were classified as liabilities held for sale for an amount of € 5 million.

## 16 Other provisions

### Specification other provisions

| in € millions | 2014 | 2013 |
|---|---|---|
| Restructuring provision | 15 | 26 |
| Other provisions | 40 | 40 |
| **Total** | **55** | **66** |

The restructuring provision mainly relates to restructuring programmes associated with cost reduction programmes.

As part of the change in group structure and resulting disentanglement of the SNS REAAL, a part of the restructuring provision of € 4 million has been transferred to SNS bank in 2014.

Other provisions are predominantly long-term provisions and are recognised partly with a view to the risk that (legal) claims cannot be settled. The timing of the expected outflow of means is uncertain.

With regard to a claim from Stichting Claim SNS/Bos & Partners regarding Madoff funds, a provision of € 20 million (2013: € 20 million) is included at year-end. For more information please refer to section legal proceedings.

### Statement of changes in other provisions

| | Restructuring provision | | Other provisions | | Total | |
|---|---|---|---|---|---|---|
| **in € millions** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Balance as at 1 January | 26 | 52 | 40 | 30 | 66 | 82 |
| Change in Group structures | 4 | -- | -- | -- | 4 | -- |
| Additions / releases | -9 | 5 | 4 | 64 | -5 | 69 |
| Withdrawals | -7 | -17 | -4 | -54 | -11 | -71 |
| Transfer liabilities held for sale | -- | -14 | -1 | -- | -1 | -14 |
| Other movements | 1 | -- | 1 | -- | 2 | -- |
| **Balance as at 31 December** | **15** | **26** | **40** | **40** | **55** | **66** |

In 2014 part of the restructuring provision was released. This was largely due to the fact that more employees than estimated relocated to Utrecht.

## 17 Subordinated debts

At year-end the amount of € 40 million (2013: € 40 million) relates to a private loan of SNS REAAL. The average interest rate was 4.1%. The first call-option date is in June 2015.

The subordinated private loans of SNS Bank form part of the regulatory capital used in determining the solvency position of SNS Bank (stand-alone).

## 18 Assets and liabilities held for sale

The assets and liabilities held for sale as per 31 December 2014 solely consist of SNS Securities, which is expected to be sold in 2015. This divestment, if and when completed, is expected to result in a substantial loss compared to book value. The assets and liabilities held for sale are measured at book value or lower fair value less costs to sell with the exception of assets that fall outside the IFRS 5 measurement scope. The main assets of SNS Securities are financial instruments and therefore fall outside the IFRS 5 measurement scope.

### Specification assets held for sale

| in € millions | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | 14 | -- |
| Loans and advances to banks | 6 | -- |
| Investments | 125 | -- |
| Other assets | 4 | -- |
| **Total** | **149** | **--** |

### Specification liabilities held for sale

| in € millions | 2014 | 2013 |
|---|---|---|
| Other amounts due to customers | 5 | -- |
| Amounts due to banks | 4 | -- |
| Other provisions | 1 | -- |
| Corporate income tax | 3 | -- |
| Other liabilities | 5 | -- |
| **Total** | **18** | **--** |

SNS Securities has several intercompany positions with other units of SNS Bank. These intercompany positions are eliminated when drawing up the consolidated financial statements of SNS Bank and, therefore, are not part of the assets and liabilities held for sale.

## 19 Off-balance sheet commitments

### Contingent liabilities

#### Specification contingent liabilities

| in € millions | 2014 | 2013 |
|---|---|---|
| Liabilities from pledges and guarantees given | -- | -- |
| Liabilities from irrevocable facilities | 1,471 | 2,414 |
| Repurchase commitments | 1,132 | 1,266 |
| **Total** | **2,603** | **3,680** |

The table above does not include the guarantees issued separately to a number of counterparties of Propertize by SNS Bank in the past. At year-end 2014, SNS Bank has issued guarantees to Alberta Ltd. and EuryhypoAG. With respect to Alberta Ltd., SNS Bank has a funding obligation in the amount of CAD 4 million, of which CAD 1.5 million is currently remaining. Moreover, there is a buy-back obligation of the 33% stake through a put/call option for USD 1. SNS Bank does not receive a fee for issuing the guarantee.

Propertize is part of joint venture Überseequartier Project BV (ÜSQ). SNS Bank has issued a guarantee to fulfil Propertize's obligations for ÜSQ. The chance that this guarantee will be invoked is considered very small.

The irrevocable facilities mainly consist of credit facilities pledged to customers, but against which no claim has yet been made. These facilities are pledged for a fixed term and at a variable interest rate. Collateral has been secured for the majority of the irrevocable credit facilities.

Part of the collateralised loans and advances sold or securitised under the Holland Homes programme includes a repurchase obligation on the interest repricing date of the loans and advances. In determining the maturity schedule below, an early repayment risk on mortgages of 6.8% per annum (2013: 5%) is taken into account. Besides a repurchase obligation on the interest repricing date of the loans and advances it is assumed that the Holland Homes transactions will also be repurchased on the expiry date of the put option. This is included in the maturity calendar.

#### Maturity calendar repurchase commitments

| in € millions | 2014 | 2013 |
|---|---|---|
| < 1 year | 131 | 141 |
| 1 - 5 year | 391 | 407 |
| > 5 year | 610 | 718 |
| **Total** | **1,132** | **1,266** |

### Guarantee and compensation systems

The Deposit Guarantee Scheme Directive establishes common standards across the EU and aims to strengthen the protection of depositors. It ensures that depositors will continue to benefit from a guaranteed coverage up to € 100.000 in case of bankruptcy. This will be backed by funds that will be collected from the banking sector. The total annual contribution of the banks consists of two pillars: (1) basic annual contribution and (2) risk contribution. The policy for establishing the extent of the risk contribution has not yet been determined.

In April 2014 the European Parliament adopted the Bank Recovery and Resolution Directive (BRDD). The BRRD provides the Member States with a comprehensive set of rules to deal with failing banks at national level as well as cooperation arrangements to tackle cross-border banking failures. In order to finance an orderly winding up of failing banks the BRRD requires the establishment of National Resolution Funds and this will be ex-ante financed by contributions raised from the banks. The National Resolution Funds are set up under the BRRD as of 2015. In the Eurozone, this will be replaced by the Single Resolution Fund (SRF) as of 2016. The SRF will be build up over eight years, reaching a target level of at least 1% of the amount of covered deposits of all credit institutions authorised of all the participating member states.

## Future commitments

The future minimum operating lease commitments relate to leased premises.

### Maturity calendar future minimum operating lease commitments

| in € millions | 2014 | 2013 |
|---|---|---|
| < 1 year | 6 | 6 |
| 1 - 5 year | 8 | 7 |
| > 5 year | -- | -- |
| **Total** | **14** | **13** |

The moment the future operating lease commitments are incurred, they are recognised under the item Other operating expenses. The most important contracts have renewal options. Under the operating leases there are no options to acquire property and no imposed restrictions.

SNS Bank concluded some large long-term IT support contracts in the amount of € 12 million (2013: nil). In 2014, these contracts were transferred from SNS REAAL to SNS Bank in connection with the restructering of SNS REAAL.

### Maturity calendar future IT commitments

| in € millions | 2014 | 2013 |
|---|---|---|
| < 1 year | 6 | -- |
| 1 - 5 year | 6 | -- |
| > 5 year | -- | -- |
| **Total** | **12** | **--** |

## Legal proceedings

SNS Bank and its other subsidiaries are and may become from time-to-time involved in governmental, legal and arbitration proceedings that relate to claims by and against it which ensue from its normal business operations. The most important proceedings are described below.

### Madoff

In April 2010, a foundation acting on behalf of a group of execution-only customers initiated legal proceedings against SNS Bank for alleged losses suffered on investments in certain foreign investment funds (including Madoff feeder funds). In January 2013, in the proceedings before the court, the court reached a verdict. The court ruled that SNS Bank made mistakes and therefore failed to meet its contractual obligations. SNS Bank lodged an appeal and has made a provision for the claim.

In 2010, three Madoff-feeder funds initiated legal proceedings in New York against, amongst others, the custody entity of SNS Bank, SNS Global Custody, and its clients as former beneficial owners of investments in these funds. A similar proceeding was 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, Madoff's trustee initiated proceedings against SNS Bank and SNS Global Custody. The aforementioned proceedings in New York, in which many financial institutions worldwide are sued in similar proceedings, are mainly in the early stages. SNS Bank will strongly defend itself, but cannot give a reliable estimate of possible provisions resulting from these claims at the moment. With regard to a number of important preliminary questions about the claim on the BVI, judgment was given in favour of SNS Bank by final judgment.

## *Proceedings following the nationalisation*

### General

Various former holders of expropriated securities and capital components have initiated legal proceedings to seek compensation for damages. At the time that the financial statements were drawn up, no court proceedings had (yet) been initiated against SNS Bank (and/or SNS REAAL) other than those stated below. Currently, it is not possible to make an estimate of the probability that possible legal proceedings of former holders or other parties affected by the nationalisation may result in a liability, or the level of the financial impact on SNS Bank (and/or SNS REAAL). For this reason, at year-end 2014 no provisions were made in respect of possible legal actions by former holders concerning the expropriated securities and capital components and other affected parties. As the outcomes of possible legal proceedings cannot be predicted with certainty, it cannot be ruled out that a negative outcome may have a material negative financial impact on the capital position, results and/or cash flows of SNS Bank (and/or SNS REAAL).

#### Inquiry proceedings by Dutch Investors' Association

On 6 November 2014 the Dutch Investors' Association (*Vereniging van Effectenbezitters*; 'VEB') filed a petition with the Enterprise Chamber of Amsterdam for an inquiry into the management of SNS REAAL, SNS Bank and the former SNS Property Finance, currently Propertize, for the period 2006 – present. A preliminary hearing on the VEB's authority and cause of action took place on 19 February 2015. SNS REAAL, SNS Bank and Propertize dispute this authority. Only if the VEB's request is found to be admissible, the substantive grounds of the request can be assessed.

#### Guarantees pursuant to section 2:403, Volume 2 of the Dutch Civil Code for Propertize et al.

These proceedings are not directly related to the expropriation decree but ensue from the subsequent transfer of Propertize BV. In the context of this transfer, SNS REAAL and SNS Bank have withdrawn the 403 Guarantees issued for Propertize et al. in the past. The expiry of the objection period made this withdrawal irrevocable for creditors, with the exception of two parties that assert to have claims against Propertize et al., being Commerzbank and - briefly put - the receivers in the bankruptcies of the 2SQR companies, former Propertize clients. By a final decision of 14 January 2015, the objection that these parties had raised against the withdrawal of the 403 Guarantees was declared well-founded by the District Court for the Central Netherlands. SNS REAAL, SNS Bank as well as Propertize will file an appeal against this final decision. The outcome of these objection proceedings as such will not have any material significance for the balance sheets of SNS Bank. No provisions have been made for the underlying asserted claims that Propertize disputes.

Furthermore, some counterparties of Propertize who are conducting legal proceedings against Propertize have also summoned SNS REAAL and/or SNS Bank to appear. The legal basis of this is unclear and SNS REAAL and SNS Bank consider the chance of success of these claims against SNS REAAL and/or SNS Bank to be limited.

#### Other proceedings relevant to SNS Bank

In addition, there are proceedings to which SNS Bank is not a party or in which it is not the direct subject of investigation, but the course and results of which may have a material impact on SNS Bank's position.

This applies first and foremost to the compensation proceedings before the Enterprise Chamber initiated by former holders of expropriated securities and capital components. In the interim ruling rendered by the Enterprise Chamber on 11 July 2013, experts were appointed to assess the value of the capital components and securities expropriated on 1 February 2013, and the Enterprise Chamber itself also issued basic principles for the value assessment. The Supreme Court expressed its opinion on those principles in its judgment of 20 March 2015.

One of the principles was that the compensation must be higher than the offer of € 0,-- as the Minister had failed to adequately explain that offer. According to the Supreme Court the Enterprise Chamber itself must determine the compensation, so independently of the offer, in which respect it is irrelevant how the Minister explained his offer. This means that the compensation might still be set at € 0,--.

The Supreme Court also assessed a large number of other compensation principles given by the Enterprise Chamber, including the significance of the share price for the value assessment and the question of whether DNB's actions prior to the expropriation (known as the SREP decision) may be taken into account. New principles will be formulated on several points.
The result of the Supreme Court's judgment is that the compensation proceedings, which will be continued before the Enterprise Chamber, must be adjusted in several respects.

In the event that the Enterprise Chamber ultimately rules - with due observance of the frameworks given in the Supreme Court's ruling of 20 March 2015 - that compensation is due (contrary to what the Minister has offered), this compensation must be determined by expert assessment. Any ensuing damages will be paid by the State.

In addition, a number of parties have referred the outcome of the appeal proceedings before the Council of State, which upheld the expropriation decree, to the European Court of Human Rights ('ECHR') for review. In its decisions of 14 January 2014 and 11 February 2014, the ECHR declared the cases to be inadmissible on a number of points and, for the rest, ruled that national proceedings relating to (possible) compensation in connection with the expropriation are currently pending. This pertains in particular to the compensation proceedings before the Enterprise Chamber. The parties may appeal to the ECHR again after the proceedings before the Enterprise Chamber have irrevocably ended. However, in principle this legal action can then only pertain to the procedure concerning the compensation to be paid in connection with the nationalisation. This is because the ECHR ruled by judgment of 9 April 2015 that the appeal proceedings themselves are to be considered legitimate, while declaring the complaints directed at this to be inadmissible. The Court of Appeal stated that bondholders had not been confronted with an unfair disadvantage during the expropriation process.

## 20 Specific disclosures on financial instruments

### Fair value of financial assets and liabilities

| | 2014 | | 2013 | |
|---|---|---|---|---|
| **in € millions** | **Fair value** | **Book value** | **Fair value** | **Book value** |
| **Financial assets** | | | | |
| Investments | | | | |
| - Fair value through profit or loss: held for trading | 817 | 817 | 713 | 713 |
| - Fair value through profit or loss: designated | -- | -- | -- | -- |
| - Available for sale | 6,184 | 6,184 | 4,944 | 4,944 |
| Derivatives | 2,702 | 2,702 | 2,484 | 2,484 |
| Loans and advances to customers | 54,839 | 52,834 | 54,829 | 53,405 |
| Loans and advances to banks | 2,604 | 2,604 | 6,063 | 6,063 |
| Other assets | 284 | 284 | 544 | 544 |
| Cash and cash equivalents | 1,968 | 1,968 | 5,528 | 5,528 |
| Assets held for sale | 149 | 149 | -- | -- |
| **Total financial assets** | **69,547** | **67,542** | **75,105** | **73,681** |
| **Financial liabilities** | | | | |
| Subordinated debts | 41 | 40 | 40 | 40 |
| Debt certificates | 11,672 | 11,252 | 16,861 | 16,439 |
| Derivatives | 3,266 | 3,266 | 2,670 | 2,670 |
| Savings | 36,369 | 35,666 | 33,547 | 33,276 |
| Other amounts due to customers | 10,765 | 10,542 | 10,657 | 10,628 |
| Amounts due to banks | 2,172 | 2,099 | 7,472 | 7,457 |
| Other liabilities | 1,971 | 1,971 | 1,205 | 1,205 |
| Liabilities held for sale | 18 | 18 | -- | -- |
| **Total financial liabilities** | **66,274** | **64,854** | **72,452** | **71,715** |

The table provides information on the fair value of the financial assets and liabilities of SNS Bank. For a number of fair value measurements estimates have been used. This table only includes financial assets and liabilities. Balance sheet items that do not meet the definition of a financial asset or liability are not included. The total of the fair value presented above does not reflect the underlying value of SNS Bank and should, therefore, not be interpreted as such.

The fair values represent the amounts at which the financial instruments could have been sold or transferred at balance sheet date between market parties in an orderly transaction. The fair value of financial assets and liabilities is based on quoted market prices, where observable. If actively quoted market prices are not available, various valuation techniques have been used to measure the fair value of these instruments. Parameters used in such valuation techniques may be subjective and are based on various assumptions, for instance certain discount rates and the timing and size of expected future cashflows. The degree of subjectivity affects the fair value hierarchy, which is discussed in the ‘Hierarchy in determining the fair value of financial instruments’ section. Wherever possible and available, the valuation techniques make use of observable inputs in relevant markets. Changes in the assumptions can significantly influence the estimated fair values. The main assumptions for each balance sheet item are explained in the section below.

For financial assets and liabilities measured at amortised cost, the fair value is provided excluding accrued interest. Accrued interest related to these instruments is included in other assets or other liabilities.

Notes to the valuation financial assets and liabilities

The following techniques and assumptions have been used to determine the fair value of financial instruments

**Investments**

The fair values of shares are based on quoted prices in active markets or other available market data. The fair values of interest-bearing securities, excluding mortgage loans, are also based on quoted market prices or – in the event that actively quoted market prices are not available – on the present value of expected future cashflows. These present values are based on the relevant market interest rate, taking account of the liquidity, creditworthiness and maturity of the relevant investment.

**Loans and advances to customers**

The fair value of mortgages is determined based on a present value method. The yield curve used to determine the present value of expected cashflows of mortgage loans is the average of the five lowest mortgage rates in the market, adjusted for interest rates that are considered not to be representative (‘teaser rates’). These rates may differ for each sub-portfolio due to differences in maturity, Loan-to-Value class and form of repayment. In determining the expected cashflows, any expected future early redemptions are taken into account.

The fair value of other loans and advances to customers has been determined by the present value of the expected future cashflows. 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 customer group to which the loan relates.

**Derivatives**

The fair values of nearly all derivatives are based on observable market information, such as market rates and foreign exchange rates. For a number of instruments for which not all information is observable in the market, estimates or assumptions are used within a net discounted cashflow model or an option valuation model to determine their fair value. In determining the fair value, the credit risk that a market participant would include in his valuation is taken into account.

**Loans and advances to banks**

Given the short-term nature of the loans that are classified as loans and advances to banks, the book value is considered to be a reasonable approximation of the fair value.

**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 cash and cash equivalents is considered to be a reasonable approximation of the fair value.

**Subordinated debt**
The fair value of subordinated debt is estimated on the basis of the present value of the expected future cashflows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding subordinated debt issued by SNS Bank or the entity within the SNS Bank Group whose contractual obligation it is, differentiated to maturity and type of instrument.

**Debt certificates**
The fair value of debt certificates is estimated on the basis of the present value of the cashflows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by SNS Bank, determined by maturity and type of instrument.

**Amounts due to customers**
The fair value of readily available savings and term deposits differs from the nominal value because the interest is not adjusted on a daily basis and because, in practice, customers leave their savings in their accounts for a longer period of time. The fair value of these deposits is calculated based on the net present value of the relevant portfolios' cashflows using a specific discount curve. For savings covered by the Deposit Guarantee Scheme (DGS), the discount curve is based on the average current rates of several Dutch market parties. SNS Bank's Internal Funds Price-curve (IFTP) was used for savings not covered by the DGS.

**Amounts due to banks**
The fair value of amounts due to banks is estimated on the basis of the present value of the expected future cashflows, using the interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by SNS Bank, differentiated to maturity and type of instrument. The book value of any amount that is due within one month is considered to be a reasonable approximation of the fair value.

**Other liabilities**
The book value of the other liabilities is considered to be a reasonable approximation of its fair value.

**Hierarchy in determining the fair value of financial instruments**
A major part of the financial instruments is measured in the balance sheet at fair value. In addition, the fair value of the other financial instruments is disclosed. The table below classifies these instruments into level 1, level 2 and level 3. The fair value level classification is not disclosed for financial assets and liabilities where the book value is a reasonable approximation of the fair value.

**More detailed explanation of the level classification**
For financial instruments measured at fair value on the balance sheet or for which the fair value is disclosed, this fair value is classified into a level. This level depends on the parameters used to determine the fair value and provides further insight into the valuation. The levels are explained below:

Level 1 – Fair value based on published stock prices in an active market
For all financial instruments in this valuation category, stock prices are observable and publically available 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, including investment funds for the account of policyholders whose underlying investments are listed.

Level 2 – Fair value based on observable market data
The category includes financial instruments for which no quoted prices are available but whose fair value is determined using models where the parameters include available market information. These instruments mostly contain privately negotiated derivatives. This category also includes investments for which prices have been issued by brokers, but which

are also subject to inactive markets. In that case, the available prices are largely supported and validated using market information, including market rates and actual risk surcharges related to different credit ratings and sector classifications.

Level 3 – Fair value not based on observable market data

A significant part of the financial instruments in this category has been determined using assumptions and parameters that are not observable in the market, such as assumed default rates belonging to certain ratings. The level 3 valuations of investments (shares) are based on quotes from illiquid markets. The derivatives in level 3 are related to some mortgage securitisations and the valuation is partly dependent on the underlying mortgage portfolios and movements in risk spreads.

### Hierarchy financial assets and liabilities at fair value 31 December 2014

| in € millions | Book value | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | | |
| Investments | | | | | |
| - Fair value through profit or loss: held for trading | 817 | 816 | 1 | -- | 817 |
| - Fair value through profit or loss: designated | -- | -- | -- | -- | -- |
| - Available for sale | 6,184 | 5,923 | 250 | 11 | 6,184 |
| Derivatives | 2,702 | -- | 2,323 | 379 | 2,702 |
| Loans and advances to customers[1] | 2,206 | -- | -- | 2,206 | 2,206 |
| Assets held for sale | 125 | 1 | 120 | 4 | 125 |
| **Other assets measured at fair value** | | | | | |
| Loans and advances to customers[1] | 50,628 | -- | -- | 52,633 | 52,633 |
| Loans and advances to banks | 2,604 | -- | -- | -- | -- |
| Other assets | 284 | -- | -- | -- | -- |
| Cash and cash equivalents | 1,968 | -- | -- | -- | -- |
| Assets held for sale | 24 | -- | -- | -- | -- |
| **Financial liabilities measured at fair value** | | | | | |
| Derivatives | 3,266 | -- | 2,589 | 677 | 3,266 |
| Debt certificates[1] | 1,107 | -- | -- | 1,107 | 1,107 |
| **Financial liabilities not measured at fair value** | | | | | |
| Subordinated debts | 40 | -- | 41 | -- | 41 |
| Debt certificates[1] | 10,145 | -- | -- | 10,565 | 10,565 |
| Savings | 35,666 | -- | 31,277 | 5,092 | 36,369 |
| Other amounts due to customers | 10,542 | -- | 10,765 | -- | 10,765 |
| Amounts due to banks | 2,099 | -- | 2,172 | -- | 2,172 |
| Other liabilities | 1,971 | -- | -- | -- | -- |
| Liabilities held for sale | 18 | -- | -- | -- | -- |

1 A part of the Loans and advances to customers and Debt certificates is measured at fair value and the remainder at amortised cost.

## Hierarchy financial assets and liabilities at fair value 31 December 2013

| in € millions | Book value | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | | |
| Investments | | | | | |
| - Fair value through profit or loss: held for trading | 713 | 548 | 165 | -- | 713 |
| - Fair value through profit or loss: designated | -- | -- | -- | -- | -- |
| - Available for sale | 4,944 | 4,284 | 649 | 11 | 4,944 |
| Derivatives | 2,484 | -- | 2,484 | -- | 2,484 |
| Loans and advances to customers[1] | 2,223 | -- | 2,223 | -- | 2,223 |
| Assets held for sale | -- | -- | -- | -- | -- |
| **Other assets measured at fair value** | | | | | |
| Loans and advances to customers[1] | 51,181 | -- | 52,605 | -- | 52,605 |
| Loans and advances to banks | 6,063 | -- | -- | -- | -- |
| Other assets | 544 | -- | -- | -- | -- |
| Cash and cash equivalents | 5,528 | -- | -- | -- | -- |
| Assets held for sale | -- | -- | -- | -- | -- |
| **Financial liabilities measured at fair value** | | | | | |
| Derivatives | 2,670 | -- | 2,428 | 242 | 2,670 |
| Debt certificates[1] | 1,220 | -- | 1,220 | -- | 1,220 |
| **Financial liabilities not measured at fair value** | | | | | |
| Subordinated debts | 40 | -- | -- | -- | -- |
| Debt certificates[1] | 15,219 | -- | -- | 15,641 | 15,641 |
| Savings | 33,276 | -- | 28,850 | 4,697 | 33,547 |
| Other amounts due to customers | 10,628 | -- | 10,657 | -- | 10,657 |
| Amounts due to banks | 7,457 | -- | 7,472 | -- | 7,472 |
| Other liabilities | 1,205 | -- | -- | -- | -- |
| Liabilities held for sale | -- | -- | -- | -- | -- |

1 A part of the Loans and advances to customers and Debt certificates is measured at fair value and the remainder at amortised cost.

## Change in level 3 financial instruments 2014

| | | | | | Derivatives | | |
|---|---|---|---|---|---|---|---|
| in € millions | Fair value through P&L: held for trading | Available for sale | Loans and advances to customers | Assets held for sale | Assets | Liabilities | Debt certificates |
| Balance as at 1 January | -- | 11 | -- | -- | -- | 242 | -- |
| Transfers into level 3 | -- | 1 | 2,206 | 4 | 379 | 386 | 1,107 |
| Unrealised gains or losses recognised in P&L | -- | -- | -- | -- | -- | 49 | -- |
| Sale/settlements | -- | -1 | -- | -- | -- | -- | -- |
| **Balance as at 31 December** | **--** | **11** | **2,206** | **4** | **379** | **677** | **1,107** |

### Change in level 3 financial instruments 2013

| in € millions | Fair value through P&L: held for trading | Available for sale | Loans and advances to customers | Assets held for sale | Derivatives Assets | Derivatives Liabilities | Debt certificates |
|---|---|---|---|---|---|---|---|
| Balance as at 1 January | 14 | -- | -- | -- | -- | -- | -- |
| Transfers into level 3 | -- | 11 | -- | -- | -- | 242 | -- |
| Sale/settlements | -14 | -- | -- | -- | -- | -- | -- |
| **Balance as at 31 December** | **--** | **11** | **--** | **--** | **--** | **242** | **--** |

### Breakdown level 3 financial instruments

| in € millions | 2014 | 2013 |
|---|---|---|
| Bonds issued by financial institutions | 4 | -- |
| Equity | 11 | 11 |
| Derivatives | 379 | -- |
| Loans and advances to customers | 2,206 | -- |
| **Total assets** | **2,600** | **11** |
| | -- | -- |
| Derivatives | 677 | 242 |
| Debt certificates | 1,107 | -- |
| **Total liabilities** | **1,784** | **242** |

**Sensitivity of level 3 valuations of financial instruments**

Level 3 financial instruments are largely valued using a net discounted cashflow method in which expectations and projections of future cashflows are discounted to a present value on the basis of market data. The models use market observable information, such as yield curves, or information that is not observable in the market, such as assumptions about certain credit risk surcharges or assumptions about customer behaviour. The valuation of a level 3 instrument may change significantly as a result of changes in these assumptions.

### Sensitivity non-market observable parameters financial instruments level 3

| | Valuation technique | Main assumption | Carrying value | Reasonably possible alternative assumptions | |
|---|---|---|---|---|---|
| in € millions | | | | Increase in fair value | Decrease in fair value |
| **Assets** | | | | | |
| Loans and advances to customers | Discounted cashflow | Discount curve / pre-payment rate | 2,206 | 58 | -57 |
| Derivatives | Discounted cashflow | Discount curve / pre-payment rate | 379 | 38 | -38 |
| **Liabilities** | | | | | |
| Debt certificates | Discounted cashflow | Discount curve | 1,107 | 4 | -4 |
| Derivatives | Discounted cashflow | Discount curve / pre-payment rate | 677 | 39 | -39 |

The derivatives on the liabilities side of the balance sheet include certain contracts in which fixed pre-payment rates have been agreed with the counterparty. Therefore, these contracts are not sensitive to adjustments.

The main non-market observable parameters for determining the fair value of level 3 instruments are the applied estimate of early redemptions and the discount curve. With regard to the discount curve, the assumptions to determine the credit risk surcharge in particular are not observable in the market. SNS Bank adjusted the discount curve upwards or downwards by 50 basis points and had the expectation of early redemptions increased or decreased by 1% in order to calculate sensitivity. It should be noted here that a direct relationship exists between the fair values of the loans and advances to customers, debt certificates and some of the derivatives, as these positions form part of a securitisation structure. As a result, any changes in the value of loans and advances to customers are offset by changes in the value of the debt certificates and derivatives. The other level 3 derivatives also relate to securitisation transactions. Here, too, there is a relationship between the fair values, because the SPVs' derivatives (front swaps) are entered into back-to-back by SNS Bank and the same counterparties (back swaps). As a result, the estimated fair value changes of the front and back swaps are always comparable, but opposite.

The table below presents the fair value changes caused by the credit risk.

### Changes fair value caused by credit risk

| | Carrying amount | Accumulated changes in fair value due to credit risk | Carrying amount | Accumulated changes in fair value due to credit risk |
|---|---|---|---|---|
| **in € millions** | **2014** | | **2013** | |
| Loans and advances to customers | 2,206 | -73 | 2,223 | -38 |
| **Total assets** | 2,206 | **-73** | 2,223 | -38 |
| | | | | |
| Debt certificates | 1,107 | -61 | 1,220 | -92 |
| **Total liabilities** | 1,107 | **-61** | 1,220 | -92 |

The cumulative changes in the fair value due to credit risk in the loans and advances to customers amounts to - € 73 million. This has been calculated from 2010, the moment at which the (mortgage) loans were recognised in the balance sheet by SNS Bank. The movement as a result of credit risk in 2014 is € 35 million.

### Impairments charges and reversals per level

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| **in € millions** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Equity | -- | -- | -- | -- | 1 | 1 | 1 | 1 |
| **Total** | **--** | **--** | **--** | **--** | **1** | **1** | **1** | **1** |

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

SNS Bank 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 indicators set by the Financial Committee. Financial instruments meeting one or more of those indicators are analysed and assessed individually to determine whether there is a loss event.

The table below highlights the reclassification between the levels of the financial assets and liabilities measured at fair value.

### Transfers between levels 2014

| in € millions | to Level 1 | to Level 2 | to Level 3 | Total |
|---|---|---|---|---|
| From: | | | | |
| Based on observable market data (Level 2) | 409 | -- | 4,082 | **4,491** |

**Reclassifications between levels 1, 2 and 3**
The significant reclassifications are explained in more detail below.

*Transfers between level 2 and 1*
At the beginning of 2014 an amount of € 409 million in investments available for sale was transferred from level 2 to level 1. This transfer is the result of a further fine-tuning of the level classification.

*Transfers between level 2 and 3*
At the end of 2014 amounts of € 2,206 million in loans and advances to customers, € 379 million in derivatives on the asset side, € 386 million in derivatives on the liability side and € 1,107 million in debt certificates were transferred from level 2 to level 3. These transfers are the result of a new method for determining the fair value of SNS Bank's mortgage portfolio. The loans and advances to customers are valued based on this method and the valuations of the derivatives and debt certificates are derived from the methods used.

### Transfers between levels 2013

| in € millions | to Level 1 | to Level 2 | to Level 3 | Total |
|---|---|---|---|---|
| From: | | | | |
| Based on observable market data (Level 2) | -- | -- | 253 | **253** |

*Transfers between level 2 and 3*
At the end of 2013 an amount of € 253 million was transferred from level 2 to level 3. This includes € 11 million in investments available for sale and € 242 million in interest rate derivatives.

## 21 Hedging and hedge accounting

The hedging strategies are mostly aimed at managing the interest rate risk and the foreign exchange risk. Under IFRS, derivatives are measured 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, causing volatility in the results. In these cases, hedge accounting is applied as much as possible to mitigate the accounting mismatch and volatility. Derivatives held for trading purposes are not included in this overview.

### Derivatives for hedging purposes 2014

| | Nominal amounts | | | | Fair value | |
|---|---|---|---|---|---|---|
| in € millions | < 1 year | 1 - 5 years | > 5 years | Total | Positive | Negative |
| Interest rate contracts | | | | | | |
| - Swaps and FRAs | 13,274 | 30,142 | 14,119 | **57,535** | 2,470 | -3,069 |
| - Options | 3,110 | 1,405 | 710 | **5,225** | 6 | -- |
| Currency contracts | | | | | -- | -- |
| - Swaps | 69 | 15 | 22 | **106** | 47 | -13 |
| - Forwards | -- | -- | -- | **--** | -- | -- |
| **Total** | **16,453** | **31,562** | **14,851** | **62,866** | **2,523** | **-3,082** |

### Derivatives for hedging purposes 2013

| | Nominal amounts | | | | Fair value | |
|---|---|---|---|---|---|---|
| in € millions | < 1 year | 1 - 5 years | > 5 years | Total | Positive | Negative |
| Interest rate contracts | | | | | | |
| - Swaps and FRAs | 13,320 | 77,844 | 30,194 | **121,358** | 2,243 | -2,492 |
| - Options | 1,585 | 4,500 | 1,265 | **7,350** | 49 | -- |
| Currency contracts | | | | | | |
| - Swaps | 777 | 168 | 45 | **990** | 33 | -35 |
| - Forwards | -- | -- | -- | **--** | -- | -- |
| **Total** | **15,682** | **82,512** | **31,504** | **129,698** | **2,325** | **-2,527** |

The nominal amounts show the units of account that relate to the derivatives, indicating the relationship with the underlying values of the primary financial instruments. These nominal amounts provide no indication of the size of the cashflows, the market and credit risks related to the transactions.

## Hedging

SNS Bank uses derivatives for the following objectives:

- To hedge the basis risk;
- To manage the duration of the shareholders' equity. The policy is that this duration ranges between 0 and 8;
- To hedge specific embedded options in mortgages. It concerns mortgages of which the interest rate is capped or where movements in interest rates are not completely passed on to customers;
- To convert fixed-rate funding into floating-rate funding;
- To hedge the risks related to hybrid savings products;
- To hedge the quotation risk when offering mortgages if the new business of fixed-rate mortgages is substantial;
- To hedge foreign exchange risks by converting non-euro funding into euro funding; and
- To hedge risks associated with investment portfolios.

## Hedge accounting

In most of the hedging strategies explained above, SNS Bank applies hedge accounting. In addition to the main distinction between fair value hedges and cashflow hedges, there is also a distinction between micro hedges and macro hedges in hedge accounting. Micro hedging is a technique used to hedge individual contracts. Macro hedging is a technique used to hedge the risk on a portfolio of contracts. SNS Bank applies the following types of hedge accounting:

### Fair value hedges

**Hedging the interest rate risk in the banking book (macro hedge)**

The portfolio hedged comprises fixed-rate mortgages of SNS 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 as part of the interest rate risk management in the ALM process. The risk being hedged is the risk of change in fair value of the portfolio attributable to movements in 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 mortgage products for which hedge accounting is applied are the *Rentedemperhypotheek* and the *Plafondhypotheek*. The hedge covers the interest rate risk that results from writing the embedded interest rate option to the customer.

**Hedging the interest rate risk on funding (micro hedge)**
SNS Bank conducts micro hedging to convert fixed-rate funding into floating interest rates by means of interest rate swaps. If such funding is denominated in a foreign currency, cross-currency swaps are entered into. In addition to converting foreign currencies into euros and fixed-rate funding into floating-rate funding, SNS Bank also uses derivatives to convert structured funding into floating-rate funding. In structured funding, the funding charge is related to, for example, developments in an equity index or inflation. The funding programme also includes interest rate structures such as floating-rate coupons with a multiplier or a leverage factor. SNS Bank fully hedges the interest rate risk on these structures.

**Hedging the interest rate risk on investments (macro hedge)**
The interest rate risk on fixed-income investments (government bonds) is hedged by swapping the coupon to a floating interest rate with interest swaps and interest rate futures. The country or credit spread is not hedged. The hedges provide protection for the accumulated revaluation reserve of the relevant fixed-income investments.

Cashflow hedges

**Hedging the quotation risk of mortgages**
The mortgage quotation risk is hedged with swaptions and forward-starting swaps. The risk being hedged is the interest rate variability up to the time of financing. The intrinsic market value movements of the derivatives up to the moment of payment of the mortgage (up to 3 months) are included in the shareholders’ equity. After termination of the hedge relationship the value accrued in the hedge is amortised to the income statement over the remaining term to maturity of the funding. The accrued value in shareholders’ equity was € 4.5 million negative (gross) as at 31 December 2014 (2013: € 5,6 million negative (gross)).

**Hedging floating interest rate cashflows**
The risk of the floating interest rate cashflows on the liquidity position, floating interest rate mortgages, property finance loans and funding are hedged by entering into interest rate swaps and basis swaps. The accrued value of the derivatives is included in the shareholders' equity over the remaining term of the hedge. The value accrued in shareholders’ equity was € 110.4 million positive (gross) as at 31 December 2014 (2013: € 70.2 million positive (gross)).

## 22 Related parties

### Identity of related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. As a part of its ordinary business operations, SNS Bank maintains various forms of ordinary business relationships with related companies and parties. Related parties of SNS Bank could be parent company SNS REAAL, sister companies, associated companies, joint ventures, Stichting administratiekantoor beheer financiële instellingen (NLFI), the Dutch State and senior executives and their close family members. Transactions with these related parties mainly concern day-to-day matters in the field of banking, taxation and other administration.

Transactions with related parties have been conducted under normal market terms and conditions ('at arm’s length'), except where stated otherwise. 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.

SNS Bank has several joint staff departments with parent company SNS REAAL, group-level costs are structurally allocated to the banking activities.

## Positions and transactions related parties

### Positions and transactions between SNS bank NV, SNS REAAL NV and sister companies

| | SNS REAAL | | Sister companies | |
|---|---|---|---|---|
| **in € millions** | **2014** | **2013** | **2014** | **2013** |
| **Positions** | | | | |
| Loans and advances | 20 | 202 | 1,056 | 1,116 |
| Corporate income tax (receiveable) | 54 | 207 | -- | -- |
| Subordinated debt | 40 | 40 | -- | -- |
| Other liabilities | 76 | 197 | 2,681 | 3,147 |
| **Transactions** | | | | |
| Mutation loans and advances | -182 | -58 | -60 | 680 |
| Mutation subordinated debt | -- | -- | -- | -- |
| Mutation other liabilities | -121 | -24 | -466 | 523 |
| Income | -- | 1 | 11 | 8 |
| Other expenses | 141 | 193 | 86 | 93 |

Fiscal unity

SNS Bank is a direct and 100% subsidiary of SNS REAAL. 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. For more information about the current corporate income tax receivables and payables reference is made to note 9 Corporate income tax of the consolidated financial statements.

Funding-related intragroup transactions en positions

SNS Bank has granted a credit facility to SNS REAAL of € 100 million. The term will run until 31 December 2015 with a one year extension option. The facility is revocable daily and payable on demand for SNS REAAL. The interest rate of the loan is the 1 month EURIBOR plus 300 basis points. SNS REAAL bound itself in the deed towards SNS Bank to never establish any right of pledge, right of mortgage or any other right of security on any of its assets as security. Furthermore, SNS REAAL, will establish as security, immediately upon request to that effect, a right of pledge in favour of SNS Bank on its shares in the share capital of REAAL NV. This credit facility to SNS REAAL is not considered as an 'at arm’s length' facility and is fully deducted from the capital of SNS Bank (stand-alone). As at 31 December 2014 this facility was not drawn down under.

SNS Bank provided REAAL a private loan of € 250 million (2013: € 250 million). This loan expires on 31 December 2015 and there is an option to extend the loan for one additional year. The loan has an interest rate of 2.52% per annum and has a weighting of 500% to determine the solvency.

Mortgage-related intragroup transactions and positions

SRLEV and SNS Bank have sold so-called *spaarhypotheken* (offset mortgages) to their customers. An offset mortgage is a financial product that combines an insurance policy issued by SRLEV with a mortgage issued by SNS Bank. The proceeds from the insurance policy will ultimately be used to redeem the mortgage. The savings parts of these insurance premiums received by SRLEV from the policyholders have been deposited at SNS Bank by SRLEV in the name and at the risk of the latter against interest rate equal to the interest rate on the mortgage linked to this insurance policy.

SRLEV and SNS Bank entered into a cession/retrocession transaction. In this transaction, SRLEV purchased and got transferred and will continue to purchase and get transferred from SNS Bank a portion of the legal ownership of each offset mortgage. This portion is equal to the amounts of the savings parts deposited by SRLEV at SNS Bank including the interest added to this savings part by SNS Bank. The amounts deposited at SNS Bank, including the accrued interest thereon, are equal to the purchase price of the legal ownership of the mortgages. These amounts are used to settle SRLEV’s related payment obligations. Insofar as these amount increase due to new (monthly) saving parts deposited by

SRLEV at SNS Bank and interest accrued thereon, this amount will be paid by SRLEV to SNS Bank, and SNS Bank sells additional portions of legal ownership of offset mortgages and transfers ownership thereof to SRLEV. Insofar as these amounts decrease, for example in case of the expiration of an insurance policy, SNS Bank repurchases the legal ownership of the mortgage and gets it transferred at a predetermined purchase price equal to the amount of the decrease of the savings parts deposited including the interest accrued thereon. The above-mentioned cession/retrocession transaction does not apply to securitised mortgages. In addition to the aforementioned, SNS Bank is not allowed to enter into (securitisation) transactions with offset mortgages linked to SRLEV insurance policies without SRLEV's prior permission.

Whereas the sale price of the legal ownership corresponds to the repurchase price and the cession/retrocession agreement explicitly stipulates that the credit risk on the offsets mortgages remains with SNS Bank,there is no transfer of economic ownerships. The mortgages, therefore, remain recognised on SNS Bank's balance sheet. As of 31 December 2014, the legal ownership of € 1,641 million (2013: € 1,586 million) was transferred to SRLEV.

For the amounts deposited by SRLEV at SNS Bank in relation to the mortgages securitised by SNS Bank (31 December 2014: € 806 million; 31 December 2013: € 811 million), SRLEV received a loan from SNS Bank that was used by SRLEV to acquire sub-participations in the securitised mortgages from the Special Purpose Entities involved in the securitisation.

As of 31 December 2014, ASN Bank provided a loan in the amount of € 4.5 billion (2013: € 4.5 billion) via a mortgage-backed loan to Woonhuishypotheken BV, a fully consolidated subsidiary of SNS Bank. The underlying mortgages were originally initiated by SNS Bank and RegioBank.

In 2014, SNS Bank bought back a mortgage loan portfolio from SRLEV in the amount of € 416 million with a nominal value of € 404 million.

## Positions and transaction with subsidiaries

| | RegioBank | | SNS Securities | | ASN | | Overige | | Totaal | |
|---|---|---|---|---|---|---|---|---|---|---|
| **in € miljoenen** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Assets | 80 | 3 | 257 | 224 | 58 | 10 | 2,948 | 3,281 | 3,343 | 3,518 |
| Liabilities | 9,011 | 8,309 | 581 | 133 | 741 | 326 | 82 | 166 | 10,415 | 8,934 |
| | | | | | | | | | | |
| Income received | -- | -- | 1 | -- | 33 | -- | 96 | 202 | 130 | 202 |
| Expenses paid | 124 | 122 | 1 | 1 | 142 | 135 | | 161 | 267 | 419 |

### Other material transactions between SNS Bank NV and sister companies

- The loan provided by SNS Bank to Propertize, which amounted to € 4.1 billion at year-end 2013, was fully redeemed. These proceeds were used by SNS Bank to redeem € 4.5 billion of the ECB facilities (LTRO).
- At year-end 2014,the investments of REAAL in fixed income securities issued by SNS Bank amounted to € 23 million (2013: € 27 million).
- At year-end 2014, the investments of SRLEV in bonds issued by various Holland Homes securitisation entities fully consolidated by SNS Bank, amounted to an amortised cost of € 48 million (2013: € 54 million).
- As part of the change in group structure and the resulting disentanglement of SNS REAAL, there was a transfer at book value of € 25 million (property and equipment € 14 million, funding company lease cars € 8 million and other € 3 million) from SNS REAAL to SNS Bank. Moreover, property and equipment amounting to € 21 million from VIVAT facility management was transferred to SNS Bank.
- As per 1 January 2015, the business activities of Reaal Bancaire Diensten, part of VIVAT, are transferred to BLG Wonen. As per 31 December 2014, the staff of Reaal Bancaire Diensten was transferred to BLG Wonen.

## Positions and transactions with managers in key position of SNS Bank NV

Managers in key positions comprise the members of the Executive Board of SNS REAAL (2013: 3 of the 4 members) and the board of SNS Bank. In total there were 9 persons in key positions (2013: 9 persons).

The table below provides an overview of the total remuneration of managers in key positions.

### Specification remuneration managers in key positions

| | Statutory | | Other | | Total | |
|---|---|---|---|---|---|---|
| **in € thousands** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Fixed annual income | 1,583 | 1,850 | 1,651 | 1,090 | 3,234 | 2,940 |
| Pension contribution | 241 | 282 | 256 | 158 | 497 | 440 |
| Long-term remuneration | -- | -- | -- | -- | -- | -- |
| Termination benefits | -- | 250 | -- | -- | -- | 250 |
| **Total** | **1,824** | **2,382** | **1,907** | **1,248** | **3,731** | **3,630** |

Fixed annual income (IFRS: 'Short-term employee benefits') means the fixed salary (including holiday allowance, year-end bonus (13th month pay), the benefit of the private use of a company car, contribution to health insurance and social security) and the unconditionally granted and directly payable variable remuneration for 2014. Managers in key postions were not granted any variable remuneration for 2014.

SNS Bank took out two insurance policies for managers in key positions: a WIA (Work and Income) insurance, a disability insurance and mortality risk insurance. The corresponding premiums are paid by SNS REAAL. These premiums are also included in the fixed annual income.

In 2014, in accordance with the Tax Plan 2013, SNS REAAL paid a 16% 'crisis levy' under the Act on the elaboration of tax measures provided for in the 2013 Budget Agreement on the income paid to employees in 2013, insofar as that income (per employee) exceeded € 150 thousand. The crisis levy was part of the Annual income for 2013. The crisis levy is no longer payable for 2014.

‘Pension contribution’ (IFRS: ‘Post-employment benefits’) means the pension contribution paid for by the employer, after deduction of the contribution paid by the employee.

‘Long-term remuneration’(IFRS: ‘Other long-term employee benefits’) means the remuneration that has been awarded but has not yet been paid out. Managers in key postions did not receive any variable remuneration for 2014.

‘Termination benefits’ (IFRS: ‘Severance and redundancy pay’), means the pay under termination of the employment contract, including any compensation to which the employee is entitled in connection with the employment termination without performing work.

### Specification loans to managers in key positions

| | Outstanding as at 31 December | | Average interest rate[1] | | Redemptions | | Advances | |
|---|---|---|---|---|---|---|---|---|
| **in € thousands** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Mortgage loans | 2,222 | 2,440 | 3.61% | 3.51% | 53 | 103 | -- | -- |

1 The average interest rate is the interest paid as a percentage of the average outstanding mortgage loan balances.

The table above provides an overview of the loans granted to managers in key positions that were outstanding on 31 December 2014. These loans were mortgage loans provided in the course of ordinary business and under conditions that also apply to other members of staff.

The difference between the outstanding debt in 2014 and 2013 is due to repayments in 2014 and by changes in managers in key positions.

## Subsidiaries SNS Bank NV

### Specification principal subsidiaries

| | Place of business | Nature of business | Proportion of ordinary shares |
|---|---|---|---|
| ASN Bank NV | The Hague | Banking | 100% |
| SNS Securities NV | Amsterdam | Investment banking | 100% |
| RegioBank NV | Utrecht | Banking | 100% |

Other capital interests

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.

## Consolidated structured entities

The structured entities over which SNS Bank can exercise control are consolidated. SNS Bank's activities involving structured entities are explained below in the following categories:

- Securitisation programme
- Covered bond programme

Securitisation programmes

SNS Bank entered into securitisation programmes to obtain funding and to improve liquidity. Within the programme SNS Bank sells mortgage receivables originated by itself to a Special Purpose Vehicle (SPV). The SPV issues securitised notes which are eligible collateral for the European Central Bank. In most programmes, SNS Bank acts as investor of the securitised notes. As the SPVs are set up for the benefit of SNS Bank and there is limited transfer of risks and rewards, SNS Bank continues to consolidate the SPVs.

### Specification securitisations

| in € millions | 2014 | 2013 |
|---|---|---|
| Hermes | 4,781 | 5,960 |
| Pearl | 2,515 | 2,686 |
| Lowland | 6,893 | 7,510 |
| Holland Homes | 1,107 | 1,220 |
| **Total** | **15,296** | **17,376** |

SNS Bank set up various securitisations with approximately € 15.3 billion notes outstanding at year-end 2014 (2013: € 17.4 billion). SNS Bank holds € 9.0 (2013: € 10.6) on own book.

Covered bond programme

SNS Bank issued bonds under a covered bond programme. Payment of interest and principal is guaranteed by a structured entity SPV, SNS Covered Bond Company BV ('CBC'). To enable CBC to fulfil its guarantee, SNS Bank legally transferred Dutch mortgage loans originated by SNS Bank to CBC. Furthermore, SNS Bank offers protection against the deterioration of the mortgage loans. CBC is fully consolidated by SNS Bank.

## 23 Post balance sheet events

### Sale of REAAL NV

On 16 February 2015, SNS REAAL NV announced that it had signed an agreement for the sale of REAAL NV with Anbang Group Holdings Co. Ltd., a wholly-owned subsidiary of Anbang Insurance Group Co. Ltd. (Anbang), a leading Chinese insurance company.

Under the agreement, Anbang acquires 100% of the shares of REAAL NV for a consideration of € 150 million. This consideration may still vary due to changes in the IFRS equity of REAAL NV between 31 December 2014 and 30 June 2015, the anticipated effective date of the sale. As part of the agreement, an intercompany loan from SNS Bank NV to REAAL NV of € 250 million will be repaid in full.

Completion of the sale of REAAL NV to Anbang is subject to regulatory approvals in the Netherlands and China. Another condition is that the IFRS equity of REAAL NV does not decline beyond specific limits between 31 December 2014 and 30 June 2015. On the date of these financial statements there is no reason to assume that the conditions of the sale will not be met. Nevertheless, at this moment there is no absolute certainty that the transaction will be completed.

Based on the book value of REAAL NV as of 31 December 2014, the transaction will result in a book loss of € 1,659 million for SNS REAAL NV in 2015.

Based on the CRR/CRD IV regulations, SNS REAAL NV, as a mixed financial holding company, is part of the prudential consolidated group of SNS Bank NV. As a consequence, SNS Bank NV is required to report its capital position, based on the capital position of SNS REAAL NV and its subsidiaries. This means that developments at REAAL NV and SNS REAAL NV impact SNS Bank NV's capital position and ratios on a prudential consolidated basis. The related uncertainty may negatively impact SNS Bank NV's ability to further strengthen and diversify its financial position through capital market issuances. The latter with a view to future regulations.

Consequently, in consultation with the Dutch State, shortly after completion of the sale of REAAL NV, SNS Bank will be transferred from SNS REAAL NV directly to the Dutch State. The Dutch State will purchase SNS Bank NV from SNS REAAL NV at market value. The transfer of SNS Bank NV requires approval from the European Central Bank and may lead to a book loss for SNS REAAL NV.

Following transfer of SNS Bank NV, its regulatory capital position and capital ratios will solely be evaluated on a stand-alone basis.

At the time of nationalisation, the State provided SNS REAAL NV with a bridge loan of € 1.1 billion. This bridge loan will be offset against the sales consideration received for SNS Bank NV. The remaining amount will be recognised by SNS REAAL NV as a receivable from the Dutch State and will be settled to the extent needed to cover the liquidity requirements until SNS REAAL NV is dismantled.

An unsuccessful sale of REAAL will create uncertainty as a result of which SNS Bank NV will face obstacles, such as in the necessary further reinforcement and diversification of its capital position. Management of SNS REAAL NV, in close collaboration with the Dutch State, will consider what measures need to be taken in this case in order to protect SNS Bank NV from any ensuing adverse consequences, including a possible transfer of SNS Bank NV to the Dutch State.

This will have a material adverse impact on SNS REAAL NV's financial position and SNS Bank's capitalisation at the prudential consolidated level which includes SNS REAAL. It may also impact the valuation of claims that SNS Bank has against SNS REAAL NV and REAAL NV, including a € 250 million loan from SNS Bank NV to REAAL NV.

On the date of the agreement for the sale of REAAL NV (14 February 2015), SNS REAAL NV has to recognise an expected loss of € 1,659 million against the book value of REAAL NV as at 31 December 2014. This leads to a deterioration of the Common Equity Tier 1 ratio (and total capital ratio) on a prudential consolidated basis from 15.6% to 12.6% (fully phased-in: from 15.3% to 12.1%).

Reference is made to section 4.5.3 for more information including pro forma effect of the sale transaction on the capital position of SNS Bank.

### Continuation of disentanglement of SNS REAAL NV, SNS Bank NV and REAAL NV

With effect from January 2015, the legal employer status of almost all employees changed from SNS REAAL NV to SNS Bank NV or REAAL NV, without affecting their employment conditions. The scope of application of the collective labour agreement, personnel guide, pension scheme and social plan was extended to include the legal entities SNS Bank NV and REAAL NV

The pension rights of the majority of employees of SNS Bank NV and REAAL NV, including the accrual of all new pension rights of active employees, are included in the defined contribution plan of the independent Stichting Pensioenfonds SNS REAAL.

A minor part of the pension rights is classified as defined benefit plans. These are rights that were accrued by employees in the past and that remained in pension schemes taken over as part of business acquisitions. Until 31 December 2014, these rights were provided for by SNS REAAL NV as part of employee benefit liabilities under IAS 19. At the beginning of 2015 these liabilities were allocated to SNS Bank NV and REAAL NV insofar as they relate to staff transferred to these entities. Insofar as they relate to former employees who were not subject to a transfer of legal employer, the liabilities remained with SNS REAAL NV. Due to efficiency considerations and following receipt of approval, the liabilities of SNS Bank NV and SNS REAAL NV including related deferred taxes are expected to be transferred at fair value to REAAL NV in the first half of 2015.

Other employee benefit liabilities include provisions for employee discounts on own products granted to pensioners. The provision including related deferred taxes on the balance sheet of SNS REAAL NV will be allocated to SNS Bank NV and REAAL NV in the first half of 2015.

## 24 Net interest income

### Specification net interest income

| in € millions | 2014 | 2013 |
|---|---|---|
| Interest income | 2,081 | 2,230 |
| Interest expenses | 1,057 | 1,273 |
| **Net interest income** | **1,024** | **957** |

Interest income includes the proceeds derived from the Banking activities lending money and related transactions, as well as related commissions and other interest-related income.

Interest expenses includes costs incurred from the Banking activities from borrowing money and related transactions, as well as other interest-related charges.

At yeard-end the interest income includes € 48 million interest income on impaired assets. Interest income and expenses also include the interest results from derivative positions insofar as they have been established with the aim of limiting the interest rate risk on hedged financial instruments.

### Specification interest income

| in € millions | 2014 | 2013 |
|---|---|---|
| Mortgages | 1,954 | 1,962 |
| Other loans and advances to customers | 104 | 104 |
| Loans and advances to banks | 16 | 137 |
| Investments | 7 | 27 |
| **Total** | **2,081** | **2,230** |

### Specification interest expenses

| in € millions | 2014 | 2013 |
|---|---|---|
| Debt certificates | 91 | 214 |
| Subordinated debt | 2 | 11 |
| Savings | 762 | 802 |
| Other amounts due to customers | 173 | 175 |
| Amounts due to banks | 26 | 71 |
| Other | 3 | -- |
| **Total** | **1,057** | **1,273** |

## 25 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 | 2014 | 2013 |
|---|---|---|
| **Fee and commission income:** | | |
| Money transfer and payment charges | 36 | 33 |
| Securities activities | 6 | 7 |
| Insurance agency activities | 16 | 18 |
| Management fees | 26 | 36 |
| Advice and agency activities | 10 | 4 |
| Other activities | 1 | 5 |
| **Total fee and commission income** | **95** | **103** |
| Fee and commission expenses | 34 | 41 |
| Fee franchise | 17 | 12 |
| **Total** | **44** | **50** |

## 26 Investment income

### Specification investment income

| in € millions | 2014 | 2013 |
|---|---|---|
| Fair value through profit or loss | 36 | 140 |
| Available for sale | 36 | -94 |
| Loans and receivables | -- | -8 |
| **Total** | **72** | **38** |

### Breakdown of investment income 2014

| | Fair value through profit or loss | | | | |
|---|---|---|---|---|---|
| in € millions | Held for trading | Designated | Available for sale | Loans and receivables | Total |
| Dividend | -- | -- | 1 | -- | **1** |
| Interest | -- | -- | -- | 4 | **4** |
| Realised revaluations | 1 | -70 | 90 | -4 | **17** |
| Unrealised revaluations | -- | 105 | -55 | -- | **50** |
| **Total** | **1** | **35** | **36** | **--** | **72** |

### Breakdown of investment income 2013

| | Fair value through profit or loss | | | | |
|---|---|---|---|---|---|
| in € millions | Held for trading | Designated | Available for sale | Loans and receivables | Total |
| Dividend | -- | -- | 1 | -- | **1** |
| Interest | -- | -- | -- | -2 | **-2** |
| Realised revaluations | -- | 78 | 10 | -6 | **82** |
| Unrealised revaluations | -- | 62 | -105 | -- | **-43** |
| **Total** | **--** | **140** | **-94** | **-8** | **38** |

Included in the investment income is a net gain due to foreign exchange rate movements of € 4 million (2013: € 2 million loss).

## 27 Result on financial instruments

### Specification result on financial instruments

| in € millions | 2014 | 2013 |
|---|---|---|
| Fair value movements in hedging instruments | 15 | 288 |
| Fair value movements in hedged item attributable to hedged risks | -23 | -308 |
| **Fair value movements in derivatives held for fair value hedge accounting** | **-8** | **-20** |
| Fair value movements of derivatives held for ALM not classified for hedge accounting | -- | -1 |
| Fair value movements in derivatives held for trading | -7 | 1 |
| Fair value movements in other derivatives | 16 | -- |
| Fair value movements in other financial instruments | -50 | -- |
| Repurchase debt instruments | 3 | -- |
| Expropriation private loans | -- | 12 |
| **Total** | **-46** | **-8** |

A loss of € 82 million (2013: € 117 million) was recognised under the result on financial instruments in connection with the put option on the securitisation programme of the Holland Homes. The positive market value movement in 2014 of the securitised mortgages was € 78 million. This results in a net loss of € 4 million.

## 28 Other operating income

The total other operating income in 2014 amounted to € 5 million (2013: € 6 million).

## 29 Staff costs

All staff is employed by SNS REAAL. The staff costs are charged to SNS Bank by SNS REAAL.

### Specification staff costs

| in € millions | 2014 | 2013 |
|---|---|---|
| Salaries | 123 | 111 |
| Pension costs | 20 | 21 |
| Social security | 19 | 17 |
| Share-based payments | -- | -- |
| Other staff costs | 55 | 40 |
| **Total** | **217** | **189** |

Other staff costs consist largely of the costs of temporary staff, fleet, travel costs and vocational education and training costs. The lease commitments of the fleet amount to € 4 million (2013: € 4 million) and hiring staff € 39 million (2013: € 19 million).

### Number of FTEs

| in numbers | 2014 | 2013 |
|---|---|---|
| Number of FTEs | 2,506 | 2,009 |

The Group's governance structure changed in 2014. In 2014 a part of SNS REAAL's staff members was transferred to the SNS Bank. As from 1 January 2015 the new employer of all these employees is SNS Bank NV.

Under the new share plan, effective as of 1 January 2013, the variable remuneration of employees of SNS REAAL and its group entities is granted partly in phantom shares. The value development of these shares is based on the development of the result of SNS REAAL, if necessary corrected for one-off items. The value of the phantom shares is cash settled at maturity. No phantom shares have been granted for the year 2014 and 2013.

## 30 Other operating expenses

### Specification other operating expenses

| in € millions | 2014 | 2013 |
|---|---|---|
| Housing costs | 23 | 31 |
| Information technology costs | 99 | 90 |
| Marketing and public relations costs | 36 | 28 |
| Consultancy costs | 23 | 9 |
| Other costs | 76 | 158 |
| **Total** | **257** | **316** |

Other operating expenses include costs related to lease commitments in the amount of 9 million (2013: € 1 million).

## 31 Impairment charges/ (reversals)

### Specification impairment charges / (reversals) by asset class

| | Impairments | | Reversals | | Total | |
|---|---|---|---|---|---|---|
| in € millions | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| **Through profit or loss** | | | | | | |
| Loans and advances to customers | 278 | 264 | 72 | 50 | **206** | 214 |
| Investments | -- | 1 | -- | -- | **--** | 1 |
| Property and equipment | 3 | 9 | 2 | -- | **1** | 9 |
| Intangible assets | 67 | -- | -- | -- | **67** | -- |
| **Total through profit or loss** | **348** | **274** | **74** | **50** | **274** | 224 |
| **Through equity** | | | | | | |
| Investments | 1 | 1 | -- | -- | **1** | 1 |
| **Total through equity** | **1** | **1** | **--** | **--** | **1** | 1 |

In 2014 an impairment charge of € 67 million (2013: nihil) relates to RegioBank's goodwill. Reference is made to note 7 intangible assets.

## 32 Other expenses

Other expenses include an amount of € 76 million in relation to a one-off bank levy under the 'Temporary Resolution Levy Act' 2014. The remaining amount of € 7 million (2013: € 8 million) relates to the bank levy imposed on banking institutions operating in the Netherlands from 2012.

## 33 Tax

### Specification Tax

| in € millions | 2014 | 2013 |
|---|---|---|
| In financial year | 13 | 394 |
| Prior year adjustments | -- | 8 |
| **Corporate income tax due** | **13** | **402** |
| Due to temporary differences | 87 | -297 |
| **Deferred tax** | 87 | -297 |
| **Total** | **100** | **105** |

### Reconciliation between the statutory and effective tax rate

| in € millions | 2014 | 2013 |
|---|---|---|
| Statutory income tax rate | 25.0% | 25.0% |
| Result before tax | 251 | 289 |
| **Statutory corporate income tax amount** | **63** | **72** |
| Exemptions | 20 | 25 |
| Prior year adjustments (including tax provision release) | **--** | 8 |
| Permanent differences | 17 | -- |
| **Total** | **100** | **105** |
| Effective tax rate | 40.0% | 36.5% |

The amount of € 17 million under Permanent differences is related to the goodwill impairment of RegioBank.

Utrecht, 15 April 2015

Supervisory Board
J.J. Nooitgedagt (chairman)
C.M. Insinger
M.R. Milz
J.A. Nijhuis
J.A. Nijssen
J.C.M. van Rutte
L.J. Wijngaarden

Board of Directors
D.J. Okhuijsen (chairman)
A.T.J. van Melick
V.A. Baas
M. Wissels
R.G.J. Langezaal

# Company financial statements

## Company balance sheet

| Before result appropriation and in € millions | Notes | 31-12-2014 | 31-12-2013 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 1,106 | 4,683 |
| Loans and advances to banks | 1 | 2,605 | 6,063 |
| Loans and advances to customers | 2 | 33,530 | 33,600 |
| Derivatives | | 2,702 | 2,484 |
| Investments | 3 | 2,546 | 1,778 |
| Subsidiaries | 4 | 863 | 580 |
| Receivables from subsidiaries | 5 | 3,343 | 3,518 |
| Property and equipment | 6 | 71 | 34 |
| Intangible assets | 7 | 6 | 78 |
| Deferred tax assets | | 446 | 502 |
| Corporate income tax | | 108 | 207 |
| Other assets | | 586 | 395 |
| **Total assets** | | **47,912** | **53,922** |
| | | | |
| **Equity and liabilities** | | | |
| Savings | 8 | 15,421 | 14,330 |
| Other amounts due to customers | 8 | 7,297 | 7,647 |
| **Amounts due to customers** | | **22,718** | **21,977** |
| Amounts due to banks | 9 | 2,099 | 7,451 |
| Debt certificates | | 5,047 | 9,722 |
| Derivatives | | 2,589 | 1,947 |
| Deferred tax liabilities | | 220 | 177 |
| Other liabilities | 10 | 12,181 | 9,962 |
| Other provisions | 11 | 55 | 64 |
| Subordinated debts | | 40 | 40 |
| **Total liabilities** | | **44,949** | **51,340** |
| | | | |
| Share capital | 12 | 381 | 381 |
| Share premium reserve | 12 | 3,787 | 3,787 |
| Cashflow hedgereserve | 12 | 79 | 48 |
| Fair value reserve | 12 | -138 | -118 |
| Statutory reserve associates | 12 | 239 | 25 |
| Other reserves | 12 | -1,536 | -189 |
| Retained earnings | 12 | 151 | -1,352 |
| **Total equity** | | **2,963** | **2,582** |
| **Total equity and liabilities** | | **47,912** | **53,922** |

## Company income statement

| in € millions | 2014 | 2013 |
|---|---|---|
| Result on subsidiaries after tax | 465 | -280 |
| Other results after tax | -314 | -1,072 |
| **Net result** | **151** | **-1,352** |

## 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 subsidiaries 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 apply the same principles for valuation and the determination of the results that are used in the consolidated financial statements for the company financial statements. Reference is made to the 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 the 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 TradeRegister 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 NV accounting policies, are included in the income statement. The distributable reserves of subsidiaries are included in other reserves.

Receivables from and amounts due to subsidiaries are intercompany balances, and are valued at amortised cost.

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.

# Notes to the company financial statements

## 1 Loans and advances to banks

### Specification loans and advances to banks

| in € millions | 2014 | 2013 |
|---|---|---|
| Breakdown by remaining maturity: | | |
| Payable on demand | 2,605 | 1,575 |
| **Not payable on demand:** | | |
| > 1 month < 3 months | -- | 423 |
| > 3 months < 1 year | -- | 4,065 |
| > 1 year < 5 years | -- | -- |
| > 5 years | -- | -- |
| **Total** | **2,605** | **6,063** |

## 2 Loans and advances to customers

### Specification loans and advances to customers

| in € millions | 2014 | 2013 |
|---|---|---|
| Breakdown by remaining maturity: | | |
| Payable on demand | 3,488 | 2,338 |
| **Not payable on demand:** | | |
| > 1 month < 3 months | 288 | 565 |
| > 3 months < 1 year | 23 | 27 |
| > 1 year < 5 years | 465 | 444 |
| > 5 years | 29,266 | 30,226 |
| **Total** | **33,530** | **33,600** |

Loans and advances to customers include Hermes, Pearl and Lowlands bonds, which were not placed with third parties in the amount of € 7.9 billion (2013: € 9.3 billion). These bonds are included in the category > 5 years.

## 3 Investments

### Specification investments

| in € millions | 2014 | 2013 |
|---|---|---|
| Fair value through profit or loss | 817 | 540 |
| Available for sale | 1,729 | 1,238 |
| **Total** | **2,546** | **1,778** |

### Statement of changes in investments

| | Fair value through profit or loss | | Available for sale | | Total | |
|---|---|---|---|---|---|---|
| in € millions | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Balance as at 1 January | 540 | 692 | 1,238 | 1,141 | 1,778 | 1,833 |
| Purchases and advances | -- | -- | 1,281 | 658 | 1,281 | 658 |
| Disposals and redemptions | -- | -- | -968 | -576 | -968 | -576 |
| Depreciation of premiums and discounts | -- | -- | -6 | -5 | -6 | -5 |
| Revaluations | -5 | 4 | 181 | 19 | 176 | 23 |
| Change in investments through profit or loss trade | 282 | -151 | 3 | 1 | 285 | -150 |
| Other | -- | -5 | -- | -- | -- | -5 |
| **Balance as at 31 December** | **817** | **540** | **1,729** | **1,238** | **2,546** | **1,778** |

## 4 Subsidiaries

### Statement of changes in subsidiaries

| in € millions | 2014 | 2013 |
|---|---|---|
| Balance as at 1 January | 580 | 272 |
| Capital contribution | -- | 1,961 |
| Disposals and terminations | -- | -1,127 |
| Revaluations | 217 | -83 |
| Result | 465 | -280 |
| Payments | -399 | -163 |
| **Balance as at 31 December** | **863** | **580** |

The line item payments includes the advances paid on the deferred purchase price of mortgage receivables by the SPVs. Insofar as the balance of the retained results in these SPVs exceed the contractual minimum buffer requirements they will, in anticipation of the final settlement, be paid out early.

## 5 Receivables from subsidiaries

### Specification receivables from subsidiaries

| in € millions | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | 1,273 | 1,319 |
| Loans and advances to banks | 164 | 220 |
| Loans and advances to customers | 1,241 | 1,456 |
| Other assets | 665 | 523 |
| **Total** | **3,343** | **3,518** |

Part of the loans and advances to customers, an amount of € 1.1 billion (2013: € 1.4 billion), is related to Hermes bonds repurchased by SNS Bank NV.

## 6 Property and equipment

### Specification property and equipment

| in € millions | 2014 | 2013 |
|---|---|---|
| Land and buildings in own use | 11 | 15 |
| IT equipment | 14 | -- |
| Other assets | 46 | 19 |
| **Total** | **71** | **34** |

### Statement of change in property and equipment 2014

| in € millions | Land and buildings | IT equipment | Other assets | Total |
|---|---|---|---|---|
| Accumulated acquisitions costs | 33 | 30 | 78 | 141 |
| Accumulated revaluations | -3 | -- | -- | -3 |
| Accumulated amortisation and impairments | -19 | -16 | -32 | -67 |
| **Balance as at 31 December** | **11** | **14** | **46** | **71** |
| | | | | |
| Balance as at 1 January | 15 | -- | 19 | 34 |
| Reclassifications | 3 | -- | -3 | -- |
| Revaluations | 3 | -- | -- | 3 |
| Investments | -- | 1 | 18 | 19 |
| Divestments | -7 | -- | -- | -7 |
| Decommissioning | -- | -- | -3 | -3 |
| Depreciation | -- | -1 | -7 | -8 |
| Impairments | -3 | -- | -- | -3 |
| Reversals | -- | -- | 2 | 2 |
| Change in Group structures | -- | 14 | 20 | 34 |
| **Balance as at 31 December** | **11** | **14** | **46** | **71** |

### Statement of change in property and equipment 2013

| in € millions | Land and buildings | IT equipment | Other assets | Total |
|---|---|---|---|---|
| Accumulated acquisitions costs | 38 | 4 | 42 | 84 |
| Accumulated revaluations | -3 | -- | -- | -3 |
| Accumulated amortisation and impairments | -20 | -4 | -23 | -47 |
| **Balance as at 31 December** | **15** | **--** | **19** | **34** |
| | | | | |
| Balance as at 1 January | 24 | 1 | 24 | 49 |
| Reclassifications | -1 | -- | 1 | -- |
| Revaluations | 1 | -- | -- | 1 |
| Investments | -- | -- | 2 | 2 |
| Divestments | -4 | -- | -- | -4 |
| Decommissioning | -- | -- | -- | -- |
| Depreciation | -- | -1 | -4 | -5 |
| Reversals | -- | -- | -- | -- |
| Impairments | -5 | -- | -4 | -9 |
| **Balance as at 31 December** | **15** | **--** | **19** | **34** |

## 7 Intangible assets

### Specification intangible assets

| in € millions | 2014 | 2013 |
|---|---|---|
| Goodwill | -- | 67 |
| Software | 6 | 11 |
| **Total** | **6** | **78** |

### Statement of change in intangible assets

| | Goodwill | | Software | | Total | |
|---|---|---|---|---|---|---|
| in € millions | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Accumulated acquisition costs | 67 | 69 | 23 | 36 | 90 | 105 |
| Accumulated amortisation and impairments | -67 | -2 | -17 | -25 | -84 | -27 |
| **Balance as at 31 December** | **--** | **67** | **6** | **11** | **6** | **78** |
| | | | | | | |
| Balance as at 1 January | 67 | 67 | 11 | 16 | 78 | 83 |
| Capitalised costs | -- | -- | 1 | -- | 1 | -- |
| Investments | -- | -- | -- | 3 | -- | 3 |
| Amortisation | -- | -- | -6 | -8 | -6 | -8 |
| Impairments | -67 | -- | -- | -- | -67 | -- |
| **Balance as at 31 December** | **--** | **67** | **6** | **11** | **6** | **78** |

The goodwill of the cash generating unit RegioBank was fully impaired in 2014 (€ 67 million). The goodwill impairment is the result of declining margins on savings and new regulatory requirements that have a negative impact on the cash flows. These new regulatory requirements include the implementation of an ex-ante European Deposit Scheme as of 1 July 2015, the European Central Bank's resolution levy as of 1 January 2015 and the expected 4% leverage ratio as of 2018. In 2013, the excess capital was calculated on the basis of risk weighted capital, whereas in 2014 it was calculated on the basis of the leverage ratio.

## 8 Amounts due to customers

### Specification amounts due to customers

| in € millions | 2014 | 2013 |
|---|---|---|
| Savings | 15,421 | 14,330 |
| Other amounts due to customers | 7,297 | 7,647 |
| **Total** | **22,718** | **21,977** |

### Time to maturity amounts due to customers

| in € millions | 2014 | 2013 |
|---|---|---|
| Breakdown by remaining maturity: | | |
| Payable on demand | 17,162 | 16,251 |
| **Not payable on demand:** | | |
| > 1 month < 3 months | 74 | 46 |
| > 3 months < 1 year | 605 | 426 |
| > 1 year < 5 years | 1,555 | 1,897 |
| > 5 years | 3,322 | 3,357 |
| **Total** | **22,718** | **21,977** |

## 9 Amount due to banks

### Time to maturity amount due to banks

| in € millions | 2014 | 2013 |
|---|---|---|
| Breakdown by remaining maturity: | | |
| Payable on demand | 581 | 698 |
| **Not payable on demand:** | | |
| > 1 month < 3 months | 487 | 142 |
| > 3 months < 1 year | 515 | 80 |
| > 1 year < 5 years | 478 | 6,495 |
| > 5 years | 38 | 36 |
| **Total** | **2,099** | **7,451** |

## 10 Other liabilities

### Specification other liabilities

| in € millions | 2014 | 2013 |
|---|---|---|
| Debts to subsidiaries | 10,415 | 8,934 |
| Other | 1,766 | 1,028 |
| **Total** | **12,181** | **9,962** |

### Specification debts to subsidiaries

| in € millions | 2014 | 2013 |
|---|---|---|
| Amounts due to banks | 2,857 | 2,629 |
| Current account subsidiaries | 7,558 | 6,305 |
| **Total** | **10,415** | **8,934** |

## 11 Other provisions

### Specification other provisions

| in € millions | 2014 | 2013 |
|---|---|---|
| Restructuring provision | 15 | 26 |
| Other provisions | 40 | 38 |
| **Total** | **55** | **64** |

## 12 Equity

### Staement of changes in equity 2014

| in € millions | Issued capital | Share premium reserve | Cashflow hedge-reserve | Fair value reserve | Statutory reserves associates | Other reserves | Retained earnings | Total Equity |
|---|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2014 | 381 | 3,787 | 48 | -118 | 25 | -189 | -1,352 | **2,582** |
| Transfer of 2013 net result | -- | -- | -- | -- | -- | -1,352 | 1,352 | **--** |
| Unrealised revaluations | -- | -- | 31 | 23 | 243 | -- | -- | **297** |
| Realised revaluations through profit or loss | -- | -- | -- | -42 | -25 | -- | -- | **-67** |
| Other changes | -- | -- | -- | -- | -4 | 5 | -- | **1** |
| Impairments | -- | -- | -- | -1 | -- | -- | -- | **-1** |
| Capital injection | -- | -- | -- | -- | -- | -- | -- | **--** |
| Transactions with shareholder | -- | -- | -- | -- | -- | -- | -- | **--** |
| Amounts charged directly to equity | -- | -- | 31 | -20 | 214 | 5 | -- | **230** |
| Net result 2014 | -- | -- | -- | -- | -- | -- | 151 | **151** |
| Total result 2014 | -- | -- | 31 | -20 | 214 | 5 | 151 | **381** |
| Total changes in equity 2014 | -- | -- | 31 | -20 | 214 | -1,347 | 1,503 | **381** |
| **Balance as at 31 December 2014** | **381** | **3,787** | **79** | **-138** | **239** | **-1,536** | **151** | **2,963** |

### Statement of changes in equity 2013

| in € millions | Issued capital | Share premium reserve | Cashflow hedge-reserve | Fair value reserve | Statutory reserves associates | Other reserves | Retained earnings | Total Equity |
|---|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2013 | 381 | 1,186 | 68 | -215 | 88 | 542 | -719 | **1,337** |
| Transfer of 2012 net result | -- | -- | -- | -- | -- | -719 | 719 | **--** |
| Unrealised revaluations | -- | -- | -20 | 96 | -73 | -- | -- | **3** |
| Realised revaluations through profit or loss | -- | -- | -- | -- | -8 | -- | -- | **-8** |
| Other changes | -- | -- | -- | -- | 18 | -12 | -- | **--** |
| Impairments | -- | -- | -- | 1 | -- | -- | -- | **1** |
| Capital injection | -- | 1,900 | -- | -- | -- | -- | -- | **1,900** |
| Transactions with shareholder | -- | 701 | -- | -- | -- | -- | -- | **701** |
| Amounts charged directly to equity | -- | 2,601 | -20 | 97 | -63 | -12 | -- | **2,597** |
| Net result 2013 | -- | -- | -- | -- | -- | -- | -1,352 | **-1,352** |
| Total result 2013 | -- | 2,601 | -20 | 97 | -63 | -12 | -1,352 | **1,245** |
| Total changes in equity 2013 | -- | 2,601 | -20 | 97 | -63 | -731 | -633 | **1,245** |
| **Balance as at 31 December 2013** | **381** | **3,787** | **48** | **-118** | **25** | **-189** | **-1,352** | **2,582** |

Issued shares

The issued share capital is fully paid up and solely comprises ordinary shares. The nominal value of the ordinary shares is € 453.79.

| In numbers | 2014 | 2013 |
|---|---|---|
| Issued share capital as at 1 January | 840,008 | 840,008 |
| Share issue | -- | -- |
| Issued share capital as at 31 December | **840,008** | **840,008** |

## 13 Off-balance sheet commitments

SNS Bank NV has provided guarantees as referred to in Book 2, section 403 of the Dutch Civil Code for SNS Securities NV, ASN Bank NV, RegioBank NV and Pettelaar Effectenbewaarbedrijf NV. SNS REAAL NV has withdrawn its guarantee as referred to in Book 2, section 403 of the Dutch Civil Code for SNS Bank NV. SNS REAAL NV did provide some guarantees for several other subsidiaries of SNS Bank NV: SNS Beheer BV and Holland Woningfinanciering NV.

For more information about the other contingent liabilities reference is made to note 19 Off balance sheet commitments of the consolidated financial statements.

## 14 Related parties

### Positions and transactions between SNS Bank NV and subsidiaries

| | RegioBank | | SNS Securities | | ASN | | Overige | | Totaal | |
|---|---|---|---|---|---|---|---|---|---|---|
| **in € miljoenen** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Assets | 80 | 3 | 257 | 224 | 58 | 10 | 2,948 | 3,281 | 3,343 | 3,518 |
| Liabilities | 9,011 | 8,309 | 581 | 133 | 741 | 326 | 82 | 166 | 10,415 | 8,934 |
| | | | | | | | | | | |
| Income received | -- | -- | 1 | -- | 33 | -- | 96 | 202 | 130 | 202 |
| Expenses paid | 124 | 122 | 1 | 1 | 142 | 135 | | 161 | 267 | 419 |

For more information about the related parties reference is made to note 22 Related parties of the consolidated financial statements.

## 15 Audit fees

### Notes to the audit fees

| | KPMG Accountants NV | Other KPMG Network | Total |
|---|---|---|---|
| in € thousands, excluding applicable VAT | **2014** | **2014** | **2014** |
| Statutory audit of annual accounts, including the audit of the financial statements and other statutory audits of subsidiaries and other consolidated entities | 859 | -- | 859 |
| Other assurance services | 430 | -- | 430 |
| Tax advisory services | -- | 15 | 15 |
| Other non-audit services | -- | -- | -- |
| **Total** | **1,289** | **15** | **1,304** |

For the fees relating to 2013, reference is made to the statement of the same name in the notes to the consolidated financial statements 2013 of SNS REAAL, in accordance with Book 2 of the Dutch Civil Code, Article 382a. The fees charged to SNS Bank are included in this statement.

Utrecht, 15 April 2015

Supervisory Board
J.J. Nooitgedagt (Chairman)
J.C.M. van Rutte
C.M. Insinger
M.R. Milz
J.A. Nijhuis
J.A. Nijssen
L.J. Wijngaarden

Board of Directors
D.J. Okhuijsen (Chairman)
A.T.J. van Melick
V.A. Baas
M. Wissels
R.G.J. Langezaal

# Other information

## Provisions regarding profit or loss appropriation

### Provisions of the Articles of Association regarding profit or loss appropriation

*Article 33*

1. The net result shall be at the free disposal of the General Meeting of Shareholders.
2. The company may only make distributions to shareholders and other persons entitled to the distributable profits in so far as its equity exceeds the total amount of its issued share capital plus the reserves required to be held by law.
3. Distribution of profits shall only take place upon adoption of the financial statements from which it appears that such distribution is allowed.

*Article 34*

1. Dividends shall be made payable fourteen days of declaration of dividend, unless the General Meeting of Shareholders determines another on a motion by the Board of Directors.
2. Dividends that have not been collected within five years after having been made payable shall revert to the company.
3. If the General Meeting of Shareholders so determines on a motion by the Board of Directors, an interim dividend will be distributed, including an interim dividend from reserves, but only with due observance of the provisions in article 2:105, paragraph 4 of the Dutch Civil Code.
4. A deficit may only be offsett against reserves required by law in so far as permitted by law.

### Profit or loss appropriation

The net result for the financial year 2014 is credited to other reserves.

## Independent auditor's report

To: The General Meeting of Shareholders of SNS Bank N.V.

**Report on the audit of the financial statements 2014**

### Our opinion

We audited the 2014 financial statements of SNS Bank N.V. (the 'Company' or 'SNS Bank'), based in Utrecht. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:
- the consolidated financial statements give a true and fair view of the financial position of SNS Bank as at 31 December 2014, and of its result and its cash flows for 2014 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- the company financial statements give a true and fair view of the financial position of SNS Bank as at 31 December 2014, and of its result for 2014 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:
1. the consolidated balance sheet as at 31 December 2014;
2. the following consolidated statements for 2014: the income statement, the statements of comprehensive income, changes in equity and cash flows; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

The company financial statements comprise:
1. the company balance sheet as at 31 December 2014;
2. the company income statement for 2014; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

### Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of SNS Bank in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinion.

### Materiality

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 30 million. The materiality is based on a percentage of the total income of SNS Bank (2.7%). We opted for total income as the benchmark because it is the best reflection of the main operating activities of SNS Bank and the associated risks of misstatement in the financial statements: providing loans and offering payment and savings products. Besides, this benchmark is also less susceptible to one-off or volatile items, contrary to the widely-applied benchmark profit before tax.

We additionally assessed our materiality against the equity as a benchmark. SNS Bank operates in a regulated market that requires the level of shareholders' equity to meet certain minimum capital requirements. In relation to the equity of SNS Bank, the materiality is 1% of the equity benchmark. We also took into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

The group entities were audited using the same materiality we determined for SNS Bank. Since our audit team is also responsible for the audit of all group entities and does not use other auditors, we believe it is not necessary to apply a haircut to the materiality we determined for group purposes.

We reported to the Supervisory Board all the unadjusted misstatements in excess of EUR 1.5 million which we identified from the audit, as well as smaller misstatements that in our view must be reported for qualitative reasons.

### Scope of the group audit

SNS Bank is at the head of a group of legal entities and operating units. Our audit primarily focused on group entities and operating units that are significant in the context of the financial statements and comprise: SNS Bank N.V., ASN Bank N.V., Regio Bank N.V., SNS Financial Markets and the Service Centers ‘Betalen en Sparen (Payments and Savings)’, ‘Hypotheken (Mortgage processing)’, ‘Zakelijk Beheer (SME Lending)’ and ‘Beleggen (Retail Investment Services)’ (‘the group entities’). The financial information of this group is included in the financial statements of SNS Bank. In the context of the audit of the financial statements of SNS Bank, we determined the nature and extent of the procedures to be performed for the group entities. This included assessing which procedures to perform for entities that are, based on materiality, not included in our scope. These procedures comprise, for example, analytical reviews and substantive audit procedures regarding specific items in the financial statements that, in our opinion, contain an increased inherent risk of a material misstatement. All our audit procedures were performed by the audit team also responsible for the audit of SNS Bank N.V.

### Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance to our audit of the financial statements. We communicated the key audit matters to the Supervisory Board and the Management Board of SNS Bank. The key audit matters are not a comprehensive reflection of all the matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### *Disentanglement of SNS Bank from the SNS REAAL group*

*The financial statements risk* – On 19 December 2013, SNS REAAL N.V. (‘SNS REAAL’) obtained approval from the European Commission for the restructuring plan it submitted following nationalisation. This plan proposes the disentanglement of SNS REAAL and for the banking and insurance operations to continue as independent companies. For more detailed information, please refer to note 23 of the consolidated financial statements. These developments have an impact on the audit of the financial statements of SNS Bank:

- The transition of the banking and insurance operations into independent companies resulted in changes in the internal control environment of SNS Bank. An internal control environment that is not operating effectively could result in misstatements in the financial statements.
- The proposed disentanglement of SNS REAAL, in anticipation of the sale of the banking and insurance operations, implies a number of (complex) transactions (with related parties) with an increased risk of a misstatement or inadequate disclosure in the financial statements.

*Our audit approach* – In our audit approach, we distinguish two main components:

- We assessed the impact of the disentanglement of SNS Bank on the internal control environment to the extent relevant to the audit of the financial statements. The disentanglement concerned for instance the transition of Group Finance and Group Risk Management to a financial and risk management function at the level of SNS Bank. Our findings in this respect were used to determine and, where necessary, adapt our audit approach. Please refer to note 5.2 of the Management Board Report for details about the changes in the governance and risk management organisation.
- We performed specific audit procedures in relation to the appropriate recognition and disclosure of the financial relationships between SNS Bank and SNS REAAL / REAAL N.V. (“VIVAT”) that were settled in 2014, as well as the adequate disclosure of the remaining financial relationships as at 31 December 2014. In this context, we also reviewed the collectability of the receivables of SNS Bank from VIVAT and SNS REAAL and its subsidiaries, including the adequacy of the disclosure thereof.

Our work included obtaining information from and inquiry of management and the Supervisory Board, as well as agreeing the analyses made by management and the disclosures in the financial statements to underlying documentation, such as cash flow forecasts and scenario analyses regarding VIVAT.

*Our observations* – We found that the disclosures in the financial statements regarding the transactions with related parties (note 22), as well as regarding changes in the governance and risk management organisation (note 5.2) are adequate. We also conclude that the receivables from group companies as at 31 December 2014 are recorded in accordance with the applicable accounting principles and that the associated credit risks are adequately disclosed.

### Effect of the disposal of VIVAT on the consolidated solvency of SNS Bank

*The financial statements risk* – On 16 February 2015, SNS REAAL announced, in consultation with the Dutch government, that it signed a share purchase agreement to dispose of all the shares of VIVAT. This sale is subject to certain conditions precedent. SNS REAAL expects the disposal of VIVAT to result in a loss of EUR 1.7 billion, which loss has an impact on the consolidated solvency position of SNS Bank (mixed financial holding / prudential consolidation). Please refer to note 23 in the consolidated financial statements and note 4.5.3 in the Management Board Report for the details of the transaction and the impact on the consolidated solvency position.

The proposed disposal of VIVAT is a subsequent event with a material impact on the prudential consolidated solvency of SNS Bank, as the expected book loss will result in a significant decrease in regulatory capital at the prudential consolidated level. Given the non-routine character, and the uncertainties still associated with the sale, there is an increased inherent risk of a material misstatement with respect to the disclosure of the transaction in the financial statements.

*Our audit approach* – We performed specific audit procedures regarding the adequate disclosure, as subsequent event, of the impact of the disposal of VIVAT on the consolidated solvency of SNS Bank. In this context we verified, based on the agreement signed by SNS REAAL on 14 February 2015 concerning the disposal of VIVAT, whether its impact on the consolidated solvency of SNS Bank is correctly calculated and adequately disclosed in the subsequent events footnote disclosure. As part of this, we ascertained whether the uncertainties associated with the disposal of VIVAT and the consequences for SNS Bank are adequately disclosed in the financial statements. Our procedures included discussions with the management and the Supervisory Board of SNS Bank and SNS REAAL, as well as with the Dutch Central Bank (‘DNB’). We also reviewed the relevant correspondence between SNS Bank and its regulators (European Central Bank and DNB).

*Our observations* – We found that the impact of the disposal of VIVAT on the consolidated solvency of SNS Bank has been adequately disclosed as a subsequent event. In these notes, the management of SNS Bank points out a number of uncertainties associated with the disposal and the possible consequences should the sale not materialise.

### Estimation uncertainties in the valuation of the mortgage loan portfolio

*The financial statements risk* – SNS Bank has a mortgage loan portfolio of EUR 46.6 billion as at 31 December 2014. As explained on pages 127-128, the bulk of these mortgages (EUR 44.4 billion) are measured at amortised cost, less a provision for loan losses (EUR 326 million). This provision is raised if, at balance sheet date, there is objective evidence, e.g. the existence of payment arrears, that not all the contractually-agreed cash flows will be collected. For a full description of the accounting principles applied to mortgage loans, please refer to the accounting principles included in the financial statements. Failure to promptly recognise objective evidence of the risk of un-collectability and/or errors in the estimate of the expected cash flows for items deemed to be impaired can result in the incorrect valuation of the mortgage loan portfolio in the financial statements. We note in this context that SNS Bank started with the implementation of a number of improvement measures with respect to data quality, enhancing the robustness of the provisioning process and further fine-tuning the models applied.

Given the relative size of the mortgage portfolio of SNS Bank (68% of total assets) we identified the valuation of the mortgage loan portfolio as a key audit matter.

*Our audit approach* – Our audit approach included both the testing of the effectiveness of the internal controls as well as substantive audit procedures.

Our procedures over the internal controls mainly focused on controls around the origination of mortgage loans, the accurate registration of loan and collateral static data in back office systems, the process for identifying arrears and the management thereof. We also tested the internal controls with respect to the internal validation of the models used by SNS Bank to determine the loan loss provisions as well as the periodic evaluation of the parameters applied in these models.

In addition we performed substantive audit procedures. For instance, independent from the internal validation by SNS Bank, we reviewed the adequacy of the models used using our own credit risk management specialists. We did this by ascertaining whether, on the basis of the model documentation, the models were adequately developed. We also analysed the back-testing results of the model and tested the accuracy of the data used in the models, in relation to the mortgage portfolio as at 31 December 2014, by reconciling this information to the underlying back office systems. Lastly, we performed a number of alternative analyses of the size of the loan loss provisions in relation to the developments in the underlying mortgage portfolio in order to challenge and verify the outcomes of the model.

We then also reviewed the findings from the Asset Quality Review performed by the European Central Bank, in particular the finding regarding the so-called Loss Identification Period ('LIP') for the mortgage portfolio. This LIP is applied to determine the provision for incurred, but not yet identified, losses. In response to the outcome of the AQR, SNS Bank extended the LIP for the mortgage portfolio from an average of 6 months to 10 months, resulting in 2014 in an addition of EUR 23 million to the loan loss provision. We performed audit procedures over the historic data and management analyses that form the basis for this change in estimate. Please refer to paragraph 5.4.1 of the Management Board Report.

*Our observations* – We found that the valuation of the mortgage portfolio in the financial statements of SNS Bank as at 31 December 2014 is balanced and in accordance with the applicable accounting principles.

### Estimation uncertainty in the valuation of the deferred tax asset

*The financial statements risk* – As at 31 December 2014, SNS Bank recognised a deferred tax asset of EUR 239 million for carry-forward tax losses. This carry-forward tax loss relates to the losses incurred by its former subsidiary SNS Property Finance B.V.

The estimate of the probability of realising this carry-forward tax loss is based on management's estimate of the future taxable profit of SNS REAAL (the head of the fiscal unity to which SNS Bank belongs). As explained in note 8 of the consolidated financial statements, it is noted that when the fiscal unity is discontinued in 2015, SNS Bank will be dependent on the accelerated realisation of silent reserves (difference between fair value and book value) included in its assets through transactions specifically aimed at this. These transactions have to be completed before the SNS REAAL fiscal unity is discontinued.

Given the material significance and the uncertainty around estimating future taxable profit, there is an increased inherent risk of the deferred tax asset being incorrectly valued.

*Our audit approach* – We reviewed management's estimate of the future taxable profit available for the realisation of carry-forward tax losses, including the impact of the expected change in the composition of the fiscal unity.

We assessed the reasonableness of management's estimate of the expected taxable profit by analysing it and agreeing it to the underlying budgets. We also verified whether the assumptions used for determining the expected taxable profit are in line with the applicable tax laws and regulations. We specifically focussed on the transactions required for accelerating the realisation of the silent reserves on the balance sheet and generating taxable profit before the composition of the fiscal unity changes. In this context, we also tested the models applied and input parameters used for determining the silent reserves contained in the assets. We finally ascertained whether the estimation of the realisability of the carry-forward tax loss has been correctly disclosed in the financial statements. Tax specialists were included in our audit team.

*Our observations* – We found that management of SNS Bank considered the uncertainties associated with the deferred tax asset and took these into account in the valuation thereof. In accordance with the applicable accounting principles the valuation and uncertainties are disclosed in note 8 of the consolidated financial statements.

### Responsibilities of management and the Supervisory Board for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements. The Supervisory Board is responsible for overseeing the company's financial reporting process.

### Our responsibilities for the audit of the financial statements
Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit was performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

A full description of our responsibilities can be obtained on: www.nba.nl/standaardteksten-controleverklaring.

### Report on other legal and regulatory requirements

### Report on the management board report and the other information
Pursuant to legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the management board report and other information):

- We have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed;
- We report that the management board report, to the extent we can assess, is consistent with the financial statements.

### Engagement
We were engaged as auditor of SNS Bank before the start of 2008 and have operated as statutory auditor since then. Our engagement as auditor of SNS Bank is reconfirmed. As required by law, we will no longer serve as the auditor of SNS Bank N.V. with effect from the 2016 financial year.

Amstelveen, 15 April 2015

KPMG Accountants N.V.

P.A.M. de Wit RA

## Independent Auditor's Assurance Report

To the Readers of the Annual Report of SNS Bank N.V.

### What is our conclusion?

We have reviewed the Corporate Responsibility information as defined in appendix 'About this report' on pages 199-202 and as included in chapters 1,2 and 4 of the Annual Report, and the appendices 'Stakeholder dialogue' and 'Other CR performance indicators' (hereafter: the CR information) of SNS Bank N.V. (hereafter SNS Bank).

Based on our review, nothing has come to our attention to indicate that the CR information as reported in chapters 1,2 and 4 of the Annual Report is not presented, in all material respects, in accordance with the relevant aspects of the G4 reporting criteria as defined on page 199 of the Annual Report.

### What was the basis for our conclusion?

We conducted our review engagement in accordance with the Dutch Standard 3810N: "Assurance engagements relating to sustainability reports".

We do not provide any assurance on the achievability of the objectives, targets and expectations of SNS Bank.

Our responsibilities under Standard 3810N and procedures performed have been further specified in the paragraph titled "*Our responsibility for the review of the* CR information".

We are independent of SNS Bank in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence requirements in The Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA).

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

### Which matters were of most significance in our review?

Key review matters are those matters that, in our professional judgment, were of most significance in our review of the CR information. We have communicated the key review matters to the Audit Committee. The key review matters are not a comprehensive reflection of all matters discussed.

These review matters were addressed in the context of our review of the CR information as a whole and in forming our conclusion thereon, and we do not provide a separate conclusion on these matters.

*Materiality assessment by the Managing Board*

- *The risk* – Based on stakeholder expectations and the company's strategy, the Board of SNS Bank has analysed which topics in respect of CR information it assesses of material significance to the readers of the Annual Report. Such an assessment is subject to the Board's judgment and as such the risk occurs that material topics are not included in the Annual Report.
- *Our response* – We have reviewed the internal process SNS Bank undertook to identify its material topics. We have also included in our review the results of our own media analysis and peer benchmarking with other banks. We then appraised the findings of our analyses against the actual topics listed in the Annual Report regarding CR information.
- *Our observations* – We have observed that SNS Bank has undertaken a sufficiently solid process to identify its material topics regarding CR information. In addition, we have observed that these material topics are included in the Annual Report.

*Reporting on outcomes regarding CR*

- *The risk* – SNS Bank reports its progress on CR using a number of performance indicators, the selection of which depends on the Board's judgment and as such the selection is subjective in nature.

- *Our response* – We have reviewed the selection and definition of performance indicators. We have subsequently requested underlying evidence to support the reported outcomes. In addition we have reviewed overall view from the CR information to assess if that view could be interpreted otherwise.
- *Our observations* – We have observed that the reported outcomes are sufficiently substantiated with supporting evidence. We note that the reporting on outcomes can be further improved if SNS Bank includes more quantitative indicators in its reporting. The reported outcomes in the current Report are more narrative and general in nature. In light of its recent strategy review SNS Bank commenced with implementing more detailed (quantitative) indicators.

### What are the responsibilities of management?

SNS Bank uses the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative (GRI) to draft its Report. Management is responsible for the preparation of the CR information in scope as included above under ‘Our conclusion’ in accordance with the relevant aspects of the G4 reporting guidelines as defined on page 199 of the Report. It is important to view the CR information in The Report in the context of these criteria. We believe these criteria are suitable in view of the purpose of our assurance engagement.

As part of this, management is responsible for such internal control as it determines is necessary to enable the preparation of CR information that are free from material misstatement, whether due to fraud or error.

### What is our responsibility for the review of the CR information?

Our objective is to plan and perform the review assignment in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those for a reasonable level of assurance.

The following procedures were performed:

- A risk analysis, including a media search, to identify relevant sustainability /environmental, safety and social issues for SNS Bank in the reporting period.
- Evaluating the design and implementation of the systems and processes for the collection, processing and control of the CR information.
- Evaluating internal and external documentation, based on sampling, to determine whether the CR information in is supported by sufficient evidence.
- Additionally we determined, as far as possible, whether the information concerning sustainability in the other sections of The Report is consistent with the CR information.

Amstelveen, 15 April 2015

KPMG Accountants N.V.

P.A.M. de Wit RA

# 7 Additional information

## Composition of the Managing Board

### Dick Okhuijsen, Chief Executive Officer

Dick Okhuijsen (1965) is Chief Executive Officer of SNS Bank NV. He joined the SNS REAAL Executive Board in 2009. Prior to this, he held several national and international positions at ING and Nationale Nederlanden. At ING, Okhuijsen's positions included CEO in Japan, the Czech Republic and Slovakia. In addition to his work at SNS Bank, he is a board member of the Dutch Banking Association (NVB), Vice-Chairman of Stichting Management Studies, chairman of the Supervisory Council of PPI Zwitserleven, chairman of the *Stichting Geldinzicht* and Ambassador of the University of Twente.

### Annemiek van Melick, Chief Financial Officer

Annemiek van Melick (1976) is Chief Financial Officer of SNS Bank NV. She was appointed Chief Financial Officer of SNS Bank under the articles of association in July 2014. Annemiek van Melick joined SNS REAAL in 2008, first in the position of Director of Corporate Strategy and Mergers & Acquisitions of SNS REAAL. She was appointed Chief Financial & Risk Officer of SNS Bank in 2012. Previously employed by, for instance, Goldman Sachs in London, Van Melick has extensive experience in the financial sector. She is also a member of the Supervisory Boards of RegioBank NV, ASN Bank NV and SNS Securities NV. In addition to her work at SNS Bank, she is a member of the Supervisory Council of Radio Netherlands Worldwide and a member of the Regulatory Matters Committee of the Dutch Banking Association (NVB).

### Martijn Wissels, Chief Risk Officer

Martijn Wissels (1958) has been Chief Risk Officer and a member of the Managing Board of SNS Bank NV since 1 July 2014. He was appointed Director of Group Risk Management of SNS REAAL in November 2013, a position that he still holds. Wissels previously worked for Achmea in the position of CFRO of Achmea Bank. He was also Director of Credit and Market Risk at Fortis Bank Nederland and worked for Fortis and MeesPierson in Singapore and New York. In addition to his work at SNS Bank, he is a member of the Programme Advisory Council of the Nyenrode Supervisory Board Member Cycle.

### Rob Langezaal, Chief Commercial Officer

Rob Langezaal (1958) is the Chief Commercial Officer of SNS Bank NV. Since the change in governance structure at SNS REAAL in 2014, he joined the Managing Board of SNS Bank NV. He is responsible for the retail activities of ASN Bank, BLG Wonen, RegioBank, SNS and ZwitserlevenBank. He became a member of the Managing Board of SNS Bank in 2007. As a Director/Managing Board member, he was responsible for the marketing, sales and product management portfolios. Langezaal is also Chairman of the Supervisory Boards of ASN Bank NV, RegioBank NV and SNS Beleggingsfondsen NV. Before joining SNS Bank, he worked at KPN. In addition to his work at SNS Bank, he is a member of the Consumer Matters Committee of the Dutch Banking Association (NVB) and board member/Treasurer of *Stichting Weet Wat Je Besteedt*.

## Alexander Baas, Chief Operations Officer

Alexander Baas (1966) is the Chief Operations Officer of SNS Bank NV. He has been a member of the Managing Board since July 2014, focusing on the service centres for payments, savings, mortgages, investments and SMEs. He is also responsible for IT & Change and Facility Management. He was appointed CIO of SNS Bank in 2005, having previously held various IT positions at SNS Bank and an engineering firm. In addition to his work for SNS Bank NV, he is also a board member of *Betaalvereniging Nederland* and Chairman of the Advisory Council of Stichting HBO-I.

# Composition of the Supervisory Board

## Jan Nooitgedagt, Chairman

Jan Nooitgedagt (1953) has been working in the financial services sector for more than 35 years. From April 2009 to May 2013 he served as CFO and Executive Board member at Aegon NV. Prior to that, Nooitgedagt spent 28 years working for Ernst & Young, where his positions included those of Chairman and Managing Partner for the Netherlands and Belgium. Nooitgedagt also serves on the Supervisory Boards of NV Bank Nederlandse Gemeenten, Robeco Groep NV and Telegraaf Media Groep NV. He is Chairman of the board of Vereniging Effecten Uitgevende Ondernemingen (VEUO) and Chairman of the Board of the Nyenrode Fund.

Nooitgedagt was appointed as member and Chairman of the Supervisory Board on 1 November 2013. He will step down at or before the first General Meeting of Shareholders held after 1 November 2017.

## Charlotte Insinger

Charlotte Insinger (1965) acts as an independent management consultant and interim manager. Insinger was a member of the Supervisory Committee of Stichting Rijnland Zorggroep until October 2014 and is a member of the Supervisory Council of Luchtverkeersleiding Nederland, Chairman of the Supervisory Council of Stichting World Expo Rotterdam 2025, Supervisory Board member of Ballast Nedam NV and member of the Strategic Audit Committee of the Ministry of Foreign Affairs, in which she fills an advisory role.

Insinger was first appointed as a member of the Supervisory Board on 15 April 2009, having been nominated by the Dutch government. She was reappointed on 6 June 2013. She will step down at or before the first General Meeting of Shareholders held after 6 June 2017.

## Monika Milz

Monika Milz (1957) has been acting as a professional regulator and management consultant since 2011. She has been working in the banking industry for thirty years, having spent 20 years at ABN AMRO and in the period from 2000 to 2011 at Rabobank Group. Her area of banking knowledge and expertise is the services provided to business customers on the one hand and HRM on the other. Milz has been serving in supervisory positions for the last two decades and currently holds positions as member of the Supervisory Council of the Amsterdam University of Applied Sciences Foundation, as Supervisory Board member of ConQuaestor Holding BV and as Chair of the Green Deal Board.

Milz was appointed as a member of the Supervisory Board on 1 November 2013. She was appointed at SNS REAAL NV in accordance with the reinforced right of recommendation of the SNS REAAL Central Works Council. She will step down at or before the first General Meeting of Shareholders held after 1 November 2017.

## Jos Nijhuis

Jos Nijhuis (1957) is President of Schiphol Group. Prior to that, he served as Chairman of the Executive Board of PwC. Nijhuis is a non-executive board member of Aeroports de Paris SA., non-executive director of Brisbane Airport Corporation PTY ltd and a member of the Supervisory Board of Aon Groep Nederland BV. In addition, he is a member of the Supervisory Council of Stichting Kids Moving the World and a member of the Supervisory Council of Stichting Nationale Opera & Ballet.

Nijhuis was first appointed as a member of the Supervisory Board on 15 April 2009 and reappointed on 6 June 2013. He will step down at or before the first General Meeting of Shareholders held after 6 June 2017.

## Jan Nijssen

Jan Nijssen (1953) is a partner and shareholder of Montae Groep (independent pension consultants). From 1978 to 2005 Nijssen held various positions at Nationale Nederlanden and ING Group both in the Netherlands and abroad. He was appointed as a member of the board of ING Netherlands and ING Europe in 1997 and 2000 respectively and as CEO of ING Insurance & Pensions for Central Europe in 2004. Nijssen is also a member of the Supervisory Board of Garanti Emeklilik (Turkey), member of the Internal Supervision Committee of the Shell Pension Fund, Chairman of the Board of Directors of Three Wheels United (Bangalore, India), Chairman of the Board of Stichting Duurzame Micropensioenen Ontwikkelingslanden (DMO) and member of the Supervisory Council of Prodeba BV.

Nijssen was first appointed as a member of the Supervisory Board on 13 September 2011. He will step down at or before the first General Meeting of Shareholders held after 13 September 2015.

## Jan van Rutte

During the course of his long career Jan van Rutte (1950) has served as Chairman of the Executive Board of Fortis Bank Nederland, CFO of ABN AMRO and board member of the Dutch Banking Association (NVB). He is also a Supervisory Board member of ORMIT Holding BV, member of the Supervisory Council of Stichting de Koninklijke Schouwburg in The Hague, board member of the ABN AMRO Foundation and member of the Supervisory Council of Stichting Health Center Hoenderdaal.

Van Rutte was appointed as a member of the Supervisory Board on 1 November 2013. He will step down at or before the first General Meeting of Shareholders held after 1 November 2017.

## Ludo Wijngaarden

Ludo Wijngaarden (1947) served as Chairman of the Executive Board of Nationale Nederlanden and member of the Executive Board of ING Netherlands until 2008. Prior to that, he served as Chairman of the Executive Board of Postbank and the ING Retail division. He was also Chairman of the Dutch Association of Insurers, member of the board of VNO-NCW and member the Bank Council of De Nederlandsche Bank until October 2008. Wijngaarden is currently Chairman of the Supervisory Board of Oasen NV, member of the Supervisory Board of the Rochdale housing corporation, member of the board of DAK Intermediairscollectief and member of the Advisory Board of Dutch Data Protection Authority.

Wijngaarden was first appointed as a member of the Supervisory Board on 15 April 2009, having been nominated by the Dutch government, and reappointed on 6 June 2013. He will step down at or before the first General Meeting of Shareholders held after 6 June 2017.

# Abbreviations

| Abbreviations | Description | Abbreviations | Description |
|---|---|---|---|
| AC | Audit Committee | IIRC | International Integrated Reporting Council |
| AFM | The Netherlands Authority for the Financial Markets | ILAAP | Internal Liquidity Adequacy Assessment Process |
| ALCO | Asset & Liability Committee | IRB | Internal Rating Based (approach) |
| ALM | Asset Liability Management | ISDA | International Swaps and Derivatives Association |
| AQR | Asset Quality Review | KC | Credit Committee |
| ASN | Algemene Spaarbank voor Nederland | KPI | Key Performance Indicator |
| BLG | Bouwfonds Limburgse Gemeenten | LCP | Liquiditeit Contingency Plan |
| BRC | Bank Risk Committee | LCR | Liquidity Coverage Ratio |
| BRRD | Bank Recovery and Resolution Directive | LGD | Loss Given Default |
| BSM | Balance Sheet Management | LTRO | Long Term Refinancing Operation |
| CLA | Collective Labour Agreement | LtV | Loan to value |
| CDO | Collaterised Debt Obligation | MBS | Mortgage Backed Securities |
| CFO | Chief Financial Officer | MFH | Mixed Financial Holding |
| CLO | Collaterised Loan Obligation | MGC | Model Governance Committee |
| $CO_2$ | Carbon dioxide | MREL | Minimum Requirement for own funds and eligible liabilities |
| COO | Chief Operations Officer | MVO | Corporate social responsibility |
| COR | Central Works Council | NFRC | Non-Financial Risk Committee |
| CRD | Capital Requirements Directive | NHG | National Mortgage Guarantee |
| CRO | Chief Risk Officer | NLFI | NL Financial Investments |
| CRR | Capital Requirements Regulation | NPS | Net Promoter Score |
| CSA | Credit Support Annex | NSFR | Net Stable Funding Ratio |
| CVA | Credit Valuation Adjustment | PARC | Product Approval and Review Committee |
| DMA | Disclosure on Management Approach | PD | Probability of Default |
| DNB | Dutch Central Bank | RAROC | Risk Adjusted Return On Economic Capital |
| DPC | Management Pricing Committee | RC | Risk Committee |
| EAD | Exposure at Default | RMBS | Residential Mortgage Backed Securities |
| EaR | Earnings at Risk | ROE | Return on Equity |
| EBA | European Banking Authority | RvC | Supervisory Board |
| EC | European Committee | RWA | Risk Weighted Assets |
| ECB | European Central Bank | SME | Small Medium Entities |
| EDTF | Enhanced Disclosure Task Force | SNS | Samenwerkende Nederlandse Spaarbanken |
| EMTN | European Medium Term Note | SPV | Special Purpose Vehicle |
| ESCB | European System of Central Banks | SREP | Supervisory Review and Evaluation Process |
| FTE | Full Time Equivalent | STP | Straight Through Processing |
| GRI | Global Reporting Initiative | SWOT | Strengths, Weaknesses, Opportunities & Threats |
| IAS | International Accounting Standard | TLAC | Total Loss-Absorbing Capacity |
| IBNR | Incurred but not Reported | VaR | Value at Risk |
| ICAAP | Internal Capital Adequacy Assessment Process | Wft | Financial Supervision Act |
| ICF | Integrated Control Framework | WfZ | Guarantee fund for the health care |
| IFRS | International Financial Reporting Standards | WSW | Social Housing Guarantee Fund |

# About this report

SNS Bank NV prepares the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). In addition, we have chosen to report in line with the latest guidelines of the Global Reporting Initiative, G4, in particular with the 'In accordance' option 'Core'. Compared to the previous version, materiality and relevance are much stronger positioned in these new guidelines. This fits in with our new strategy, in which we reach back to our core values and increase our focus on the material issues that are relevant to achieving our vision and strategic objectives.

## Determination of materiality of Annual Report 2014

The material issues for SNS Bank were determined by going through three steps. First, a list of all possible reportable issues was compiled on the basis of the following sources:

- Guidelines and frameworks
- The current strategy and Manifesto themes
- The Annual Report 2013
- Workshop on Materiality Determination in collaboration with MVO Nederland (CSR Netherlands)
- The results of the stakeholder dialogue conducted by us in 2013
- Reporting by industry peers
- Issues that received media coverage
- Trends in CSR and trends within the sector.

Based on the first list, 41 possibly relevant issues were then identified. The third step was a quantitative survey among 165 internal and external stakeholders. We completed our materiality analysis on the basis of the survey results (78 respondents).

We have visualised the main issues per stakeholder group in the circle diagram below. The materiality matrix reflects the overall results, combining the interests of stakeholders and our company. We have defined the issues in the upper right hand corner as material issues; they are explained in qualitative terms in this report. The material issues identified have also been incorporated in the GRI G4 table on page 209 and further.

The table at the end of this chapter includes an explanation of each material issue and indicates where the explanations can be found in this report.

## Management approach to material issue

The Board of Directors of SNS Bank bears ultimate responsibility for the implementation of the material issues, many of which are already part of the day-to-day operations. The departments involved therefore have a sound understanding of the relevant duties and responsibilities and the allocated time and resources.

In the section 'Data collection and reporting', we will explain in more detail how we collect data about the issues we are already reporting on. For a number of material issues we do not yet have any relevant measured performance indicators available, but we have set out objectives for them. As from 2015, we will measure the progress and performance of these issues as well.

The material issues are linked to the new strategy and expressed in the objectives of the Manifesto, drawn up jointly by members of the Board of Directors and Management Team at the end of 2014. The Manifesto approach and the formulated issues were discussed during meetings of the Executive Board and Supervisory Board.

## Scope of the report

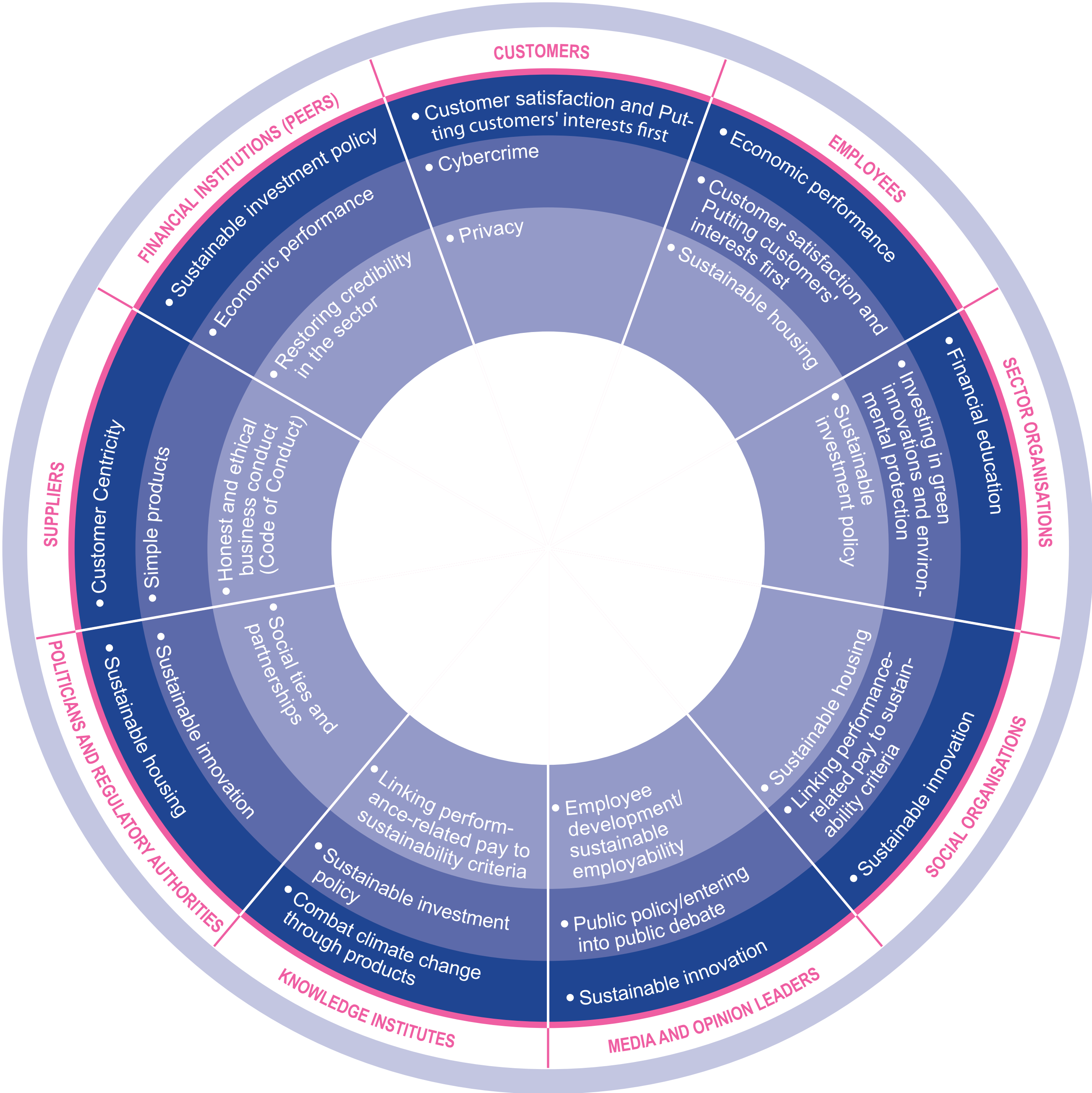
This report relates to all activities in the calendar year 2014 that are part of SNS Bank and its business units. Where Corporate Responsibility (CR) data relate to parts of the organisation other than SNS Bank, this will be indicated with the relevant CR data. This report was published on 16 April 2015.

## Data collection and reporting

The information in this report relates to all of SNS Banks' brands and business activities and was collected on the basis of qualitative interviews and quantitative data requests. For this purpose, we consulted those responsible for CR within the business units and staff departments (project managers, policy officers, programme managers etc.). The material issues were covered during the interviews and the G4 guidelines correspond to the data requests as closely as possible.

Those responsible for CR within the business units provided the quantitative data requested and manage the CR issues on a daily basis. Additional information, such as data concerning human resources and environmental performance, was retrieved from central information systems.

The Corporate Responsibility department verified the acquired data by means of a plausibility check. The processed data were then validated by KPMG.




The contents of the report were subsequently reviewed within the business units and in the various staff departments such as HR, Corporate Communication, Facility Management, Purchasing, Legal Affairs and Compliance, and Security & Operational Risk Management.

The reported CR data relate to the reporting year 2014. These do not include the environmental data, which are reported on the basis of the actual results for the first quarter up to and including the third quarter of 2014, supplemented by an estimate for the fourth quarter based on the actual results achieved in the fourth quarter of 2013.

This annual report will be assessed in the annual Transparency Benchmark of the Ministry of Economic Affairs. SNS REAAL's 2013 Annual Report scored 152 points on the last Transparency Benchmark. Our position, development and result on this benchmark can be compared with other companies on the Transparency Benchmark website. In the annual general survey conducted by the Fair Bank Guide (Annual Update 2014), SNS REAAL obtained a top 3 position as the banking group with the most sustainable policy (average score of 6.9). The Fair Bank Guide's website compares our performance with that of other banks.

## External assurance

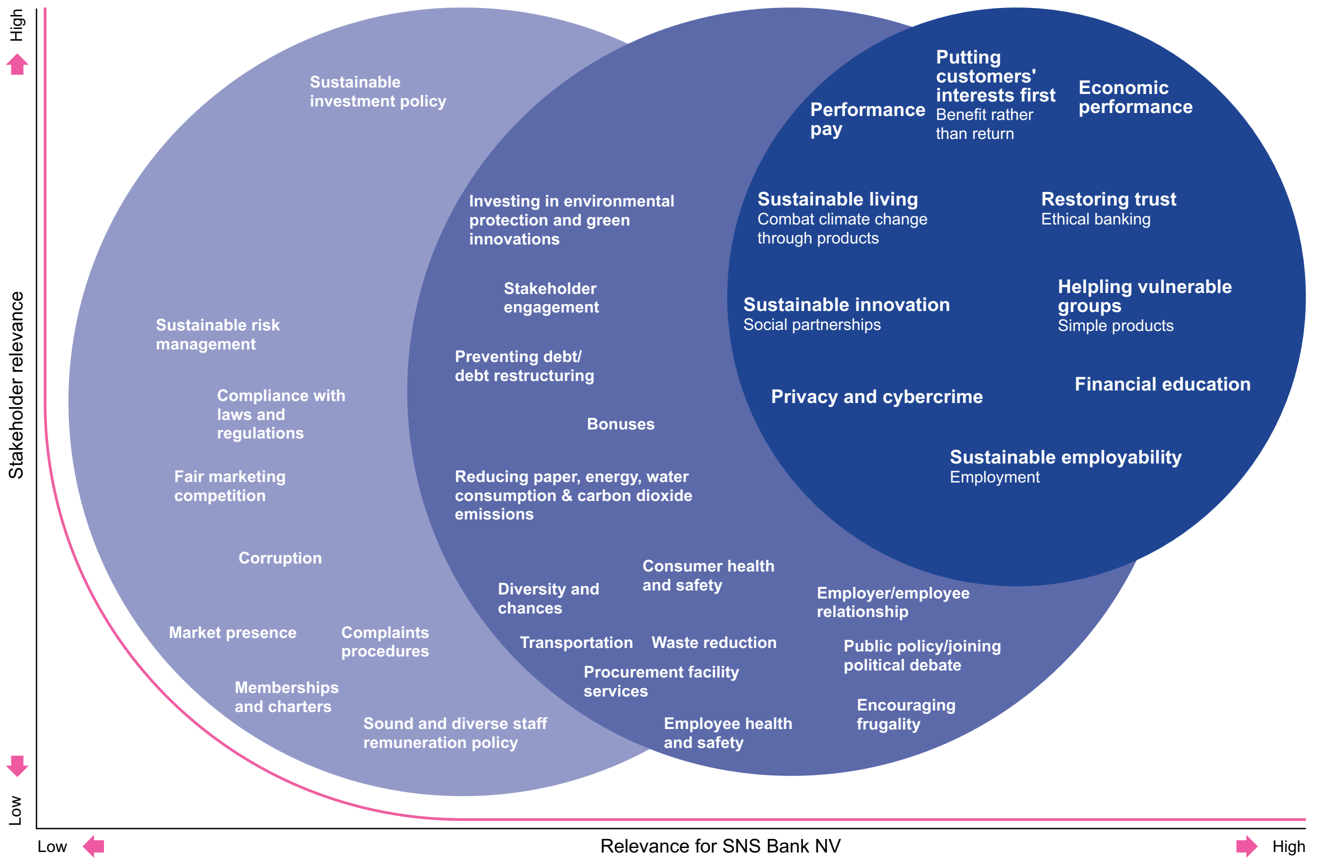
KPMG validated the CR-related issues and issued an unqualified opinion with 'limited assurance'. KPMG performed its work in accordance with Dutch Assurance Standard 3810N 'Assurance engagements relating to sustainability reports' as drawn up by the Netherlands Institute of Chartered Accountants (NBA).

The CR-related issues are described in Chapter 1, Chapter 4 and the appendices GRI Table, About this report, Stakeholder engagement and Other Corporate Responsibility performance indicators. We attach importance to the validation of these sections of the report in order to enhance its reliability, completeness and transparency in respect of our stakeholders.

## SNS Bank values your opinion on this annual report

We invite all stakeholders, including social organisations, to ask questions, express complaints and share tips via verantwoord.ondernemen@sns.nl.

**Materiality matrix**



| Material issues | Explanation of material issue | Reference |
|---|---|---|
| Sustainable housing | Greening of existing mortgages, promotion of sustainable (new) mortgages, development of social policy. | Section 4.5.2 |
| Sustainable innovation | Innovative partnerships, development of sustainable products and services | Section 4.5.2 |
| Linking performance-based remuneration to sustainability criteria | Linking remuneration to social performance | Chapter 3 & section 4.3.1 |
| Restoring trust (ethical behaviour and integrity in banking) | Enhancing credibility of the financial sector, regaining consumer trust, simplicity of products | Appendix Other Corporate Responsibility performance indicators, section 4.5.2 & section 4.6.4 |
| Economic performance | Financially independent and healthy organisation that stands on its own feet | Financial statements & section 4.3.2 |
| Financial education | Offering programmes to children, youngsters and financially vulnerable adults | Section 4.5.2 & Appendix Other Corporate Responsibility performance indicators |
| Sustainable employability | Development of education and training courses on resilience on the (future) labour market | Section 4.6.7 |
| Aiding vulnerable groups | Services to aid financially vulnerable groups | Section 4.5.2 & Appendix Other Corporate Responsibility performance indicators |
| Putting customers' interests first | Keeping a focus on customer needs and being transparent about added value | Section 4.5.2 & Appendix Other Corporate Responsibility performance indicators |
| Privacy and cybercrime | Safeguarding customer data; combating privacy breaches | Appendix Other Corporate Responsibility performance indicators & section 4.5.3 |

## Stakeholder engagement

SNS Bank NV and its brands are continuously engaged in dialogue with several groups of stakeholders about various social issues. Most prominent among these are: customers, employees and sales advisors, sector organisations, social organisations, the media and opinion leaders, specialist institutes and politicians and regulatory authorities. The table below shows the main stakeholder groups and how we engaged in discussions with them. It also provides insight into the key points of discussion and the results for each stakeholder group and how these (material) topics have affected the annual report.

| Stakeholder group | Form and frequency of main stakeholder dialogues | Key points of discussion and results of dialogue |
|---|---|---|
| Customers | Customer councils (4 x per year)<br>Customer meetings (2 to 4 x per year)<br>Customer consultation<br>Mini-symposia<br>Survey as part of its investigation into the key (material) themes (once every two years)<br>Dutch Consumers' Association (semi-annual meeting) | Putting customers' interests first<br>Animal welfare policy<br>Carbon-neutrality objective<br>Human rights in mining industry<br>ASN Bank frontrunner in climate change |
| Employees and sales advisors | Works Council (every quarter)<br>Round-table discussions with BLG Wonen sales advisors (monthly)<br>Survey as part of its investigation into the key (material) themes (once every two years)<br>Round-table meeting about social issues/Manifesto goals (annually)<br>Workshops<br>Career counselling and LoopBaanPlaza events (147 in total) | Future and role of employees as a result of the disentanglement<br>Strategy fine-tuning<br>Manifesto implementation<br>Future labour market and career opportunities |
| Sector organisations | Meetings (weekly)<br>Survey as part of its investigation into the key (material) themes (once every two years)<br>Round-table meeting about social issues/Manifesto objectives (annually) | Privacy<br>Transparency<br>Consumer issues<br>Sustainable housing<br>Debt counselling<br>Compliance<br>Financial education<br>Economic performance |
| Social organisations | Survey as part of its investigation into the key (material) themes (once every two years)<br>Round-table meeting about social issues/Manifesto objectives (annually)<br>Bilateral arrangements | Sustainable housing<br>Transparency<br>Mining industry<br>Tax avoidance<br>Recycling |
| Media and opinion leaders | Survey as part of its investigation into the key (material) themes (once every two years)<br>Press conferences<br>Presentation of annual results | Annual results |
| Specialist institutes | Meetings and bilateral arrangements<br>Survey as part of its investigation into the key (material) themes (once every two years)<br>Round-table meeting about social issues/Manifesto objectives (annually) | Collaboration with specialist institutes<br>Comments on first draft of Manifesto incorporated<br>Sustainable Banking<br>Impact measurement |
| Politicians and regulatory authorities | Participation in public hearing on Sustainable Banking in the House of Representatives<br>Survey as part of its investigation into the key (material) themes (once every two years)<br>Round-table meeting about social issues/Manifesto objectives (annually) | Transparency<br>Manifesto<br>Disentanglement<br>3 extra days in the red without paying interest, and introduction of a credit alert<br>'Bouwsparen'<br>Ban on commissions adjustment |

| Stakeholder group | Form and frequency of main stakeholder dialogues | Key points of discussion and results of dialogue |
|---|---|---|
| | Round-table meeting about social issues/Manifesto objectives (annually)<br>Meetings and bilateral arrangements<br>Lobby discussions<br>Propositions | |

## Stakeholder dialogue on our strategy and Manifesto

One of the dialogues that stands out is the stakeholder dialogue that we organised on 29 October 2014. At this round-table meeting with specialist institutes, sector organisations, regulatory authorities and social organisations, we presented our draft strategic Manifesto and asked the attendees for feedback. The stakeholders were identified and selected based on their knowledge of SNS Bank and previous forms of dialogue we had with them. The responsible member of the Board of Directors was also present and presented the draft strategy. The subsequent discussion produced highly valuable comments and suggestions, which we incorporated in the Manifesto and the underlying objectives. We further fine-tuned this last version during several internal stakeholder sessions with employees and management members, eventually resulting in the strategic Manifesto as presented in this annual report.

## Lobbying activities

SNS Bank is committed to various social issues and therefore regularly holds meetings with parties such as ministries, the House of Representatives, municipalities, regulatory authorities, sector organisations, social organisations and consumer organisations. The main issues to which SNS Bank dedicated itself in 2014 are listed below:

- Talks with the House of Representatives, the Ministry of Finance and regulatory authorities led to an adjustment of the ban on commissions implemented in 2013, allowing us to give free advice to financially vulnerable customers. Customers had to pay for such advice in the past, while our only aim is to help these customers proactively and free of charge to avoid payment arrears and make payment arrangements in time. We were successful: as from 2015, we no longer need to charge customers a financial contribution for such advice.
- Following consultation with AFM, SNS Bank was permitted to provide a new service, i.e. not charging customers interest during the first three days of their overdraft. In this period we can also send a credit alert to our customers, giving them the time to take measures.
- SNS Bank is convinced that Bouwsparen (like the proven German variant) will greatly benefit the Dutch market. Asking customers to first deposit part of their own funds before taking out a mortgage results in lower risk when arranging a mortgage and may avoid or reduce mortgage loan balances. We conducted several talks on this subject with consumer organisations, professors, political parties and various ministries in the past year. We also participated in a public hearing of the House of Representatives about Bouwsparen, and we launched a new website: www.bouwsparen.nl.
- Discussions were held with both our own staff and with the Minister of Finance and members of the House of Representatives regarding SNS Bank disentanglement into an independent bank.
- At the initiative of the House of Representatives, we participated in a public hearing on Sustainable banking.
- We had several talks with municipalities, local entrepreneurs, sector organisations and regulatory authorities on the theme of quality of life and monetary facilities in rural areas undergoing depopulation in the Netherlands. We also participated in a public hearing in the House of Representatives on this subject.

## Advisory Council

SNS REAAL has had an Advisory Council since 2012, which will transfer to SNS Bank in 2015. We discuss dilemmas and issues with the Advisory Council that we, as a company, encounter. Members of the Council are drawn from a range of sectors in mainstream society. This way, we are provided with additional critical opinions and advice. In 2014, the Advisory Council met three times and consisted of the following members: Gerhard van den Top, Peter Verhaar, Giuseppe van der Helm, Fokko Wientjes and Henriëtte Prast. Dirk Schoenmaker was a member until 1 December 2014.

## Guidelines and memberships

SNS Bank signed the guidelines of UN Global Compact, a strategic policy framework for companies that commit themselves to the principles of the United Nations in the areas of human rights, labour, the environment and anti-corruption. Through the Global Compact, the UN aims to bring together companies, UN bodies, trade unions and social organisations. SNS Bank also subscribes to the OECD Guidelines, the International Labour Organization (ILO) guidelines and the Universal Declaration of Human Rights. SNS Bank NV and its brands are members of MVO Nederland (CSR Netherlands), Dutch Association of Investors for Sustainable Development (VBDO), UNEP FI and other organisations.

For a complete list, see our website.

## Dilemmas

*Dilemma regarding customer advice*

With the introduction of a separate advisory fee for complex products, many customers are considering if they can purchase such products without taking advice. This is possible, but things can go wrong if the customer's knowledge and understanding are not as extensive as he thinks. This poses a dilemma for the bank. We would like to offer customers what they are asking for, but we also feel responsible for the consequences associated with the customer's freedom of choice. For this reason, our bank brands do not (as yet) sell term life insurance and bank savings products without advice. First, we want to be more certain regarding the reliability of tests that indicate whether the customer is buying a product that is actually suitable for his situation.

*Dilemma regarding encouraging a sustainable lifestyle*

Our bank brands are aware of the impact that lifestyle has on climate change. That is why we set a target in 2014 to reduce the $CO_2$ emissions (average per home) for our entire mortgage portfolio by 20% in 2020. We intend to achieve this goal by encouraging our customers to save energy and generate renewable energy. A potentially powerful instrument to use is offering lower interest rates to mortgage customers with energy-efficient homes. However, this loss of net interest income must be 'made good' elsewhere and it therefore seems an obvious choice to increase interest rates for mortgage customers with uneconomical homes. What is undesirable here is that we charge customers with non-efficient homes extra, as the number of customers with limited disposable income is relatively large in this group. High energy charges cut into disposable income and the means to invest in the home are not always immediately available. Higher mortgage rates for non-efficient homes would put even greater pressure on the disposable income of these customers. The challenge is 1) to reward the increased sustainability of homes by offering lower mortgage rates and 2) to help customers who do not have the means themselves to *still* save energy *and* money.

# Other Corporate Responsibility performance indicators

This appendix explains a number of material themes that are not reported in the chapters of this report. We intend to integrate these topics into the data collection cycle and/or to bring them in line with the strategic Manifesto objectives in 2015. We report the provided environmental data in this report because we are as yet unable to make them available online. In future, we intend to report this less material data on our website.

## Privacy

SNS Bank sets great store by privacy. Privacy was given additional attention in 2014, which resulted in the creation of a privacy programme partly in response to the expected advent of the European Privacy Regulation in 2015. The purpose of the programme is to further structure the organisation in order to permanently comply with laws and regulations on the processing of personal data. It is an organisation-wide privacy programme affecting all entities. We improved some processes under the programme, including the process concerning requests for access submitted by our customers. This gives them a better understanding of the personal data we process.
In 2014, we found 52 customer privacy complaints to be justified, which is 23 complaints less than in 2013.

| | 2014 | 2013 |
|---|---|---|
| Justified complaints regarding customer privacy breaches and the loss of customer data | 52 | 75 |

## Putting customers' interest first

All of our newly introduced and revised products and services are tested by or developed in collaboration with a customer panel.
Please refer to section 4.6 for a detailed explanation of our activities with respect to customer satisfaction and of how we put customers' interests first.

## Restoring trust

SNS Bank seeks to gain society's trust and take up a specific role to enhance the financial sector's credibility. In 2014 a first survey into our reputation was conducted among SNS Bank's main stakeholders, which resulted in a score of 5 out of 10.

Please refer to section 4.6 for an explanation of our activities with respect to restoring trust, including customer satisfaction.

## Vulnerable groups

SNS Bank is committed to aiding vulnerable groups in society by providing services to customers who might run into mortgage problems in the future. For that reason, the 'Living at Ease' project was launched and a Mortgage Support Team was set up in 2014. The Support Team helps sales advisors to provide preventive support to customers who may experience difficulties in the future. Please refer to section 4.6 for a further explanation of our activities with respect to the Mortgage Support Team of the Vulnerable groups material theme.
The 'Living at Ease' project was launched in 2014. The following activities were undertaken in order to bring this development to the fore. Of all the customers who received preventive support, 83.2% did not end up in procedures of the Special Credits department, which is a success rate that we wish to monitor and build on in the years ahead.

| | 2014 |
|---|---|
| Letters sent on mortgage insight (Hypotheekinzicht) | 10,028 |
| Emails sent on mortgage test tool | 10,243 |
| SNS Bank and BLG Wonen visits of mortgage test tool | 24,656 |
| Success ratio of Mortgage Support Team (MST) | 83.2% |

## The environment

SNS Bank uses its brands to advocate a sustainable world in both investment policy and business operations, which ranges from using energy efficiently to purchasing products and services in a sustainable way.

Lower energy consumption also translates into lower $CO_2$ emissions. Under the arrangements made in the MJA3 energy covenant, SNS Bank measures energy efficiency per FTE of the financial service providers. This implies that we are committed to our energy efficiency objectives, which are assessed by the government.

We do not only purchase green sources of energy, but we also offset our remaining $CO_2$ emissions from internal business operations and mobility by purchasing Gold Standard credits. The proceeds from these credits are used to invest in efficient cook stoves in Ghana, which reduces $CO_2$ emissions there.
We report our $CO_2$ emissions on the basis of scope 1, 2 and 3 of the Greenhouse Gas Protocol. Scope 1 involves emissions caused by fuels that we ourselves purchase and consume (such as generators for heating and the fuel for our company cars). In scope 2 we report $CO_2$ emissions resulting from electricity consumption (we do not emit this

$CO_2$ ourselves, but the energy company does), and in scope 3 we present the amount of $CO_2$ that is emitted by parties  for which SNS Bank is not responsible for the purchasing or directly emitting $CO_2$. This includes commuting by our employees who have no company car and the consumption by third parties from which we obtain services (such as air travel).

SNS Bank has also received ISO 14001 certification for its internal business operations, which means that the environmental management system that we have set up to mitigate environmental risks and to continuously improve our environmental performance has been verified by a third party.
We have not included any comparative figures due to the separation of the Bank and the Insurer, as the environmental figures for 2013 and earlier pertain solely to SNS REAAL as a whole.

| Category | Units | 2014 | 2013 |
|---|---|---|---|
| *Energy consumption of offices* | | | |
| Green gas | GJ | 7,165 | 10,523 |
| Grey gas | GJ | 0 | 1,892 |
| Generators | GJ | 5,131 | 9,107 |
| Green energy | GJ | 25,361 | 26,116 |
| Grey energy | GJ | 0 | 3,414 |
| **Total energy consumption** | GJ | 37,658 | 51,052 |
| *Energy consumption per FTE* | GJ | 10.6 | 14.7 |
| *Energy consumption per m²* | GJ | 0.8 | 0.9 |
| *Share of green energy consumption of offices* | | | |
| **% green energy** | % of total | 100% | 88% |
| **% green energy consumption** | % of total | 86% | 72% |
| *$CO_2$ emissies* | | | |
| Heating | tonnes | 407 | 710 |
| Company cars | tonnes | 2,344 | 2,990 |
| **Scope 1** | **tonnes** | **2,751** | **3,699** |
| Electricity | tonnes | 3,297 | 3,839 |
| **Scope 2** | **tonnes** | **3,297** | **3,839** |
| Flights | tonnes | 338 | 404 |
| Commuting | tonnes | 5,120 | 5,135 |
| Business travel | tonnes | 1,764 | 1,806 |
| **Scope 3** | **tonnes** | **7,222** | **7,345** |
| Gross CO2 emissions | tonnes | 13,270 | 14,884 |
| Net CO2 emissions | tonnes | 9,568 | 10,893 |
| *$CO_2$ in tonnes per FTE* | tonnes | 2.7 | 3.1 |
| *Modes of transport* | | | |
| Company cars | km | 11,164,000 | 14,236,000 |
| Flights | km | 1,940,000 | 2,337,000 |
| Commuting (car) | km | 18,440,000 | 18,965,000 |
| Commuting (public transport) | km | 20,458,000 | 18,886,000 |
| Business travel (car) | km | 8,188,000 | 8,274,000 |
| Business travel (public transport) | km | 726,000 | 1,129,000 |
| **Total travel** | **km** | **60,916,000** | **63,827,000** |
| *Kilometres per FTE* | *km* | *17,000* | *18,000* |
| *Paper consumption* | | | |
| Paper | tonnes | 685 | 662 |
| *Paper in kg per FTE* | *kg per fte* | *193* | *190* |
| *Waste* | | | |
| Residual waste | tonnes | 95 | not available |
| Biodegradable waste | tonnes | 33 | not available |
| Small chemical waste | tonnes | 0.3 | not available |
| Business waste | tonnes | 5 | not available |
| Paper and cardboard waste | tonnes | 112 | not available |
| Plastic | tonnes | 15 | not available |
| **Total waste** | **tonnes** | **261** | not available |
| *Share of residual waste* | *%* | *36%* | not available |
| *Waste in kg per FTE* | *kg per fte* | *129* | not available |

# GRI-table SNS Bank NV

| Indicator | Description indicator | Reference/description | External verification |
|---|---|---|---|
| **General Standard Disclosures** | | | |
| **Strategy and Analysis** | | | |
| G4-1 | Provide a statement from the most senior decision-maker of the organisation | 2 Foreword | X |
| G4-3 | Report the name of the organisation. | SNS Bank N.V. | O |
| G4-4 | Report the primary brands, products, and services. | 1.2 Strategy | X |
| G4-5 | Report the location of the organisation's headquarters. | Utrecht | O |
| G4-6 | Report the number of countries where the organisation operates | The Netherlands | O |
| G4-7 | Report the nature of ownership and legal form. | 1.4 SNS Bank disentanglement | X |
| G4-8 | Report the markets served. | The Netherlands | O |
| G4-9 | Report the scale of the organisation. | Core figures | O |
| G4-10 | Report the total workforce. | Core figures | O |
| G4-11 | Report the percentage of total employees covered by collective bargaining agreements. | 4.7 Our people | X |
| G4-12 | Describe the organisation's supply chain. | 1.5 Our value chain | X |
| G4-13 | Report any significant changes during the reporting period. | 4.5 Progress ECB degree | X |
| G4-14 | Report whether and how the precautionary approach or principle is addressed by the organisation. | We have not formally adopted the precautionary principle but we systematically assess and manage environmental, safety, supply chain, operational and other risks as described throughout this report. | O |
| G4-15 | List externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or which it endorses. | 7 Stakeholder Engagement | X |
| G4-16 | List memberships of associations (such as industry associations) and national or international advocacy organisations. | 7 Stakeholder Engagement | X |
| **Identified Material Aspects and Boundaries** | | | |
| G4-17 | Report whether any entity included in the organisation's consolidated financial statements or equivalent documents is not covered by the report. | 7 About this report | X |
| G4-18 | Explain how the organisation has implemented the Reporting Principles for Defining Report Content. | 7 About this report | X |
| G4-19 | List all material Aspects identified in the process for defining report content. | 7 About this report | X |
| G4-20 | For each material Aspect, report the Aspect Boundary within the organisation. | 7 About this report | X |
| G4-21 | For each material Aspect, report the Aspect Boundary outside of the organisation. | 7 About this report | X |
| G4-22 | Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements. | 7 About this report | X |
| G4-23 | Report significant changes from previous reporting periods in the Scope and Aspect Boundaries. | 7 About this report | X |
| **Stakeholder Engagement** | | | |

| Indicator | Description indicator | Reference/description | External verification |
|---|---|---|---|
| G4-24 | Provide a list of stakeholder groups engaged by the organisation. | 7 Stakeholder Engagement | X |
| G4-25 | Provide a list of stakeholder groups engaged by the organisation. | 7 Stakeholder Engagement | X |
| G4-26 | Report the organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process. | 7 Stakeholder Engagement | X |
| G4-27 | Report key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns. | 7 Stakeholder Engagement | X |
| **Report Profile** | | | |
| G4-28 | Reporting period (such as fiscal or calender year) for information provided. | 1 January 2014 till 31 December 2014 | O |
| G4-29 | Date of most recent previous report. | 5 March 2014 | O |
| G4-30 | Reporting cycle | Yearly | O |
| G4-31 | Provide the contact point for questions regarding the report or its contents. | corporatecommunicatie@sns.nl, verantwoord.ondernemen@sns.nl | O |
| G4-32 | GRI application level | GRI G4 Core | O |
| G4-33 | Report the organisation's policy and current practice with regard to seeking external assurance for the report. | 7 About this report | X |
| **Governance** | | | |
| G4-34 | Report the governance structure of the organisation, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts. | 4.5 Progress ECB degree | X |
| **Ethics and Integrity** | | | |
| G4-56 | Describe the organisation’s values, principles, standards and norms of behavior such as codes of conduct and codes of ethics. | 7 Stakeholder Engagement | X |
| **Specific Standard Disclosures** | | | |
| **Materiele onderwerpen** | | | |
| **Economic Performance** | | | |
| DMA | a. Report why the Aspect is material. Report the impacts that make this Aspect material<br>b.Report how the organisation manages the material Aspect or its impacts<br>c. Report the evaluation of the management approach | 7 About this report | X |
| G4-EC1 | Direct economic value generated and distributed | 6 Consolidated financial statements | O |
| G4-EC4 | Financial assistance received from government | 1.3 History | X |
| **Indirect Economic Impacts** | | | |
| DMA | a. Report why the Aspect is material. Report the impacts that make this Aspect material<br>b.Report how the organisation manages the material Aspect or its impacts | 7 About this report | X |

| Indicator | Description indicator | Reference/description | External verification |
|---|---|---|---|
| | c. Report the evaluation of the management approach | | |
| G4-EC8 | Significant indirect economic impacts, including the extent of impacts | 7 Corporate Responsibility KPIs | X |
| **Products and Services** | | | |
| DMA | a. Report why the Aspect is material. Report the impacts that make this Aspect material<br>b.Report how the organisation manages the material Aspect or its impacts<br>c. Report the evaluation of the management approach | 7 About this report | X |
| G4-EN27 | Extent of impact mitigation of environmental impacts of products and services | 4.6.2 Social and Green housing | X |
| **Labor/Management Relations** | | | |
| DMA | a. Report why the Aspect is material. Report the impacts that make this Aspect material<br>b.Report how the organisation manages the material Aspect or its impacts<br>c. Report the evaluation of the management approach | 7 About this report | X |
| G4-LA1 | Total number and rates of new employee hires and employee turnover by age group, gender and region | 4.7 Our People | X |
| G4-LA4 | Minimum notice periods regarding operational changes, including whether these are specified in collective agreements | 4.7 Our People | X |
| **Training and Education** | | | |
| DMA | a. Report why the Aspect is material. Report the impacts that make this Aspect material<br>b.Report how the organisation manages the material Aspect or its impacts<br>c. Report the evaluation of the management approach | 7 About this report | X |
| G4-LA9 | Average hours of training per year per employee by gender, and by employee category | 4.7 Our People | X |
| **Diversity and Equal Opportunity** | | | |
| DMA | a. Report why the Aspect is material. Report the impacts that make this Aspect material<br>b.Report how the organisation manages the material Aspect or its impacts<br>c. Report the evaluation of the management approach | 7 About this report | X |
| G4-LA12 | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity | 4.7 Our People | X |
| **Local Communities** | | | |
| DMA | a. Report why the Aspect is material. Report the impacts that make this Aspect material<br>b.Report how the organisation manages the material Aspect or its impacts<br>c. Report the evaluation of the management approach | 7 About this report | X |
| G4-SO1-2 | Percentage of operations with implemented local community engagement, impact assessments, and development programs | 4.6.2 Social and Green housing | X |
| **Product and Service Labeling** | | | |

| Indicator | Description indicator | Reference/description | External verification |
|---|---|---|---|
| DMA | a. Report why the Aspect is material. Report the impacts that make this Aspect material<br>b.Report how the organisation manages the material Aspect or its impacts<br>c. Report the evaluation of the management approach | 7 About this report | X |
| G4-PR3 | Type of product and service information required by the organization’s procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements | 7 Corporate Responsibility KPIs | X |
| G4-PR5 | Results of surveys measuring customer satisfaction | 4.6.2 Putting customers' interests first | X |
| **Customer Privacy** | | | |
| DMA | a. Report why the Aspect is material. Report the impacts that make this Aspect material<br>b.Report how the organisation manages the material Aspect or its impacts<br>c. Report the evaluation of the management approach | 7 About this report | X |
| G4-PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data | 7 Corporate Responsibility KPIs | X |

# EDTF references

| EDTF | Brief description of articles | In risk disclosures/ annual report | In Pillar 3 report | Non or limited disclosure |
|---|---|---|---|---|
| | **General** | | | |
| 1 | Present all related risk information together in any particular report. | Chapter 5 | Chapter 8 | |
| 2 | Define the bank's risk terminology and risk measures and present key parameter values used | 5.5.3 | | Parameter values |
| 3 | Describe and discuss top and emerging risks. Include quantitative disclosures and changes in risk exposures | 5.3.1; 5.5.1; 5.6.3; 5.7.3; 5.9.2; | | |
| 4 | Once the applicable rules are finalised, outline plans to meet each new key ratio and provide them | 5.4.4 | | |
| | **Risk governance and risk management strategies/business model** | | | |
| 5 | Summarise the bank's risk management organisation, risk management processes and risk management key functions | 5.2.1 | | |
| 6 | Provide a description of the bank's risk culture. Procedures and strategies to support the culture. | 5.2.2 | | |
| 7 | Describe the key risks from the bank's business models and activities. Risk appetite and describe how the bank manages such risks. | 5.4.1; 5.5.1.4; 5.6.2; 5.7.2 | | |
| 8 | Describe the use of stress testing within the bank's governance and capital framework | 5.4.1; 5.7.2 | | |
| | **Capital adequacy and risk-weighted assets** | | | |
| 9 | Provide minimum Pillar 3 capital requirements, surcharges, counter cyclical and conservation buffers, minimal internal ratios. | 5.4.3; 5.4.4 | 8.3.1; 8.3.2; 8.3.3.1 | Minimal internal ratio's |
| 10 | Provide an overview of the main components of capital, including capital instruments and regulatory adjustments. Reconciliation accounting B/S to regulatory B/S. | 5.4.2; 5.5.1.2 | 8.2 | Reconciliation: now disclosure of total breakdown IFRS-EAD credit risk. |
| 11 | Flow statement of movements in regulatory capital, including changes in common equity tier 1, tier 1 and tier 2 capital. | 5.4.3 | 8.2 | |
| 12 | Qualitatively and quantitatively discuss capital planning, of the required or targeted level of capital and how this will be established. | 5.4.1; 5.7.5 | | Quantitative capital planning |
| 13 | Provide granular information to explain how risk-weighted assets (RWAs) relate to business activities and related risks. | 5.4.3 | 8.3.1 | |
| 14 | Present a table showing the capital requirements for each method used for calculating RWAs for credit risk. Info significant models. | 5.4.3 | 8.4.3.3 | Models: downturn parameters, methodology LGD |
| 14 | Idem for market risk and operational risk. | 5.4.3 | 8.5.2 | |
| 15 | Tabulate credit risk in the banking book showing average probability of default (PD), LGD, exposure at default (EAD). For non-retail the PD bands against external credit ratings. | 5.5.2.3 | 8.4.3.3 | |
| 16 | Present a flow statement that reconciles movements in RWAs for the period for each RWA risk type. | | 8.3.2 | |
| 17 | Provide a narrative putting Basel Pillar 3 back-testing requirements into context, including assessment of model performance and model validation against default and loss. | 5.4.1 | 8.4.3.5 | |
| | **Liquidity** | | | |

| EDTF | Brief description of articles | In risk disclosures/ annual report | In Pillar 3 report | Non or limited disclosure |
|---|---|---|---|---|
| 18 | Describe how the bank manages its potential liquidity needs. Provide a quantitative analysis of the components of the liquidity reserve held to meet these needs. Explanation of possible limitations on the use of the liquidity reserve. | 5.7.3 | | |
| | **Funding** | | | |
| 19 | Summarise encumbered and unencumbered assets in a tabular format by balance sheet category. | | 8.6.1 | |
| 20 | Tabulate consolidated total assets, liabilities and off-balance sheet commitments by remaining contractual maturity at the balance sheet date. Disclose instruments separately... Management's approach to determining the behavioural characteristics of financial assets and liabilities. | 5.7.4 | 8.4.4 | |
| 21 | Discuss the bank's funding strategy, including key sources and any funding concentrations, to enable effective insight.. | 5.7.5 | | |
| | **Market risk** | | | |
| 22 | Information on the linkages between line items in the balance sheet and the income statement with positions included in the traded market risk disclosures. | 5.6.3 | | |
| 23 | Provide further qualitative and quantitative breakdowns of significant trading and non-trading market risk. | 5.6.3 | 8.5.2; 8.5.3 | |
| 24 | Provide qualitative and quantitative disclosures that describe significant market risk measurement model limitations, assumptions, validation procedures, use of proxies, changes in risk measures and models through time, reasons for back-testing exceptions and how results are used to enhance the parameters of the model. | 5.6.2; 5.6.3 | | market risk measurement model limitations, backtesting exceptions, parameters |
| 25 | Description of risk management techniques to measure and assess the risk of loss beyond reported risk measures and parameters. Discuss how market liquidity horizons are considered and applied within such measures. | 5.6.3 | | limited disclosure due to low materiality |
| | **Credit risk** | | | |
| 26 | Provide information on the bank's credit risk profile, including any significant credit risk concentrations. This should include a quantitative summary of aggregate credit risk exposures that reconciles to the balance sheet. The disclosure should also incorporate credit risk likely to arise from off-balance sheet commitments by type. | 5.5.1;<br>5.5.2 (mortgages) | 8.4.2.2 | |
| 27 | Describe the policies for identifying impaired or non-performing loans. including how the bank defines impaired or non-performing, restructured and returned-to-performing (cured) loans. Explanations of loan forbearance policies. | 5.5.2.3<br><br>(also disclosure in chapter 6, the annual accounts) | | Forbearance policies<br>Quantitative forbearance |
| 28 | Reconciliation of opening and closing balances of non-performing or impaired loans and allowance for loan losses. Include an explanation of the effects of loan acquisitions on ratio trends, and information about restructured loans. | 5.5.1.3;<br>5.5.2.3<br>(mortgages) | | |
| 29 | Provide a quantitative and qualitative analysis of the bank's counterparty credit risk from its derivatives transactions. Quantify | 5.5.11.2 | 8.4.4 | Breakdown OTC derivatives to central countereparty |

| EDTF | Brief description of articles | In risk disclosures/ annual report | In Pillar 3 report | Non or limited disclosure |
|---|---|---|---|---|
| | notional derivatives exposure, including whether derivatives are OTC or traded on recognised exchanges. If derivatives are OTC,quantify how much is settled by central counterparties and how much is not. | | | |
| 30 | Provide qualitative information on credit risk mitigation, including collateral held for all sources of credit risk and quantitative information where meaningful. Collateral disclosures should be sufficiently detailed to allow an assessment of the quality of collateral. Discuss the use of mitigants to manage credit risk arising from market risk exposures and single name concentrations. | 5.5.11 | 8.4.5.2 | |
| | **Other risks** | | | |
| 31 | Describe 'other risk' types based on management's classifications and discuss how each one is identified, governed, measured and managed. In addition to risks such as operational risk, reputational risk, fraud risk and legal risk, it may be relevant to include topical risks such as business continuity, regulatory compliance, technology, and outsourcing. | 5.9.1 | 8.8 | |
| 32 | Discuss publicly known risk events related to other risks, including operational, regulatory compliance and legal risks, where material or potentially. Such disclosures should concentrate on the effect on the business, the lessons learned and the resulting changes to risk processes already implemented or in progress. | 5.9.2 | | |

# 8 Pillar 3 report

## Contents

# 8.1 Introduction

## 8.1.1 Introduction to Pillar 3

SNS Bank's Pillar 3 report deals with capital adequacy and risk management, providing insight into such aspects as the capital position, the size and composition of capital and how the capital is related to risks, as expressed in risk-weighted assets (RWA).

The present report, appended to SNS Bank's annual report, is a stand-alone document. The annual report also contains a detailed explanation of capital and risk management. The information included in the annual report and this Pillar 3 report is consistent and partially overlaps.

Drawn up in compliance with the reporting requirements from the European Directive, i.e. the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) IV, the Pillar 3 report provides information on all the topics mentioned in the Directive to the extent that they apply to SNS Bank. The Directive prescribes that the Pillar 3 report describe the situation at the level of the mixed financial holding company. For SNS Bank, this means that its parent company SNS REAAL is also presented in the figures.

The information in the Pillar 3 report has not been audited by SNS Bank's external auditor.

SNS Bank's Pillar 3 report is drawn up every year. Periodic updates on key issues are given in SNS REAAL's press releases.

## 8.1.2 Detailed index of Pillar 3 references

The Pillar 3 disclosures are described in Part Eight of the CRR. The table below provides insight into these disclosure requirements and states where the reader may find this information in the annual report and/or the Pillar 3 report.

| CRR § | Pillar 3 disclosure requirements | Location in Pillar 3 report | Notes |
|---|---|---|---|
| 435 | Risk management objectives and policies | | Section 3.6.1 of the annual report contains the management statement.<br>Chapter 5 of the annual report discusses risk management and capital and liquidity management. Subjects addressed in this chapter include strategy, policy, risk profile, governance, organisation, reporting and measures.<br>Section 5.1 contains a summary that explains the risk profile and important ratios and key figures.<br>Section 3.5 of the annual report discusses the governance provisions.<br><br>Section 4.7 of the annual report discusses topics including the diversity policy. |
| 436 | Scope of application | Section 8.1.3 – Scope of application | |
| 437 | Own funds | Section 8.2.1 – Shareholders' equity | Section 5.4.2 of the annual report discusses the capital structure and the full reconciliation of shareholders' equity. |
| 438 | Capital requirements | Section 8.3.1 – Minimum capital requirements and risk-weighted assets | Section 5.4.3 of the annual report also discusses the capital requirements and risk-weighted assets.<br>Section 5.4.1 of the annual report discusses capital adequacy and the corresponding internal control and processes. |
| 439 | Exposure to counterparty credit risk | Section 8.4.5 – Counterparty risk | |
| 440 | Capital buffers | Section 8.3.4 – Capital buffers | |

| CRR § | Pillar 3 disclosure requirements | Location in Pillar 3 report | Notes |
|---|---|---|---|
| 441 | Indicators of global systemic importance | Not included | SNS Bank is not considered an institution of global systemic importance. |
| 442 | Credit risk adjustments | | Section 5.5 of the annual report provides detailed information about the credit risk exposure, presented in several subsections.<br>In addition, this section provides insight into the exposure to loans in arrears and the provisions formed. |
| 443 | Unencumbered assets | Section 8.6.1 – Unencumbered assets | |
| 444 | Use of ECAIs | Section 8.4.2.2 – Calculation of risk-weighted assets and use of credit rating agencies | |
| 445 | Exposure to market risk | Section 8.5 – Market risk | This is also discussed in section 5.6.3 of the annual report. |
| 446 | Operational risk | Section 8.8 – Operational risk | |
| 447 | Exposures in equities not included in the trading book | Section 8.5.2 – Exposures in equities not included in the trading book | |
| 448 | Exposure to interest rate risk on positions not included in the trading book | Section 8.5.3 – Exposure to interest rate risk on positions not included in the trading book | |
| 449 | Exposure to securitisation positions | Section 8.7 – Securitisation | |
| 450 | Remuneration policy | Section 8.9 – Remuneration | Section 3.4 of the annual report contains the remuneration report. |
| 451 | Leverage | Section 8.2.2 – Leverage | |
| 452 | Use of the IRB Approach to credit risk | Section 8.4.3 – Use of the IRB Approach to credit risk<br>Section 8.4.4 – Off-balance sheet exposures | |
| 453 | Use of credit risk mitigation techniques | | This is discussed in section 5.5 of the annual report. Here, we describe for our portfolios the management and instruments used to control credit risk. |
| 454 | Use of the Advanced Measurement Approaches to operational risk | Not included | SNS Bank does not use internal operational risk models to calculate capital requirements. |

| CRR § | Pillar 3 disclosure requirements | Location in Pillar 3 report | Notes |
|---|---|---|---|
| 455 | Use of Internal Market Risk Models | Not included | SNS Bank does not use internal market risk models to calculate capital requirements. |

## 8.1.3 Scope of application

The point of departure used to determine the scope of application of the CRD IV/CRR rules is the basis of consolidation under IFRS applied to SNS Bank and the mixed financial holding company SNS REAAL NV. The general rule is that all legal entities with a banking licence also fall within the scope of application of the CRD IV/CRR rules (in accordance with Articles 7 and 9 CRR). In addition, Article 18 of the CRR is of particular importance for the mixed financial holding company. Please refer to Chapter 6 of the annual report for more information about the consolidation principles.

The following table shows the IFRS basis of consolidation of our key subsidiaries. SNS Bank has full control of these subsidiaries, which is why they are fully consolidated. Although these subsidiaries have their own banking licences, solvency and liquidity supervision is exercised at the consolidated level.

No factual or legal impediment of material significance exists between SNS Bank NV and its licensed subsidiaries RegioBank NV and ASN Bank NV that might preclude an immediate transfer of equity or repayment of liabilities.

### Major subsidiaries of SNS Bank NV

| | Proportion of ordinary shares | Place of business |
|---|---|---|
| ASN Bank NV[1] | 100% | The Hague |
| SNS Securities NV[2] | 100% | Amsterdam |
| RegioBank NV[1] | 100% | Utrecht |

1 Banking licence but exempt from solo supervision
2 SNS Securities NV had a banking licence until May 2014; since then, it has acted as a licensed investment firm.

In addition to SNS Bank NV, the parent company SNS REAAL NV also has a 100% stake in REAAL NV and underlying subsidiaries, which are listed in the table below. Under CRD IV/CRR, the stake in REAAL NV is not included in the consolidation but included in the risk-weighted assets at its asset value in the balance sheet of the mixed financial holding company and thus not deducted from the available capital

During the period of the restructuring of SNS REAAL, no capital is reallocated by means of a transfer of equity from SNS Bank to the Insurance activities and vice versa. A provision to this effect is included in the restructuring plan for SNS REAAL published by the European Commission in 2014. This obligation is included in the final decree of the European Commission published on 27 May 2014 regarding the nationalisation measures and restructuring plan of SNS REAAL.

Furthermore, a general rule is that a transfer of equity from licensed subsidiaries to the parent company is subject to certain conditions. This is because all prudential requirements for credit institutions must be met not only at the level of the mixed financial holding company SNS REAAL, but also at the solo level of SNS Bank. The same goes for the solvency requirements set on SNS REAAL's Insurance activities.

**Major additional Group companies MFH**

| Subsidiary | Voting power | Domicile |
|---|---|---|
| REAAL NV, amongst | 100% | Utrecht |
| - SRLEV NV | 100% | Alkmaar |
| - REAAL Schadeverzekeringen NV | 100% | Zoetermeer |
| - Proteq Levensverzekeringen NV | 100% | Alkmaar |
| - SNS Verzekeringen BV | 100% | Zoetermeer |
| - Zwitserleven PPI NV | 100% | Utrecht |
| - Actiam NV | 100% | Utrecht |
| SNS Bank NV | 100% | Utrecht |

### 8.1.4 Risk Management declaration on adequacy of risk management

Please refer to section 3.6.1 of the annual report for the comprehensive management statement.

## 8.2 Own funds and leverage

Under CRD IV/CRR, SNS REAAL, as a mixed financial holding company, is included in the prudential consolidated group of SNS Bank. As a consequence, from 1 January 2014 onwards, we are required to report on our capital position based on the capital position of SNS REAAL and its associated companies.
In this section, we present the capital position from two perspectives. First, from the perspective of the mixed financial holding company. The capital position of the mixed financial holding company is ultimately decisive for SNS Bank for as long as it is part of SNS REAAL. This capital position is also referred to as the mixed financial holding company (MFH). The tables refer to the prudential consolidated group of the MFH as ‘prudential consolidated’.

SNS Bank’s consolidated capital ratio is set to deteriorate due to the book loss to be incurred in relation to the proposed sale of REAAL announced by the Minister. That is why the Minister presented a solution on 16 February 2015 entailing that SNS Bank be moved from a position under the holding company to a position under the State in order to break the consolidation with the holding company. Following this transfer, SNS Bank’s stand-alone capital ratios will prevail.

### 8.2.1 Own funds

This section presents the conditions and components of the shareholders’ equity available. The table below presents the full composition of own funds and is structured in line with CRD IV rules. SNS Bank’s capital base consists of Common Equity Tier 1 capital and Tier 2 capital. These capital concepts related to the capital structure are explained below the table. We also address the ability of capital items to absorb losses and the restrictions applicable.

Capital ratios are then calculated by dividing the capital by the risk-weighted assets (RWA).

### Capitalisation SNS Bank NV on a prudential consolidated basis

| | 2014 | 2013 pro forma[1] | 2014 | 2013 pro forma[1] |
|---|---|---|---|---|
| **In € millions** | **CRD IV transitional** | **CRD IV transitional** | **CRD IV fully phased in** | **CRD IV fully phased in** |
| **Shareholders' equity SNS REAAL** | **3,999** | **4,496** | **3,999** | **4,496** |
| Increased equity securitised assets | -22 | -20 | -22 | -20 |
| Cash flow hedge reserve and fair value reserve | -369 | -157 | -242 | -94 |
| Other prudential adjustments | -5 | -7 | -5 | -7 |
| **Total prudential filters[2]** | **-396** | **-184** | **-269** | **-121** |
| Intangible assets | -15 | -102 | -15 | -102 |
| Deferred tax assets | -48 | -71 | -239 | -354 |
| IRB shortfall[3] | -56 | -104 | -56 | -104 |
| **Total capital deductions[2]** | **-119** | **-277** | **-310** | **-560** |
| **Total regulatory adjustments to shareholders' equity** | **-514** | **-461** | **-579** | **-681** |
| **CRD IV common equity Tier 1 capital** | **3,485** | **4,035** | **3,420** | **3,815** |
| Additional Tier 1 capital | -- | -- | -- | -- |
| **Tier 1 capital** | **3,485** | **4,035** | **3,420** | **3,815** |
| Tier 2 capital | -- | -- | -- | -- |
| **Total capital** | **3,485** | **4,035** | **3,420** | **3,815** |

1 For purposes of comparison with the 2014 figures, the 2013 figures have been restated (pro forma) in response to the introduction of CRD IV on 1 January 2014. The figures presented in the Annual Report for 2013 were Basel II figures.
2 The prudential filters and capital deductions reconcile the definition of shareholders' equity (own funds) with the definition under the IFRS accounting regime.
3 The IRB shortfall is the difference between the expected loss under the CRR/CRD IV Directives and the IFRS retail mortgages provision. As a result of the phasing-in of the CRD IV rules, 20% of the IRB shortfall is charged to the Common Equity Tier 1 capital, while the remainder is divided equally between the additional Tier 1 capital and the Tier 2 capital. As the mixed financial holding company does not have any additional Tier 1 capital or Tier 2 capital, the IRB shortfall is allocated to the Common Equity Tier 1 capital in full.

When the prudential filters and the capital deductions are determined under CRD IV, account is taken of SNS Bank's data as well as of the value of these items at Insurer REAAL and SNS REAAL.

The change in the prudential filters is largely attributable to the development of the fair value reserve, specifically the unrealised revaluation of the available-for-sale investment portfolio. The decline in intangible assets is the result of RegioBank's goodwill amortisation.

The introduction of CRD IV had a major impact on regulatory capital. CRD IV prescribes a phased deduction of items including deferred tax assets, the IRB shortfall and intangibles for the calculation of regulatory capital.

The table shows that the decline in IFRS equity from € 4.5 billion to € 4.0 billion primarily ensues from REAAL's (negative) net result of € 712 million in 2014.

SNS Bank's capital structure consists almost entirely of Common Equity Tier 1 capital. On balance, the MFH's solvency does not include any additional Tier 1 capital or Tier 2 capital. There is one Tier 2 loan that SNS REAAL provided to SNS Bank.

The next table lists the main features and conditions of the equity components of SNS Bank and the MFH:

## Capital instruments main features

| | MFH level | SNS Bank stand alone | |
|---|---|---|---|
| **amounts in € millions** | **CET 1 Capital** | **CET 1 Capital** | **Tier 2 Capital** |
| Issuer | SNS REAAL NV | SNS Bank NV | SNS Bank NV |
| Governing law(s) of the instrument | Dutch law | Dutch law | Dutch law |
| **Regulatory treatment** | | | |
| Transitional CRR rules | Common Equity Tier 1 | Common Equity Tier 1 | Tier 2 |
| Post-transitional CRR rules | Common Equity Tier 1 | Common Equity Tier 1 | Tier 2 |
| Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Consolidated | Solo | Solo |
| Instrument type (types to be specified by each jurisdiction) | Ordinary shares | Ordinary shares | Subordinated loans |
| Amount recognised in regulatory capital (Currency in million, as of most recent reporting date) | 3,485 | 2,520 | 40 |
| Nominal amount of instrument (originally issued capital) | 469 | 381 | 40 |
| Issue price | 469 | 381 | 40 |
| Redemption price | N/A | N/A | 40 |
| Accounting classification | Shareholders' equity | Shareholders' equity | Liability-amortised cost |
| Original date of issuance | N/A | N/A | 21 June 2010 |
| Perpetual or dated | Perpetual | Perpetual | Perpetual |
| Original maturity date | No maturity | No maturity | No maturity |
| Issuer call subject to prior supervisory approval | No | No | Yes |
| Optional call date, contingent call dates and redemption amount | N/A | N/A | 21 June 2015 |
| Subsequent call dates, if applicable | N/A | N/A | Every interest payment date following the first optional call date |
| **Coupons / dividends** | | | |
| Fixed or floating dividend/coupon | Floating | Floating | Floating |
| Coupon rate and any related index | N/A | N/A | Euribor 3 month + 400 bps. |
| Existence of a dividend stopper | No | No | No |
| Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary | Fully discretionary | Fully discretionary |
| Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary | Fully discretionary | Mandatory |
| Existence of step up or other incentive to redeem | N/A | N/A | No |
| Noncumulative or cumulative | Noncumulative | Noncumulative | Cumulative |
| If write-down, write-down trigger(s) | N/A | N/A | Bankruptcy, liquidation of the company and application of the 'noodregeling'. |
| If write-down, full or partial | N/A | N/A | Fully or Partially |
| If write-down, permanent or temporary | N/A | N/A | Permanent |
| If temporary write-down, description of write-up mechanism | N/A | N/A | N/A |
| Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Most subordinated position | Most subordinated position | Subordinated to senior unsecured funding. |
| Non-compliant transitioned features | No | No | No |

Within the MFH, this subordinated Tier 2 loan is eliminated in the consolidation at SNS Bank.

The table below presents SNS Bank's stand alone capitalisation.

### Capitalisation SNS Bank NV (stand alone)

| | 2014 | 2013 pro forma[1] | 2014 | 2013 pro forma[1] | 2013 |
|---|---|---|---|---|---|
| **In € millions** | **CRD IV transitional** | **CRD IV transitional** | **CRD IV fully phased in** | **CRD IV fully phased in** | **Basel II** |
| **Shareholders' equity SNS Bank NV** | **2,963** | **2,582** | **2,963** | **2,582** | **2,582** |
| Net result second half year | **-40** | **--** | **-40** | **--** | **--** |
| **Shareholders' equity SNS Bank NV for CRD IV purposes** | **2,923** | **2,582** | **2,923** | **2,582** | **2,582** |
| Facility SNS REAAL | -100 | -100 | -100 | -100 | -100 |
| Increased equity securitised assets | -22 | -20 | -22 | -20 | -20 |
| Cash flow hedge reserve and fair value reserve | -179 | 30 | -83 | -51 | 53 |
| Other prudential adjustments | -5 | -7 | -5 | -7 | -7 |
| **Total prudential filters** | **-306** | **-97** | **-210** | **-178** | **-74** |
| Intangible assets | -15 | -85 | -15 | -85 | -74 |
| Deferred tax assets | -48 | -70 | -239 | -354 | -- |
| IRB shortfall[2] | -34 | -64 | -56 | -104 | -19 |
| **Total capital deductions** | **-97** | **-219** | **-310** | **-543** | **-93** |
| **Total regulatory adjustments to shareholders' equity** | **-403** | **-316** | **-520** | **-721** | **-167** |
| **CRD IV common equity Tier 1 capital** | **2,520** | **2,266** | **2,403** | **1,861** | **2,415** |
| Additional Tier 1 capital | -- | -- | -- | -- | -- |
| **Tier 1 capital** | **2,520** | **2,266** | **2,403** | **1,861** | **2,415** |
| Eligible Tier 2 | 40 | 40 | 40 | 40 | 40 |
| IRB shortfall[3] | -22 | -40 | -- | -- | -18 |
| Tier 2 capital | 18 | -- | 40 | 40 | 22 |
| **Total capital** | **2,538** | **2,266** | **2,443** | **1,901** | **2,437** |

1 For purposes of comparison with the 2014 figures, the 2013 figures have been restated (pro forma) in response to the introduction of CRD IV on 1 January 2014. The figures presented in the Annual Report for 2013 were Basel II figures.
2 The IRB shortfall is the difference between the expected loss under the CRR/CRD IV Directives and the IFRS retail mortgages provision. As a result of the phasing-in of the CRD IV rules, 20% of the IRB shortfall is charged to the Common Equity Tier 1 capital, while the remainder is divided equally between the additional Tier 1 capital and the Tier 2 capital. As SNS Bank (stand-alone) does not have any additional Tier 1 capital, the portion of the IRB shortfall that would be related to the additional Tier 1 capital has been deducted from the Common Equity Tier 1 capital.
3 The IRB shortfall is the difference between the expected loss under the CRD IV/CRR Directives and the IFRS retail mortgages provision. As a result of the phasing-in of the CRD IV rules, 20% of the IRB shortfall is charged to the Common Equity Tier 1 capital, while the remainder is divided equally between the additional Tier 1 capital and the Tier 2 capital. As SNS Bank (stand-alone) does not have any additional Tier 1 capital, the portion of the IRB shortfall that would be related to the additional Tier 1 capital has been deducted from the Common Equity Tier 1 capital.

The difference between IFRS equity (€ 2,963 million) at year-end 2014 and prudential equity (€ 2,922 million) is the net profit generated in the second half of the year but not yet included.

As the IRB shortfall between the regulatory expected loss and the IFRS provision exceeds the Tier 2 capital, on balance no Tier 2 capital remained in 2013 (transitional).

No capital transactions were concluded in 2014 to raise additional Tier 1 capital or Tier 2 capital.

The table below presents the capital ratios of the prudential consolidated MFH variant and for SNS Bank on a stand-alone basis. The composition of the risk-weighted assets is discussed in section 8.3.

### Capital ratio's on a prudential consolidated basis

| in € millions | 2014 CRD IV transitional[1] | 2013 pro forma CRD IV transitional | 2014 CRD IV fully phased in[2] | 2013 pro forma CRD IV fully phased in |
|---|---|---|---|---|
| CRD IV common equity Tier 1 capital | 3,485 | 4,035 | 3,420 | 3,815 |
| Tier 1 capital | 3,485 | 4,035 | 3,420 | 3,815 |
| Total capital | 3,485 | 4,035 | 3,420 | 3,815 |
| Risk-weighted assets | **22,370** | **26,695** | **22,370** | **26,695** |
| Exposure measure as defined by the CRR | 127,360 | 128,299 | 127,273 | 128,038 |
| Common equity Tier 1 ratio | 15.6% | 15.1% | 15.3% | 14.3% |
| Tier 1 ratio | 15.6% | 15.1% | 15.3% | 14.3% |
| Total capital ratio | 15.6% | 15.1% | 15.3% | 14.3% |
| Leverage ratio | 2.7% | 3.1% | 2.7% | 3.0% |

1 Under CRR/CRD IV, additional capital deductions and prudential filters are phased in during a five-year adjustment period. The column 'transitional' presents the amounts of capital and the capital ratios according to current requirements. The column 'fully phased in' applies the requirements that will be applicable after full phase-in.
2 The column 'fully phased in' shows the requirements after fully phasing in of the requirements is applied.

At year-end 2014, the Common Equity Tier 1 ratio was 15.6% at the prudential consolidated level. Due to the absence of additional Tier 1 and Tier 2 capital, the three ratios are equal.

### Capital ratio's stand alone

| in € millions | 2014 CRD IV transitional[1] | 2013 pro forma CRD IV transitional | 2014 CRD IV fully phased in[2] | 2013 pro forma CRD IV fully phased in | 2013 Basel II |
|---|---|---|---|---|---|
| CRD IV common equity Tier 1 capital | 2,520 | 2,266 | 2,403 | 1,861 | 2,415 |
| Tier 1 capital | 2,520 | 2,266 | 2,403 | 1,861 | 2,415 |
| Total capital | 2,538 | 2,266 | 2,443 | 1,901 | 2,437 |
| Risk-weighted assets | **13,771** | **15,121** | **13,771** | **15,121** | **14,578** |
| Exposure measure as defined by the CRR | 66,724 | 73,913 | 66,607 | 73,508 | 74,629 |
| Common equity Tier 1 ratio | 18.3% | 15.0% | 17.4% | 12.3% | 16.6% |
| Tier 1 ratio | 18.3% | 15.0% | 17.4% | 12.3% | 16.6% |
| Total capital ratio | 18.4% | 15.0% | 17.7% | 12.6% | 16.7% |
| Leverage ratio | 3.8% | 3.1% | 3.6% | 2.5% | 3.2% |

1 Under CRR/CRD IV, additional capital deductions and prudential filters are phased in during a five-year adjustment period. The column 'transitional' presents the amounts of capital and the capital ratios according to current requirements. The column 'fully phased in' applies the requirements that will be applicable after full phase-in.
2 The column 'fully phased in' shows the requirements after fully phasing in of the requirements is applied.

At year-end 2014, the stand-alone Common Equity Tier 1 ratio was 18.3%, up 3.3% from year-end 2013. The Tier 1 ratio was 18.3% and the total capital ratio 18.4%. The increase of the ratios is explained by the increase in Common Equity Tier 1 capital of € 254 million, € 111 million of which was profit generated in the first six months, combined with a decline in RWA of € 1.4 billion. Approximately € 900 million of the decline in RWA is the result of the transition to the revised rating model for the residential mortgage portfolio (see the notes in section 8.4.3.3).

### 8.2.2 Leverage

The table below presents the leverage ratio for SNS Bank on a stand alone basis and for the MFH.

The leverage ratio is part of SNS Bank's Risk Appetite Statement. The Capital and Liquidity Plan, which is assessed by the Bank ALCO and the Managing Board of SNS Bank, contains a 3-year forecast for the leverage ratio. Each month, the Bank ALCO discusses a capital report that includes a forecast of the leverage ratio. Where necessary, the Bank ALCO steers the leverage ratio to the desired level.

#### Leverage ratio 2014

| in € millions | SNS Bank NV | Adjustments MFH | Total MFH |
|---|---|---|---|
| **Exposure values** | | | |
| Derivatives: Market value | 1,181 | -14 | 1,168 |
| Derivatives: Add-on Mark-to-market Method | 272 | -1 | 271 |
| Undrawn credit facilities | 83 | -- | 83 |
| Off-balance: medium/low risk trade | 129 | -- | 129 |
| Other assets | 65,458 | 60,762 | 126,220 |
| **Capital and regulatory adjustments** | | | |
| Tier 1 capital - fully phased-in | 2,403 | 1,017 | 3,420 |
| Tier 1 capital - transitional | 2,520 | 965 | 3,485 |
| Regulatory adjustments (Tier 1 fully phased-in) | -515 | -82 | -596 |
| Regulatory adjustments (Tier 1 transitional) | -397 | -74 | -471 |
| **Exposure measure as defined by the CRR** | | | |
| Transitional | 66,607 | 60,666 | 127,273 |
| Fully phased-in | 66,724 | 60,636 | 127,360 |
| **Leverage ratio** | | | |
| Fully phased-in | 3.6% | | 2.7% |
| Transitional | 3.8% | | 2.7% |

## Leverage ratio 2013

| in € millions | SNS Bank NV | Adjustments MFH | Total MFH |
|---|---|---|---|
| **Exposure values** | | | |
| Derivatives: Market value | 1,484 | -- | 1,484 |
| Derivatives: Add-on Mark-to-market Method | 429 | -- | 429 |
| Undrawn credit facilities | 190 | -- | 190 |
| Off-balance: medium/low risk trade | 68 | -- | 68 |
| Other assets | 72,053 | 54,529 | 126,582 |
| **Capital and regulatory adjustments** | | | |
| Tier 1 capital - fully phased-in | 1,860 | 1,956 | 3,816 |
| Tier 1 capital - transitional | 2,266 | 1,770 | 4,036 |
| Regulatory adjustments (Tier 1 fully phased-in) | -716 | 1 | -715 |
| Regulatory adjustments (Tier 1 transitional) | -310 | -- | -417 |
| **Exposure measure as defined by the CRR** | | | |
| Transitional | 73,508 | 54,530 | 128,038 |
| Fully phased-in | 73,913 | 54,386 | 128,299 |
| **Leverage ratio** | | | |
| Fully phased-in | 2.5% | | 3.0% |
| Transitional | 3.1% | | 3.1% |

The leverage ratio improved for SNS Bank in 2014, driven by a decrease of the assets (denominator effect) as well as by an increase of the Tier 1 capital (numerator effect).

The decrease of the assets was caused by a decline of the SME portfolios, smaller mortgage exposure and a decrease of loans to central governments and central banks.

The decline of the SME portfolio is the result of an internal strategic decision, the purpose of which was not to directly affect the leverage ratio.

The decrease of loans to central governments and central banks can be attributed to the full repayment of the loans to Propertize. This funding to Propertize was guaranteed by the Dutch government, which is why it was included in the ‘Central governments and central banks’ category.

The increase in capital primarily ensues from unrealised revaluations relating to the available-for-sale investment portfolio and the net result for 2014 of € 151 million. The result of € 40 million for the second half year is not yet part of the calculation of the leverage ratio.

The leverage ratio deteriorated for the MFH. The decline was triggered in particular by the MFH’s lower capitalisation ensuing from the net loss at REAAL (€ 712 million). The denominator, the exposure measure as defined by the CRR, has remained virtually unchanged.

## 8.3 Own funds requirements

This chapter describes SNS Bank's capital requirements. The types of risk for which the capital requirements are calculated are credit risk, market risk and operational risk. These requirements are based on Pillar 1 from CRD IV.

### 8.3.1 Minimum capital requirements and risk-weighted assets

SNS Bank received approval from DNB to use the Advanced Internal Ratings Based (AIRB) approach for the residential mortgage portfolio and the securitisation portfolio.

The standardised approach is (and will be) used for portfolios for which SNS Bank has obtained approval from DNB or which have been exempted from IRB according to the law. DNB approved the use of the standardised approach for the various portfolios. We also intend to apply the IRB method to the SME loan portfolio for the calculation of the capital requirements.

The next table shows the risk-weighted assets per type of risk, exposure category and regulatory approach.

## Capital requirements and risk weighted assets

| in € millions | EAD[1] 2014 | EAD[1] 2013 | Basel III RWA 2014 | Basel III RWA 2013 | 8% Pillar 1 capital requirement 2014 | 8% Pillar 1 capital requirement 2013 |
|---|---|---|---|---|---|---|
| **Credit risk Internal Ratings Based** | | | | | | |
| Retail Mortgages[2] | 40,921 | 38,148 | 6,804 | 7,723 | 544 | 618 |
| Securitisation positions | 1,124 | 1,638 | 142 | 385 | 11 | 31 |
| Other | -- | -- | 810 | 581 | 65 | 46 |
| **Total credit risk Internal Ratings Based** | **42,045** | 39,786 | **7,756** | 8,689 | **620** | 695 |
| | | | | | | |
| **Kredietrisico** | | | | | | |
| Central governments and central banks | 9,728 | 15,848 | -- | -- | -- | -- |
| Regional governments or local authorities | 2,139 | 1,567 | -- | -- | -- | -- |
| Public sector entities | 160 | 164 | 35 | 36 | 3 | 3 |
| Multilateral developments banks | 232 | 174 | -- | -- | -- | -- |
| International organisations | 18 | 4 | -- | -- | -- | -- |
| Financial institutions | 2,299 | 2,394 | 769 | 897 | 61 | 72 |
| Corporates | 856 | 984 | 1,744 | 1,926 | 139 | 154 |
| Retail excl. mortgages | 261 | 284 | 185 | 214 | 15 | 17 |
| Secured by mortgages immovable property | 1,217 | 1,362 | 865 | 1,000 | 69 | 80 |
| Exposures in default | 131 | 134 | 157 | 166 | 13 | 13 |
| Covered bonds | 24 | -- | 2 | -- | -- | -- |
| Equity exposures | 10 | 11 | 10 | 11 | 1 | 1 |
| Other Items | 178 | 336 | 120 | 158 | 10 | 13 |
| **Total credit risk Standardised Approach** | **17,253** | 23,262 | **3,887** | 4,408 | **311** | 353 |
| | | | | | | |
| **Market risks (standardised)** | | | | | | |
| - Traded debt instruments | 2,928 | 1,234 | 274 | 187 | 22 | 15 |
| - Equities | 3 | 2 | 5 | 5 | -- | -- |
| **Operational risk** | | | | | | |
| - Standardised approach | -- | -- | 1,566 | 1,516 | 125 | 121 |
| **Total other risks** | **2,931** | 1,236 | **1,845** | 1,708 | **147** | 136 |
| Credit Valuation Adjustment (CVA) | -- | -- | 283 | 316 | 23 | 25 |
| **Total SNS Bank stand alone** | **62,229** | 64,284 | **13,771** | 15,121 | **1,101** | 1,209 |
| | | | | | | |
| **Credit risk Standardised Approach MFH** | | | | | | |
| Central governments and central banks | 8 | 64 | -- | -- | -- | -- |
| Financial institutions | 2 | 1 | -- | -- | -- | -- |
| Corporates | 2,098 | 2,784 | 8,434 | 11,096 | 675 | 888 |
| Equity exposures | 38 | 41 | 38 | 40 | 3 | 3 |
| Other Items | 48 | 130 | 49 | 194 | 4 | 16 |
| **Total credit risk Standardised Approach MFH** | 2,194 | 3,020 | 8,521 | 11,330 | 682 | 906 |
| | | | | | | |
| **Other risks MFH** | | | | | | |
| Operational risk | -- | -- | 79 | 255 | 6 | 20 |
| - of which Standardised Approach | -- | -- | 79 | 255 | 6 | 20 |
| **Total other risks MFH** | -- | -- | 79 | 255 | 6 | 20 |
| CVA | -- | -- | -1 | -10 | -- | -1 |
| **Total MFH sec** | 2,194 | 3,020 | 8,599 | 11,575 | 688 | 926 |
| **Total Prudential Consolidated** | **64,423** | **67,304** | **22,370** | **26,695** | **1,789** | **2,135** |

1 The EAD is the exposure to a counterparty at the reporting date. For the IRB weighted mortgages, the EAD is equal to the remaining principal amount of the mortgage plus three additional interest rate terms, default interest and any undrawn credit facilities.
2 To determine the RWA of private mortgages a regulator-approved model is used.

The EAD declined from € 64.3 billion to € 62.2 billion at year-end 2014. This was particularly the result of the lower EAD in the category ‘Central governments and central banks’, which fell from € 15.8 billion to € 9.7 billion. This drop can be attributed to the full repayment of the loans to Propertize. This funding to Propertize was government guaranteed, which is why it was included in the ‘Central governments and central banks’ category.

The increase in the EAD of residential mortgages was € 2.8 billion. This increase came about as securitisation transactions were transferred back to the prudential balance sheet (€ 3.0 billion) and a mortgage transaction concluded with REAAL in the framework of the disentanglement of SNS Bank and REAAL was terminated (€ 0.4 billion), as well as through regular portfolio developments resulting from inflow and outflow (€ 0.6 billion).

The RWA calculated using the IRB approach for SNS Bank as a stand-alone company declined from € 8.7 billion to € 7.8 billion at year-end 2014. This was mainly due to the transition to the approved, revised rating model for the residential mortgage portfolio.

The RWA decline of the balance sheet items subject to the standardised approach for the stand-alone SNS Bank company was primarily triggered by the decline in the SME portfolios. These RWA will decline further once the sale of REAAL has been completed and SNS Bank has been separated from the holding company. The current intercompany loan to REAAL at 500% RWA and the facility to SNS REAAL will then be cancelled after closing.

## 8.3.2 Evolution of the risk-weighted assets

The table below presents the evolution of the risk-weighted assets in 2014.

**Flow statement for RWA 2014**

| in € millions | SNS Bank NV | Adjustments MFH | Total MFH |
|---|---|---|---|
| Opening amount | 15,121 | 11,574 | 26,695 |
| *Credit risk SA* | -- | -- | -- |
| Movements in credit risk SA | -521 | -162 | -683 |
| Decrease value of Reaal N.V. (RW of 400%) | -- | -2,647 | -2,648 |
| Movements in credit risk CVA | -33 | 10 | -23 |
| **Total movement Credit risk SA** | **-554** | **-2,799** | **-3,354** |
| *Credit risk IRB* | | | |
| Re-risking (calls securitisation-programmes) | 604 | -- | 604 |
| Investment in retail mortgages | 90 | -- | 90 |
| Model updates | -949 | -- | -949 |
| Methodology and policy | 77 | -- | 77 |
| Disvestments in credit risk IRB | -755 | -- | -755 |
| **Total movement IRB-portfolio** | **-933** | **--** | **-933** |
| Market risk | 87 | -- | 87 |
| Operational risk | 50 | -176 | -126 |
| **Total movement** | **-1,350** | **-2,975** | **-4,325** |
| **Closing amount** | **13,771** | **8,599** | **22,370** |

## 8.3.3 Capital buffers

### 8.3.3.1 Countercyclical capital buffers

The countercyclical capital buffer takes account of the credit cycle and risks of excessive credit growth in the country concerned. Shareholders' equity (Common Equity Tier 1 capital) must be used to create the countercyclical capital buffer, which buffer is at least 0% and no more than 2.5% of risk-weighted assets. The regulatory requirements for this buffer did not yet apply in 2014. Nevertheless, we take due regard of the countercyclical capital buffer in our capital management.

**Geographical distribution of credit exposures 2014**

| | General | | Securitisations | Own funds requirements | | |
|---|---|---|---|---|---|---|
| in € millions | EAD for SA | EAD for IRB | EAD for IRB | of which: general credit exposures | of which: securitisation EAD | Total |
| Breakdown by country: | | | | | | |
| The Netherlands | 8,779 | 40,748 | 1,124 | 892 | 11 | 903 |
| Belgium | 1,937 | 90 | -- | 9 | -- | 9 |
| Germany | 2,906 | 14 | -- | 5 | -- | 5 |
| France | 1,020 | 5 | -- | 8 | -- | 8 |
| Spain | 1 | 2 | -- | -- | -- | -- |
| Portugal | -- | -- | -- | -- | -- | -- |
| Italy | 402 | 1 | -- | -- | -- | -- |
| Ireland | 118 | -- | -- | -- | -- | -- |
| Greece | -- | -- | -- | -- | -- | -- |
| Switserland | 1,239 | -- | -- | -- | -- | -- |
| Other | 851 | 61 | -- | 6 | -- | 6 |
| **Total** | **17,253** | **40,921** | **1,124** | **920** | **11** | **931** |

**Geographical distribution of credit exposures 2013**

| | General | | Securitisations | Own funds requirements | | |
|---|---|---|---|---|---|---|
| in € millions | EAD for SA | EAD for IRB | EAD for IRB | of which: general credit exposures EAD | of which: securitisation EAD | Total |
| Breakdown by country: | | | | | | |
| The Netherlands | 17,758 | 37,971 | 1,638 | 982 | 31 | 1,013 |
| Belgium | 672 | 93 | -- | 10 | -- | 10 |
| Germany | 2,519 | 13 | -- | 5 | -- | 5 |
| France | 928 | 6 | -- | 10 | -- | 10 |
| Spain | -- | 2 | -- | -- | -- | -- |
| Portugal | -- | -- | -- | -- | -- | -- |
| Italy | 326 | 1 | -- | -- | -- | -- |
| Ireland | 132 | -- | -- | -- | -- | -- |
| Greece | 1 | -- | -- | -- | -- | -- |
| Switserland | 4 | 1 | -- | -- | -- | -- |
| Other | 921 | 60 | -- | 10 | -- | 10 |
| **Total** | **23,261** | **38,148** | **1,638** | **1,017** | **31** | **1,048** |

The decline of the 'EAD for SA' for the Netherlands is mainly the result of a lower EAD at 'Central governments and central banks'. This category also included the State-guaranteed loans provided to Propertize. These loans have been repaid.

The increased in the EAD for SA for Belgium and Switserland pertain to the purchase of regional governments in the investment portfolio.

The increase in exposure in the Netherlands of the EAD IRB pproach is primarily caused by the return of exposure from the securitisation programmes as a result of the call of programmes (Hermes 9 and Provide Lowland) or of applying the look-through approach (Hermes 15 and 18). The purchase of a mortgage portfolio of REAAL also caused an increase.

#### 8.3.3.2 Buffer for other systemically important institutions

On 29 April 2014, DNB announced its intention to impose an additional capital buffer requirement on the four Dutch major banks based on the CRD IV Implementation Act. In this context, SNS Bank was considered a local rather than a global systemically important bank. SNS Bank's systemic buffer will be 1% of its risk-weighted assets. Shareholders' equity (Common Equity Tier 1 capital) must be used to create this buffer, which will be phased in between 2016 and 2019. We take due regard of the systemic buffer in our capital management.

## 8.4 Credit risk

### 8.4.1 Introduction

SNS Bank has a credit risk portfolio that can be divided into several exposure classes. We use the Advanced Internal Ratings Based (AIRB) approach to calculate the capital requirements for retail mortgage portfolios and securitisations. For all other portfolios, we use the Standardised Approach (SA) to calculate the capital requirements. Our ambition is to also apply the AIRB approach to the SME portfolio (loans smaller than € 1 million) within a few years.

The credit risk portfolio is presented in the Pillar 3 report in accordance with regulations: SA versus Internal Ratings Based (IRB) and then further specified within the exposure classes.

The table below shows a breakdown of loans and advances to customers by industry. The retail loans mainly consist of retail mortgages. The category 'Government' pertains to loans provided to local authorities (municipalities, provinces). The other categories pertain to commercial loans (year-end € 3.1 billion). These also include loans to the (semi) public sector, such as utility companies or health care institutions.

**Loans and advances to customers**

| in € millions | 2014 |
|---|---|
| Retail | 46,443 |
| Government | 3,258 |
| Financial services | 880 |
| Administration and support | 408 |
| Human health | 324 |
| Real estate activities | 681 |
| Electricity, gas, steam | 253 |
| Industry | 194 |
| Wholesale and retail trade | 206 |
| Other commercial | 187 |
| **Total SNS Bank** | **52,834** |
| Adjustments MFH | 302 |
| **Total MFH** | **53,136** |

## 8.4.2 Standardised approach

### 8.4.2.1 Exposure classes

We distinguish the following exposure classes within the SA:

- **Central governments or central banks.** In addition to direct exposures to central governments and central banks, this also includes items covered by guarantees of local governments.
- **Regional governments or local authorities.** These are, for example, provinces, municipalities or water boards.
- **Public sector entities.** These include not-for-profit administrative bodies that are accountable to central, regional or local governments, such as universities or university hospitals.
- **Multilateral development banks.** An example in this exposure class is the European Investment Bank.
- **International organisations.** A legal entity subject to international law, operating in at least three countries and incorporated on the basis of a treaty or an agreement. Examples are the European Financial Stability Facility or the European Stability Mechanism.
- **Financial institutions.** These are mainly credit institutions.
- **Corporates.** These include large businesses.
- **Retail excl. mortgages**. In addition to natural persons, this category also contains small SMEs.
- **Secured by mortgages immovable property.** This includes claims secured by both homes and business premises. This is a modest class at SNS Bank, as the majority of mortgages are recognised under the AIRB.
- **Exposures in default.** All SA exposures that are more than 90 days in arrears are in default.
- **Covered bonds.** These are bonds that offer additional security to the holders.
- **Equity exposures.** This category includes exposures to equities of businesses and the like.
- **Other items.** All other exposures that do not fall in any of the above categories are classified in this category.

#### 8.4.2.2 Calculation of risk-weighted assets and use of credit rating agencies

Under the SA, credit risk is measured on the basis of risk weights. The application of risk weights within the SA is subject to a set of fixed rules and is primarily determined by the risk classification of the underlying asset.

External ratings issued by recognised credit rating agencies may serve as input to determine the risk weight in the SA measurement of risk-weighted assets.

The tables below present the exposures according to risk weight including RWA and capital requirements. An exposure with a risk weight of 100%, for example, will not always produce similar RWA due to credit risk mitigation and the use of a credit conversion factor. Please refer to the section 'Disclosure of off-balance sheet items' for more information about credit conversion factors. The effects of credit risk mitigation are limited.

### Exposure classes split by risk weighted assets and capital requirements per risk weight 2014

| | Risk Weight | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| in € millions | 0% - 10% | 20% | 35% | 50% | 75% | 100% | 150% | 250% | 400% | 500% | Total | Total capital requirement |
| **Standardised approach** | | | | | | | | | | | | |
| Central governments and central banks | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | **--** | **--** |
| Regional governments or local authorities | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | **--** | **--** |
| Public sector entities | -- | 31 | -- | -- | -- | 4 | -- | -- | -- | -- | **35** | **3** |
| Multilateral developments banks | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | **--** | **--** |
| International organisations | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | **--** | **--** |
| Financial institutions | -- | 254 | -- | 515 | -- | -- | -- | -- | -- | -- | **769** | **61** |
| Corporates | 4 | -- | -- | 1 | -- | 488 | -- | -- | -- | 1,251 | **1,744** | **139** |
| Retail excl. mortgages | -- | -- | -- | -- | 178 | 7 | -- | -- | -- | -- | **185** | **15** |
| Secured by mortgages immovable property | -- | -- | 99 | -- | 506 | 260 | -- | -- | -- | -- | **865** | **69** |
| Exposures in default | -- | -- | -- | -- | -- | 78 | 79 | -- | -- | -- | **157** | **13** |
| Covered bonds | 2 | -- | -- | -- | -- | -- | -- | -- | -- | -- | **2** | **--** |
| Equity exposures | -- | -- | -- | -- | -- | 10 | -- | -- | -- | -- | **10** | **1** |
| Other items | -- | -- | -- | -- | -- | 120 | -- | -- | -- | -- | **120** | **10** |
| **Total standardised risk weighted assets SNS Bank** | **6** | **285** | **99** | **516** | **684** | **967** | **79** | **--** | **--** | **1,251** | **3,887** | |
| **Total capital requirements SNS Bank** | **--** | **23** | **8** | **41** | **55** | **78** | **6** | **--** | **--** | **100** | | **311** |
| | | | | | | | | | | | | |
| **Total standardised risk weighted assets SNS Bank** | | | | | | | | | | | **3,887** | |
| **Adjustments MFH** | **--** | **--** | **--** | **--** | **--** | **74** | **--** | **--** | **8,447** | **--** | **8,521** | **682** |
| **Total standardised risk weighted assets MFH** | **6** | **285** | **99** | **516** | **684** | **1,041** | **79** | **--** | **8,447** | **1,251** | **12,408** | |
| **Total capital requirements MFH prudential consolidated** | **--** | **23** | **8** | **41** | **55** | **83** | **6** | **--** | **676** | **100** | | **993** |

### Exposure classes split by risk weighted assets and capital requirements per risk weight 2013

| in € millions | Risk Weight 0% - 10% | 20% | 35% | 50% | 75% | 100% | 150% | 250% | 400% | 500% | Total | Total capital requirement |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Standardised approach** | | | | | | | | | | | | |
| Central governments and central banks | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | **--** | **--** |
| Regional governments or local authorities | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | **--** | **--** |
| Public sector entities | -- | 32 | -- | -- | 4 | -- | -- | -- | -- | -- | **36** | **3** |
| Multilateral developments banks | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | **--** | **--** |
| International organisations | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | **--** | **--** |
| Financial institutions | -- | 201 | -- | 696 | -- | -- | -- | -- | -- | -- | **897** | **72** |
| Corporates | -- | -- | -- | 57 | -- | 618 | -- | -- | -- | 1,251 | **1,926** | **154** |
| Retail excl. mortgages | -- | -- | -- | -- | 212 | -- | 2 | -- | -- | -- | **214** | **17** |
| Secured by mortgages immovable property | -- | -- | 72 | -- | 658 | 270 | -- | -- | -- | -- | **1,000** | **80** |
| Exposures in default | -- | -- | -- | -- | -- | 70 | 96 | -- | -- | -- | **166** | **13** |
| Covered bonds | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | **--** | **--** |
| Equity exposures | -- | -- | -- | -- | -- | 11 | -- | -- | -- | -- | **11** | **1** |
| Other items | -- | -- | -- | -- | -- | 158 | -- | -- | -- | -- | **158** | **13** |
| **Total standardised risk weighted assets SNS Bank** | **--** | **233** | **72** | **753** | **874** | **1,127** | **98** | **--** | **--** | **1,251** | **4,408** | |
| **Total capital requirements SNS Bank** | **--** | **19** | **6** | **60** | **70** | **90** | **8** | **--** | **--** | **100** | | **353** |
| | | | | | | | | | | | | |
| **Total standardised risk weighted assets SNS Bank** | | | | | | | | | | | **4,408** | |
| **Adjustments MFH** | **--** | **--** | **--** | **--** | **--** | **144** | **--** | **91** | **11,095** | **--** | **11,330** | **906** |
| **Total standardised risk weighted assets MFH** | **--** | **233** | **72** | **753** | **874** | **1,271** | **98** | **91** | **11,095** | **1,251** | **15,738** | |
| **Total capital requirements MFH prudential consolidated** | **--** | **19** | **6** | **60** | **70** | **102** | **8** | **7** | **888** | **100** | | **1,259** |

The exposure in ‘Corporates’ with a 500% risk weight pertains a loan to REAAL. This loan will be redeemed upon the sale of REAAL, which will greatly alleviate the capital requirement. In addition, a further capital alleviation may be expected as a result of the smaller SME portfolio. The SME items with individual principals of less than € 1 million are recognised in the categories ‘Secured by mortgages immovable property’ and ‘Retail excl. mortgages’. SME items with individual principals of more than € 1 million are recognised in the category ‘Corporates’.

SNS Bank uses the recognised external ratings issued by Standard & Poor’s, Moody’s and Fitch Ratings. The credit rating is related to the credit quality category. The Credit Risk Regulatory Rules (*Toezichthouderregels Kredietrisico*) indicate for various exposure classes which risk weight corresponds with which credit quality category. The tables below elaborate further on the exposure classes involving credit quality steps. The RWA shown in these tables are in line with the RWA included in the tables above.

No capital charges apply to the listed investments in the EMU, which is why the risk charges are nil for SNS Bank.

The table below shows the EAD and RWA for central governments or central banks broken down by rating class.

### Exposure to central governments and central banks 2014

| in € millions | Credit quality step | Risk weight | EAD | Basel III RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 0% | 9,209 | -- |
| A+ to A- | 2 | | | |
| - EMU | | 0% | 118 | -- |
| BBB+ to BBB- | 3 | | | |
| - EMU | | 0% | 401 | -- |
| **Total exposure SNS Bank** | | | **9,728** | **--** |
| Adjustments MFH | | | 8 | -- |
| **Total exposure MFH** | | | **9,736** | **--** |

### Exposure to central governments and central banks 2013

| in € millions | Credit quality step | Risk weight | EAD | Basel III RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 0% | 15,390 | -- |
| A+ to A- | 2 | | | |
| - EMU | | 0% | -- | -- |
| BBB+ to BBB- | 3 | | | |
| - EMU | | 0% | 458 | -- |
| **Total exposure SNS Bank** | | | **15,848** | **--** |
| Adjustments MFH | | | 64 | -- |
| **Total exposure MFH** | | | **15,912** | **--** |

No capital charges apply to the listed investments in the EMU, which is why the risk charges are nil for SNS Bank.

The table below shows the EAD and RWA for regional governments or local authorities broken down by rating class.

### Exposure to Regional Governments or Local Authorities 2014

| in € millions | Credit quality step | Risk weight | EAD | Basel III RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 0% | 1153 | -- |
| A+ to A- | 2 | 0% | 228 | -- |
| Unrated | | | 758 | -- |
| **Total exposure SNS Bank** | | | **2,139** | **--** |
| Adjustments MFH | | | -- | -- |
| **Total exposure MFH** | | | **2,139** | **--** |

## Exposure to Regional Governments or Local Authorities 2013

| in € millions | Credit quality step | Risk weight | EAD | Basel III RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 0% | 649 | -- |
| A+ to A- | 2 | 0% | -- | -- |
| Unrated | | | 918 | -- |
| **Total exposure SNS Bank** | | | **1,567** | **--** |
| Adjustments MFH | | | -- | -- |
| **Total exposure MFH** | | | **1,567** | **--** |

No risk charges apply to SNS Bank's investments in regional governments as a result of the treatment as (central) government.

The table below shows the rating allocation for public sector entities. The exposure to public sector entities is limited.

## Exposure to Public Sector Entities 2014

| in € millions | Credit quality step | Risk weight | EAD | Basel III RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 20% | 61 | 12 |
| Unrated | | 20% | 95 | 19 |
| Unrated | | 100% | 4 | 4 |
| **Total exposure SNS Bank** | | | **160** | **35** |
| Adjustments MFH | | | -- | -- |
| **Total exposure MFH** | | | **160** | **35** |

## Exposure to Public Sector Entities 2013

| in € millions | Credit quality step | Risk weight | EAD | Basel III RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 20% | 57 | 12 |
| Unrated | | 20% | 101 | 20 |
| Unrated | | 75% | 6 | 4 |
| Unrated | | 100% | -- | -- |
| **Total exposure SNS Bank** | | | **164** | **36** |
| Adjustments MFH | | | -- | -- |
| **Total exposure MFH** | | | **164** | **36** |

The table below shows the rating allocation for multilateral development banks. The exposure to multilateral development banks is limited.

### Exposure to Multilateral Developments Banks 2014

| in € millions | Credit quality step | Risk weight | EAD | Basel III RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 0% | 232 | -- |
| **Total exposure SNS Bank** | | | **232** | **--** |
| Adjustments MFH | | | -- | -- |
| **Total exposure MFH** | | | **232** | **--** |

### Exposure to Multilateral Developments Banks 2013

| in € millions | Credit quality step | Risk weight | EAD | Basel III RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 0% | 174 | -- |
| **Total exposure SNS Bank** | | | **174** | **--** |
| Adjustments MFH | | | -- | -- |
| **Total exposure MFH** | | | **174** | **--** |

The table below shows the rating allocation for international organisations.

### Exposure to International Organisations 2014

| in € millions | Credit quality step | Risk weight | EAD | Basel III RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 0% | 18 | -- |
| **Total exposure SNS Bank** | | | **18** | **--** |
| Adjustments MFH | | | -- | -- |
| **Total exposure MFH** | | | **18** | **--** |

### Exposure to International Organisations 2013

| in € millions | Credit quality step | Risk weight | EAD | Basel III RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 0% | 4 | -- |
| **Total exposure SNS Bank** | | | **4** | **--** |
| Adjustments MFH | | | -- | -- |
| **Total exposure MFH** | | | **4** | **--** |

The table below shows the rating allocation for financial institutions.

### Exposure to financial institutions 2014

| in € millions | Credit quality step | Risk weight | EAD | Basel III RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 20% | 1,199 | 240 |
| A+ to A- | 2 | | | |
| - < 3 months | | 20% | 38 | 8 |
| - < 3 months | | 50% | 35 | 17 |
| - > 3 months | | 20% | -- | -- |
| - > 3 months | | 50% | 975 | 487 |
| BBB+ to BBB- | 3 | | | |
| - < 3 months | | 20% | -- | -- |
| - > 3 months | | 50% | 19 | 9 |
| Unrated | | | 33 | 8 |
| **Total exposure SNS Bank** | | | **2,299** | **769** |
| Adjustments MFH | | | 2 | -- |
| **Total exposure MFH** | | | **2,301** | **769** |

### Exposure to financial institutions 2013

| in € millions | Credit quality step | Risk weight | EAD | Basel III RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 20% | 823 | 165 |
| A+ to A- | 2 | | | |
| - < 3 months | | 20% | 141 | 28 |
| - < 3 months | | 50% | 79 | 40 |
| - > 3 months | | 50% | 1,287 | 643 |
| BBB+ to BBB- | 3 | | | |
| - < 3 months | | 20% | 1 | -- |
| - > 3 months | | 50% | 14 | 7 |
| Unrated | | | 49 | 14 |
| **Total exposure SNS Bank** | | | **2,394** | **897** |
| Adjustments MFH | | | 1 | -- |
| **Total exposure MFH** | | | **2,395** | **897** |

The table below shows the exposure allocation for corporates broken down by rating class. The loan to REAAL (€ 250 million) has been incorporated in this table with a risk weight equal to 500%.

### Exposure to corporates 2014

| in € millions | Credit quality step | Risk weight | EAD | Basel III RWA |
|---|---|---|---|---|
| A+ to A- | 2 | 2% | 49 | 1 |
| A+ to A- | 2 | 4% | 67 | 3 |
| A+ to A- | 2 | 50% | 26 | 26 |
| BBB+ to BBB- | 3 | 100% | 2 | 2 |
| BB+ to B- | 4 | 100% | 78 | 78 |
| Unrated | | 50% | 2 | 1 |
| Unrated | | 100% | 382 | 382 |
| Unrated | | 500% | 250 | 1,251 |
| **Total exposure SNS Bank** | | | **856** | **1,744** |
| Adjustments MFH | | | 2,098 | 8,434 |
| **Total exposure MFH** | | | **2,954** | **10,178** |

### Exposure to corporates 2013

| in € millions | Credit quality step | Risk weight | EAD | Basel III RWA |
|---|---|---|---|---|
| A+ to A- | 2 | 50% | 25 | 12 |
| BBB+ to BBB- | 3 | 100% | -- | -- |
| BB+ to B- | 4 | 100% | 208 | 208 |
| Unrated | | 50% | 91 | 45 |
| Unrated | | 100% | 410 | 410 |
| Unrated | | 500% | 250 | 1,251 |
| **Total exposure SNS Bank** | | | **984** | **1,926** |
| Adjustments MFH | | | 2,784 | 11,096 |
| **Total exposure MFH** | | | **3,768** | **13,022** |

The decline is the result of the decline in the SME portfolio in 2014.

### Exposure to Covered Bonds 2014

| in € millions | Credit quality step | Risk weight | EAD | Basel III RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 10% | 24 | 2 |
| **Total exposure SNS Bank** | | | **24** | **2** |
| Adjustments MFH | | | -- | -- |
| **Total exposure MFH** | | | **24** | **2** |

**Exposure to Covered Bonds 2013**

| in € millions | Credit quality step | Risk weight | EAD | Basel III RWA |
|---|---|---|---|---|
| AAA to AA- | 1 | 10% | -- | -- |
| **Total exposure SNS Bank** | | | **--** | **--** |
| Adjustments MFH | | | -- | -- |
| **Total exposure MFH** | | | **--** | **--** |

## 8.4.3 Use of IRB Approach to credit risk

### 8.4.3.1 Exposure classes

SNS Bank distinguishes the following exposure classes within the Internal Ratings Based (IRB) approach:

**Residential mortgages**

Exposures to residential mortgages secured with collateral and possibly a National Mortgage Guarantee ('Nationale Hypotheek Garantie'; NHG) are classified as loans and advances to customers. At year-end 2014, the residential mortgage portfolio represented 87.5% (2013: 88.0%) of SNS Bank's total loans and advances to customers.

**Securitisation**

The securitisation exposure class consists mainly of securitised mortgages of SNS Bank for which the securitisation entities issued bonds that have not been sold to investors or that have been repurchased and are held for own account. In addition, there is limited exposure to securitisation positions of third parties. External ratings and seniority of the bonds are the relevant characteristics in that respect.

### 8.4.3.2 Policy, procedures and models

#### 8.4.3.2.1 AIRB parameters

The AIRB approach measures credit risk using models with internal input for the calculation of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The parameters and rating system are described below. The rating model used for the AIRB was updated and approved by the supervisory body in 2014. The impact of the updated model will be discussed in section 8.4.3.3.

**Probability of Default by customers**

We assess debtors' credit quality by assigning them an internal risk rating. Supported with statistical data, the rating reflects the probability of a customer in a particular rating category defaulting within the next 12 months.

**Exposure at Default**

The EAD represents the amount of a credit facility expected to have been used when default occurs. During the term of a loan, the customer may not have drawn the loan fully or may already have repaid some of the principal. We take the EAD into consideration when evaluating loans, using our extensive historical experience. In our evaluation, we recognise that customers may use their credit facilities more than average as they approach default.

**Severity of Loss Given Default**

When a customer defaults, part of the amount outstanding on their loans can usually be recovered. The part that cannot be 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, we can estimate the average loss likely to be incurred on the various types of loan in the event of default.

In the revised rating model we calculate an individual LGD for each customer, which projections range from 0% to 100%. In addition, we determine a downturn LGD, which is an estimate of the losses ensuing from default that will be incurred in the event of an economic downturn. We apply historical data and statistical techniques to arrive at the most accurate estimate of economic activity.

#### 8.4.3.2.2 Internal rating procedure

**Residential mortgages**

Our internal rating procedure for residential mortgages is based on various data elements such as Loan to Value, type of home and payment behaviour, ensuring that the risk is measured correctly. The ratings are automatically assigned during the rating procedure; it is not possible to overrule a rating once it has been assigned.

#### 8.4.3.2.3 Control mechanism for the internal rating system

**Model documentation**

Documentation should be sufficiently detailed to allow an independent validation of the model based on the original data sources. It should include a description of the data used for model development, the methods used (and the rationale for choosing those methods), all assumptions used in the model and the known strengths and weaknesses of the model.

**Initial and periodic model validation**

All models are subject to an independent validation and review process before they can be approved for implementation. With regard to risk models, the Bank Model Governance Committee (Bank MGC) ensures that the model building and approval processes are followed and the various models are mutually consistent. The Model Validation department advises the MGC based on its independent role. Further, assessments are made of compliance with relevant legislation and regulations and the model's suitability for its intended use.

**Model approval**

Clear rules have been adopted for the model approval process. The risk models applied at SNS Bank are submitted for approval to the Bank MGC, and the Bank ALCO is also given the opportunity to decide on the models' impact and the timing of their implementation.

#### 8.4.3.3 Exposures in the IRB approach

The figures in the table below are based on the rating model redeveloped in 2014. This rating model indicates the likelihood of a customer running into payment problems within one year and the resulting losses for the Bank. Its results are used to determine the RWA. The predictive ability and distinctive character of the internal rating model are continuously monitored and regularly revised.

In 2014, the model was redeveloped using recent loss data, statistics and expert opinions. At this point, specific improvements were made. For example, the situation in which the mortgage value exceeds the market value is explicitly taken into account, as it involves a considerably higher risk of any mortgage loan balance after sale. In addition, the model has been more closely aligned with other models and processes within the mortgage portfolio. By the end of 2014, the revised version was implemented following internal approval by the Bank MGC and after having obtained final approval from the regulator.

The model was revised to facilitate a more refined assessment of the characteristics of the underlying portfolio, enhancing its ability to temper pro-cyclical effects in the risk-weighted assets. The introduction of this model results in a slightly lower average PD, because the model gives a more realistic estimate of the likelihood of default. In addition, the number of PD exposure classes for the performing portfolio was expanded from 10 to 14 in accordance with the credit quality classes used: performing (1-5), recently recovered (6-10), in arrears (11-13) and non-performing (14). Class 7 refers to a small part of the portfolio, which is not graded directly by the rating model, but which is included in the total based on the average weight.

Finally, the relevant risk models have been adjusted. From now on, the credit risk of the mortgage portfolio will be determined in a more accurate and more granular way, and the risk data are calibrated based on recent loss data. In addition, a new downturn LGD method has been introduced that better expresses the long-term cycle of residential property prices. Finally, a higher conservatism factor has been assigned to the use of the risk model, resulting in an additional add-on for determining the risk-weighted assets.

Moreover, there is only a limited difference between the total 2013 EAD from the original model and the revised model. This difference is caused by the elimination of the fixed administrative charges in the event of arrears and an adjustment in the calculation of the interest for overdue payment. In addition, the revised model provides for the EAD to be fixed for customers as soon as they enter into default.

The internal rating grades and ratings applied by external rating agencies are not related in any way.

### Exposures (READ) per internal rating grade and corresponding PD, LGD and RWA 2014

| Internal rating grade | PD range for each grade | Average LGD | Average PD | RWAs in each grade (or band) |
|---|---|---|---|---|
| **Performing** | | | | |
| 1 | 8.74% | 0.07% | 10,002 | 159 |
| 2 | 8.97% | 0.19% | 5,079 | 188 |
| 3 | 11.56% | 0.32% | 4,567 | 314 |
| 4 | 13.65% | 0.43% | 4,994 | 507 |
| 5 | 17.78% | 0.71% | 7,364 | 1,375 |
| 6 | 18.40% | 1.23% | 1,783 | 498 |
| 7 | 12.63% | 1.26% | 1,869 | 365 |
| 8 | 17.61% | 2.01% | 882 | 323 |
| 9 | 13.35% | 3.44% | 832 | 317 |
| 10 | 14.31% | 6.87% | 1,027 | 601 |
| 11 | 14.97% | 13.36% | 416 | 333 |
| 12 | 13.91% | 21.80% | 439 | 370 |
| 13 | 14.88% | 41.85% | 441 | 383 |
| **Non-performing** | 20.51% | 100.00% | 1,226 | 1,071 |
| **Total** | | | **40,921** | **6,804** |

Compared to 2013, the average PD increased, but a downward trend can be seen in the last few months of 2014. By the end of 2014, the PD is also impacted by securitised loans being called, as a result of which they return to ‘own book’. As the risk profile of these repurchased securitisations lies slightly above the average risk profile of the mortgage portfolio, there will be a modest increase in the average PD.

The risk-weighted assets related to residential mortgages have decreased as a result of a declining mortgage portfolio and due to the new risk model. The risk-weighted assets amounted to € 7.7 billion in 2013 and € 6.8 billion in 2014. The RWA density of residential mortgages dropped from 21.6% at year-end 2013 to 18.3% at year-end 2014. The RWA density is defined as the risk-weighted assets divided by the mortgage exposures.

For reference purposes the table below presents the figures for 2013 that applied based on the original rating model.

### Exposures (READ) per internal rating grade and corresponding PD, LGD and RWA 2013 (Basel II)

| Internal rating grade | Average LGD | Average PD | EAD in each grade | RWAs in each grade (or band) |
|---|---|---|---|---|
| **Performing** | | | | |
| 1 | 6.47% | 0.06% | 4,434 | 68 |
| 2 | 9.73% | 0.19% | 8,478 | 341 |
| 3 | 17.85% | 0.45% | 10,537 | 1,434 |
| 4 | 16.53% | 0.81% | 4,819 | 920 |
| 5 | 11.99% | 1.35% | 1,838 | 356 |
| 6 | 18.62% | 1.89% | 3,941 | 1,465 |
| 7 | 18.64% | 6.55% | 1,482 | 1,103 |
| 8 | 18.18% | 17.02% | 932 | 974 |
| 9 | 18.72% | 36.90% | 518 | 586 |
| **Non-performing** | 16.92% | 100.00% | 1,169 | 476 |
| **Total** | | | **38,148** | **7,723** |

#### 8.4.3.4 Credit risk adjustments in the IRB approach

The capital base was adjusted for the difference between the expected loss and the actual provision for the related IRB exposures. A negative difference was added as IRB shortfall. A negative difference arises when the expected loss exceeds the IFRS provision. Based on the CRR/CRD IV rules, the shortfall is deducted from the Common Equity Tier 1 capital. In the transitional phase, 20% of the shortfall could be deducted from the Common Equity Tier 1 capital in 2014. The remainder will be deducted from the capital base, applying an equal division between the additional Tier 1 capital and Tier 2 capital. Should there be a positive difference (the provision is higher than the expected loss), this surplus could be added to the Tier 2 capital, taking into account certain restrictions. There is a negative difference applicable to SNS Bank.

#### 8.4.3.5 Comparison between expected and realised losses

### Provision process and model validation

The results of the rating model used for the AIRB help in determining the provision required for the retail portfolios in default. The rating model also calculates the provision for the Incurred But Not Reported (IBNR) losses for the residential mortgage portfolio that is not in default.

The Model Validation department periodically reviews the rating model used for the AIRB. Back testing is a recurring element in the review of credit models. In back testing, a comparison is made between realisations of relevant model parameters and model expectations. A model may be insufficiently robust, or back testing of the model may indicate mediocre model performance. In such cases, the advice of the Model Validation department may be to recalibrate the model or to start redeveloping it. Significant model changes ensuing from redevelopment will be submitted to DNB.

The table below presents the results of back testing the PD model and the expected losses model for residential mortgages. For the implementation of this analysis, the performance of the mortgage portfolio at year-end 2013 was followed throughout 2014. The result is expressed in default percentages and losses.

The models have been calibrated using a historical time series of 7 years. The back testing then shows the expectations of the model versus the results realised in 2014. The comparison between model expectations and realisations gives an indication of the model performance.

Every quarter, we monitor the model expectations versus the model parameters realised. An extensive review is also performed every year, which includes back testing.

**Results back test AIRB model retail mortgages**

| | Model estimate (2013) | Observed (2014) |
|---|---|---|
| Default percentages (PD) | 1.22 | 1.44 |

The loss percentage observed is the result of multiplying the observed default exposures by the LGD.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 model is 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 will not 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 IRB approach**
We also use the internal rating model, other than for the calculation of the EAD, RWA and capital requirements, in the following processes:
- Collection processes, early and late collections
- Provisioning process
- Pricing
- Portfolio management
- Marketing

## 8.4.4 Off balance sheet exposures
This chapter deals with off-balance sheet items with a specific focus on derivatives. Off-balance sheet items are divided into two different types of exposure in accordance with the calculation of credit risk RWA in CRD IV:
- Off-balance sheet items: the main categories of off-balance sheet items are guarantees, credit commitments, and the 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 sheet types of exposure mentioned above, different values are possible 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 EAD. The CCF factor is 50% or 100% depending on the type of guarantee; in other words: a lower risk weight may apply for the same exposure on balance.

Credit commitments and unutilised amounts are 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 by the calculation base and is 0%, 20%, 50%, 75% or 100% depending on 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 sheet items are high, the effect on RWA is reduced due to the use of a 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 2014**

| in € millions | On-balance sheet items | Off-balance sheet items | Derivatives | Total SNS Bank | Adjustments MFH | Total MFH |
|---|---|---|---|---|---|---|
| Exposure credit risk | 62,140 | 1,471 | 1,181 | 64,792 | 2,194 | 66,986 |
| EAD | 57,569 | 548 | 1,181 | 59,298 | 2,194 | 61,492 |
| RWA | 10,999 | 69 | 576 | 11,644 | 8,521 | 20,165 |
| Capital requirement | 880 | 6 | 46 | 932 | 682 | 1,614 |
| Average risk weight | 19% | 13% | 49% | 20% | 388% | 33% |

**Exposure, RWA and capital requirements by exposure type 2013**

| in € millions | On-balance sheet items | Off-balance sheet items | Derivatives | Total SNS Bank | Adjustments MFH | Total MFH |
|---|---|---|---|---|---|---|
| Exposure credit risk | 68,709 | 2,414 | 1,484 | 72,607 | 3,020 | 75,627 |
| EAD | 61,145 | 419 | 1,484 | 63,048 | 3,020 | 66,068 |
| RWA | 12,256 | 53 | 788 | 13,097 | 11,330 | 24,427 |
| Capital requirement | 980 | 4 | 63 | 1,048 | 906 | 1,954 |
| Average risk weight | 20% | 13% | 53% | 21% | 375% | 37% |

For the structure of SNS Bank's EAD, we refer to Table Capital requirements and risk weighted assets in section 8.3.1. As also indicated in the annual report, the decrease of the EAD is mainly the result of the decreasing size of the retail and SME portfolios. The introduction of the revised rating model for the residential mortgage portfolio results in an additional decrease of the RWA compared to 2013.

The decrease of the EAD at the MFH from € 3.0 billion to € 2.2 billion at year-end 2014 is the result of a lower corporate exposure. This is the result of the impairment of subsidiary REAAL.

## 8.4.5 Counterparty risk

### 8.4.5.1 Methodology

**Pillar 1 method for counterparty risk**

Since 2011 SNS Bank uses the 'method based on valuation at market value' to calculate the EAD in accordance with the rules, 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 and/or underlying value, to hedge the current and potential future counterparty risks of these contracts. The positive market value and the add-on charge are characterised in the tables below as the current exposure and the add-on, respectively.

### 8.4.5.2 Collateral

**Mitigation of counterparty risk exposure**

SNS Bank enters into money and capital market transactions with various financial institutions. This also includes, among others, derivative transactions for the hedging of interest rate and currency risks. To mitigate the counterparty risk, SNS Bank concluded ISDA[4]. Master Agreements entailing, among other things, that if the counterparty remains in default, all derivative transactions may be terminated within the netting set defined in the ISDA, with only a net claim or commitment in respect of the counterparty remaining.

4 International Swaps and Derivatives Association (www.isda.org)

Further mitigation of the counterparty risk is achieved by means of the Credit Support Annex (CSA) within the ISDA Master Agreement, pursuant to which collateral is exchanged with the counterparty on a regular (generally daily) basis for the net market value of the outstanding derivative transactions.
Both counterparty risk mitigating measures have the effect of reducing the EAD calculation according to the CRD IV/CRR rules.

SNS Bank agreed in a number of ISDA/CSAs with the counterparty that SNS Bank will provide more collateral if SNS Bank's credit rating is lowered. If the rating is lowered by one notch, in the worst case scenario SNS Bank must supply additional collateral in the amount of € 3 million.

In addition to CSAs, SNS Bank uses central clearing of OTC derivative transactions to shift counterparty risk to the central counterparty (CCP) and to mitigate the same. This central clearing also has the effect of reducing the RWA calculation. These exposures are recognised under the category 'Corporates' and have a risk weight of 2% or 4%.

SNS Bank does not use credit derivatives as a form of security or as an instrument to hedge credit risk.

In the table below information is available on how the counterparty risk is reduced with risk mitigation techniques.

### Mitigation of counterparty risk exposure due to closeout netting and collateral agreements 2014

| in € millions | Current exposure (gross) | Impact back-to-back swaps securitisation | Reduction from netting agreements/ collateral | Add-on | Current exposure (net) |
|---|---|---|---|---|---|
| SNS Bank | 2,702 | -- | -1,792 | 271 | 1,181 |
| Adjustments MFH | -14 | -- | -- | -- | -14 |
| **Total** | **2,688** | **--** | **-1,792** | **271** | **1,167** |

### Mitigation of counterparty risk exposure due to closeout netting and collateral agreements 2013

| in € millions | Current exposure (gross) | Impact back-to-back swaps securitisation | Reduction from netting agreements/ collateral | Add-on | Current exposure (net) |
|---|---|---|---|---|---|
| SNS Bank | 2,484 | -224 | -1,465 | 429 | 1,224 |
| Adjustments MFH | -12 | -- | -- | -- | -12 |
| **Total** | **2,472** | **-224** | **-1,465** | **429** | **1,212** |

#### 8.4.5.3 Credit Valuation Adjustment risk

The Credit Valuation Adjustment (CVA) is defined as the counterparty risk portion of the (total) market value of a derivative.

The market value of OTC derivatives with counterparties is valued based on the underlying value-determining factors, such as interest rates for interest swaps. If the credit quality of a counterparty of an interest swap deteriorates, a higher interest rate (or credit spread) must be used in the valuation, due to which the valuation changes.
In addition, CRD IV/CRR requires that the RWA be determined for the purpose of the changes in this CVA (reserve), as a result of a possible deterioration in the credit quality of the derivative counterparties.

The table below breaks down the EAD and the RWA, as well as the capital requirements, into the different exposure classes. The tables below present the risk-weighted figures, and not the CVA reserves, in the 'CVA' column.

### Counterparty risk exposures 2014

| in € millions | EAD | CVA | RWA incl. CVA | Capital requirement |
|---|---|---|---|---|
| Central governments or central banks | 9,728 | -- | -- | -- |
| Regional Governments or Local Authorities | 2,139 | -- | -- | -- |
| Public Sector Entities | 160 | -- | 35 | 3 |
| Multilateral Developments Banks | 232 | -- | -- | -- |
| International Organisations | 18 | -- | -- | -- |
| Institutions | 2,299 | 282 | 1,051 | 84 |
| Corporates | 856 | 1 | 1,745 | 139 |
| Retail excl. Mortgages | 261 | -- | 185 | 15 |
| Secured by Mortgages Immovable Property | 1,217 | -- | 865 | 69 |
| Exposures in Default | 131 | -- | 157 | 13 |
| Covered Bonds | 24 | -- | 2 | -- |
| Equity Exposures | 10 | -- | 10 | 1 |
| Other Items | 178 | -- | 120 | 10 |
| **Total SNS Bank stand alone** | **17,253** | **283** | **4,170** | **334** |
| Adjustments MFH | 2,194 | -1 | 8,521 | 682 |
| **Total MFH** | **19,447** | **282** | **12,691** | **1,016** |

### Counterparty risk exposures 2013

| in € millions | EAD | CVA | RWA incl. CVA | Capital requirement |
|---|---|---|---|---|
| Central governments or central banks | 15,848 | -- | -- | -- |
| Regional Governments or Local Authorities | 1,567 | -- | -- | -- |
| Public Sector Entities | 164 | -- | 36 | 3 |
| Multilateral Developments Banks | 174 | -- | -- | -- |
| International Organisations | 8 | -- | -- | -- |
| Institutions | 2,394 | 269 | 1,202 | 88 |
| Corporates | 980 | 47 | 1,938 | 158 |
| Retail excl. Mortgages | 283 | -- | 214 | 17 |
| Secured by Mortgages Immovable Property | 1,363 | -- | 1,000 | 80 |
| Exposures in Default | 134 | -- | 166 | 13 |
| Covered Bonds | -- | -- | -- | -- |
| Equity Exposures | 11 | -- | 11 | 1 |
| Other Items | 336 | -- | 158 | 13 |
| **Total SNS Bank stand alone** | **23,262** | **316** | **4,724** | **372** |
| Adjustments MFH | 3,032 | -10 | 11,332 | 907 |
| **Total MFH** | **26,294** | **306** | **15,988** | **1,279** |

#### 8.4.5.4 Wrong-way risk

Wrong-way risk pertains to the unfavourable relation between the creditworthiness of the counterparty and exposure to the counterparty. If the creditworthiness deteriorates, the exposure increases (simultaneously). We distinguish between general wrong-way risk and specific wrong-way risk.

General wrong-way risk pertains to situations in which general market conditions or macro economic factors are the cause of this risk. We have seen an example of this in the past few years with deteriorating economic circumstances, decreasing interest rates and companies in distress. If such companies have concluded interest rate swaps with a bank whereby the company hedgesd the interest rate risk by paying a fixed interest rate and receiving a floating interest rate, the market value of the swap rises for the bank in case of falling interest rates (i.e. the exposure). For the bank receives the fixed interest rate and pays an increasingly lower floating interest rate.

Specific wrong-way risk pertains to the situation in which the unfavourable relation is more direct and the risk is actually enclosed in the (realisation of) the transaction itself. An example of this type of risk is a derivative transaction in which a bank's stock is provided as collateral and in which the counterparty is part of the same bank. Or a reverse repo transaction with a central bank of a sovereign state, in which government bonds of the same state are received as collateral.

SNS Bank primarily closes 'plain-vanilla' interest and currency rate derivative transactions. Moreover, these transactions are settled centrally at a CCP or fall under ISDA/CSA conditions with daily collateral settlement. We thus minimise counterparty risk exposure and therefore also any possible wrong-way risk exposure. The first line of SNS Bank monitors the identification and avoidance of any possible wrong-way risk transactions.

## 8.5 Market risk

### 8.5.1 Trading portfolio

We use the standardised approach in the CRD IV to calculate capital requirements for the trading book. At year-end 2014, the Pillar 1 capital requirements were € 11 million (year-end 2013: € 15 million). The model covers interest rate risk and equity risk and is based on fixed risk weights.

### 8.5.2 Equities not included in the trading book

In the exposure class Equity, SNS Bank's equity holdings outside the trading book are included. Book value equals fair value for all the equities shown in the table below. 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. We predominantly use published quotations to establish fair value for shares.

At year-end 2014, the exposure of equity in SNS Bank's banking book was € 11 million, of which € 10 million were investments of ASN Bank in sustainable funds.

**Exposure of equity not included in the trading book 2014**

| 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 | -- | -- | -- | -- | -- | -- | -- |
| Joint ventures | -- | -- | -- | -- | -- | -- | -- |
| Investments available for sale | 10 | 10 | -- | -- | -- | -- | 1 |
| **Total SNS Bank** | **10** | **10** | **--** | **--** | **--** | **--** | **1** |
| Adjustments MFH | 38 | -- | -- | -- | -- | -- | 3 |
| **Total MFH** | **48** | **10** | **--** | **--** | **--** | **--** | **4** |

**Exposure of equity not included in the trading book 2013**

| 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 | -- | -- | -- | -- | -- | -- | -- |
| Joint ventures | -- | -- | -- | -- | -- | -- | -- |
| Investments available for sale | 11 | 11 | -- | -- | -- | -2 | 1 |
| **Total SNS Bank** | **11** | **11** | **--** | **--** | **--** | **-2** | **1** |
| Adjustments MFH | 41 | -- | -- | -- | -- | -- | 3 |
| **Total MFH** | **52** | **11** | **--** | **--** | **--** | **-2** | **4** |

## 8.5.3 Interest rate risk not included in the trading book

At year-end 2014, the duration of equity was 3.2 (year-end 2013: 1.7). In view of its interest rate outlook, SNS Bank decided to raise the duration of equity for 2014 to a level of approximately 3.

At year-end 2014, the Earnings at Risk was € 30 million (€ 21 million at year-end 2013). The interest income is most sensitive to a steepening of the yield curve. In this scenario, the short end of the yield curve drops to the -0.25% cut-off point and, as from the 10-year point, the curve steepens by 2%. The EaR outcome is higher than in 2013, partly because more prudent assumptions were made for passing interest rate hikes on to instant-access savings.

**Measures**

Interest rate risk outside the trading portfolio is measured, monitored and controlled on the basis of, inter alia, the duration of equity, the outlier criterion, Earnings at Risk (EaR) and the gap profile. Interest rate risk is controlled in respect of the total of interest-bearing assets and liabilities including interest rate derivatives used to adjust the interest rate position.

An important measure of market value sensitivity is the duration of equity, which measures the relative drop in the market value of shareholders' equity in the event of a parallel rate hike of 1%. Throughout 2014, the strategic bandwidth for equity duration was 0 to 8. For purposes of duration control, within that bandwidth the Bank ALCO sets a tactical bandwidth every month based on the envisaged risk profile and the market outlook.

EaR is the key measure of interest income sensitivity. EaR measures the maximum loss of interest income within a year based on ten interest rate scenarios (both instantaneously and gradually), while allowing for portfolio developments expected in the next twelve months. The EaR calculation takes account of the degree to which customer prices for instant-access savings keep pace with market rates. The volatility presumed may vary for each interest rate scenario.

In addition to controlling the duration of equity and the EaR, SNS Bank also applies other measures, such as the net nominal interest rate position for each interest rate period. These net nominal interest rate positions (assets less liabilities) produce the gap profile, which provides insight into the interest rate position when determining the maturities of interest rate swaps in order to steer the interest rate position towards the desired level.

The measures for interest rate risk are reported to the Bank ALCO every month. In determining and managing the interest rate risk, we take account of future early redemptions of mortgage loans and the behavioural term of deposits that have no fixed term. The presumed ratio of early redemptions is based on recent experience data. The behaviour of holders of deposits without a fixed term is modelled using what is known as a replicating portfolio.

We avail ourselves of the proprietary waiver in accordance with Article 432 CRR in respect of the quantitative disclosure of key customer behaviour assumptions that affect the interest rate risk not included in the trading portfolio.

The annual report (section 5.6 Market risk) provides further explanation of the interest rate risk not included in the trading portfolio.

## 8.6 Liquidity risk

### 8.6.1 Unencumbered assets

This section provides insight into the available and unencumbered assets that may be used to support the funding requirement.

**(Un)encumbered assets 2014**

| in € millions | Encumbered | Unencumbered | Total |
|---|---|---|---|
| Cash and other liquid assets | -- | 1,968 | 1,968 |
| Cash collateral | 1,279 | -- | 1,279 |
| Equity instruments | -- | 11 | 11 |
| Other investment securities | 1,141 | 5,848 | 6,989 |
| Loans | 14,064 | 40,094 | 54,158 |
| Other financial assets | -- | 2,702 | 2,702 |
| Non-financial assets | -- | 1,052 | 1,052 |
| **Total SNS Bank** | **16,484** | **51,675** | **68,159** |
| Adjustments MFH | -- | 2239 | 2239 |
| **Total MFH** | **16,484** | **53,914** | **70,398** |

**(Un)encumbered assets 2013**

| in € millions | Encumbered | Unencumbered | Total |
|---|---|---|---|
| Cash and other liquid assets | -- | 5,528 | 5,528 |
| Cash collateral | 1,328 | -- | 1,328 |
| Equity instruments | -- | 14 | 14 |
| Other investment securities | 732 | 4,911 | 5,643 |
| Loans | 18,888 | 40,579 | 59,467 |
| Other financial assets | -- | 2,484 | 2,484 |
| Non-financial assets | -- | 72 | 72 |
| **Total SNS Bank** | **20,949** | **53,588** | **74,537** |
| Adjustments MFH | -- | 2995 | 2995 |
| **Total MFH** | **20,949** | **56,583** | **77,532** |

As at year-end 2014, € 16.5 billion of the assets was encumbered on account of securitisations, covered bonds, repurchase transactions, CSAs, FX transactions and payment transactions on the level of SNS Bank. The other € 51.7 billion is unencumbered and may partly be converted into cash. Securitised mortgages in respect of which SNS Bank itself holds the bonds are not considered to be encumbered, except if these bonds are used as collateral for something like a repurchase transaction.
Collateral received
SNS Bank received a total amount of € 557 million in collateral. This almost entirely (€ 541 million) consists of cash deposits that serve as collateral for the (positive market value of) outstanding derivative positions.

Total encumbered assets
The bank's total encumbered assets amount to € 16.5 billion and mainly concists of pledged mortgages related to securitisation transactions. The total amount of liabilities related to these assets amounts to € 13.2 billion and mainly consists of bonds issued by the securitisation entities.

## 8.7 Securitisation

### 8.7.1 Objectives

By the end of 2014, SNS Bank securitised residential mortgages in the amount of € 15.3 billion. We only securitise residential mortgages that we granted. In securitisation transactions, the beneficial and legal title of the residential mortgages is transferred to separate entities, which are referred to as Special Purpose Vehicles (SPVs).

There are three reasons for securitising residential mortgages:

1. Funding. Securitisation is a funding instrument that broadens and diversifies our funding base.
2. Lower capital charges. Securitisation of residential mortgages enables us to reduce the risk-weighted assets.
3. Liquidity. By securitising residential mortgages we create new assets that may be used as collateral.

We do not have any re-securitisation activities, nor do we perform securitisation programmes for third parties.

We securitised residential mortgages under four different programmes: Hermes, Pearl, Holland Homes and Lowland. Hermes, a programme for SNS Bank's residential mortgages, was introduced in 1999. The securitisation through the Pearl programme only pertains to residential mortgages based on a guarantee under the NHG, the National Mortgage Guarantee system. The Holland Homes programme originates from the acquisition of DBV and now falls under SNS Bank. Since 2012 we have had a fourth securitisation programme, which is Lowland.

SNS Bank had a synthetic securitisation by the name Provide Lowland. This synthetic securitisation amounted to € 296 million at the end of 2013 and was fully repaid in 2014.

The securitisation programmes Hermes and Holland Homes are mainly used for funding and to manage capital charges. The purpose of the Pearl programme is funding. The positions in Lowland 1, 2 and 3 have been developed for liquidity purposes.

The table below presents the volume of SNS Bank's securitisation programmes and the treatment applied in calculating capital requirements.

**Securitisation programmes SNS Bank**

| in € millions | 2014 | Capital treatment | 2013 | Capital treatment |
|---|---|---|---|---|
| Hermes 9 | -- | -- | 756 | securitisation |
| Hermes 10 | 762 | securitisation | 849 | securitisation |
| Hermes 11 | 888 | securitisation | 971 | securitisation |
| Hermes 12 | 1,107 | securitisation | 1,212 | securitisation |
| Hermes 15 | 1,204 | look-through | 1,286 | securitisation |
| Hermes 18 | 820 | look-through | 886 | securitisation |
| Pearl 1 | 1,014 | look-through | 1,014 | look-through |
| Pearl 2 | 594 | look-through | 687 | look-through |
| Pearl 4 | 907 | look-through | 985 | look-through |
| Holland Homes 1 | 106 | securitisation | 110 | securitisation |
| Holland Homes 3 | 462 | securitisation | 513 | securitisation |
| Holland Homes Oranje | 539 | look-through | 597 | look-through |
| Lowland 1 | 2,898 | look-through | 3,198 | look-through |
| Lowland 2 | 1,660 | look-through | 1,787 | look-through |
| Lowland 3 | 2,335 | look-through | 2,525 | look-through |
| **Total** | **15,296** | | **17,376** | |

For the purpose of calculating capital requirements, at year-end 2014 five programmes of the total volume of securitisation programmes (€ 15.3 billion) – Hermes 10-12, Holland Homes 1 and 3; totalling € 3.3 billion – were recognised as securitisation positions. For the rest of the volume, we use the underlying individual mortgage loans to determine the capital requirements – this is known as 'looking through'`.

### 8.7.2 Risks

Pursuant to the securitisation programmes SNS Bank recognises several types of risk, including particularly credit risk, interest rate risk and liquidity risk.

The credit risk that may ensue from the securitisation programmes pertains to the possible credit losses on the underlying residential mortgages. The Hermes 10-12 and Holland Homes 1 and 3 programmes shift the credit risk to the investors in the different types of bonds under those programmes. As a result of the design of these securitisation programmes, the credit risk cannot be placed fully with the investors. Due to the programme's deferred selling price and net margin, a limited part of the credit risk remains for SNS Bank's account[5]. In the Hermes 15 and 18, Pearl, Holland Homes Oranje and Lowland programmes, SNS Bank retains the credit risk of the underlying mortgages in full or in part. The underlying mortgages are weighted based on the internal risk model.

In addition, SNS Bank runs a direct credit risk because the balance sheet includes securitisation bonds of third-party programmes.

There is also counterparty risk in respect of counterparties with which risks are hedged in swap transactions. (See the explanation of the interest rate risk below for a description of the background of the swap transactions). The credit and counterparty risks are managed in the regular control processes for mortgages, counterparty risk and balance sheet management.

SNS Bank holds the interest rate risk of the residential mortgages securitised by it on the balance sheet. The SPVs hedged the interest rate risk of the securitisation programmes with interest swaps, which have been concluded with third parties. We concluded back-to-back swaps with these third parties, except for the Holland Home transactions, for which we did not conclude back-to-back swaps. In this case, the interest rate risk lies with the swap counterparty. The interest rate risk of the other, back-to-back, swaps is included in the regular process of managing the balance sheet.

The liquidity risk of the company's own securitisation positions pertains to the possible cash outflows due to the liquidity provider's role and the possibility that cash collateral must be deposited in swap transactions. The impact on the liquidity position will be included in the regular process of liquidity management. (See the risk management section of the annual report for an explanation of the regular processes for credit, interest rate and liquidity risks: sections 5.5, 5.6 and 5.7 respectively.

The risks of positions in securitisations of third parties mainly pertain to credit risk of default on the underlying mortgages. We are limiting this risk by purchasing tranches of the highest seniority, the so-called A bonds, and we are also monitoring the investor reports of these transactions.

### 8.7.3 Roles

SNS Bank plays various roles in its own securitisation programmes. As 'originator' we granted the underlying residential mortgages. In addition, we are active as 'arranger': we structure the transaction and conduct negotiations with the rating agencies. We coordinate the documentation on the transaction together with our legal advisor. As 'manager' we are co-responsible for placing securities with institutional investors, for which purpose we are working together with other financial institutions.

In several instances, SNS Bank acts as swap counterparty for the interest rate risk management of the SPVs. The SPV concluded an interest swap with a third party that, in turn, concludes a fully offsetting transaction for the swap with us. Consequently, we do not play a role as swap counterparty in the swap transaction of the SPV itself. We did not conclude

5 For a more detailed description of SNS Bank's securitisation programmes, including the corresponding prospectuses and reports, we refer to www.securitisation.nl

any back-to-back swaps for the Holland Homes securitisation programmes, while the Lowland securitisation programme does not have any swaps.

As 'servicer' we are responsible for the daily operational management of the underlying residential mortgages. We set up a foundation that is in charge of collecting the principal and interest payments: 'Stichting Hypotheken Incasso'. The foundation is responsible for the collection of the various mortgage payments and transfers these amounts to the relevant SPVs.

We do not provide any support for our securitisation programmes extending further than our contractual obligations, nor do we act as a programme sponsor.

The table below shows the roles that SNS Bank plays in the different securitisation programmes:

**Roles in securitisation programmes**

| Programme name | Originator | Arranger | Manager | Servicer | Swap CP (indirect) |
|---|---|---|---|---|---|
| Hermes | x | x | x | x | x |
| Pearl | x | x | x | x | x |
| Holland Homes | x | | | | |
| Lowland | x | x | x | x | |

### 8.7.4 Policy & processes

For the purposes of risk management of the mortgage loans, we look at the underlying mortgage loans through the securitisation positions (retained). The interest rate and liquidity risks of these mortgages fall under the regular process for balance sheet management. The credit risk is included in the regular process for monitoring mortgage loans. This process does not distinguish between securitisation positions issued or retained. That is why we do not pursue separate policies to hedge the risks relating to (retained) securitisation positions. (Also see in this respect section 5.3 of this report, which explains the interest rate risk outside the trading book.)

SNS Financial Markets conducts the operational management of the retained or purchased securitisation positions within the mandate set by the Managing Board.

The interests in securitisation positions of third parties are part of the investments by subsidiary ASN Bank. Within the powers delegated to it, ASN Bank's investment committee is free to take positions and manage the risks of these investments.

### 8.7.5 Securitisation exposures

The securitised loans were sold to the SPV at nominal value plus a deferred selling price, which entails that we hold a claim against the SPV. This claim will be paid out as soon as the securitisation transaction is fully completed.

The securities issued by the SPV include equity notes (E bonds), which are high-risk and high-yield bonds. The E bonds form the second loss position after the net margin in the transaction. In a number of cases, the E bonds of the securitisation programmes are not placed with investors. The Bank holds the E bonds of the Hermes 18 programme and the Lowland programmes in its own book. Stress testing showed that SNS Bank runs a credit risk due to the deferred selling price and the E bonds. The sum of the deferred selling prices of all active securitisation programmes amounted to € 29 million including loan provisions as at year-end 2014. There is an order in which E bonds and the deferred selling price are called upon in the event of credit losses. Losses will first be charged to the net margin, next to the deferred selling price and then to the E bonds. If this is insufficient to cover the losses the bonds will be called upon, beginning with the D bonds and ending with the A bonds.

In the set-up of the securitisation programmes, a certain expectation of pre-payment behaviour on mortgages is assumed . If the actual pre-payments turn out to be higher, the bonds will pay off more quickly. A bonds will be redeemed first, followed by B, C and subsequent bonds.

The securitisation transactions put on the market by SNS Bank since 2001 have what is called a 'call + step-up' structure. This means that the SPV will have the right to redeem the issued bonds prematurely on a certain call date. In addition, the interest payment on the bonds will be increased as from that call date (step-up). The step-up provides an economic incentive to redeem the bonds. All bonds that had such a call date in 2014 have been redeemed.

We have various subordinated bonds in the books that were issued under the Pearl programme. As Pearl pertains to a funding transaction, we did not sell the subordinated debt. SNS Bank also holds bonds of several Hermes programmes in its own book. These were repurchased as part of market maintenance for the securitisation programmes. The positions in Lowland were developed for liquidity purposes and may be placed with investors if so desired.

In 2014, SNS Bank did not perform any new securitisation transactions. No securitisation transactions were being prepared at year-end 2014.

The tables below show explanatory figures pertaining to the exposures. These are exposures in the banking book. SNS Bank does not have any securitisation exposures in the trading portfolio.

## Outstanding amounts of exposures securitised 2014

| | Traditional | | Synthetic | |
|---|---|---|---|---|
| in € millions | Originator[1] | Investor | Originator | Investor |
| Notes | **3,339** | **188** | **--** | **--** |
| **Total** | **3,339** | **188** | **--** | **--** |

1 The figures for 'Originator' exposures relate to the securitisation programmes Hermes 10-12 and Holland Homes 1 and 3.

## Outstanding amounts of exposures securitised 2013

| | Traditional | | Synthetic | |
|---|---|---|---|---|
| in € millions | Originator[1] | Investor | Originator | Investor |
| Notes | 6,670 | 179 | 296 | -- |
| **Total** | **6,670** | **179** | **296** | **--** |

1 The figures for 'Originator' exposures relate to the securitisation programmes Hermes 9-12, 15, 18 and Holland Homes 1 and 3 ('Traditional') and Provide Lowland ('Synthetic').

Both tables above present the outstanding nominal values of the Bank's own securitisation programmes plus the investment positions in third-party securitisations. The Bank's own securitisation programmes decreased as a result of regular redemptions in the programmes, the calling of the Hermes 9 programme and the look-through in the Hermes 15 and Hermes 18 programmes. The movement in investment positions in securitisations of third parties is caused by a limited expansion. The tables below show the composition of the programmes by type of bond, and what portion is held on own book.

## Composition of securitisation programmes SNS Bank 2014

| in € millions[1] | Current sizze of programme | Own book at year-end 2014[2] |
|---|---|---|
| A bonds | 3,036 | 1,052 |
| B bonds | 145 | 78 |
| C bonds | 108 | 92 |
| D bonds | 50 | 60 |
| E-notes | -- | -- |
| **Total** | **3,339** | **1,282** |

1 The figures relate to the securitisation programmes Hermes 10-12 and Holland Homes 1 and 3.
2 The own book consists of unissued and repurchased securities.

## Composition of securitisation programmes SNS Bank 2013

| in € millions[1] | Current sizze of programme | Own book at year-end 2013[2] |
|---|---|---|
| A bonds | 6,023 | 1,216 |
| B bonds | 212 | 78 |
| C bonds | 209 | 92 |
| D bonds | 119 | 60 |
| E-notes | 61 | 14 |
| **Total** | **6,624** | **1,460** |

1 The figures relate to the securitisation programmes Hermes 9-12, 15, 18 and Holland Homes 1 and 3.
2 The own book consists of unissued and repurchased securities.

## Outstanding amounts of exposures securitised and impaired 2014

| | Impaired/past due | | Losses | |
|---|---|---|---|---|
| in € millions | Originator[1] | Investor | Originator | Investor |
| Notes | 22 | -- | -- | -- |
| **Total** | **22** | **--** | **--** | **--** |

1 The figures for ‘Originator’ exposures relate to the securitisation programmes Hermes 10-12 and Holland Homes 1 and 3.

## Outstanding amounts of exposures securitised and impaired 2013

| | Impaired/past due | | Losses | |
|---|---|---|---|---|
| in € millions | Originator[1] | Investor | Originator | Investor |
| Notes | 42 | -- | 16 | -- |
| **Total** | **42** | **--** | **16** | **--** |

1 The figures for ‘Originator’ exposures relate to the securitisation programmes Hermes 9-12, 15, 18 and Holland Homes 1 and 3.

Both tables above describe the outstanding nominal values of securitised loans that are impaired/past due, or in respect of which losses have been realised. The size of these items has been reduced by roughly 50%, which is the result of the corresponding decrease in the overall securitisation exposure. At the end of 2014, on balance the losses were negligible. This is the net effect of a release in the provisions in the Hermes 11 programme, being proceeds that compensate for other losses.

**Exposure and capital charges of securitisation positions retained or purchased per risk weight band**

| | Exposure amount[1] | | Capital charges | |
|---|---|---|---|---|
| in € millions | **2014** | 2013 | **2014** | 2013 |
| <= 10% | 1,053 | 1,394 | 6 | 8 |
| > 10% <= 20% | 33 | 78 | -- | 1 |
| > 20% <= 50% | 10 | 44 | -- | 1 |
| > 50% <= 100% | 16 | 96 | 1 | 5 |
| > 100% <= 650% | 12 | 12 | 4 | 2 |
| > 650% < 1.250% | -- | -- | -- | -- |
| 1250% | -- | 14 | -- | 14 |
| **Total** | **1,124** | **1,638** | **11** | **31** |

1 For Provide Lowland, we did not have to hold RWA at year-end 2013, since the risks were entirely transferred. Provide Lowlands was fully repaid in 2014.

The table above presents an overview of the set-up of the exposure classes within the securitisation programmes. The percentages stated are the risk weights. A lower risk weight is indicative of a low-risk class. The Hermes 18 E bond (RWA equal to € 14 million at year-end 2013) is no longer part of the 1250% class, as the Hermes 18 programme has been subject to a look-through since 2014.

### 8.7.6 Calculation of risk-weighted exposure

SNS Bank uses the AIRB approach for securitisations subject to a look-through to calculate the risk-weighted exposure. This approach uses an internal rating model to assess the underlying mortgage loans, which pertains the Hermes 15, Hermes 18, Pearl, Holland Homes Oranje and Lowland programmes.

We apply the Rating Based Approach (RBA) for our own positions in Hermes 10-12, as well as the positions in securitisations of third parties in which investments were made. Pursuant to the RBA, the risk-weighted assets are determined by multiplying the nominal amount of the exposure by a risk weight. The risk weights depend on the external rating and seniority of the position. In respect of the Holland Homes 1 and Holland Homes 3 programmes, we do not have a position in the balance sheet and that is why the risk-weighted exposure is nil.

### 8.7.7 Accounting policy for securitisation

SNS Bank transferred the underlying loans to separate SPVs at nominal value. A positive result on the SPVs also creates a positive result on the deferred selling price. This way we have an economic interest in the SPVs: the majority of the risks and economic benefits accrue to us. SNS Bank therefore fully consolidates these relevant SPVs in its consolidated financial statements based on the economic reality of the relationship between SNS Bank and the SPV.

### 8.7.8 Rating agencies

SNS Bank obtained credit ratings from the main credit rating agencies for its residential mortgages securitisations. The table below shows which credit rating agencies issued ratings for the securitisation programmes active at year-end 2014.

### Credit ratings securitisation programmes

| Programme name | Moody's | Standard & Poors | Fitch |
|---|---|---|---|
| Hermes 10 | x | | x |
| Hermes 11 | x | x | x |
| Hermes 12 | x | | x |
| Hermes 15 | x | | x |
| Hermes 18 | x | | x |
| Pearl 1 | x | | x |
| Pearl 2 | x | | x |
| Pearl 4 | x | x | |
| Holland Homes 1 | x | | x |
| Holland Homes 3 | x | | x |
| Holland Homes Oranje | x | | x |
| Lowlands 1 | x | | x |
| Lowlands 2 | x | | x |
| Lowlands 3 | x | | x |

## 8.8 Operational risk

SNS Bank calculates the capital requirements for non-financial risks according to the standardised approach, in which all 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. At year-end 2014, the Pillar 1 capital requirements were € 125 million for the operational risks (year-end 2013: € 121 million).
The total capital requirement for non-financial risks is calculated as the sum of the capital requirements for each of the business lines. The total capital is calculated as the 3-year average of the sum of the statutory capital costs for each of the divisions. The capital requirement for each business line equals the beta coefficient multiplied by gross income. The beta coefficients differ between business lines and are 12%, 15% or 18%. The capital requirement calculated on a yearly basis constitutes input for the Internal Capital Adequacy Assessment Process (ICAAP).

SNS Bank manages its non-financial risks by planning, implementing and monitoring activities aimed at:
- realising predictable performance;
- protecting SNS Bank from unforeseen losses;
- offering sufficient certainty on the reliability of information in order to achieve (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 CRD IV requirements.

## 8.9 Remuneration

### 8.9.1 Introduction

In compliance with the *Regeling beheerst beloningsbeleid Wft 2014* (Regulation on Sound Remuneration Policies pursuant to the Financial Supervision Act 2014), SNS REAAL reports annually on the remuneration and remuneration policy in respect of employees whose actions have material impact on the organisation's risk profile (Identified Staff). These data are included in the SNS REAAL Identified Staff Remuneration Policy report, which is posted on the SNS REAAL website under Corporate Governance/Remuneration. In this annual report, we report on the remuneration and remuneration policy pertaining to SNS Bank NV's Identified Staff for the purposes of Pillar 3. The report is subdivided into three groups:

1. Management Body, comprising SNS REAAL's Executive Board and the Managing Board of SNS Bank NV (8 individuals);
2. Senior Management, comprising the Identified Staff that reports to the Management Body (39 individuals);
3. Other Identified Staff, the other Identified Staff members (16 individuals).

The remuneration policy in respect of the Identified Staff is laid down in the SNS REAAL Group Remuneration Policy and is based on the remuneration principles stated therein applicable to all units and groups of SNS REAAL. These principles are as follows:

- The policy is compliant with current legislation and regulations;
- The remuneration policy is characterised by its consideration of all of the Company's stakeholders: customers, employees, shareholder and society;
- The remuneration is transparent and in line with signals that reach SNS REAAL from the outside world;
- The remuneration matches the risk profile of SNS REAAL and the risk profile of the relevant person holding the position;
- The policy is in accordance with and contributes to sound and effective risk management and does not encourage taking more risks than acceptable to the company;
- The total remuneration package reflects the requested output of the relevant person holding the position;
- The purpose of the policy is to attract and retain good employees, taking SNS REAAL's specific position into account;
- The policy contributes to the realisation of the strategy and long-term interests of SNS REAAL;
- There is an appropriate ratio between the fixed and variable remuneration;
- The policy is as consistent as possible for the entire Group to encourage the exchange and movement of staff to other positions;
- The revised earnings model and the situation that the company is in give cause for remuneration to be moderated.

### 8.9.2 Governance

In connection with the material impact of the Identified Staff on the organisation's risk profile we set up a control framework to monitor the remuneration and remuneration policy in respect of Identified Staff. To this end, the control departments Risk and Compliance work together with the staff departments Finance, Legal Affairs and HR in a Remuneration Working Group. The activities of the Remuneration Working Group are assessed by the Remuneration Steering Group, in which the ultimately responsible Board members of the working group members serve under the chairmanship of the chairman of the Executive Board. As the control department, Audit independently assesses the adoption and application of the remuneration policy, and the board member of Audit also participates in the Remuneration Steering Group. Decision-making on the remuneration and remuneration policy for Identified Staff lies mainly with the Supervisory Board, except for the implementation of the schemes for Collective Labour Agreement employees, which is the Executive Board's responsibility. The Supervisory Board also decides on the total sum of variable payments.

The Remuneration & Nomination Committee (ReNomCo), which is responsible for preparing decisions of the Supervisory Board regarding remuneration, met nine times in 2014. All documents for the ReNomCo are provided through the Executive Board. Following the separation of the banking and insurance activities, this role is being taken over by the Managing Board of SNS Bank NV, which incidentally also sees all relevant remuneration documents before they are provided for the ReNomCo.

In order for them to safeguard the independence of employees in control functions as much as possible, they made performance agreements fully aimed at the employee's own job content. Employees in control functions are only subject to non-financial performance agreements.

The ultimately responsible Board members of the control departments are Identified Staff, just like the other Board members in their management team. None of the other employees in control functions are Identified Staff.

### 8.9.3 Determination of Identified staff

As a result of a new technical standard of the EBA and the Regulation on Sound Remuneration Policies pursuant to the Financial Supervision Act 2014, the Identified Staff were determined again by the Supervisory Board in accordance with the new rules at year-end 2014. The effective date of the designation of the new Identified Staff was set at 1 January 2014 with retroactive effect. When determining the Identified Staff (63 at SNS Bank NV), SNS REAAL used a matrix compiled by Risk and based on the EBA technical standard. Every year, an examination is made of whether that determination is still correct. Changes in commencement of employment, termination of employment and internal shifts are monitored by HR and processed throughout the year.

### 8.9.4 Relationship between remuneration and performance

Every year, performance agreements are made with every employee, regardless of whether a variable remuneration scheme applies. If a variable remuneration scheme applies, achieving such performance agreements is a condition for variable remuneration to be granted.

Performance agreements must be marked and measurable. When performance agreements are determined, all of SNS REAAL's stakeholders are considered, where relevant and possible. Such stakeholders are:
- Customers;
- Employees;
- The Dutch State as the sole shareholder;
- Society.

Every year, the Executive Board establishes guidelines for the performance agreements of senior management.

Performance agreements are divided into financial KPIs and non-financial KPIs.

Every KPI has a weighting factor expressed in a percentage of the 100% total.

Depending on the position, the ratio between the financial KPIs and non-financial KPIs varies. Traders are mainly rewarded for their returns achieved, within clear frameworks to serve customer interest and mitigate risks. This means that the percentage of financial KPIs is relatively high for these positions (subject to a maximum of 80%). Effective 2015, this maximum percentage is 50%. The other positions are mostly management positions, mainly steering towards the non-financial KPIs, such as customer interest, strategic projects and employee satisfaction. However, a minimum of 20% in financial KPIs was set for these positions in order to maintain their engagement with the business results. Different KPIs apply to control functions so as to safeguard their independence.

The KPIs of the SNS Bank NV Managing Board 2015 are as follows:

### KPI's SNS Bank NV Managing Board

| Ratio financial/ non-financial | KPI | Weight[1] |
|---|---|---|
| 30% financial | 1. Financial result | 30% |
| 70% non-financial | 2. Customer interest | 20% |
| | 3. Employee satisfaction | 10% |
| | 4. SNS Bank NV Manifesto | 10% |
| | 5. Market share | 10% |
| | 6. Strategic projects | 20% |
| **Total** | | **100%** |

1 This is the average weight of the Board members of SNS Bank NV.

In addition to the realisation of the KPIs, frameworks are also established at group level (referred to as 'guiding principles') for variable remuneration to be granted. If the guiding principles are not met, the variable remuneration may be reduced or we may decide not to distribute any variable remuneration at all. In any event, remuneration must be in furtherance of our mission and the realisation of SNS REAAL's (long-term) strategy.

## 8.9.5 Ex ante and ex post risk analysis

At the beginning of the performance year, the control departments conduct an ex ante risk analysis in order to safeguard that the KPIs are determined and that they meet the criteria set. The five different steps of the ex ante risk analysis are as follows:

1. Assessing the method of determination of Identified Staff and checking whether the list of Identified Staff is up to date;
2. Evaluating general KPI requirements for Identified Staff;
3. Evaluating the KPIs as determined for the Management Body, the Senior Management and the other Identified Staff, supplementary to the actions referred to at 2;
4. Evaluating the KPIs as determined for the control functions, supplementary to the actions referred to at 2;
5. Checking whether the guiding principles with regard to the variable remuneration are still up to date.

At the end of the performance period, the control departments conduct an ex post risk analysis.

The ex post risk analysis focuses on determining the variable remuneration for the preceding year and the conditional and deferred portions of the variable remuneration from previous years.

The analysis examines whether the proposed variable remuneration has been determined in the correct manner. It also examines whether there is cause to adjust the variable remuneration to be granted downwards or to reclaim the variable remuneration already granted. This includes the assessment of any consequences ensuing from the Identified Staff's actions that manifest themselves during the deferral period and shed new light on the actions during the assessment period. Based on this, advice is given as to whether the variable remuneration can be granted or should be adjusted downwards.

If variable remuneration is paid out based on incorrect information about the realisation of the targets on which the variable remuneration is based or about circumstances upon which the variable remuneration was made conditional, the variable remuneration may be reclaimed in full or in part, even after it has been unconditionally granted and paid out (claw back). The claim can also be filed on SNS REAAL's behalf by the Supervisory Board.

### 8.9.6 The remuneration policy for Identified Staff

The Identified Staff of SNS Bank NV do not form a homogenous group, but are spread across the organisation and comprise both senior management and CLA employees. Apart from the remuneration that may vary for each Identified Staff member, there are clear rules for granting and paying remuneration to Identified Staff. This policy is laid down in the SNS REAAL Group Remuneration Policy and its implementation is monitored by the control departments.

In anticipation of the introduction of the *Act* on *Remuneration Policies* of *Financial Undertakings* (Wbfo), it was decided at the end of 2014 to adjust the remuneration policy in conformity with the Wbfo requirements as early as 1-1-2015. Adjustments that affect certain groups of senior management include a severance pay cap at one fixed annual salary and/or a fixed annual salary freeze (excluding any CLA increase) in combination with a ban on variable remuneration. As mentioned in 4.7.8, members of the Board of Directors are not eligible for variable remuneration.

The following applies to all Identified Staff members:

- The variable remuneration is made up of a direct component and a deferred component, which are both based on a one-year performance period;
- Both the direct and deferred components are distributed half in cash and half in phantom shares;
- The direct component is unconditional and amounts to 60% of the total variable remuneration. When the remuneration is granted, the employer withholds payroll tax on the total direct component.
    - After deduction of the payroll tax, half of the remaining net portion is paid out in cash;
    - After deduction of the payroll tax, half of the remaining net portion is granted in the form of phantom shares. A retention period of one year is applicable to these shares, following which the value at that time will be paid out in cash. It is not possible to keep the phantom shares longer than this.
- The deferred component is conditional and amounts to 40% of the total variable remuneration. The amount definitively granted depends on the developments in the deferral period and the reasonableness test/ex post risk analysis. No payroll tax is withheld yet at the time of conditional granting; this is done at the time of unconditional granting. The component conditionally granted is divided into 50% cash and 50% phantom shares.
    - The deferral period for the component in cash (20%) is three years. After the reasonableness test/ ex post risk analysis, this component can be granted unconditionally three years after the conditional granting;
    - The deferral period for the component in phantom shares (20%) is four years. After the reasonableness test/ ex post risk analysis, this component can be granted unconditionally four years after the conditional granting. Payment of the value of the phantom shares at that time will be made in cash. In view of the extended deferral period, no retention period is applied. It is considered part of the deferral period.

The ratio between the fixed remuneration and variable remuneration varies per function (group). Members of the Managing Board and the Executive Board and some senior managers who fall under the definition in the Wbfo applicable to State-supported enterprises, are not entitled to variable remuneration. Senior management is entitled to a variable remuneration of up to 20% under certain conditions. Two groups of specialists with a separate variable remuneration scheme are entitled to an average of 20%, in which respect SNS Bank itself determined that the variable remuneration should never exceed 50%.

## 8.9.7 Remuneration Management Body, Senior Management and other Identified Staff for 2014

### Remuneration Management Body 2014

| in € thousands | Total | Unrestricted | Deferred |
|---|---|---|---|
| **Fixed remuneration** | | | |
| Gerard van Olphen | 550 | 550 | -- |
| Maurice Oostendorp | 440 | 440 | -- |
| Dick Okhuijsen | 440 | 440 | -- |
| Wim Henk Steenpoorte | 440 | 440 | -- |
| Annemiek van Melick (vanaf 1-7) | 145 | 145 | -- |
| Alexander Baas (vanaf 1-7) | 119 | 119 | -- |
| Rob Langezaal (vanaf 1-7) | 145 | 145 | -- |
| Martijn Wissels (vanaf 1-7) | 142 | 142 | -- |
| **Total fixed remuneration** | **2,421** | **2,421** | **--** |
| **Variable remuneration** | | | |
| Gerard van Olphen | -- | -- | -- |
| Maurice Oostendorp | -- | -- | -- |
| Dick Okhuijsen | -- | -- | -- |
| Wim Henk Steenpoorte | -- | -- | -- |
| Annemiek van Melick (vanaf 1-7) | -- | -- | -- |
| Alexander Baas (vanaf 1-7) | -- | -- | -- |
| Rob Langezaal (vanaf 1-7) | -- | -- | -- |
| Martijn Wissels (vanaf 1-7) | -- | -- | -- |
| **Total variable remuneration** | -- | -- | -- |
| **Total fixed and variable remuneration** | **2,421** | **2,421** | **--** |

For 2014, no variable remuneration was paid out to the members of the Management Body and therefore no remuneration in shares was granted either.

### Remuneration Senior Management 2014

| in € thousands | Total | Unrestricted | Deferred |
|---|---|---|---|
| **Fixed remuneration** | | | |
| Cash | 6,981 | 6,981 | -- |
| Phantom shares SNS REAAL | -- | -- | -- |
| **Total fixed remuneration** | **6,981** | **6,981** | **--** |
| **Variable remuneration** | | | |
| Cash | -- | -- | -- |
| Phantom shares SNS REAAL | -- | -- | -- |
| **Total variable remuneration** | **--** | **--** | **--** |
| **Total fixed and variable remuneration** | **6,981** | **6,981** | **--** |

### Remuneration Other Identified Staff 2014

| in € thousands | Total | Unrestricted | Deferred |
|---|---|---|---|
| **Fixed remuneration** | | | |
| Cash | 4,169 | 4,169 | -- |
| Phantom shares SNS REAAL | -- | -- | -- |
| **Total fixed remuneration** | **4,169** | **4,169** | **--** |
| **Variable remuneration** | | | |
| Cash | 33 | 20 | 13 |
| Phantom shares SNS REAAL | 33 | 20 | 13 |
| **Total variable remuneration** | **66** | **40** | **26** |
| **Total fixed and variable remuneration** | **4,235** | **4,209** | **26** |

In 2014, nobody at SNS Bank NV received remuneration of € 1 million or more. Such remuneration would also be impossible under the current remuneration schemes.

## 8.9.8 Signing bonuses and severance payments granted in 2014, guaranteed variable remuneration for 2014 and outstanding variable remuneration

### Sign-on awards and severance payment 2014

| in € thousands | Management Body | Senior management | Overige Identified Staff |
|---|---|---|---|
| **Sign-on awards** | | | |
| Amount paid | -- | -- | -- |
| Number of beneficiaries | -- | -- | -- |
| **Severance payments** | | | |
| Amount paid | -- | 960 | -- |
| Number of beneficiaries | -- | 3 | -- |
| Highest individual award | -- | 454 | -- |

### Guaranteed variable remuneration 2014

| in € thousands | Management Body | Senior management | Overige Identified Staff |
|---|---|---|---|
| **Guaranteed variable** | | | |
| Amount paid | -- | -- | -- |
| Number of beneficiaries | -- | -- | -- |

In 2014, no guaranteed variable remunerations and/or signing bonuses were granted.

### Outstanding variable remuneration on 1 March 2014

| in € thousands | Unconditional | Conditional |
|---|---|---|
| Cash | -- | 835 |
| Shares | 27 | 43 |