



**SNS REAAL**

2011

# **ANNUAL REPORT**

**INNOVATION  
THROUGH SIMPLICITY**

# Table of contents

<b>1 Foreword</b>	<b>3</b>
<b>2 Profile and brands</b>	<b>7</b>
2.1 General	7
2.2 Our brands	7
2.3 Group activities	10
<b>3 The SNS REAAL share</b>	<b>11</b>
3.1 Shares and listing	11
3.2 No changes in the number of shares and core Tier 1 securities	11
3.3 Majority of shares held by the Foundation and institutions	11
3.4 Stock quote movements 2011	12
3.5 Key figures per ordinary share	13
3.6 Dividend	14
3.7 Payment on core Tier 1 capital securities	14
3.8 Agenda Annual General Meeting of Shareholders	14
3.9 Investor Relations	15
<b>4 Executive Board SNS REAAL</b>	<b>16</b>
<b>5 Mission, core value and strategy</b>	<b>18</b>
5.1 Simplicity in finance	18
5.2 CARE! and corporate responsibility	18
5.3 Strategy	18
5.4 Basis: Corporate responsibility and CARE!	21
5.5 Business units' strategies	22
<b>6 SWOT analysis, strategic challenges and ambitions</b>	<b>23</b>
6.1 Market position	23
6.2 SWOT analysis	23
6.3 Strategic challenges	26
6.4 Ambitions	26
<b>7 Strategy update</b>	<b>28</b>
7.1 Phasing out Property Finance	28
7.2 Strong capital management to repay the State and the Foundation	28
7.3 Winning, helping and retaining clients	30
7.4 Reducing the cost base	34
7.5 Realisation of ambitions	34
<b>8 Developments in Corporate Responsibility</b>	<b>36</b>
8.1 Reporting on corporate responsibility	36
8.2 Embedding corporate responsibility in business practice	36
8.3 Dialogue with stakeholders about corporate responsibility	37
8.4 Strategic priorities	37
8.5 Achievement of objectives for 2011	42
8.6 Main objectives for 2012	43
<b>9 Outlook 2012</b>	<b>44</b>
9.1 Financial markets in 2012	44
9.2 Trend: changes in the distribution landscape	44
9.3 Product markets in 2012	45
9.4 Ambitions	48
<b>10 Financial outlines</b>	<b>49</b>
10.1 Results 2011 compared to 2010	49

10.2 Impact of one-off items	49
10.3 Operating expenses	50
10.4 Underlying result Insurance activities	51
10.5 Earnings per share and dividend	52
<b>11 Developments SNS Bank</b>	<b>53</b>
11.1 SNS Retail Bank	53
11.2 Financial developments SNS Retail Bank	54
11.3 Income	55
11.4 Expenses	55
11.5 Credit risk	56
11.6 Organisation and distribution	56
11.7 Commercial developments SNS Retail Bank	58
11.8 SNS SME	62
11.9 Financial developments SNS SME	63
11.10 Income	63
11.11 Expenses	64
11.12 Development portfolio	64
11.13 Commercial developments SNS SME	65
<b>12 Developments Property Finance</b>	<b>66</b>
12.1 Financial developments at Property Finance	66
12.2 Results 2011 compared to 2010	66
12.3 Income	66
12.4 Expenses	67
12.5 Portfolio development	67
12.6 Total portfolio	68
12.7 Dutch portfolio	70
12.8 International portfolio	70
<b>13 Developments REAAL</b>	<b>71</b>
13.1 Strategy	71
13.2 Organisation and commercial developments	71
13.3 Financial developments at REAAL Life	75
13.4 Income	76
13.5 Expenses	77
13.6 Financial developments at REAAL Non-Life	78
13.7 Income	79
13.8 Expenses	79
13.9 REAAL Other	79
<b>14 Developments Zwitserleven</b>	<b>80</b>
14.1 Strategy	80
14.2 Financial developments	81
14.3 Income	82
14.4 Expenses	83
14.5 Market position reinforced	83
14.6 Corporate responsibility	84
14.7 Changes to own costs and customers' pension contributions	85
14.8 Ban on commission fee promotes quality of advice	85
14.9 Accessible and clear information	85
14.10 Awards underscore quality of services	86
14.11 Introduction of advertising campaign 'thinking ahead'	86
<b>15 Developments Group activities</b>	<b>87</b>
15.1 Financial developments	87
15.2 SNS Asset Management Strategy	87
15.3 Management on behalf of internal clients SNS Asset Management	88
15.4 Management on behalf of external institutional clients SNS Asset Management	89
15.5 Critical voting policy	89

<b>16 Risk and capital management</b>	<b>90</b>
16.1 Key risks for SNS REAAL	90
16.2 Risk management in exceptional circumstances	90
16.3 New regulation and implementation thereof	91
16.4 Change to the risk management organisation	92
16.5 Developments in capital and solvency	93
16.6 Balanced approach capital support	94
16.7 Capital Adequacy ICAAP 2011 and ORSA 2011	94
16.8 Temporary solvency buffer EBA	95
16.9 Funding, liquidity position	95
16.10 Developments in market risk of Banking activities	96
16.11 Developments in credit risk Banking activities	96
16.12 Developments in market risk of Insurance activities	97
16.13 Developments in technical claims and benefit risks	98
16.14 Management of non-financial risks	99
<b>17 Funding and credit ratings</b>	<b>101</b>
17.1 Public funding strategy	101
17.2 Funding transactions in 2011	101
17.3 Increasing capital buffers	102
17.4 Risk loadings increased	102
17.5 No private placements	102
17.6 Credit ratings	102
<b>18 Our people</b>	<b>104</b>
18.1 Responsible employer	104
18.2 Sustainable employability	104
18.3 The New World of Work offers more flexibility and job satisfaction	105
18.4 Education and training	106
18.5 Feeling good	107
18.6 Moderate remuneration Executive Board and senior management	107
18.7 Room for Wajong youngsters	108
18.8 Employment conditions	108
18.9 SNS REAAL Pension Fund	109
18.10 Employer surveys	109
18.11 Employee participation	109
18.12 Number of employees (FTEs) drops to 6,926 (-2.6%)	109
<b>19 Report of the Supervisory Board</b>	<b>110</b>
19.1 Themes	110
19.2 Composition of the Supervisory Board	112
19.3 Composition of the Executive Board	113
19.4 Meetings of the Supervisory Board	113
19.5 Committee meetings	116
19.6 Financial statements and dividend	117
19.7 Remuneration report	117
19.8 Closing words	122
<b>20 Corporate governance</b>	<b>123</b>
20.1 The Executive Board	123
20.2 The Supervisory Board	125
20.3 Rules regarding the appointment and dismissal of Executive Board and Supervisory Board members	128
20.4 Shareholders, shares and core Tier 1 capital securities	129
20.5 Various codes	134
20.6 Management statements	137
<b>21 Consolidated financial statements</b>	<b>139</b>
21.1 Consolidated balance sheet	139
21.2 Consolidated income statement	140
21.3 Consolidated statement of comprehensive income	142

21.4 Consolidated statement of changes in equity	143
21.5 Consolidated cash flow statement	146
<b>22 Accounting principles for the consolidated financial statements</b>	<b>147</b>
22.1 Adoption of the financial statements	147
22.2 General information	147
22.3 Basis of preparation	147
22.4 Accounting principles used for consolidation	160
22.5 Specific balance sheet principles	163
22.6 Specific income statement accounting principles	179
22.7 Contingent liabilities and commitments	183
22.8 Cash flow statement	183
<b>23 Segmented financial statements</b>	<b>184</b>
23.1 Information by segment	184
23.2 Balance sheet by segment	187
23.3 Income statement by segment	189
23.4 Balance sheet Banking activities by segment	191
23.5 Income statement Banking activities by segment	193
23.6 Balance sheet Insurance activities by segment	195
23.7 Income statement Insurance activities by segment	197
<b>24 Risk and capital management</b>	<b>199</b>
24.1 Maintaining a moderate risk profile	199
24.2 Main developments	200
24.3 Risk management organisation	201
24.4 Risk committees	203
24.5 Risk management departments	205
24.6 Risk classification	208
24.7 Framework for business control	209
24.8 Non-financial risk management	211
24.9 Capital management	212
<b>25 Financial risks Banking activities</b>	<b>216</b>
25.1 Credit risk Banking activities - overview	216
25.2 Credit risk profile and credit risk management	218
25.3 Credit risk SNS Retail Bank	220
25.4 Credit risk SNS SME	227
25.5 Credit risk Property Finance	232
25.6 Market risk of Banking activities	237
25.7 Liquidity risk Banking activities	242
<b>26 Financial risk management Insurance activities</b>	<b>245</b>
26.1 Insurance risk Life	245
26.2 Insurance risk of Non-life business	249
26.3 Reinsurance	255
26.4 Market risk Insurance activities	257
26.5 Credit risk Insurance activities	263
26.6 Liquidity risk Insurance activities	267
<b>27 Financial instruments and hedge accounting</b>	<b>269</b>
27.1 Disclosures on financial instruments	269
27.2 Hedging and hedge accounting	277
<b>28 Notes to the consolidated financial statements</b>	<b>281</b>
28.1 Intangible assets	281
28.2 Property and equipment	284
28.3 Investments in associates	286
28.4 Investment properties	288
28.5 Investments	288
28.6 Investments for accounts of policyholders	291

28.7 Investments collateral and liabilities securities lending	292
28.8 Derivatives	293
28.9 Deferred tax assets and liabilities	294
28.10 Property projects	295
28.11 Loans and advances to customers	296
28.12 Loans and advances to banks	299
28.13 Other assets	300
28.14 Cash and cash equivalents	300
28.15 Assets held for sale	300
28.16 Equity	301
28.17 Participation certificates and subordinated debt	301
28.18 Debt certificates	302
28.19 Insurance and reinsurance contracts	305
28.20 Provision for employee benefits	308
28.21 Other provisions	312
28.22 Savings	313
28.23 Other amounts due to customers	313
28.24 Amounts due to banks	313
28.25 Other liabilities	314
28.26 Off balance sheet commitments	314
28.27 Related parties	316
28.28 Subsequent events	318
28.29 Net interest income	319
28.30 Net premium income	320
28.31 Net fee and commission income	321
28.32 Share in result of associates	322
28.33 Investment income	322
28.34 Investment income for account of policyholders	323
28.35 Result on financial instruments	324
28.36 Other operating income	324
28.37 Result assets and liabilities held for sale	325
28.38 Technical claims and benefits	325
28.39 Charges for account of policyholders	326
28.40 Acquisition costs for insurance activities	326
28.41 Staff costs	326
28.42 Other operating expenses	327
28.43 Impairment charges / (reversals)	328
28.44 Other interest expenses	329
28.45 Taxation	329
28.46 Net result per share / core Tier 1 capital security	330

## 29 Company financial statements

29.1 Company balance sheet	332
29.2 Company income statement	333
29.3 Principles for the preparation of the company financial statements	333

## 30 Notes to the company financial statements

30.1 Subsidiaries	334
30.2 Receivables from subsidiaries	334
30.3 Investments	334
30.4 Derivatives	335
30.5 Equity	336
30.6 Subordinated debt	338
30.7 Debt certificates	339
30.8 Other amounts due to customers	339
30.9 Amounts due to banks	339
30.10 Guarantees	340
30.11 Audit fees	340

<b>31 Overview of principal subsidiaries</b>	<b>341</b>
<b>32 Other information</b>	<b>342</b>
32.1 Provision regarding profit or loss appropriation	342
32.2 Independent auditor's report	344
32.3 Independent assurance report	346
<b>1 Strategy and Analysis</b>	<b>348</b>
<b>2 Organisational Profile</b>	<b>349</b>
<b>3 Report Parameters</b>	<b>352</b>
<b>4 Governance, Commitments, and Engagement</b>	<b>354</b>
4.1 Overview governance structure	354
4.2 Executive or non-executive role of the Chairman	354
4.3 Executive/independent or non-executive/non-independent role of the members	354
4.4 Recommendation and participation mechanisms	354
4.5 Link between compensation and performance	354
4.6 Conflict of interest prevention	355
4.7 Process of expertise and qualifications determination to manage strategy	355
4.8 Statements of mission or principles, codes of conduct and principles and their relevance	355
4.9 Inventory procedures and performance and risk management	355
4.10 Evaluation processes own performance	355
4.11 Explanation precautionary principle application	356
4.12 Endorsed external charters and other initiatives	356
4.13 Memberships and roles in various associations and organisations	357
4.14 Stakeholders engaged	357
4.15 Basis of stakeholder engagement	361
4.16 Type and frequency of stakeholder engagement	361
4.17 Key issues raised and corresponding responses	361
<b>5 Economic Performance Indicators</b>	<b>362</b>
5.1 Economic Performance	362
5.2 Market Presence	362
5.3 Indirect Economic Impacts	363
<b>6 Environmental Performance Indicators</b>	<b>364</b>
6.1 Materials	364
6.2 Energy	366
6.3 Water	366
6.4 Biodiversity	367
6.5 Emissions, Effluents, and Waste	367
6.6 Products and Services	370
6.7 Compliance	370
6.8 Transport	370
<b>7 Social Performance indicators</b>	<b>373</b>
7.1 Labor Practices and Decent Work Performance Indicators	373
7.2 Human Rights	379
7.3 Society	381
7.4 Product Responsibility	382
<b>8 Financial Services Sector Supplement: performance indicators</b>	<b>385</b>
8.1 Product Portfolio	385
8.2 Audit	387
8.3 Active Ownership	388
8.4 Community	389
8.5 Product and Service Labelling	389

# Key Figures

## NET RESULT 2011

€ **87** million

Net result core activities € 335 million

## DNB-SOLVENCY INSURANCE ACTIVITIES

**203**%

DNB-solvency insurance activities increases to 203% (2010: 195%)

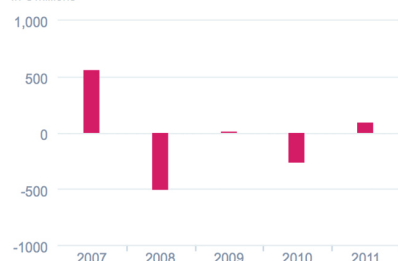
## TOTAL EQUITY

€ **5,4** billion

At year-end 2011, 85% of the € 700 million capital release programme for mid-2012 has been realised

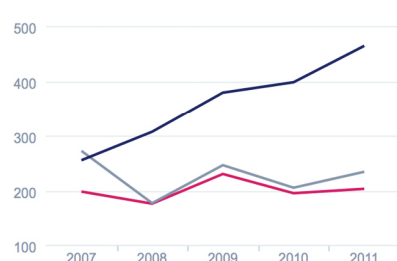
### NET RESULT

In € millions



Net result

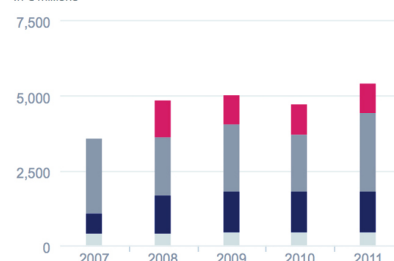
### SOLVENCY INSURANCE ACTIVITIES



Regulatory solvency Insurance activities  
Regulatory solvency Life  
Regulatory solvency Non-Life

### TOTAL EQUITY SNS REAAL

In € millions



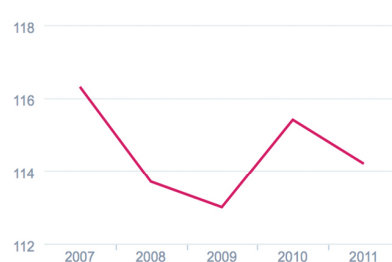
Securities capital  
Reserves and retained earnings  
Share premium  
Issued share capital

### SOLVENCY LEVELS BANKING ACTIVITIES



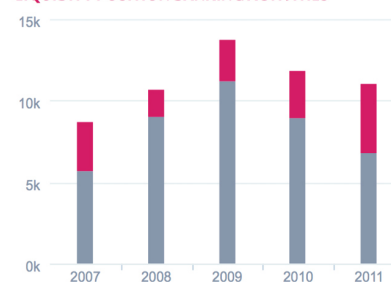
BIS-ratio  
Tier 1 ratio  
core Tier 1 ratio

### DOUBLE LEVERAGE



Double leverage

### LIQUIDITY POSITION BANKING ACTIVITIES



Cash  
Liquid assets



## Key figures SNS REAAL

In € millions

	2011	2010	2009	2008	2007
<b>RESULT</b>					
SNS Retail Bank	224	139	120	116	186
SNS SME	38	73			
<b>SNS Bank</b>	<b>262</b>	<b>212</b>	<b>120</b>	<b>116</b>	<b>186</b>
REAAL Life	223	208	49	(473)	177
REAAL Non-Life	33	16	54	26	23
REAAL Other	1	(18)	(11)	(32)	5
<b>REAAL</b>	<b>257</b>	<b>206</b>	<b>92</b>	<b>(479)</b>	<b>205</b>
Zwitserleven	(91)	36	104	(71)	
Group activities	(93)	(71)	(80)	(98)	(12)
<b>SNS REAAL Core activities</b>	<b>335</b>	<b>383</b>	<b>236</b>	<b>(532)</b>	<b>379</b>
Property Finance	(248)	(643)	(219)	28	86
<b>SNS REAAL</b>	<b>87</b>	<b>(260)</b>	<b>17</b>	<b>(504)</b>	<b>465</b>
Total income	6,119	7,068	8,497	5,137	4543
Total expenses	5,990	7,384	8,446	5,865	3974
<b>Result before tax</b>	<b>129</b>	<b>(316)</b>	<b>51</b>	<b>(728)</b>	<b>569</b>
Taxation	41	(57)	29	(208)	101
Net result discontinued operations and minority interests	1	1	5	(16)	3
<b>Net result for the period</b>	<b>87</b>	<b>(260)</b>	<b>17</b>	<b>(504)</b>	<b>465</b>
Earnings per ordinary share (EPS) (€)	0.28	-0.83	0.03	(1.93)	1.87
Diluted earnings per share (€)	0.20	-0.83	0.03	(1.93)	1.87
<b>BALANCE SHEET</b>					
Total assets	132,174	127,713	128,900	125,359	103,074
Investments	31,435	31,001	31,166	29,296	21,055
Investments for account of policyholders	12,420	12,637	12,038	10,724	7,235
Loans and advances to customers	67,534	69,117	70,457	68,649	63,045
Total equity	5,428	4,719	5,062	4,892	3,591
Savings	30,341	27,397	24,435	21,859	19,179
Insurance contracts	38,827	38,814	38,030	36,067	24,956
<b>RATIOS</b>					
Return on shareholders' equity (ROE)	1.7%	(5.3%)	0.3%	(13.3%)	13.7%
Double Leverage	114.2%	115.4%	113.1%	113.7%	116.3%
Number of internal employees (FTE)	6,928	7,113	7,520	7,535	6713
<b>BANKING ACTIVITIES</b>					
Efficiency ratio SNS Bank	49.1%	57.8%	57.0%	62.8%	60.3%
Core Tier 1 ratio	9.2%	8.1%	8.3%	8.1%	6.5%
Tier 1 ratio	12.2%	10.7%	10.7%	10.5%	8.4%
BIS ratio	14.4%	16.7%	13.9%	14.0%	11.5%
<b>INSURANCE ACTIVITIES</b>					
Operating cost/premium ratio REAAL	11.2%	12.2%	13.0%		
Operating cost/premium ratio Zwitserleven	14.9%	15.4%	14.0%		
Regulatory solvency Insurance activities	203%	195%	230%	176%	198%
Regulatory solvency Life	234%	205%	246%	177%	272%
Regulatory solvency Non-Life	464%	398%	379%	307%	255%
Number of shares outstanding at end of period	287,619,867	287,619,867	287,619,867	261,472,608	
Weighted average number of outstanding shares	287,619,867	287,619,867			

As of 1 January 2011, the business units Property Finance and SNS Bank have been regrouped. SNS Bank comprises the sub segments SNS Retail Bank and SNS SME. Comparative figures for 2010 have been adjusted accordingly. For more information see paragraph 13.2.3 Changes in principles, estimates and presentation.

SNS REAAL has implemented shadow accounting in its IFRS reporting as of 1 January 2011. 2010 figures have been restated. For more information see paragraph 13.2.3 Changes in principles, estimates and presentation.

Core Tier1 ratio, Tier1 ratio and BIS ratio are calculated based on Basel II, taking into account the 80% floor of Basel I.

## 1 Foreword

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

Despite the difficulties that confronted us during financial year 2011, it was nonetheless a year which I feel we were able to conclude with a certain sense of satisfaction. It was a year of change marked by returning to profit in 2011 after the loss of 2010. We posted a net result for the whole of SNS REAAL of € 87 million, while our core activities generated € 335 million. At the same time, we retained a sharp focus on our mission and ambition. Through our mission of Simplicity in finance we aim to become the most customer-friendly financial services provider in the Netherlands.

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

### Another challenging year

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

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

### Robust financial results

In the face of these chiefly unpredictable negative developments, we managed to achieve **strong financial results**. SNS Retail Bank pushed its net profit up to € 224 million, and REAAL to € 257 million. Zwitserleven ended the year with a loss of € 91 million. Main cause of the negative result was a goodwill impairment of € 107 million. The underlying result improved to € 55 million. Property Finance, our property finance business, also ended the year in red, though much less than in 2010. Profits and losses of the various business units within the company together led to a positive result of € 87 million. Considering that SNS REAAL recorded sharp losses in 2010, this was a swing in the right direction.

Our capital position in 2011 remained solid. The bank has a core Tier 1 ratio of 9.2%, while the solvency of our Insurance activities was 203%. Based on the European Banking Authority (EBA) norm, SNS Bank had a shortfall of € 159 million in September, but that shortfall has now partly been eliminated. It is SNS Bank's ambition to raise its core Tier 1 ratio to 10%. SNS Bank's liquidity position of € 11.1 billion is strong and remains on track for meeting the future requirements of Basel III.

### Further reinforcing the foundations

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

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

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

To repay the capital support provided by the state, € 595 million of the € 700 million targeted for mid-2012 has already been released. This does not, however, mean that falling interest rates and widening risk spreads on bonds did not partly reduce the capital available to this end. The European debt crisis is a significant complicating factor in the intended repayment at year-end 2013. We therefore look forward to an effective resolution of Europe's sovereign debt crisis.

### **Building for the future**

Despite the many challenges, we continued to build for the future during 2011. We are devoting strong attention to corporate responsibility through our mission of **Simplicity in finance**, our core value CARE! and engagement with the client. We continued to develop new products that made financial affairs simpler and more understandable. This annual report therefore boasts the title *Innovation through simplicity*.

By way of example, SNS Bank was the first major bank in the Netherlands to introduce an interest-bearing current account. Moreover, our Insurance activities introduced REAAL Customer Service, which has led to a much-improved level of service. SNS Bank and RegioBank have made great progress in making the complaints procedure more efficient and effective. REAAL initiated the Lijfwacht (body guard) service to help clients avoid work-related disability. Zwitserleven made improvements to, what by nature, is a complex process for Uniform Pension Statements so that 199 out of every 200 clients now receive their statements on time. Zwitserleven also held pension sessions for clients during the evening, as a way of better meeting their clients' need for information.

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

### **Many new customers**

We succeeded in attracting considerable numbers of new clients and achieving a high customer retention level. SNS Bank welcomed more than 100,000 new clients. Savings deposits entrusted to us increased by € 2.9 billion. Our bank savings product also succeeded in meeting the client's need with SNS REAAL maintaining a leading position in this market. REAAL concluded more than 70,000 term life insurance policies and sold a record number of 3,000 disability insurance policies. Intermediaries voted Zwitserleven as Best Pension Provider in the Netherlands for the fourth time in a row.

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

Global brands for financial products have lost a great deal of prestige in this crisis. Nationally and locally, it is clearly defined brands which will inspire confidence. Our own ASN Bank, with its tremendous expansion in its number of clients is a perfect example of this. The success of RegioBank, our community bank, shows that it is crucial to engage closely with one's customers. Zwitserleven is also a classic example of brand power. The customer experience - the Zwitserleven Feeling - has become a well-known household expression in the Dutch language.

### **Seven strong brands**

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

number two market position we worked hard on in 2011.

Looking to the future of our company, our capacity to operate cost-effectively is absolutely essential. Only then can we offer good-quality products at a fair price. The company as a whole is participating in a programme to structurally reduce its cost base by € 200 million. We have now realised € 160 million, i.e. 80%, of annual savings.

### **Sustainable and responsible**

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

Given its social roots, corporate responsibility is self-evident for SNS REAAL. We intend to integrate corporate responsibility into our strategic planning, business operations and reporting. As a consequence, the self-standing annual CR report is now a thing of the past. Instead, the Annual Report for 2011 is a fully integrated financial and sustainability report, which in fact are two sides of the same coin.

We have made significant progress on sustainability in [asset management](#). From this year, all investments and investment funds of SNS REAAL's business units comply with the ESG standards. These are ethical criteria related to Environmental, Social and Governance issues. We set very high standards, which have not gone unnoticed. In 2011, the Dutch Association of Investors for Sustainable Development (VBDO) deemed REAAL's investment policy to be the most sustainable investment policy. According to the Association, Zwitserleven is the runner up.

Corporate responsibility means that in addition to offering responsible services we also aim to operate as a responsible organisation. In concrete terms, it means acting as a [responsible employer](#). SNS REAAL offers its personnel an attractive combination of primary and secondary employment conditions. Determining factors are, of course, meeting our financial possibilities as well as the wishes of society. Three years ago, we therefore introduced a moderate remuneration policy for the Executive Board and senior management. [Remuneration](#) is now in line with the recommendations of the [Banking Code](#) and other relevant regulations. We have also tightened up the employment conditions of all SNS REAAL staff by cutting down on various forms of performance-related bonuses. Moreover, SNS REAAL has resolved not to distribute a dividend despite positive full-year results.

### **Continued retrenchment**

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

The year 2011 was not an easy one for our personnel. Nonetheless, employee satisfaction rose by half a point to 7.5. In spite of retrenchment, SNS REAAL remained an attractive and modern employer. Progress with introducing flexible working arrangements (Het Nieuwe Werken) played an important role. This new concept assigns additional responsibility to employees, allowing for a better balance between their working and private lives.

Our mission of Simplicity in finance and our core value CARE! also enhance employee satisfaction. CARE! was further pursued in 2011 through a large number of activities both inside and outside the company. An important theme remained helping people become financially independent. With this aim in mind, we actively participated in organisations such as Stay on Top of Your Spending. We also gave 550 guest lessons at primary schools during Money Smart Week. In these straightened times, financial awareness has taken on a new importance. Old certainties are falling away. People

increasingly have to think ahead and take future financial concerns into their own hands. The financial sector and the government both have a responsibility to ensure this is a development that proceeds smoothly.

#### **Ready for the ban on commission**

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

The pensions market, in which we hold a strong position, is faced with longer life expectancies and low interest rates. It is therefore inevitable that the retirement age will rise further and pension scheme participants will shoulder more risk. Both the general atmosphere of uncertainty and the government's withdrawal will stimulate the demand for savings products and other wealth management products. With respect to consumer behaviour, we perceive that people increasingly want to rely on mobile banking and social media to conduct their financial affairs.

#### **Mobilising our strengths**

Clearly, we once again have to give of our best in 2012. We will devote particular attention to reinforcing the foundation by continued phase-out of Property Finance and preparations for repaying the capital support to the State. This is no minor undertaking in an environment that is bound to be difficult and can change greatly each quarter.

Fortunately, we have significant strength on which to call. In 2011, we proved our capacity to achieve good results with our core activities in difficult circumstances. We managed to attract more clients, reach higher customer satisfaction levels, reduce the cost base and raise more capital. Our employees are increasingly taking on board the implications of the core value CARE! and are motivated by our mission of Simplicity in finance.

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

Ronald Latenstein, CEO

## **2 Profile and brands**

SNS REAAL is a financial services provider in the banking and insurance sector. With seven strong brands, SNS REAAL focuses mainly on the Dutch savings, investment, mortgage, property finance, insurance and pensions markets. Our customers are primarily private individuals and small and medium-sized enterprises (SME). With a balance sheet total of € 132 billion and a staff of approximately 7,000 employees (FTEs), SNS REAAL is a major player in the Dutch market. SNS REAAL's shares are listed on the NYSE Euronext Amsterdam and are included in the Amsterdam Midkap Index. SNS REAAL's headquarters are located in Utrecht.

### **2.1 General**

#### **2.1.1 Rooted in society**

As a bancassurer, SNS REAAL has strong roots in Dutch society. Through the first savings banks with a public utility function, SNS REAAL has a 200-year banking history. Insurance companies followed suit. SNS REAAL's predecessor companies include many regional savings banks.

#### **2.1.2 Simplicity in finance**

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

#### **2.1.3 Having an eye for the customer**

We want to deserve our customers, both private and business customers. We want to be their financial specialist. We want to be the best at winning, helping and retaining customers. At SNS REAAL, each brand gives its own meaning and direction to this. Our ultimate aim is to build sustainable relationships, not only with our customers, but with other stakeholders in society too.

## **2.2 Our brands**

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

### **2.2.1 SNS Bank**



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

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

[www.snsbank.nl](http://www.snsbank.nl)

### 2.2.2 ASN Bank



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

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

[www.asn.nl](http://www.asn.nl)

### 2.2.3 RegioBank



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

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

[www.regiobank.nl](http://www.regiobank.nl)

### 2.2.4 BLG Hypotheken



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

**Products:** mortgages.

[www.blg.nl](http://www.blg.nl)

### 2.2.5 REAAL



REAAL wants to offer realistic insurance products. Many things in a person's life can change. REAAL is well aware of this. Its products keep step with all the stages of a client's life. And; the lower the risk, the lower the premium.



**Products:** insurance (individual life, non-life, disability), savings, mortgages and investments.

[www.reaal.nl](http://www.reaal.nl)

### 2.2.6 Zwitserleven



Zwitserleven wants to be the pension insurer in the Netherlands. It is Zwitserleven's mission to give every Dutch citizen 'the Zwitserleven feeling': to enable people to enjoy a carefree retired life. Zwitserleven's customers are SME businesses, corporations and owner/managing directors.

Product: pension insurance.

[www.zwitserleven.nl](http://www.zwitserleven.nl)

### 2.2.7 Proteq Dier & Zorg



Proteq Dier & Zorg is market leader in accident and health insurance for cats and dogs in the Netherlands. And deservedly so. For it is the pet owner who chooses the level of coverage that suits his pet best. And if he prefers more security, he can take out a supplementary insurance.

**Product:** accident and health insurance for dogs and cats.

[www.proteqdierenzorg.nl](http://www.proteqdierenzorg.nl)

#### 2.2.7.1 Zelf.nl

Zelf.nl is an initiative by Proteq. Zelf.nl does everything to keep costs as low as possible. So, no expensive commercials and a simple office in Heerhugowaard. At Zelf.nl, you conclude your insurance yourself. Quick and easy.

**Products:** non-life and funeral insurance.

[www.zelf.nl](http://www.zelf.nl)



### **2.2.7.2 Route Mobiel**

Route Mobiel, another Proteq initiative, offers roadside assistance for motorists through an efficient organisation and intricate network of roadside assistance services in the Netherlands and 40 other European countries. Route Mobiel also offers supplementary car and travel insurance that integrate seamlessly with the roadside assistance service.

**Product:** road assistance services.

[www.routemobiel.nl](http://www.routemobiel.nl)

## **2.3 Group activities**

### **2.3.1 SNS Asset management**



SNS Asset Management is SNS REAAL's responsible asset manager. SNS Asset Management manages and administers the investments of SNS Bank, REAAL and Zwitserleven as well as the investment funds of SNS Bank, ASN Bank and Zwitserleven. Apart from assessing the financial performance of businesses, SNS Asset Management also assesses their social, environmental and governmental policy and performance. SNS Asset Management focuses on both internal and external customers.

**Products:** asset management for institutional investors.

[www.snsassetmanagement.nl](http://www.snsassetmanagement.nl)

### 3 The SNS REAAL share

The number of ordinary shares SNS REAAL remained unchanged in 2011, as well as the number of B-shares and core Tier 1 capital securities held by Stichting Beheer SNS REAAL and the Dutch State.

#### 3.1 Shares and listing

SNS REAAL's share capital comprises ordinary shares and B-shares. The B-shares are owned by Stichting Beheer SNS REAAL ('the Foundation'). In addition, there are two types of core Tier 1 capital securities, which are owned by the Dutch State ('the State') and the Foundation. These are also part of the equity. This capital support from the State and the Foundation is subject to terms and conditions. For more information on these terms and conditions, see Chapter 20 section 4 [Corporate Governance](#).

The SNS REAAL ordinary shares are listed on NYSE Euronext Amsterdam. The share has been included in the Amsterdam Midkap Index since 2007. The ticker symbol is SR NA and the ISIN code is NL0000390706.

#### 3.2 No changes in the number of shares and core Tier 1 securities

No share issues took place in 2011 and no core Tier 1 capital securities were repurchased from the State or the Foundation. The [remuneration policy amendments](#) did not affect the number of outstanding shares either. The number of shares and core Tier 1 capital securities remained unchanged in 2011. At year-end 2011 the State's capital support was still € 565 million and the Foundation's capital support € 435 million. Since the Foundation's capital support is [loss absorbing](#), the book value of this capital support was lower at year-end 2011 (€ 415 million).

**Table 1: Overview of outstanding shares and core Tier 1 capital securities at year-end 2011**

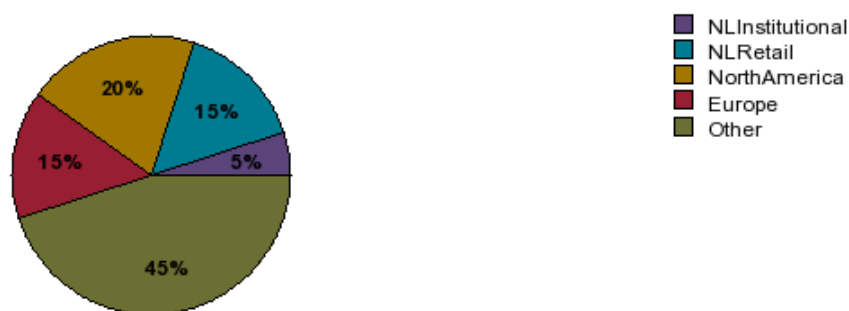
	Number of securities	Nominal value	Issue price
Ordinary shares	287,619,867	1.63	
B-shares	6	1.63	100,000,000
Stichting Beheer SNS REAAL core Tier 1 capital securities	4,350,000	95.19	100
Dutch State core Tier 1 capital securities	107,619,045	1.63	5.25

#### 3.3 Majority of shares held by the Foundation and institutions

At year-end 2011 the Foundation held 50.00001% of the ordinary shares of SNS REAAL. As far as we are aware, on 31 December 2011 there was one other shareholder besides the Foundation reporting under the Dutch Financial Supervision Act (Wet op het financieel toezicht – Wft) that it held a (potential) stake of 5% or more. Massachusetts Financial Services Company held an interest of 3.15% and a 5.07% voting right (including voting rights based on proxies) as at 30 November 2010.

In February 2012, an in-house research was performed into the ownership distribution of the SNS REAAL free float. Based on this research, we estimate the shareholdings of pension funds and other institutional investors at approximately 85%. The other 15% of the shares are held by private investors. According to this research in February 2012 there were no other shareholders with an interest of more than 5% than the Foundation.

Distribution of free float at year end 2011



### 3.4 Stock quote movements 2011

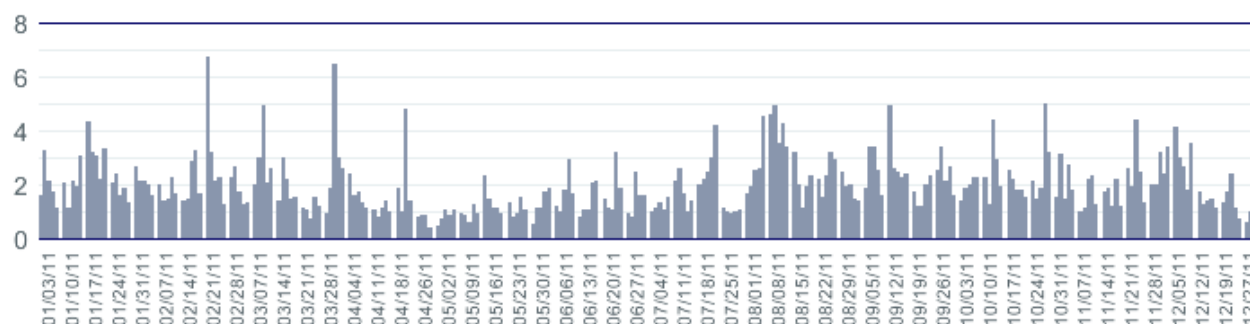
Dutch share prices showed a sharp decline in 2011, with the AEX index dropping by 12% and the AMX index by no less than 27%. The share prices of practically all Dutch financial institutions fell significantly in 2011. The SNS REAAL share closed at € 1.69 at year-end, down by 47% from the price at year-end 2010 (€ 3.19). Average trading volume in the SNS REAAL share was up 30.5% compared to 2010.

#### SHARE PRICE DEVELOPMENT SNS REAAL

Share price in euros



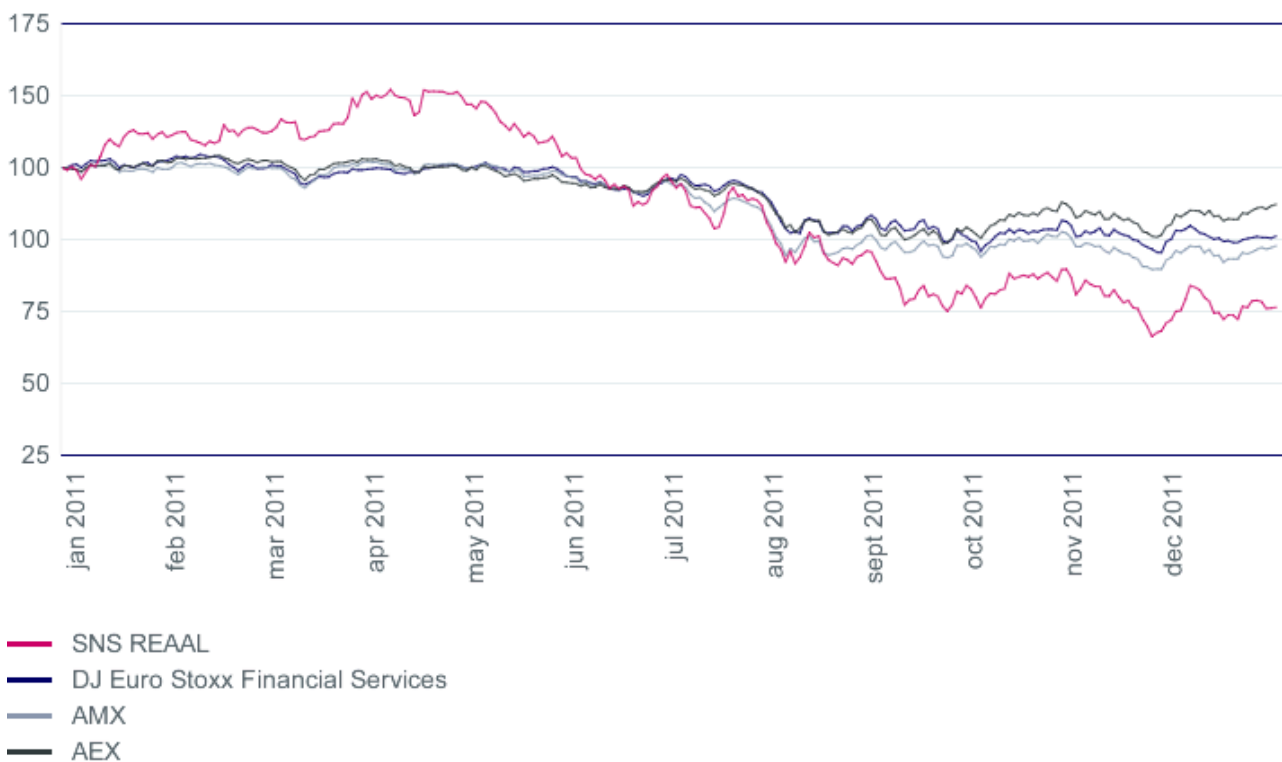
Volume



— Share price  
— Volume

## SHARE PRICE DEVELOPMENTS SNS REAAL VERSUS INDICES

4 January 2011 = 100



## 3.5 Key figures per ordinary share

**Table 2: Key figures per ordinary share**

In €	2011	2010	2009
Highest closing price	4.20	4.99	6.15
Lowest closing price	1.35	3.01	1.87
Closing price at year-end	1.69	3.19	4.24
Earnings per share	0.28	-0.83	0.03
Dividend	--	--	--
Dividend yield	--	--	--
Market capitalisation at year-end (in € millions)	486	918	1,220
Average daily trading volume (in shares)	1,751,992	1,342,596	1,264,123
Total number of shares at year-end	287,619,867	287,619,867	287,619,867

## 3.6 Dividend

### 3.6.1 Dividend policy

SNS REAAL pursues a stable dividend policy. Assuming the Company achieves its internal solvency and funding targets, SNS REAAL aims to distribute a dividend of 40-45% of the distributable profit. SNS REAAL intends to distribute both an interim dividend and a final dividend to the shareholders. The dividend can be distributed in cash, in shares or in a combination of both.

If SNS REAAL distributes dividend on ordinary shares dividend will also be distributed on B-shares. The dividend yield on B-shares will never exceed that on ordinary shares. For more information on the dividend on B-shares, see Chapter 20, [Corporate governance](#). SNS REAAL's reserve and dividend policy also takes into account the agreements between (i) SNS REAAL and the State and (ii) SNS REAAL and the Foundation, in relation to the capital support by the State and the Foundation.

### 3.6.2 Dividend passed over for 2011

Taking into account the further improvement of our capital position and pending higher capital requirements from regulatory authorities, the Executive Board has resolved, with the approval of the Supervisory Board, to pass over the dividend for 2011.

## 3.7 Payment on core Tier 1 capital securities

SNS REAAL only pays a coupon on the core Tier 1 capital securities in issue to the State and the Foundation if a dividend is distributed to the holders of ordinary shares. In that case, SNS REAAL pays a 6% coupon to the Foundation and a coupon of at least 8.5% to the State. SNS REAAL did not pay any coupon on the core Tier 1 capital securities in issue in 2011. For more information on the payment on core Tier 1 capital securities and the terms and conditions for repurchase, see Chapter 20, [Corporate Governance](#).

## 3.8 Agenda Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders (AGM) will be held on 25 April 2012. The Executive Board will then render account to the shareholders regarding the policy pursued. The agenda for the AGM is published on our website, [www.snsreaal.nl](http://www.snsreaal.nl).

**Table 3: Important dates 2012**

16 February	Publication of 2011 results
8 March	Annual report 2011 available on the company website
27 March	Publication European Embedded Value Report 2011
28 March	Record date for AGM
25 April	AGM in Jaarbeurs. Utrecht
15 May	Trading update 1st quarter 2012 (before opening hours)
16 August	Publication half-year results 2012 (before opening hours)
6 November	Trading update 3rd quarter 2012 (before opening hours)
15 November	Investor Day 2012
14 February 2013	Publication of 2012 results

### **3.9 Investor Relations**

To a listed company such as SNS REAAL, optimum transparency and consistency in its financial communications is of paramount importance. The [Investor Relations](#) section of the SNS REAAL website includes all public information on our performance, strategy and activities. In addition, members of the Executive Board regularly give presentations to analysts, investors and other interested parties. These are webcast live on this website and the webcasts can also be consulted afterwards. 17 November 2011 saw the fifth annual Investor Day, when members of the Executive Board gave presentations on strategy, market performance, market developments and financial objectives. SNS REAAL also maintains contacts with investors and analysts via on-on one meetings, presentations and conference calls. Only information already available in the public domain is provided during these meetings.

## 4 Executive Board SNS REAAL

### Ronald Latenstein, CEO



Ronald Latenstein (1964) has been Chairman of the Executive Board (CEO) since April 2009. He also has responsibility for the Group departments Group Audit, Corporate Communications, Compliance, Security & Operational Risk Management, Human Resources and Corporate Strategy. More on [Ronald Latenstein](#).

"As a financial service provider, we are responsible for increasing our customers' financial consciousness. By helping our clients to think ahead regarding their financial future, we give them more financial certainty for the short, mid and long term."

Read the full [foreword](#).

### Ference Lamp, CFRO



Ference Lamp (1971) has been Chief Financial and Risk Officer (CFRO) of the Executive Board since April 2009. In addition, since September 2011 he supervises Property Finance and remains responsible for the Group departments Group Risk Management, Investor Relations, Group Finance, Fiscal Affairs and Tax and Insurance Treasury & Investment Management. More on [Ference Lamp](#).

"Customers trust us with their money. That is a major responsibility and something we must approach with the utmost care."

Read the full response from Ference Lamp on our [Money, safety and security theme page](#).

## Dick Okhuijsen, COO



Dick Okhuijsen (1965) has been member of the Executive Board since December 2009. In his capacity as Chief Operations Officer (COO) he focuses on the business units SNS Bank, REAAL, Zwitserleven and SNS Asset Management. More on [Dick Okhuijsen](#).

"What all our brands have in common is their simplicity: simplicity in terms of products and simplicity in terms of services."

Read the full response from Dick Okhuijsen on our [simplicity theme page](#).

## Wim Henk Steenpoorte, CTO



Wim Henk Steenpoorte (1964) has been a member of the Executive Board since 15 September 2011. In his capacity as Chief Technology Officer (CTO) he focuses on Information Technology & Change. In addition he is responsible for the Group departments Legal Affairs and Facility Management. More on [Wim Henk Steenpoorte](#).

"It is only possible to build a relationship of trust with each other if you take responsibility."

Read the full response from Wim Henk on our [responsibility theme page](#).

*Rien Hinssen retired from the Executive Board in September 2011.*



## 5 Mission, core value and strategy

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

### 5.1 Simplicity in finance

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

### 5.2 CARE! and corporate responsibility

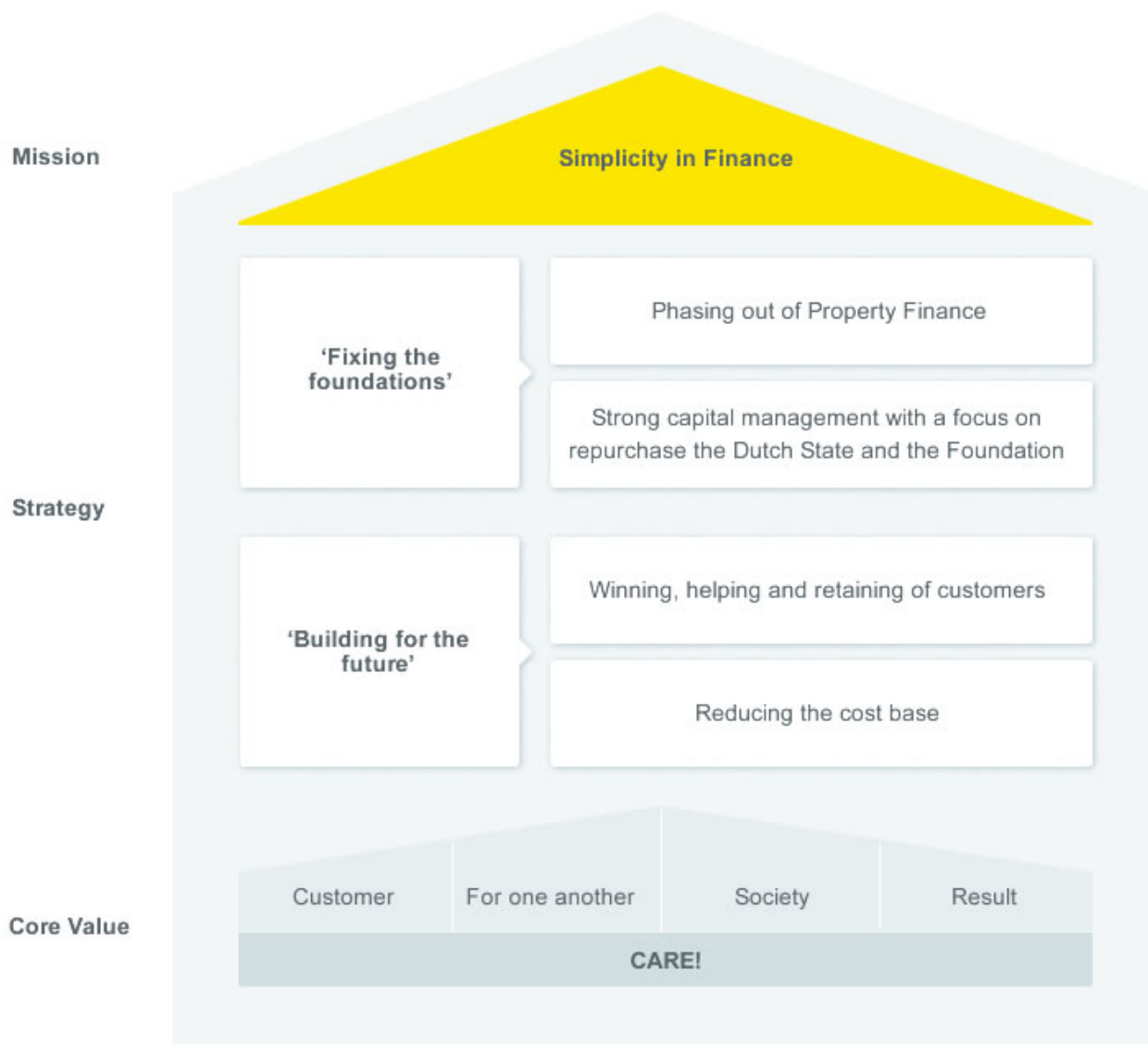
We wish to operate responsibly for all our stakeholders. Our core value CARE! represents the responsibility we bear for our customers, each other and for society, as well as for the results this produces for our shareholders and other investors. CARE! inspires and helps us to better embed corporate responsibility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

### 5.3 Strategy

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

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

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



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

### 5.3.1 Phasing out Property Finance

Developments in the financial sector in the past few years, in the property markets in particular, led to a strategic property-finance reorientation. SNS REAAL made two strategic choices:

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

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

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

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

- Independent, solid capital position.  
It is our goal to repay the capital support received from the Dutch State and the Foundation in a responsible manner.
- Capital release programme.  
This programme is aimed at freeing up € 700 million of capital.
- Strong risk identification and management.

### **5.3.3 Winning, helping and retaining customers**

We aim to provide our customers with suitable products through their preferred distribution channels and brands. Multiple brands and channels generate better effectiveness on our sales and marketing efforts and ensure maximum coverage of our entire target group. In this process, we use IT resources and production and service centres shared within the Group. In pursuing its goal to attract, help and retain customers, it is SNS REAAL's ambition to increase the focus on customers' interests, improving customer satisfaction and the sustainable growth of its brands.

Greater attention for customer interests and higher customer satisfaction can be achieved by:

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

Sustainable growth of our brands can be achieved by:

- New, successful products.  
Transparent product features and rates are crucial and are achieved by listening attentively to our customers and involving them in the product development process. Before launching new products, we make a careful estimate of the customer value, return and risks.
- Multi-brand strategy.  
We serve our customers using brands that differ greatly from each other, with each brand focussing on its own target group. The brands are connected through the Group and contribute to SNS REAAL's overall performance.
- Attracting new customers.  
This requires clear brand positioning and targeted marketing and sales efforts.
- Retaining customers and offering them a wider range of products and services.  
This requires a high level of service, knowledge of individual customer conduct and timely notification of (potentially) relevant products.

### 5.3.4 Reducing the cost base

Reducing our organisation's cost base improves our capital position and competitiveness, which allows us to generate the return we aim at, even in contracting markets and with higher capital requirements.

A major tool in reducing the cost base is standardisation and alignment of IT systems and service centres. Combined with our multi-brand strategy, this allows us to quickly and efficiently respond to changing customer needs or simply broaden our product range.

## 5.4 Basis: Corporate responsibility and CARE!

Our employees form the basis of our strategic house. Inspired by our core value CARE!, they define how they put corporate responsibility into practice.

### 5.4.1 Strategic corporate responsibility

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

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

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

SNS REAAL is working on measurable results using corporate responsibility performance indicators. The Corporate Responsibility department and other staff departments support these business units in developing and implementing their plans. SNS REAAL regularly assesses its policy and results on the basis of its stakeholders' opinion and the Global Reporting Initiative standards. See Chapter 8 [Developments in corporate responsibility](#) for more information on the policy and main results achieved in 2011.

## **5.5 Business units' strategies**

In implementing SNS REAAL's strategy, the business units SNS Retail Bank, SNS SME, REAAL and Zwitserleven make their own choices regarding the best possible products and services. For the strategies pursued by the business units, see [SNS Retail Bank](#), [SNS SME](#), [REAAL](#) and [Zwitserleven](#).

The Group activities, including SNS Asset Management and the Group staff departments, are holding company activities aimed primarily at supporting the four business units.

## 6 SWOT analysis, strategic challenges and ambitions

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

### 6.1 Market position

SNS REAAL focuses primarily – and, in the future, solely – on the Dutch markets for mortgages and property finance, savings and investments, insurance and pensions. Our customers are especially private individuals and small and medium-sized enterprises (SME). In case of pensions, SNS REAAL also focuses on larger companies.

We want to stand out with:

- The combination of banking and insurance, allowing us to respond effectively to changes in consumer preferences between banking and insurance products and to offer combined solutions.
- Several brands, allowing us to offer our customers the most suitable products through their preferred brands and distribution channels.
- Our focus on clients interests by developing and offering simple and accessible products combined with good service and advice.
- Strong market positions based on simple products with attractive price/quality ratios;
- A simple and cost-efficient organisation with shared IT systems and service centres to achieve economies of scale.

### 6.2 SWOT analysis

#### 6.2.1 Strengths

- Focus on the Netherlands, customer groups and core products.  
This means bundling resources, management focus and expertise in developing, selling and distributing financial products in the Netherlands. Following the Property Finance phase-out, SNS REAAL shall solely be active in the Netherlands. SNS REAAL is one of the medium sized players in the Dutch markets for mortgages, savings, life insurance and pensions.
- Bancassurance.  
As a bancassurance company, SNS REAAL has a large and diversified distribution network at its disposal. We are in a good position to respond to trends causing shifts between banking and insurance products, such as bank savings.
- Several brands.  
Our broad range of distinctive brands allows us to optimise our services to customers with different customer needs and thus increase our customer coverage. We manage our brands at the Group level.
- Efficient organisation.  
This refers to our short time-to-market, our ability to perform integrations quickly and efficiently, and our relatively low cost base.
- Corporate responsibility.  
We are committed to responsible products, service and operations. SNS Asset Management is SNS REAAL's responsible investment manager. ASN Bank is the largest sustainable bank in the Netherlands.

### 6.2.2 Weaknesses

- Limited strategic flexibility due to capital support.  
In 2008 SNS REAAL issued core Tier 1 capital securities to the State and foundation in order to increase its core capital. Repurchase of this capital support has high priority, resulting in reduced strategic flexibility until the moment the capital securities are repurchased in full.
- rating and financing costs.  
Due to the financial crisis of recent years, and particularly due to the organisation's exposure to the real estate markets, rating agencies have lowered the credit rating. This leads to higher financing costs.
- Dependence on individual life insurance and mortgages.  
The strong market position in these product groups means that a disappointing performance could have a relatively strong adverse effect on the results. Moreover, the results in individual life insurance strongly depend on cost reductions and market share, as this market has been structurally declining.
- Brand recognition.  
Compared to the brands of the major players, some of SNS REAAL's brands are lesser-known.

### 6.2.3 Opportunities

- Risk spreading and customer diversification.  
Growing numbers of customers purchase their financial products from different providers and brands. They do not always stick to the same brand and/or distribution channel. Customers also look for added value in brands they can identify with. Our multi-brand strategy allows us to capitalise on this aspect.
- Bank savings growth.  
As a bancassurance company, SNS REAAL is in a good position to capitalise on the shift from insurance products to simple bank savings products used for wealth creation. Products that are often combined with separate insurance products.
- Restoring confidence in financial institutions.  
Through our mission of Simplicity in finance and our core value CARE!, SNS REAAL shows it attaches great importance to restoring consumers' confidence in SNS REAAL and in the financial sector as a whole. We can not only achieve this by changing the culture, but also by bringing about concrete changes that will lead to placing (even) more emphasis on putting the client's interest first.
- Rise of communities.  
New social media make it easier to set up communities of people with shared interests, for example on the basis of age, lifestyle, hobbies or social issues. SNS REAAL's multi-brand strategy allows it to capitalise on this aspect. Each of the brands can focus on the things relevant to their target groups.
- Ageing.  
The increasing number of elderly people in the Netherlands is leading to a greater demand for pensions and other asset growth products as provision for old age.
- Personal responsibility for wealth creation for the future.  
As a result of cutbacks in group benefits, private individuals and entrepreneurs will increasingly have to take out (supplementary) insurance and build up capital themselves. SNS REAAL can capitalise on this development, for example by offering disability insurance, bank savings products and pension products.
- SME market.  
The SME market is a steadily growing market with often attractive margins on account of the specific services provided. SNS REAAL can particularly build on its leading position in SME pensions and growth in disability insurance.
- Sustainability.  
SNS Asset Management is market leader in responsible investment management in the Netherlands, allowing for instance ASN Bank, Zwitserleven to respond well to the increasing demand for sustainable products.

- Distribution of third-party products.

The sale of third-party banking and insurance products in some product groups is unique in the Dutch market. This enhances our total product range and profitable growth and does not entail any additional demands on capital.

#### **6.2.4 Threats**

- Downward pressure on margins.

Legislative and regulatory changes, increasing market transparency and the demand for affordable and simple products lead to new terms of competition and new market entrants, such as Defined Contribution Pension Institutions (premiepensioeninstellingen, or PPIs). All market parties will have to bring their cost prices even more in line with the value of products and customer advice.

- Lack of confidence in financial institutions.

The financial crisis has shaken consumer trust in financial institutions. If the financial sector does not succeed in restoring consumer trust, the demand for financial products will decline even further.

- Economy and the real estate and residential property markets.

The real estate markets in which SNS REAAL operates largely continue to be weak. The impairments on international property loans decrease, but still continue. The Netherlands is experiencing a (mild) recession, rising unemployment rates and a drop in prices and stagnation in the residential property market. This may lead to mortgage impairments, including lower sales volumes of home-related banking and insurance products and other parts of the Dutch real estate market.

- Vulnerability in the event of capital market developments.

Banks and insurance companies are dependent on the developments in the money and capital markets and are exposed to changes in interest rates, risk surcharges and share prices. These markets are very volatile at the moment, in part because of their dependence on euro-related political policies and the high debts of a number of European countries. Financing our activities and protection of our capitalisation through the capital market can become more difficult and expensive as a result.

- New capital requirements, contribution to deposit guarantee scheme (DGS) and taxes.

Regulations of regulatory authorities and developments in the financial markets lead to stricter requirements with regard to the amount and quality of the required capital. This will lead to higher capital and liquidity costs and possibly lower returns. Banks may be facing a change to the deposit guarantee scheme, with a requested advance contribution, and the introduction of a banking tax. This could lead to higher capital requirements and lower returns.

- Numerous legislative and regulatory changes.

The laws and regulations applicable in the financial sector put material pressure on the sector and SNS REAAL's organisation. Expectations are that this pressure will continue. In this respect think for instance of adjustments to products and product terms and conditions, data management, the risk management framework, reports and further education and training of employees. The increased regulatory pressure and the current climate in which the financial sector now finds itself also result in a more (pro)active approach of national and international regulators. Their questions, consultations and requests, including an increased number of (stress) tests, put pressure on the organisation. This could come at the expense of productivity, innovation and results of financial institutions. Moreover, the risk of legal claims is increasing.

- Products sold in the past are evaluated on current standards.

In the past, financial institutions sold a number of products that, if judged by today's standards, one could deem to be non-transparent, too expensive and/or ill-suited.



## 6.3 Strategic challenges

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

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

The phase-out of Property Finance and strong capital management are strengthening SNS REAAL's foundation. We build our future by winning, helping and retaining clients and reducing the cost base. These strategic challenges determine our priorities in the years ahead. Chapter 5, [Mission, core value and strategy](#) includes a comprehensive overview of our strategy. Chapter 7, [Strategy update](#) presents the results we achieved in 2011 when facing our strategic challenges.

## 6.4 Ambitions

### 6.4.1 Net profit

Given the volatile and challenging market conditions, SNS REAAL currently does not have any specific profit ambitions. In November 2011, SNS REAAL abandoned its medium-term profit ambition, as changed circumstances in the financial markets, deteriorating economic outlooks and changes in legislation made this necessary. We continue to build on an organisation returning to healthy profitability.

### 6.4.2 Capital and liquidity ratios

Our ambitions are as follows:

- A regulatory solvency ratio for the insurer of at least 175%.
- A core Tier 1 ratio for the Banking activities according to the EBA (European Banking Authority) standard of at least 9% before the end of June 2012.
- A core Tier 1 ratio for the Banking activities of 10%.
- A loan to deposit ratio between 125% and 150%.
- SNS REAAL double leverage ratio at a maximum level of 115%.

### 6.4.3 Cost reductions

We aim to reduce our overall cost base by 20% in 2012 as compared to the adjusted cost level of € 1,209 million in 2008, representing a total cost saving of approximately € 200 million compared to 2008. As a result, our cost base will be below € 1 billion.

### 6.4.4 Market share ambitions

**Table 4: Market share ambitions**

	2011 market share	Ambition
Savings	10.0%	12-15%
Individual life insurance, regular premiums, inflow	21.9%	17%
Pension, regular premiums, inflow	17.1%	16%-18%
Non-life, gross premiums	5.0%	6%
Mortgages (new inflow)	5.8%	6%

*Market shares banksavings and Non-life, gross premiums are SNS REAAL's own estimate*

*Pension APE market share 2011 is not yet available. It concerns marketshare 2010; given the fact that our market share in new production 2011 is above the APE percentage of 2010, expectations are that the actual realised APE market share 2011 will be above the 2010 level.*

### 6.4.5 Aiming for measurable results

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

- Result and capital: net profit, value creation (Value New Business (VNB)), efficiency ratios, solvency ratios, core Tier 1 ratio, liquidity ratios and double leverage.
- Customers: Net Promotor Score, market shares.
- Each other: employee satisfaction, absenteeism.

### 6.4.6 Leading in corporate responsibility

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

- Integrating corporate responsibility throughout the organisation's operations, in other words in the governance structure and at the management and control levels of all of SNS REAAL's business units and staff departments;
- Clear recognition and appreciation of corporate responsibility from our customers and other stakeholders;
- Market share growth achieved in part through corporate responsibility.

## 7 Strategy update

SNS REAAL is continuously working on the execution of its strategy. This chapter gives an overview of the progress made in our strategic priorities and the extent to which our ambitions for 2011 have been realised.

SNS REAAL established its strategic priorities and ambitions on the basis of its market position and a SWOT analysis. For the SWOT analysis, strategic challenges and ambitions see [chapter 6](#). We are fixing the foundations of SNS REAAL through the priorities of phasing out Property Finance and strong capital management aimed at repaying the Dutch State (the State) and Stichting Beheer SNS REAAL NV (the Foundation). We are building for the future through the priorities winning, helping and retaining customer and reducing the cost base.

### 7.1 Phasing out Property Finance

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

Despite the difficult circumstances in the real estate and financial markets, we have made strong progress with the phase-out of Property Finance. Commitments (gross loans including undrawn loans) have been reduced by € 1.3 billion to € 5.5 billion (-20%). The risk-weighted assets were strongly reduced. For more details on Property Finance see [chapter 12](#).

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

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

#### 7.2.1 Independent, solid capital position

We want to repurchase the capital support by means of core Tier 1 capital securities received from the State and Foundation in a responsible manner, with a key focus on maintaining our capital position despite the difficult circumstances. It is our ambition to repay the Dutch State at the latest by the end of 2013. As a result of the cooperative position of the Foundation, we are not compelled to repurchase the core Tier 1 capital securities of the Foundation at the same moment as the Dutch State. More can be read about this in [Balanced approach capital support](#) and in [Securities Foundation and Dutch State](#).

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

In 2011 the Dutch Central Bank (DNB) asked the Dutch banks to draw up a Basel III migration plan. SNS REAAL presented her Basel III migration plan mid 2011. Based on the current requirements this plan shows that no important additional measures have to be taken to satisfy the new requirements. For further explanation of Basel III see [section 16.3.2](#).

Group double leverage decreased from 115.4% to 114.2%, in particular as a result of the increase of the fair value reserve. Furthermore there was a positive impact of € 102 million dividend upstream, of which € 80 million came from the Insurance activities and € 22 million from SNS Asset Management. This was partly offset by a capital downstream of € 50 million to SNS Bank.

### **7.2.2 EBA standard for core Tier 1 capital within reach**

On 8 December 2011, SNS REAAL issued a press statement in relation to announcements by the EBA and DNB regarding requirements for banks to strengthen their capital position by building up a temporary capital buffer against sovereign debt exposures measured at market value. The EBA required banks to establish buffers such that their core Tier 1 ratio reaches 9% by the end of June 2012, valuing sovereign debt exposures at market prices as per 30 September 2011.

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

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

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

### **7.2.3 Capital release programme update**

In November 2010, SNS REAAL announced a programme to release € 600 million in eighteen months time. In February 2011, this target was increased to € 700 million. The release of capital helps SNS REAAL to get into a position to repay the capital support from the Dutch State. At the end of 2010, € 160 million had been freed up. Due to the very volatile financial markets, a major part of the positive impact on solvency of the released capital was offset in 2011. On balance, in 2011, SNS REAAL managed to release € 595 million in capital to year-end 2011 as a result of:

- A traditional reinsurance transaction, proportionally reinsuring the risks of approximately 77% of REAAL Life's savings insurance portfolio with a quota share contract, freeing up € 225 million.
- The reduction of the SNS SME loan portfolio by € 1.6 billion in 2011 resulted in a decrease of risk-weighted assets by approximately € 1.2 billion, freeing up around € 96 million.
- Buy-backs of own funding paper, including the Tier 2 exchange in the fourth quarter, resulting in a capital release of approximately € 95 million.
- The sale of REAAL's reinsurance company in the fourth quarter of 2011, freeing up € 18 million, consisting of a book profit.

### **7.2.4 Strong risk management**

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

- Based on the outlook for 2012, qualifying conditions for new mortgages were made more stringent.
- Property Finance's credit risk management was enhanced. As a result, the management of complex loans improved and losses in relation to these loans were limited as much as possible.
- A conservative investment policy by REAAL and Zwitserleven. This included the reduction of exposure to sovereign debt in peripheral euro countries and defensive measures were successfully taken against declining markets.
- Solid solvency of the Banking activities: core Tier 1 ratio 9.2% and Tier 1 ratio 12.2%. The ambition for the core Tier 1 ratio was increased from 8% to 10% in the long term.

- Total liquidity of the Banking activities remained high at € 11.1 billion end of 2011, against € 11.9 billion end of 2010.
- Strong regulatory solvency of the Insurance activities stood at 203%. For more information, see chapter 16 [Risk management and capital management](#).
- The KPIs of senior management have additional elements included which relate to prudent risk management.
- Explicit statement on the possibility of adequate risk management upon introduction and changes to products.
- A lower concentration risk is actively pursued by reducing relative extensive financing.
- Strategy and policy are tested for, and adjusted if needed based on insights from the stress and scenario analysis.

## 7.3 Winning, helping and retaining clients

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

### 7.3.1 Customers' interests and satisfaction

#### Improved and more focused measurement

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

The most important scores, in percentages:

- SNS Bank from -50 at the start of 2011 to -33 year-end 2011
- REAAL from -58 at the start of 2011 to -44 year-end 2011
- Zwitserleven from -65 at the start of 2011 to -47 year-end 2011
- RegioBank from -27 at the start of 2011 to -18 year-end 2011
- ASN Bank from 32 at the start of 2011 to 34 year-end 2011

Customer satisfaction in the entire financial sector has come under increased pressure in recent years as a result of the developments surrounding the financial crisis. Among all surveyed Dutch banks and insurers, few had a positive NPS score in 2011, including ASN Bank. See section [GRI 7.4P5](#) for more information on the customer satisfaction surveys.

#### Learning from the client dialogues

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

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

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

As of August 2010, SNS Bank has a SNS Community, an online platform for all SNS Bank clients who:

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

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

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

REAAL organised interviews and discussions with clients on various topics, through initiatives such as the so-called Parliamentary sessions. Zwitserleven started a broad dialogue with different groups of stakeholders, including clients and their employees. The aim was to give Zwitserleven's management advice on how to further develop corporate responsibility in the organisation. In 2011, Zwitserleven involved clients in improving the information on its investment funds' performance.

## **Improving customer contact and service levels**

Measurements showed that most of our brands' service levels improved in 2011. REAAL in particular made good progress in this respect, also thanks to a programme aimed at making the organisation leaner and more customer-oriented. Service levels at SNS Bank also improved.

The number of complaints at SNS Bank declined considerably (37%). Contactability of SNS Customer service remained high (94%).

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

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

REAAL set up REAAL Customer service with one central information number. Previously clients usually went to their intermediary for questions on products or administrative matters. By strengthening and monitoring the client relationship, REAAL gains more insight in her clients' needs and wishes. On top of this, the central customer service meets the recommendations of the Banking and Insurance Codes. REAAL implemented various improvements with respect to [client relationships and service](#) in Non-life insurance.

REAAL retained the 'Keurmerk Klantgericht Verzekeren' ([Customer-oriented Insurance Quality Mark](#)), despite the more extensive criteria that are assessed. REAAL received this quality mark – set by the foundation insurers assessment - as one of the first insurance companies in 2010.

Annual surveys among pension intermediaries once again showed that Zwitserleven [excelled](#) in its customer service and support.

### **Simple, relevant products and appropriate advice**

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

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

ASN Bank reduced the number of regular savings accounts from five to one: ASN Ideaalsparen. Most clients now have better conditions. ASNs' current account costs were reduced and terms and conditions improved. ASN Bank changed the names of five of its seven investment funds to better communicate the sustainable character of these funds.

RegioBank reduced the number of current accounts from two to one and reduced its fee. SNS Bank had already strongly improved and simplified its range of savings products in 2010, at which time the number of savings products was reduced from several tens of products to six.

REAAL eliminated the so-called 'en block clause' from the terms of its term life insurance policies. This gives clients certainty that the price and terms of a contract can no longer be adjusted during the term.

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

Zwitserleven introduced MijnZwiserlevenPensioen.nl, a personal environment on the website which collects tailor-made information.

[REAAL](#) and [Zwitserleven](#) offer their clients comprehensive information on the content and execution of the compensation scheme for unit-linked insurance policies. Clients also get tips how to best deal with current policies.

## **7.3.2 Sustainable growth of our brands**

### **Multi-brand strategy**

SNS REAAL distinguishes itself in the Dutch market through a multi-brand strategy. This allows us to efficiently and effectively respond to new market developments. It allows us to direct common indicators, minimise brand overlap and take advantage of specific market opportunities.

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

This multi-brand strategy brings us closer to our clients' needs and desired brand perception than one brand would allow us to. Partly due to this, it resulted in an increase of our market share in the savings market from 9.5% to 10.0%. Various



product improvements and marketing and communication initiatives contributed to the strengthening of the brands. You will find more information in chapters 11 [Developments SNS Bank](#), 13 [Developments REAAL](#) and 14 [Developments Zwitserleven](#).

### **Attracting new clients**

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

REAAL attracted many new clients specifically in disability insurance, term life insurance and mortgages. Zwitserleven attracted both new SME and corporate clients and strengthened its market position.

### **Retaining clients and offering a broader range of products**

SNS Bank expanded its range of third party mortgage products, allowing more clients to get an attractive offer that best suits their wishes and possibilities. Third party mortgage sales grew.

The retention rate of existing mortgages was high. SNS Bank believes that the retention of and providing high-quality service to its existing clients is more important than attracting new clients. At the end of 2011, SNS Bank decided to cease selling mortgages through third-party mortgage providers, also due to the shortage in the capital market and the increase of the capital buffer. Now that the number of SNS Shops and advisors has increased, SNS Bank is also able to serve more clients itself. For more information, see chapter 11 [Developments SNS Bank](#), [More sales, less production](#).

An improved Customer Service Centre allowed REAAL to draw product quality and service more to the attention of customers and to strengthen the brand experience.

Being a bank-insurer, SNS REAAL can retain clients who would be lost if they could either only take out banking products or insurance products. In 2011, we took advantage of the growing bank savings market. REAAL, SNS Bank and RegioBank cooperate closely in the field of product development and distribution. Many REAAL clients find bank savings a good alternative on expiry or renewal of their unit-linked policy. Bank savings deposits rose by 89% to € 1,331 million.

The customer retention rate at Zwitserleven remained high, both in the SME and corporate market.

### **Succesful new products**

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

SNS Bank launched SNS Jeugd Sparen for young people saving money, an online account, including MijnSNS, the personal banking environment on the Internet.

At the end of 2010, REAAL launched a new range of [disability insurance products](#) with much simpler and improved conditions. In 2011, REAAL also simplified the process of acceptance. In many cases a medical check is no longer required.

Zwitserleven's innovative [Exclusief Pensioen](#), launched in 2010, saw a satisfactory development. The product caught on in both the SME and corporate market.



## 7.4 Reducing the cost base

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

Compared to 2010, the total adjusted operating expenses decreased from € 1,091 million to € 1,051 million (-4%). An important element was a reduction in the average number of FTEs from 7,301 to 7,002 (- 4%). There was a reduction of € 23 million at the Banking activities, € 25 million at the Insurance activities and an increase of € 8 million at the Group activities. SNS Bank benefited from increased online sales and the conversion of SNS offices to SNS Shops. REAAL benefited from a programme to make the back office leaner and more customer-oriented and the completion of integration programmes. Zwitserleven continued its programme to reduce the operating expenses. Essential in this respect are: improvements in processes and organisational structures, fewer products and fewer systems.

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

Investments made by SNS REAAL were mainly aimed at the continued improvement of the cost base in the coming years. The most important investments were related to the New World of Work and IT, in particular standardisation of back office and IT systems at Zwitserleven.

## 7.5 Realisation of ambitions

### 7.5.1 Net profit

At this moment SNS REAAL has no concrete profit ambition, given the volatile and challenging market circumstances. In November 2011, SNS REAAL abandoned its medium-term profit ambition. The changing circumstances on the financial markets, the deteriorated economic prospects and heavily modified laws and regulations made this necessary. We will continue to build an organisation that returns to healthy profit levels.

### 7.5.2 Structural cost reductions

Compared to 2010, the total adjusted operating expenses decreased from € 1,091 million to € 1,051 million (-4%). Consequently, SNS REAAL is on track to achieve its ambition for 2013: a total cost reduction of € 200 million compared to 2008, to ensure a cost base below € 1 billion in. The total operating expenses are adjusted for restructuring costs, SNS Retail Bank's share in the deposit guarantee scheme (DGS) and costs related to the phase-out of Property Finance.

### 7.5.3 Market share ambitions

See section 6.4.4 [Ambitions](#) for the realised market shares in 2011 and the ambitions set for these market shares.

### 7.5.4 Capital and liquidity ratios

Our ambitions are:

- A minimum regulatory solvency ratio for our Insurance activities of 175%. At year-end 2011, it stood at 203%.
- A minimum core Tier 1 ratio for the Banking activities according to the EBA (European Bank Authority) of 9% before end of June 2012. At year-end 2011, it stood at 8.8%.
- A core Tier 1 ratio of the Banking activities of 10%. At year-end 2011, it stood at 9.2%.
- A loan-to-deposit ratio between 125% and 150%. At year-end 2011, it stood at 159%.
- The SNS REAAL double leverage ratio at a maximum level of 115%. At year-end 2011, it stood at 114.2%.

### 7.5.5 Management by performance indicators

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

For realised capital and liquidity ratios, we refer to the section above and for other realised financial ratios to our [Key figures](#). In 2011, SNS REAAL launched the [Net Promotor Score \(NPS\)](#) to measure and monitor customer satisfaction throughout the Group. For more information on [employee satisfaction](#) and [absenteeism](#), see chapter 18 Our people.

### 7.5.6 Corporate responsibility update

In 2011, the [Corporate Responsibility \(CR\) strategy](#) was reformulated and tightened. The CR department developed policies to further embed CR in our daily activities. For their core activities, the major business units included CR objectives and ambitions in their operating plans for 2012. Thus, customer and employee satisfaction is structurally measured. For an overview of our CR results in 2011, see chapter 8 [Developments in Corporate Responsibility](#).

## 8 Developments in Corporate Responsibility

Corporate Responsibility lies at the heart of SNS REAAL. A sense of solidarity has been part of our genetic make-up since the first savings banks were established almost 200 years ago. The purpose of saving has remained unchanged, namely: helping people to help themselves. Our insurers have a history of providing support both to working people and to projects which benefit society. These earlier notions of solidarity have transformed into today's engagement with clients, people and the environment. During 2011 SNS REAAL tightened up and reformulated its [corporate responsibility strategy](#).

### 8.1 Reporting on corporate responsibility

In 2010 we published an annual report about Corporate Responsibility (CR) as a discrete document. Incorporation of our CR report in this year's annual report is a reflection of the increasing level of integration of CR within the company. The current chapter serves to outline our CR strategy and provides a summary of the most important results achieved during 2011 as well as our objectives for 2012. We have defined four strategic key objectives: personal leadership, responsible services, responsible organisation, and a sustainable supply chain and concern for the environment.

Our GRI table provides an overview of quantitative and qualitative data, including background information, and details of the agreements and guidelines to which we have subscribed. The table is based on the worldwide standard defined by the Global Reporting Initiative for reporting on corporate responsibility. Our reporting meets the requirements for level C+. This means that information contained in chapters 5, 7 and 8 of this annual report, and the GRI table, is backed by an assurance report attaining to its accuracy.

### 8.2 Embedding corporate responsibility in business practice

SNS REAAL ensures through a variety of means that CR is integrated into daily working practices. Key tools for ensuring this are adherence to the Banking Code, the embedding in performance criteria, such as Net Promotor Scores for client satisfaction, reliance on findings from employee surveys, as well as behavioural change resulting from the CARE! corporate culture and action programme. Exchanging knowledge about the CR field between various business units also contributes to greater integration.

#### 8.2.1 Application of the Banking Code and Insurance Code

The [Banking Code and the Insurance Code](#) comprise principles relating to putting clients' interests first, governance principles, risk management, auditing and remuneration policy. SNS REAAL subscribes to these codes - our remuneration policy serving as one example. Together, these measures play a key role in restoring trust in the financial sector. The principles have been applied within SNS REAAL and are in line with our mission of Simplicity in finance and our core value of CARE!.

#### 8.2.2 Embedding via performance criteria

Our business units make use of performance indicators, particularly with regard to client satisfaction, achieving a clearer product structure and prices, clear and effective communication with clients and intermediaries and greater customer-oriented engagement by our employees. See section 7.3 Winning, helping and retaining clients. We also rely on performance indicators to make the supply chain of products and their means of production, including office locations and ICT more sustainable and environmentally friendly. Our GRI table provides an overview of current performance in the CR field. A number of indicators, such as customer satisfaction, are included in the performance assessment criteria of our management.

### 8.2.3 Embedding via behavioural change

We aim to ensure that our core value CARE!, introduced in 2010, becomes a natural part of our corporate culture. CARE! stands for the behavioural aspect of CR. Good progress has been made so far with CARE!. Our 2011 employee satisfaction survey shows that awareness of and motivation for CARE! among employees is high. In 2011, emphasis was on promotion via an action program, and incorporation in the HR policy. Our ambition for 2012 and thereafter is to make CARE!, through CARE!-phase 2, more prominently present in our daily behaviour at work.

## 8.3 Dialogue with stakeholders about corporate responsibility

SNS REAAL is aware of social developments and therefore engages in dialogue with a range of interested parties. We want to appreciate their concerns and share information and opinions. It allows us to find out what others view as important and how we can take their concerns into account. It means stakeholders are also aware of what we stand for regarding CR. Such a dialogue helps us steer our course through CR in ensuring that our priorities are in line with the most important CR themes in society.

Stakeholders with which SNS REAAL remains in constant contact with regard to CR include: our customers, representative bodies of clients such as the Dutch Consumers Association (Consumentenbond), the Dutch Authority Financial Markets, the Dutch Association of Investors for Sustainable Development (Vereniging van Beleggers voor Duurzame Ontwikkeling, VBDO), Eurosif (European Sustainable Investment Forum), UNPRI and a number of governmental and non-governmental organisations. See section [GRI 4.14](#) for an overview of our contacts with stakeholders.

## 8.4 Strategic priorities

Corporate Responsibility is part of SNS REAAL. Our mission Simplicity in finance is aimed at responsible service and our core value CARE! does not only mean that we care for the financial results, but also for each other, the customer and society. Through CARE! and our strategic structure, Corporate Responsibility is incorporated in the way our people work as well as in our service and business operations. The pillars of our corporate strategy are aimed at fixing the foundation and building for the future of SNS REAAL. It is only through continuous dialogue with our stakeholders and by incorporating the results thereof in our approach towards Corporate Responsibility that we can achieve this. This ensures that we focus on material issues, on things that really matter. In practice, our corporate responsibility policy focuses on the following four key priorities.

### 8.4.1 Personal leadership

'Change starts with yourself'. We therefore expect our staff to take the lead in efforts aimed at improving our products and services in a responsible way. Taking the lead from a particular vision calls for perseverance, even when you cannot count on the immediate support of those around you. Our employees live up to our core value of CARE! and set an example for the rest of the organisation. Within SNS REAAL, CARE! stands for the behavioural aspect of CR. We also promote behaviour based on CARE! through a programme of CARE! initiatives and the [HR policy](#). CARE! has been built into our selection and recruitment procedure, performance assessment interviews and training. SNS REAAL also promotes employee behaviour that is consistent with CARE! through the CARE! Fund, which supports volunteer work, and through an internal website that handles requests for and offers of volunteer work.

As an organisation, we serve as an example to others by offering expertise and/or financial support to a variety of organisations such as Weet Wat Je Besteed (Stay on Top of Your Spending) ([www.wwj.nl](http://www.wwj.nl)) which helps young people better manage their financial affairs. Personal leadership also allows us to discuss and resolve dilemmas relating to our identity, the CARE! culture and operational issues. Our employees aim to provide clients with the greatest possible assistance, but at the same time, we have to hold down the price of our products. The client demands an inexpensive and simple product but also one that offers security. Meanwhile, shareholders demand a return on their investment, but at the same time need to be certain about the solidity of the capital position of the company they are investing in.

For SNS REAAL, CARE! for the customer is our promise to help our clients and to treat them as we would wish to be treated - with honesty and integrity - and to be understandable and to fulfil our commitments.

CARE! for society means that SNS REAAL is aware of its role in society and remains an active partner in societal projects.

CARE! for each other is SNS REAAL's motto for co-operation based on trust and respect, listening to each other, learning from each other and providing feedback.

CARE! for the result means that SNS REAAL has a responsibility to achieve a solid profit in order to ensure the continued operation of our company and so secure the interests of our clients, employees, shareholders and other stakeholders.

#### **8.4.2 Responsible service provision**

Introducing and supporting products in responsible ways involves many steps that generally go unnoticed by the client. Products go through an approval process which is in conformity with the recommendations of the Banking Code and the Insurance Code. We evaluate products based on a framework of standards, in which a careful assessment takes place of the risks and other relevant aspects. Product, market and price committees in each business unit ensure tight risk management and decision-making for new and existing products. Each committee is made up of the director of the business unit and staff departments.

#### **Putting the client's interest first**

Acting responsibly means putting clients' interests first when developing and improving our products and services, and the underlying organisational structure. For SNS REAAL, putting clients' interests first - which we term CARE! for the client - means Simplicity in finance: simple products and accessible, polite and speedy service. These are the areas in which we aim to stand out and so realise commercial success. For more information refer to chapter 5 [Mission, core values and strategy](#).

SNS REAAL attaches great importance to improving levels of client satisfaction. During 2011 SNS REAAL's brands collaborated on better methods for monitoring and tracking client satisfaction. For the results for 2011 refer to chapter 7 [Progress with strategy](#). See section [GRI 7.4 PR5](#) for additional information about our research into client satisfaction.

#### **Stringent product approval process**

In 2011 the product approval process was made additionally stringent, compared to 2010. We now take the interests of the client and demarcation of the target market as the starting points in the process in order to better guarantee the clarity of products. Furthermore, we have intensified the periodic upkeep we devote to products to provide us with greater certainty that our products best match up to the latest developments in the market, and with legal requirements and regulations. During 2011 we conducted more intensive testing of the comprehensibility of product information among consumers, SME clients and advisers. REAAL simplified the text of its correspondence and quotations concerning life insurance products to conform to language proficiency level B1. Product evaluations led to a variety of [changes being made to the product range](#) in 2011.

In the past, REAAL and Zwitserleven sold unit-linked insurances which resulted in what could now be considered to be high costs. [REAAL](#) and [Zwitserleven](#) operate a compensation scheme established on the basis of negotiations with various stakeholders. This process is complicated and cumbersome. However, we are determined to keep our promises and solve this issue for our clients.

We gave substance to Simplicity in finance chiefly through our products, advice and service. In addition, 2011 saw a number of [educational initiatives](#) aimed at widening consumer understanding of financial affairs and financial products.

## **Sustainable investment and financing**

SNS REAAL is responsible for the investment and security of the money which our clients have entrusted us with in the form of banking, insurance and pension products. Terms and conditions, such as the rate of interest and duration, are specified in a product contract. In an increasing number of situations, the conditions also relate to the sustainability of investments and credit provision operated by SNS REAAL. Guarantees concerning the degree of sustainability vary depending on the product and brand, although every brand is striving to incorporate greater sustainability into its product chain. It means that increasing attention is being paid to possible positive and negative impacts that investments, asset management and loans have on people and the environment. SNS REAAL's business units also invest on their own account and our intention is to further raise levels of sustainability in these operations as well.

### **Impacts on people and the environment**

SNS Asset Management is responsible for the sustainable management of investment funds operated by SNS Bank, the ASN Bank and Zwitserleven as well as those investments made directly by REAAL and Zwitserleven. How these are managed depends on the mandate provided by each internal client. The mandate may vary by client and investment fund. In discharging each mandate, SNS Asset Management also applies its own criteria for sustainable asset management. Information about the investment philosophy is available via [www.snsam.nl](http://www.snsam.nl).

### **ESG and UNPRI criteria**

All investments made by SNS REAAL's business units and business units' investment funds satisfy so-called ESG criteria, which are ethical criteria in the fields of Environment, Social policy, and sound Governance. ESG criteria are applied in both excluding certain investments as well as in voting policy. SNS Asset Management votes on behalf of clients during shareholder meetings in line with the client's mandate. SNS Asset Management outsources a small proportion (around 4%) of its asset management to specialised external investors. In making its choices, SNS Asset Management attaches significant weight to criteria for sustainable investment. Where necessary, discussions or negotiations are conducted with the external manager. Since 1 July 2011, [ESG criteria](#) are also applied to the SNS Euro Property Fund.

Since 2006 SNS Asset Management has subscribed to the guidelines of the United Nations Principles for Responsible Investment (UNPRI). The 850 affiliated financial organisations recognise that environmental, social and governance factors have an influence on the investment policy and that it is important to integrate these factors into the investment process. In a worldwide comparison survey of 345 asset managers undertaken in 2011 SNS Asset Management ranked among the top 25% organisations in all aspects considered, [an excellent score](#). Each of the individual scores was substantially better than those for other Dutch financial organisations.

See section [GRI 4.12](#) for an overview of all declarations in the CR field to which SNS REAAL and its business units are signatories.

See section [GRI 4.13](#) for an overview of key memberships and contacts with CR stakeholders.

### **External clients of SNS Asset Management**

SNS Asset Management is also active in the external market for sustainable institutional asset management. Nearly all products and services that SNS Asset Management offers are sustainable. As a consequence, investors intending to invest in controversial weapons manufacturers or in companies with dubious records regarding human rights and working conditions are excluded from co-operation with SNS Asset Management.

In that respect, SNS Asset Management offers two kinds of funds: sustainable index funds incorporating ESG exclusion criteria and impact investment funds which discriminate based upon financial criteria and the added value to society. Up to now, SNS Asset Management has chiefly established a position regarding microfinancing. During 2011 SNS Asset Management worked on preparing the introduction of the SNS African Agricultural Fund, whose objectives include strengthening the position of employees and local communities. For additional information refer to chapter 15 [Group activities](#).

For further information about sustainable investment criteria refer to the websites of [SNS Asset Management](#) and [ASN Bank](#).

See section [GRI 8.3 FS12](#) for an explanation of the voting policy applied by SNS Asset Management, ASN Bank, SNS Bank en REAAL.

### **ASN Bank - the expert in sustainable investment**

The criteria for sustainable investment applied by ASN Bank go a step further than those of SNS Bank and REAAL. ASN Bank sets out its [exclusion and acceptance criteria](#) on its website. ASN Bank's raison d'être is the promotion of sustainable investment in general, for instance via the Green Banking Platform (Groenberaad Banken), the VBDO, the United Nations Environment Program Finance Initiative (UNEP FI) and the Carbon Disclosure Project.

When ASN Bank performs well, its societal partners benefit. ASN Bank's contributions to them, including the ASN Foundation, amounted to € 2,020 thousand, equivalent to 4.0% of net profit, compared to 1.7% in 2010. Since 2008 ASN Bank has compiled data on levels of [CO2 emissions](#) from enterprises in which its investment funds have invested.

### **CR recognitions business units**

Research into sustainable investments by insurers, conducted at the end of 2011 by the VBDO, concluded that REAAL and Zwitserleven occupied first and second place out of 30 Dutch insurance companies considered. Zwitserleven was the only Dutch pension insurer to gain Eurosif certification in 2011. Eurosif is a European organisation whose objective is to promote sustainability within Europe's financial markets. See section [GRI 2.10](#) for a complete overview of recognition in the CR and other fields.

### **Client integrity**

How our clients conduct can have an impact on the sustainability of the product chain. In addition to weighing up financial conditions and risks we therefore also consider client integrity and the effect that their activities may have on people and the environment. Our business units operate a client acceptance policy which includes checks based on fraud, integrity, risks to integrity and creditworthiness. Client research is undertaken in respect of all products, although the standards and the kind of research vary depending on the type of product. Any instances of fraud that we encounter are investigated and reported to the relevant authorities. In combating fraud we work closely with other Dutch financial institutions, in particular with the Dutch Banking Association and the Dutch Association of Insurers. Attempts at debit card fraud and cyber criminality are on the increase but closer co-operation means they can be more effectively combated and the extent of damage can be constrained. REAAL pursues a consistent policy with regard to combating fraud involving insurance claims.

### **SNS SME exclusion and sustainability policy**

[SNS SME](#) provides property and business financing based on company property functioning as collateral. We do not extend credit to enterprises engaged in socially unacceptable activities. For our acceptance policy we refer to [www.snsbank.nl](http://www.snsbank.nl). For our CR policy we are guided by the framework laid down in the UN Global Compact and the OECD Guidelines for Multinational Enterprises. UN Global Compact is a strategic framework for companies committed to the UN principles in the areas of human rights, working conditions, the environment and combating corruption. In 2011 SNS SME was among the parties which signed onto a [sustainability covenant](#) with the objective of stimulating sustainable construction and reconstruction.



### **ASN Bank provides finance aimed exclusively at sustainability**

ASN Bank applies acceptance criteria based on sustainability for those companies which qualify for financing. ASN Bank selects projects based initially on them meeting sustainability criteria and, secondly based on financial criteria. In 2011 ASN Bank provided € 138 million of sustainable financing. For further details refer to the ASN Bank website.

The ASN Green Project Fund also finances projects of tangible environmental value. The Dutch Government stimulates such projects through a fiscally beneficial 'green' scheme. Should central government designate an investment as only partially constituting a green project, ASN Bank is able to combine financing through the [ASN Green Project Fund](#) with a regular loan from ASN Bank.

### **8.4.3 Responsible organisation**

#### **Acting as a responsible employer**

Professional and enthusiastic employees are happy to work with our clients, which in turn better allows us to put our clients' interests first. It is why we invest in employees who feel themselves engaged and who demonstrate the greatest potential for development. SNS REAAL believes that acting as a responsible employer primarily calls for an inspiring style of management - one which is based on CARE!, that stimulates each employee and allows for feedback. But in our view it also includes: long-lasting employability, providing opportunities for training and development, achieving a sound work-life balance through the New World of Work, good terms and conditions of employment, programmes aimed at achieving diversity in the workplace and modest remuneration for the Executive Board and senior management. Refer to chapter 18 [Our people](#) for additional information and developments in 2011.

#### **Acting as a responsible employee**

SNS REAAL looks to its employees to conduct themselves in a responsible manner. In our view, responsible employees are those who take on responsibility for planning and executing their own activities and managing their own career path. We expect our employees to retain a flexible attitude to work and to invest in their own professional knowledge and competence rather than become fixated solely on their current job description.

We also require employees to abide by the [Code of Conduct](#) with regard to how they interrelate with each other, as well as with business partners and clients. Three core principles apply:

- Acting with respect and behaving professionally
- Exercising care with information and company resources
- Ensuring the separation of personal and business concerns

Ensuring compliance with principles, processes and rules is, in the first instance, a departmental responsibility. The Compliance, Security and Operational Risk Management (CV&O) department is responsible for confirming compliance. Finally, Group Audit confirms that the departments and CV&O have both executed their responsibilities satisfactorily. A contact point for reporting incidents was established in 2011 to simplify the procedure for employees to highlight dubious or fraudulent incidents and permit more rapid intervention to safeguard our standards and values. We can not disclose actual data since this is confidential information.

Responsible conduct involves far more than simply complying with current legislation, regulations and internal rules. Our aim is to establish a business culture which promotes and rewards responsibility. [Personal leadership and our core value CARE!](#) play a key role in this.



#### **8.4.4 Sustainable supply chain and the environment**

##### **Integrated approach**

SNS REAAL has an integrated approach to CR in which we assess not only the services we provide but also our role in the chain that also extends to our energy use and CO2 emissions. As a consumer of energy and natural resources, a procurer of goods and a user and manager of property our aim is to as far as possible minimise the negative impacts on people and the environment and, where possible, make a positive contribution. By working with customers and suppliers our aim is to ensure sustainability throughout the chain.

##### **Less energy, fewer resources, lower CO2 emissions and less waste.**

In 2011 we consumed 30 GJ of energy per FTE compared to 32 GJ per FTE in 2010, a reduction of 8%. Our electricity consumption fell by 14% and gas use was 12% lower as a result of energy savings and energy monitoring. The use of paper consumed per FTE rose by 6% and water consumption rose by 11% per FTE, while the quantity of waste generated showed a 1% decrease per FTE. In 2011, 74% of our office waste was suitable for reuse compared to 65% in 2010. See [GRI 6.1 EN1 table](#). The decrease in energy consumption at SNS REAAL is partly offset by an increase in energy consumption at the residential homes of our employees, due to the introduction of the New World of Work.

##### **Sustainable procurement**

SNS REAAL now relies on sustainability declarations and assessment lists as a means for increasing its proportion of sustainable procurement. Earlier, these approaches had not been applied. Sustainability is still not always taken into account in the procurement process. The extent of knowledge regarding sustainability varies across various departments. During 2011 SNS REAAL established a more structured approach for ensuring sustainable procurement. Procurement staff followed a training course for sustainable purchasing. Other initiatives included discussions with a number of suppliers, strengthened checks on the veracity of suppliers' declarations and selection of the first product groups in respect of their sustainability. The latter involved setting up a new plan comprising sustainability criteria for each product group and initiating the development of risk analyses.

From the beginning of 2011 we have made use of sustainability declarations to increase our focus on sustainability. This includes not only our requirements concerning products we purchase but also their preceding production and transport processes, the life expectancy of a product and the extent to which a product can be reused and, finally, how it is to be disposed of.

#### **8.5 Achievement of objectives for 2011**

SNS REAAL embedded CR better in the business strategy, including through the inclusion of CR in the operational plans 2012 of the major business units. We were informed and inspired on CR through contacts with various entities and organisations, by means of the CR-focus group, which met twice in 2011.

The setup of a CR governance structure started in 2011 will be completed in 2012. Also a start was made with the formulation of key performance indicators for managing the CR-themes.

The [product approval process](#) was substantially improved throughout the Group. [Customer satisfaction improved](#) in all five brands which are measured based on the NPS method. We are still not satisfied with the level reached, however made good progress, also because of the use of clients opinions, through client's panels and other ways.

We make the financial statements available online, with user friendly explanation and possibilities for linking.

Environmental objectives achievement:

- Energy reduction of 7%, well above the target of 2%.
- The targeted reduction in paper use per FTE was not achieved, as result of a large scale advertising campaign.
- Sustainable procurement booked insufficient progress, however preparations were made to make progress in 2012.
- The recycling of waste increased from 67% to 74% instead of the 75% target. As a result the residual waste percentage decreased to 26% instead of the 25% target.

## **8.6 Main objectives for 2012**

Continued integration of CARE! in SNS REAAL's corporate culture through leadership in the daily work and through education.

SNS Bank improves the quality of service mainly through:

- Initiatives aimed at customers' interest and satisfaction.
- Tightening of CR criteria in dealings with intermediaries.
- Tightening of CR criteria in the area of customer acceptance policy in view of risk management.

REAAL improves the quality of service mainly through:

- Building and strengthening of direct relations with clients through REAAL Customer Service Center, and intermediaries.
- Initiatives aimed at customers' interest and satisfaction, including downsizing the organisation and making the organisation more customer oriented, management by coaching, improved use of staff qualities, to ensure improved quality of intermediaries' advice and proper execution of the compensation agreement related to the unit-linked policies.

Zwitserleven improves the quality of service mainly through:

- Initiatives aimed at increasing customer satisfaction, including customer's staff.
- Developing social involvement en making this more visible in customer service and product development.

SNS REAAL mainly contributes to a more sustainable supply chain, reduction of environmental pollution and sustainable procurement of resources through:

- Promotion, improved structure and to ensure sustainable procurement. Twice a year the range is extended by three sustainable products or more.
- Minimum 2% reduction in office and transport-related CO2 emissions.
- Discuss alternatives to car travel with the staff at appropriate moments.

For information about our longer-term CR ambitions refer to paragraph 6.4.6: [Market Leader in Corporate Responsibility](#).

## **9 Outlook 2012**

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

### **9.1 Financial markets in 2012**

#### **9.1.1 Equities: moderately positive with many uncertainties**

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

#### **9.1.2 Interest rates low, risk surcharges high and volatile**

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

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

### **9.2 Trend: changes in the distribution landscape**

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

- Tax benefits via bank savings products.  
Up until 2008, it was mainly the life insurers that provided the distribution of products for tax-assisted capital growth. Bank savings products were introduced in 2008, which provide customers with banking alternatives. Bank savings products have grown strongly since then, at the expense of more complex life insurance products that combine capital growth with guarantees and/or insurance policies. Bank savings products are often combined with pure life insurance products, such as term insurance policies and immediate annuities. SNS REAAL is well positioned in this market with its combination of banking and insurance operations. Bank savings products are expected to remain a growth market for the time being.
- Remuneration via agreement between customer and advisor.  
With effect from 1 January 2013, commission will be prohibited for complex products for capital growth, mortgages, and complex non-life insurance policies, such as occupational disability insurance for entrepreneurs. Instead of this commission, the advising body (bank, insurer, or intermediary) will receive remuneration on the basis of an

agreement with the customer. The separation between product price and advisors' fee means more transparency for the customer. For producers and advisors this means that, to remain competitive, they must align the prices they offer more strictly to the customer value they deliver. SNS REAAL has already partly changed over to this new pricing and is adapting the organisation further in order to respond properly to this development.

- Stricter requirements for pension advisors.

The requirements for professional competence of pension advisors have been considerably tightened, with effect from 1 January 2012. It is expected this that this will mean that many advisors will stop their pension activities, thus releasing portfolios. Zwitserleven has therefore already reinforced its direct approach to employers.

- Possible ban on distribution fee for investment funds.

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

- Increase in direct selling of simple products.

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

## **9.3 Product markets in 2012**

SNS REAAL mainly expects growth in the markets for (bank) savings, pensions and occupational disability insurance policies. The markets for investing, mortgages and property finance, and non-life and life insurance policies are not likely to show growth.

**Mortgage market remains under pressure**

**Continued growth of (bank) savings**

**Still no turnaround in property market**

**Market for life insurance policies shrinking**

**Non-life stable, growth in occupational disability insurance**

**Growth prospects in pension market**

### **9.3.1 Mortgage market remains under pressure**

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

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

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

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

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

### **9.3.2 Continued growth of (bank) savings**

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

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

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

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

### **9.3.3 Still no turnaround in property market**

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

Property Finance will be reducing its portfolio during the next years. SNS SME also expects its portfolio to be further reduced in 2012, due to the maturing of loans and possible sales of sub-portfolios. By reducing risk-weighted assets, SNS REAAL wants to increase its buffer capital and free up capital.

### **9.3.4 Market for life insurance policies shrinking**

The total market for individual life insurance policies is shrinking systematically due to the maturity of unit linked insurance policies that were concluded many years ago. The market has also suffered in recent years from the decline in sales of new mortgages, which often require additional insurance policies. We expect a continuation of this decline in 2012. Further growth is anticipated for modern capital growth products, such as bank savings. These are simple and inexpensive, and can be customised in combination with guarantee products and term life insurance policies. The market for immediate annuities, for insuring investment risk, will remain stable in 2012.

The profitability in the market for (partly) insured capital growth is largely determined by reputation, scale, and efficiency. As the second largest life insurer in the Netherlands, REAAL is well positioned to remain successful in this market.

In 2012, REAAL will mainly focus on:

- Bank savings products and traditional risk insurance, especially term insurance policies.
- Further reduction of costs for administration and management of the existing portfolio.
- Better use of SNS Bank and Regio Bank as distribution channels.

### **9.3.5 Non-life stable, growth in occupational disability insurance**

We expect stable development of the non-life insurance market in 2012. The shift to the direct channel in private non-life will continue. The market for occupational disability insurance continues to grow substantially due to the increasing number of self-employed entrepreneurs and the increasing risk awareness of entrepreneurs.

REAAL will mainly concentrate on:

- Further improvement of products and services in occupational disability and SME non-life insurance policies
- Increased selling of private and SME non-life insurance policies via SNS Bank.
- Supporting intermediaries so that they can provide cost-efficient advice and are properly enabled to retain customers who purchase REAAL products.

### **9.3.6 Growth prospects on pension market**

We expect a stable to slightly rising pension market in 2012, because companies are increasingly outsourcing their pensions for their employees to specialised pension insurers. Factors that will negatively affect the growth of contribution income in 2012 are increasing unemployment, increasing number of bankruptcies, and limited salary increases. Persistently low interest rates in 2012 can keep the obligations high and thus put pressure on the solvency and profitability of all parties in the pension market.

### **Cost discipline**

The harmonisation of laws and regulations for pension funds and pension insurers offers healthy growth prospects in the longer term. Moreover, there are still a number of parties operating in the market for pension insurers that do not have sufficient scale to be competitive. Larger pension insurers, such as Zwitserleven, can benefit from this. Scale alone is not decisive.

Cost discipline will be a significant strategic issue in the coming years. This means that the cost and risks for each product must be properly estimated and priced. The challenging market conditions, increasing market transparency, and new entrants to the market mean that it is very risky to assume that any losses on one product can be offset by large gains on another product. The cost of products must be properly related to the value that can be offered to customers.

### **Market entry PPIs**

A legal amendment enabled Pension Premium Institutions (PPIs) to enter the market in 2011. PPIs start with new systems and products and therefore have lower costs. The entry of the PPIs into the pension market creates a new dynamic and a downward pressure on margins of direct contribution products.

### Focus of Zwitserleven

Zwitserleven mainly concentrates on:

- Continuing to improve the cost structure with system and process standardisations and determination of the cost for each product.
- Distinctive, sustainable products and outstanding service.
- A commercial focus on SMEs, with director-major shareholders as a separate target group.

### 9.4 Ambitions

See Chapter 6 SWOT, strategic challenges and ambitions for [our financial and other ambitions](#). See Chapter 8, Developments in corporate social responsibility for [our CSR targets for 2012](#).

## 10 Financial outlines

### 10.1 Results 2011 compared to 2010

For the year 2011, SNS REAAL reported a net profit of € 87 million, compared to a net loss of € 260 million for the year 2010. The main factor behind this rebound was the sharply lower net loss at Property Finance which decreased by € 395 million.

Excluding Property Finance, the core activities of SNS REAAL posted a net profit of € 335 million compared to € 383 million for the year 2010.

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

At REAAL, net profit was significantly up driven by higher results on derivatives used for protecting solvency against declining interest rates. REAAL's underlying result (see [table 8](#)) was markedly up.

Zwitserleven posted a net loss due to a goodwill impairment of € 107 million net. Zwitserleven's underlying net result increased slightly due to an improved technical result.

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

For SNS REAAL as a whole, the net result was supported by a decline in operating expenses (see [table 7](#)).

### 10.2 Impact of one-off items

One-off items in 2011 amounted to € 128 million negative. Almost all occurred in the second half of the year.

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

At REAAL, the net impact of one-off items amounted to € 18 million positive recorded at REAAL Other. This consisted of a gain from the sale of REAAL Reassurantie SA, a small reinsurance subsidiary.

At Zwitserleven, the net impact of one-off items was € 107 million negative (€ 131 million pre-tax), consisting of a goodwill impairment. This related to the difficult circumstances in the pensions markets, as evidenced by the continued low interest rate environment, the longer life expectancy and the expected higher future capital requirements. In addition, the lower risk profile of the investment portfolio implies lower future investment income.

At Group activities, the net impact of one-off items in 2011 amounted to € 19 million negative, consisting of an impairment charge on the shareholding in Van Lanschot NV.

In 2010, the one off items of the group amounted to € 98 million negative. These consisted mainly of an impairment on the goodwill of Property Finance for an amount of € 68 million, a provision at Zwitserleven of € 18 million net related to investment based defined contribution pension contracts and an impairment of Zwitserleven's distribution network of € 15 million. Furthermore, at Group activities, impairments of strategic stakes amounted to € 25 million. A subsequent payment from AXA following the acquisition of AXA NL in 2007 resulted in a positive one-off result of € 28 million net, which was allocated to REAAL Life for an amount of € 20 million and to Zwitserleven for an amount of € 8 million.



**Table 6: Impact of one-off items on SNS REAAL's net result**

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Net result for the period at SNS Bank	262	212
Net result for the period at REAAL	257	206
Net result for the period at Zwitserleven	(91)	36
Net result for the period at Group activities	(93)	(71)
<b>Total net result for the period SNS REAAL Core activities</b>	<b>335</b>	<b>383</b>
Net result for the period at Property Finance	(248)	(643)
<b>Total net result for the period SNS REAAL</b>	<b>87</b>	<b>(260)</b>
Impact of one-off items at SNS Bank	(20)	--
Impact of one-off items at REAAL	18	20
Impact of one-off items at Zwitserleven	(107)	(25)
Impact of one-off items at Group activities	(19)	(25)
Impact of one-off items at Property Finance	--	(68)
<b>Total one-off items</b>	<b>(128)</b>	<b>(98)</b>
Adjusted net result for the period at Retail Bank	282	212
Adjusted net result for the period at REAAL	239	186
Adjusted net result for the period at Zwitserleven	16	61
Adjusted net result for the period at Group activities	(74)	(46)
<b>Total adjusted net result for the period SNS REAAL Core activities</b>	<b>463</b>	<b>413</b>
Adjusted net result for the period at Property Finance	(248)	(575)
<b>Total adjusted net result for the period SNS REAAL</b>	<b>215</b>	<b>(162)</b>

### 10.3 Operating expenses

Total operating expenses in 2011 declined by € 25 million (-2%). Total adjusted operating expenses decreased by € 40 million (-4%), despite the absence of a release of a provision for pension commitments which had impacted the 2010 cost base positively by € 15 million. This decrease was driven by lower expenses at SNS Bank (-€ 21 million), REAAL (-€ 31 million) and Property Finance (-€ 2 million). At Zwitserleven, adjusted operating expenses were € 6 million higher due to the absence of the abovementioned provision release. At Group activities, adjusted operating expenses increased by € 8 million, due mainly to projects such as Solvency II and Basel III, and adjustments in the cost allocation to business units.

**Table 7: Total operating expenses SNS REAAL**

<i>In € millions</i>	<b>2011</b>	<b>2010</b>	<b>Change</b>
Total operating expenses SNS REAAL	1,115	1,140	(2%)
<b>Adjustments</b>			
Restructuring charge at SNS Bank (SNS SME)	4	4	
SNS Retail Bank's share in savings guarantee scheme	(1)	--	
Expenses related to winding down portfolio Property Finance	56	36	
Restructuring charge at REAAL	--	9	
Restructuring charge at Group activities	5	--	
<b>Total adjustments</b>	<b>64</b>	<b>49</b>	
<b>Total adjusted operating expenses SNS REAAL</b>	<b>1,051</b>	<b>1,091</b>	<b>(4%)</b>

At SNS Retail Bank, the targeted annual cost savings from the new distribution strategy of € 35 million were realised by year-end 2011. At the Insurance activities, the integration of AXA NL was completed by the end of 2010 and the integration of Zwitserleven is underway. Total annual cost savings from the integration of AXA NL, DBV and Zwitserleven were originally targeted at € 95 million; € 119 million was already achieved by year-end 2011.

By the end of 2011, approximately € 160 million or 80% of our € 200 million annualised cost reduction target compared to the 2008 level has been realised. In 2011, the total number of internal employees decreased by 185 FTEs to 6,928 (-2.6%).

## 10.4 Underlying result Insurance activities

**Table 8: Underlying results Insurance activities**

In € millions	REAAL		Zwitserleven	
	2011	2010	2011	2010
Net result for the period	257	206	(91)	36
Realised gains, losses and impairments on equity	(18)	2	3	7
Realised gains, losses and impairments on fixed-income securities	48	55	11	35
Result on financial instruments	115	60	21	13
Changes in insurance contracts due to movements of fair value items	(33)	(18)	(60)	(21)
<b>Total net impact investment portfolio and hedges</b>	<b>112</b>	<b>99</b>	<b>(25)</b>	<b>34</b>
Impact of one-off items	18	20	(107)	(25)
<b>Net result excluding impact of one-off items and impact of investment portfolio and hedges</b>	<b>127</b>	<b>87</b>	<b>41</b>	<b>27</b>
Amortisation VOBA and other intangible assets	(76)	(96)	(14)	(25)
<b>Underlying results</b>	<b>203</b>	<b>183</b>	<b>55</b>	<b>52</b>

*Results on equity hedges are included in realised gains/losses on equity portfolio in stead of result on financial instruments.*

*Amortisation VOBA and other intangible assets are net of capitalised external and internal acquisition costs.*

*Changes in insurance contracts due to movements of fair value items includes releases/additions provisions for interest rate guarantees in unit-linked portfolio and separate accounts, the impact of shadow accounting and the impact of the hedging of inflation. Comparative figures of Zwitserleven are restated, reflecting the net impact of the hedging of inflation.*

### 10.4.1 REAAL

In 2011 REAAL's net profit rose by € 51 million to € 257 million.

The total net impact from realised gains, losses and impairments on the investment portfolio and hedges increased to € 112 million positive (2010: € 99 million) as higher gains on interest rate derivatives more than offset a lower contribution from realised gains, losses and impairments on the investment portfolio.

The impact of one-off items in 2011 of € 18 million was slightly lower than the € 20 million in 2010.

Amortisation of VOBA and other intangibles decreased as lower premium income and lower deferred acquisition costs of more recent life policies led to lower amortisation of acquisition costs.

Adjusted for the above items, REAAL's underlying result of € 203 million was € 20 million higher compared to 2010 driven by lower operating expenses. At REAAL Life, the underlying result was slightly up. At Non-Life it rose sharply, due to a release of provisions for unearned premiums and acquisition costs and a lower claims ratio in fire.

### 10.4.2 Zwitserleven

In 2011 Zwitserleven posted a net loss of € 91 million compared to a profit of € 36 million in 2010.

The total net impact from realised gains, losses and impairments on the investment portfolio and hedges was € 25 million negative (2010: € 34 million positive). The fall was mainly due to an addition to provisions for interest rate guarantees. The contribution from realised gains, losses and impairments on the investment portfolio was lower as well.

The impact of one-off items in 2011 of € 107 million negative was due to an impairment of goodwill. In 2010 the impact of one-off items had amounted to € 25 million negative.

Amortisation of VOBA and other intangibles decreased due to lower actuarial amortisation of VOBA and higher capitalised costs of software.

Adjusted for the above items, Zwitserleven's underlying result of € 55 million was slightly up compared to € 52 million for 2010. This was mainly due to higher technical results partly offset by higher operating expenses following the release of a provision for pension commitments in 2010.

#### **10.4.3 Group activities**

The net result from Group activities fell by € 22 million to € 93 million negative.

The impact of one-off items decreased from € 25 million negative in 2010 to € 19 million negative, with both years impacted by impairments on strategic stakes. Impairment charges on Van Lanschot NV amounted to € 19 million in 2011 compared to € 12 million in 2010.

Adjusted for the impact of one-off items the net result decreased by € 28 million. This was partly due to lower income from loans down-streamed to the Insurance activities, following the refinancing of subordinated debt at the insurance operating entity level. Furthermore, operating expenses increased by € 13 million gross, related to projects such as Solvency II and Basel III, redundancy costs and adjustments of costs allocated to business units.

#### **10.5 Earnings per share and dividend**

The net profit of € 87 million is attributable to ordinary shares for an amount of € 80 million and to the core Tier 1 capital securities issued to Stichting Beheer SNS REAAL for an amount of € 7 million. The latter reflects a partial reversal of the recognition of the loss absorption of capital securities for the year 2010.

Net earnings per ordinary share improved from € 0.83 negative in 2010 to positive € 0.28 in 2011.

## 11 Developments SNS Bank

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

**Table 9: SNS Bank**

*In € millions*

	2011	2010	Change
SNS Retail Bank	224	139	61%
SNS SME	38	73	(48%)
<b>SNS Bank</b>	<b>262</b>	<b>212</b>	<b>24%</b>

### 11.1 SNS Retail Bank

#### 11.1.1 Strategy

The clients of our retail bank brands are mainly private individuals in the Netherlands. The brands' products are savings, payments, mortgages and investments. The SNS Retail Bank brands complement each other, in line with SNS REAAL's All brands want to be close to their customers and help them to be financially independent. Each brand has its own way of doing this. A brief description of the different formulas:

- SNS Bank is the broad and accessible consumer brand for banking and insurance products with an emphasis on sales and information over the internet and telephone. It provides additional information and advice through its own shops, franchisers' shops and advisors.
- ASN Bank is the brand for sustainable savings, investment and payments and sells its products solely over the internet, telephone and by post.
- RegioBank is the bank formula for intermediaries not located in large cities, focusing on local and personal service.
- BLG Hypotheken is the specialist intermediary brand for mortgages.

SNS Retail Bank seeks to reinforce its distribution capabilities.

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

## 11.2 Financial developments SNS Retail Bank

**Table 10: SNS Retail Bank**

*In € millions*

	2011	2010	Change
<b>Result</b>			
Net interest income	601	566	6%
Net fee and commission income	79	85	(7%)
Investment income	45	47	(4%)
Result on financial instruments	128	9	1322%
Other operating income	2	1	100%
<b>Total income</b>	<b>855</b>	<b>708</b>	<b>21%</b>
Impairment charges to loans and advances	82	59	39%
Other impairment charges	31	4	675%
Total operating expenses	443	459	(3%)
<b>Total expenses</b>	<b>556</b>	<b>522</b>	<b>7%</b>
<b>Result before tax</b>	<b>299</b>	<b>186</b>	<b>61%</b>
Taxation	75	47	60%
Minority interests	--	--	0%
<b>Net result for the period</b>	<b>224</b>	<b>139</b>	<b>61%</b>
One-off items	(20)	--	0%
<b>Adjusted net result for the period</b>	<b>244</b>	<b>139</b>	<b>76%</b>
Efficiency ratio	51.8%	64.8%	
Impairment charges to loans and advances as a % of gross outstanding loans to customers	0.15%	0.11%	
Risk-weighted assets Basel I (80%)	12,001	11,555	4%
Savings	30,342	27,398	11%
Loans and advances to customers	54,351	52,030	4%

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

### 11.2.1 Results 2011 compared to 2010

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

Net profit increased by € 85 million to € 224 million (+61%). Adjusted for the one-off impairment charge on Greek government bonds of € 20 million net, net profit was up by € 105 million, due mainly to a gain of € 84 million net from the lower Tier 2 exchange transaction. Excluding the impairment on Greek bonds and the gain from the lower Tier 2 exchange transaction, net profit increased by € 21 million due to higher net interest income and lower operating expenses, compensating for considerably higher loan impairments.

## 11.3 Income

Net interest income increased markedly by € 35 million (+6%) driven by an improved funding profile. Net interest income in 2011 benefitted from the implementation of a harmonisation of funding costs methodology between SNS Retail Bank, SNS SME and Property Finance.

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

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

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

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

The result on financial instruments increased by € 119 million, driven fully by buy-back results on own funding paper. These results amounted to € 156 million, including a gain on the lower Tier 2 exchange transaction in the fourth quarter of € 112 million (€ 84 million net). In 2010, buy-back results had amounted to € 26 million. The higher buy-back results were partly offset by negative fair value movements of the DBV mortgage portfolio.

## 11.4 Expenses

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

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

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

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

## 11.5 Credit risk

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

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

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

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

## 11.6 Organisation and distribution

### 11.6.1 SNS Bank: innovation through simplicity

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

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

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

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

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

### **11.6.2 ASN Bank: continued growth**

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

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

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

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

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

### **11.6.3 RegioBank: personal contact and advice**

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

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

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



#### **11.6.4 Efficiency through central service centres**

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

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

#### **11.6.5 Awards**

Our retail bank brands again received many awards in areas such as customer service, customer friendliness, customer focus, best financial website, best online presence, online opening of savings accounts, most flexible current account, most flexible mortgage and best investment funds. See section [GRI 2.10](#) for an overview.

### **11.7 Commercial developments SNS Retail Bank**

#### **11.7.1 Savings and payments**

##### **Further market share growth**

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

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

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

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

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

## **Strong growth ASN Bank savings balances**

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

As from 1 January 2011, ASN Bank reduced its five regular savings accounts to a single simple and transparent product without restrictive conditions: [ASN Ideaalsparen](#). All customers who did not yet have an ASN Ideaalsparen account consequently received an account subject to better terms and conditions. In addition to this standard savings account, ASN Bank maintained its special young people savings account, its account for combined savings and investment, fixed-term deposit account and its life-course and salary savings account. In addition, the bank introduced the ASN Jongerenrekening, a current account for young people aged 12 to 25.

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

## **Customer retention high at RegioBank**

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

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

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

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

## **Continuing growth bank savings**

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

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

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

### **11.7.2 Mortgages**

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

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

The lower and middle segments of the residential property market, in which SNS Retail Bank is well represented, still had only to a limited extent exposure to price drops in 2011. The average amount of registered new mortgage loans extended by SNS Retail Bank in 2011 was € 220,000 compared to a nationwide average of € 267,000. In consultation with the Ministry of Finance, the Dutch banks agreed on stricter rules for taking out a mortgage. The mortgage may not exceed the maximum of 104% of the value of the property plus transfer tax. For interest-only mortgages this upper limit is set at 50%. In addition there are stricter income composition standards that determine the maximum amount. In this way banks are limiting the risks on new mortgages. Consumers themselves are also becoming more cautious. A growing number of home owners create additional wealth in order to repay their mortgage loans.

#### **Sharing ideas, also with payment difficulties**

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

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

#### **More sales, less production**

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

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

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

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

### **Most mortgages through RegioBank and BLG Hypotheken**

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

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

## **11.7.3 Investments**

### **Limited upturn in investor sentiment**

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

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

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

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

## **Sustainable names for ASN Bank investment funds**

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

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

ASN Bank acquired a majority interest in ASN Asset Management (formerly NBC Duurzaam Vermogensbeheer). ASN Asset Management composes portfolios on the basis of ASN Bank's special investment criteria, so that customers can rest assured that their capital is only invested in entities, countries and projects that take people and the environment into account. ASN Asset Management is intended for private individuals, foundations, associations and social institutions with investable assets of € 200,000 or more.

## **Profit contributions SNS Securities**

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

SNS Securities provides securities services (shares, bonds and derivatives ) to national and international professional investors. In addition, it supports SME and larger companies in private and public capital market transactions and offers to high-net-worth private investor's investment management and securities services. The securities research conducted by SNS Securities mainly focuses on Dutch small-cap and mid-cap funds. The macroeconomic research is also used for SNS REAAL's risk management.

## **11.8 SNS SME**

### **11.8.1 Strategy**

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

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

## 11.9 Financial developments SNS SME

**Table 11: SNS SME**

*In € millions*

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

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

### 11.9.1 Result 2011 compared to 2010

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

### 11.10 Income

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

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

## 11.11 Expenses

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

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

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

## 11.12 Development portfolio

**Table 12: Breakdown SNS SME Portfolio**

*In € millions*

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

*Portfolios based on former business unit structure*

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

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

### **11.13 Commercial developments SNS SME**

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



## 12 Developments Property Finance

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

### 12.1 Financial developments at Property Finance

**Table 13: Property Finance**

*In € millions*

	2011	2010	Change
<b>Result</b>			
Net interest income	53	137	(61%)
Investment income	--	--	0%
Result on financial instruments	(30)	(29)	(3%)
Result assets and liabilities held for sale	(4)	--	0%
Other operating income	(9)	(9)	0%
<b>Total income</b>	<b>10</b>	<b>99</b>	<b>(90%)</b>
Total operating expenses	82	64	28%
Impairment charges	251	784	(68%)
Impairment charges goodwill	--	68	(100%)
<b>Total expenses</b>	<b>333</b>	<b>916</b>	<b>(64%)</b>
<b>Result before tax</b>	<b>(323)</b>	<b>(817)</b>	<b>60%</b>
Taxation	(75)	(174)	57%
<b>Net result for the period</b>	<b>(248)</b>	<b>(643)</b>	<b>61%</b>
One-off items	--	(68)	100%
<b>Adjusted net result for the period</b>	<b>(248)</b>	<b>(575)</b>	<b>57%</b>
Impairment charges as a % of gross outstandings to customers	3.87%	11.10%	
Risk-weighted assets Basel I (80%)	4,418	5,261	(16%)
Loans and advances to customers	4,784	5,784	(17%)
Property projects	505	456	11%
Assets held for sale	--	94	(100%)

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

### 12.2 Results 2011 compared to 2010

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

### 12.3 Income

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

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

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

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

## **12.4 Expenses**

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

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

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

## **12.5 Portfolio development**

Dutch and international real estate markets experienced another tough year. Circumstances in international real estate markets remained difficult, keeping real estate values under pressure. Real estate markets in the Netherlands weakened in 2011 as well, as reflected in high vacancy ratios in the retail and office sectors and a pressure on rent levels. In general, the availability of credit for real estate financing declined. This resulted in a level of impairments that remained high. The impairments reflect the changes in the expected cash flows of the underlying assets. Expected cash flows are driven by projections, based on defined exit plans, of rental income, price per square metre, construction costs, interest costs and exit values as reflected in reports provided by independent professional appraisers.

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

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

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

## **12.6 Total portfolio**

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

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

Compared to year-end 2010, the loan provision decreased by € 133 million to € 595 million due to the reduction of the loan portfolio and the foreclosure and reclassification of non-performing loans to property projects. The coverage ratio decreased from 41% to 34%. In the Netherlands and North America, the coverage ratios remained stable at 29% and 54% respectively. The coverage ratio in Europe declined from 49% to 38%, due mainly to new inflow of non-performing loans in Germany.

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

**Table 14: Breakdown Property Finance portfolio**
*In € millions*

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

## **12.7 Dutch portfolio**

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

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

## **12.8 International portfolio**

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

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

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

## 13 Developments REAAL

**Table 15: Net result REAAL**

*In € millions*

	2011	2010	Change
REAAL Life	223	208	7%
REAAL Non-life	33	16	106%
REAAL Other	1	(18)	106%
<b>REAAL</b>	<b>257</b>	<b>206</b>	<b>25%</b>

### 13.1 Strategy

REAAL's vision is to be the most service-oriented, lean insurance company offering excellent value for money. Optimally serving our customers, that's what it's all about. To achieve this, we have set up a variety of programmes, such as Darwin, Putting the client's interests first and Lean. Through these programmes, we aim to change processes and systems as well as behaviour towards the client. The introduction of REAAL Customer Service is an important step in this direction. REAAL searched for a new advertising agency 2011. We attach great importance to creating a 'warmer' brand image for REAAL through advertising and to engaging more closely with the client.

REAAL produces and distributes individual life insurance, non-life insurance and disability insurance policies. Besides this REAAL offers its clients banking products purchased from SNS Bank or from third parties. REAAL aims to provide transparent and accessible products, to intensify its contacts with customers and to improve its services. REAAL aims to be efficient and competitive by keeping its costs low and to promote sales through good collaboration within SNS REAAL. In this manner we show putting clients' interests first, in line with the Dutch Banking Code and Insurance Code recommendations.

Indirect distribution mainly takes place through intermediaries. Mortgage distribution chains, service providers, banks and underwriting agents also play a major role. REAAL aims to increasingly use SNS Bank's direct channel. It is essential to continually respond alertly and creatively to new opportunities in each of the distribution channels.

Direct distribution is focused on advanced internet marketing, monitoring consumer behaviour, database management, information management and controlling costs per order. Zelf.nl and Proteq offer a complete range of individual non-life insurance products, including the pet accident and health insurance by Dier en Zorg, while also offering REAAL savings products.

REAAL aims to maintain its strong market position in individual life insurance and to grow in the SME non-life market and disability insurance.

### 13.2 Organisation and commercial developments

#### 13.2.1 Life insurance product range simple and comprehensive

REAAL aims to provide transparent and accessible products and a simple product range. REAAL's term insurance, bank savings products and mortgage products complement each other well. REAAL's bank savings products are life annuity products for building and distributing capital and for postponing capital distribution. Developed jointly with SNS Bank, these products have low costs, low risks and simple terms and conditions. They are a good follow-up solution for many customers in case their unit linked insurance expires. Sales were up 29% in 2011. The simplification and adjustment of term insurance rates in the third quarter of 2010 contributed significantly to this.

Bank savings products do not provide death risk cover. That is why REAAL's term insurance products are a sound addition to the asset growth products, particularly with regard to mortgage redemption. In a survey conducted by the Dutch Consumers' Association in August 2011 comparing a large number of term insurance products, REAAL took fourth position on account of the good price/quality ratio. REAAL is one of the major providers of these products in the Netherlands.

REAAL sells a large part of its risk and asset growth products in combination with mortgages, which are purchased from third parties. REAAL distributed mortgage loans with a total value of approximately € 1.9 billion, approximately the same as in 2010. Purchasing mortgages became more difficult during the year due to the situation on the capital market. One of REAAL's suppliers of mortgages, BNP Paribas, decided to withdraw from the Dutch market.

### **13.2.2 Unit linked insurance**

In 2011 REAAL started executing the compensation scheme for clients who had purchased unit linked insurance in the past. The final agreement with the parties involved included a fund for clients in distressed situations. The compensation scheme applies to clients of REAAL, SNS Bank, Zwitserleven and all their legal predecessors. Over 1 million of individual unit linked insurance policies are sold, an estimated 40% of which are eligible for compensation.

Late 2011, REAAL decided to adjust the compensation scheme. In the original compensation scheme the amount of compensation would be recalculated each year and added to the value of the insurance policy only on the expiry date. Instead, REAAL now deposits the accrued compensation directly into the insurance policy. For the period thereafter until the expiry date of your insurance, we will add a constant amount every year.

And REAAL wants to do more; REAAL wants to help and satisfy clients with unit linked insurances. Behind the scenes we are working for transparency, online information, alternative products, a telephone advice team and financial advisors. REAAL offers clients insight in the current product and the possibilities and alternatives. REAAL does not charge any surrender costs if customers want to switch to another product.

On its website, REAAL offers an interactive theme page with all information regarding the substance and execution of the unit linked insurance compensation scheme. Here clients can find tips about the best ways to proceed with current unit linked insurance policies and what they can expect from REAAL for further help. REAAL improved the returns on many current unit linked insurance policies by switching to newer and cheaper investment funds.

### **13.2.3 Disability insurance**

Occupational disability is a growth segment in the non-life insurance market. At the end of 2010, REAAL introduced considerable improvements to the product conditions and service it provides to customers and intermediaries. Partly as a result of this, new sales rose by 44%, giving REAAL a market share in 2011 of approximately 6.8% (based on figures up to and including the third quarter).

In 2011, REAAL again simplified a number of terms and conditions. With regard to applications, REAAL introduced tele-acceptance, making a medical check-up often unnecessary. The customer answers a number of questions during a telephone conversation of about 30 minutes, after which the customer receives a conversation report and is informed whether a medical check-up is necessary. Introducing this procedure, REAAL was the first insurer in the Netherlands to abandon standard criteria for medical check-ups, such as the insured amount, age or occupation. By doing so, REAAL aims to increase the accessibility and attractiveness of its disability insurance products, also for self-employed persons.

Thanks to an attractive ratio between conditions and premiums, REAAL received top rankings on various disability insurance comparison sites. REAAL scored well on aspects including attention to prevention, reaction time, acceptance by telephone and a no-claims arrangement allowing for additional discounts.

REAAL was nominated for a Gouden Schild award for its prevention programme REAAL Lijfwacht, introduced in 2010. REAAL Lijfwacht comprises a number of occupational experts who give tips to disability insurance policyholders about how to prevent disability. If disability could not be prevented, the experts examine how the policyholder can get back to work as quickly as possible. The Gouden Schild is an award for financial institutions with innovative ideas.

### **13.2.4 Customer contact and service**

#### **Customer engagement**

REAAL organised a large number of interviews and sessions with clients and employees on the theme of customer experience. During 2011, we held eight 'Voice of the Customer' sessions led by a panel chairman in which dozens of clients talked about what they think of insurance companies' customer service, and REAAL in particular. Managers and employees also attended these client sessions. Topics included the customer promises formulated on the basis of a comprehensive qualitative and quantitative survey in 2010. Employee awareness was the primary goal. The results were further incorporated within REAAL through line management, daily kick-offs and other meetings.

The follow-up to this in 2011 comprised the 'House of Commons' sessions in which employees entered into debate with clients on assertions and questions. This gave a cross section of REAAL employees great insight in the extent to which clients look around before they consult their intermediary on products or brands. REAAL puts the client's interests first. To focus even more on moments that matter in our clients' perception, we started the 'customer journey' approach in November.

#### **Employee-manager dialogue**

Additionally, we started dialogue sessions in the fourth quarter of 2011. Each session, REAAL's management team entered into discussion with some thirty REAAL employees on a great variety of topics (direction, strategy, current and future situation and any other topics employees wished to talk about). These sessions reduce the degree of distance between management and employees. We held ten sessions in 2011 and will continue to hold them in 2012.

#### **Customer-Oriented Insurance Quality Mark**

REAAL retained the Customer-Oriented Insurance Quality Mark (Keurmerk Klantgericht Verzekeren) despite the more comprehensive assessment, which now also includes the assessment of published follow-up periods, results in bodily injury claims processing, performance and publication of customer satisfaction surveys and internal product quality audits. Upon the introduction in 2010, REAAL was part of the first group being granted this quality mark. The Customer-Oriented Insurance Quality Mark is based on fifteen standards, divided into five themes: understandable and clear information, accurate and expedient service, good telephone access, customer satisfaction surveys, and a company quality assurance policy and quality management.

#### **Service improvements and customer satisfaction**

REAAL introduced various service improvements in respect of non-life insurance. Incoming customer telephone calls were better regulated, so that customers received more attention without other activities being disrupted. When accepting a quote, customers can immediately receive temporary cover for their commercial non-life insurance, and in the event of a growing number of claim events, REAAL now informs its customers by e-mail instead of by letter. The processing of applications and cancellations of individual non-life insurance policies was accelerated.

Overall customer satisfaction at REAAL, based on the [NPS measurement method](#), rose from -58% at the beginning of 2011 to -44% at the end of 2011. The improvements to the service provided to customers and intermediaries were rewarded with a number 3 ranking in the annual non-life performance survey, a survey in which intermediaries rate insurers for their service in the area of non-life insurance.



### **13.2.5 Transparent rates and conditions, appropriate advice**

REAAL dispensed with the so-called 'en bloc clause', the clause stipulating the right to change premium rates or conditions for term life insurance policies. As from the third quarter of 2011, REAAL thus offers customers the certainty that a contract's price and terms and conditions will not be amended during the contractual term. This clause, which was previously included in the terms and conditions, did not give customers the certainty that the terms and conditions and/or price would remain unchanged.

In recent years, the market for consultancy products became a lot more transparent as bonus fees for intermediaries were cancelled and information about products' cost prices became more transparent. In 2013, the commission fees for complex products will also be banned. Intermediaries will then have to agree a rate with their customers in respect of the advice they provide. This further increases price transparency, which forces intermediaries to prove their added value even more clearly. REAAL helps intermediaries particularly by coaching them on attracting customers and making better use of regional market data. A well-considered advice is in the interest of consumers, intermediaries and REAAL. We take our leave of intermediaries who do not meet the statutory and internal REAAL requirements.

### **13.2.6 Direct channel gaining ground**

Direct sales comprise 28% of REAAL's total non-life sales. In the direct channel, REAAL sells its non-life products through the brands Proteq, Zelf.nl, Route Mobiel and Proteq Dier & Zorg. Sales showed a limited increase and the total portfolio grew by 12% to € 69 million. In part on account of advanced online marketing, the growth did not result in an increase in operating costs. Proteq Dier & Zorg introduced 'direct payment' for the veterinary practice, as a result of which customers no longer need to advance the invoices. Route Mobiel added motor and travel insurance to its product range. At the end of 2011, Proteq introduced new motor insurance rates based on the latest insights from claims and online statistics.

In December 2010, the Dutch Central Bank (DNB) voiced its concerns about the premium rates for motor third party liability insurance. According to DNB, many market parties offered low rates without taking adequate measures. This investigation had a positive impact on the premium rates in the market, leading to better results.

### **13.2.7 Customer-driven and efficient organisation**

REAAL introduced many integrations, standardisations and simplifications to its organisation in recent years. Cutting costs continues to be necessary in order to adjust to changing market conditions. The key principle is that efficiency should go hand in hand with customer focus. Key measures in 2011 included the following:

- Further separation of the closed life portfolio and the sales activities for new policies.
- More central standards for the IT infrastructures of the Banking and Insurance activities, which contributed to higher individual non-life insurance sales through SNS Bank.
- REAAL's website was adapted to SNS Bank's in many aspects, enhancing its user friendliness for REAAL customers of banking products.
- More efficiency and customer focus at the sales and customer administrations, including by means of better consultation structures, better allocation of responsibilities, better work scheduling and a focus on performance indicators.
- Streamlining of work processes at REAAL Non-Life, in which respect superfluous activities were eliminated and customer-related aspects were improved.

### 13.2.8 Responsible investment of premiums received

REAAL handles the money it receives from its customers for insurance premiums in a responsible manner. This was revealed by a survey into responsible investment by insurers conducted by VBDO, the Association of Investors for Sustainable Development, at the end of 2011. REAAL took top position again among the 30 Dutch insurers that were assessed during the survey.

## 13.3 Financial developments at REAAL Life

**Table 16: REAAL Life**

*In € millions*

	2011	2010	Change
<b>Result</b>			
Regular life premiums	1,306	1,364	(4%)
Single life premiums	381	470	(19%)
<b>Premium income</b>	<b>1,687</b>	<b>1,834</b>	<b>(8%)</b>
Reinsurance premiums	187	82	128%
<b>Net premium income</b>	<b>1,500</b>	<b>1,752</b>	<b>(14%)</b>
Net fee and commission income	49	56	(13%)
Share in result of associates	(2)	4	(150%)
Investment income	1,011	1,017	(1%)
Investment income for account of policyholders	(241)	364	(166%)
Result on financial instruments	155	78	99%
Other operating income	3	28	900%
Income invested collateral securities lending	2	1	
<b>Total income</b>	<b>2,477</b>	<b>3,300</b>	<b>(25%)</b>
Technical claims and benefits	1,697	2,619	(35%)
Acquisition costs for insurance operations	89	124	(28%)
Impairment charges	35	(4)	975%
Total operating expenses	155	188	(18%)
Other interest expenses	210	109	93%
<b>Total expenses</b>	<b>2,186</b>	<b>3,036</b>	<b>(28%)</b>
<b>Result before tax</b>	<b>291</b>	<b>264</b>	<b>10%</b>
Taxation	67	55	22%
Minority interest	1	1	0%
<b>Net result for the period</b>	<b>223</b>	<b>208</b>	<b>7%</b>
One-off items	--	20	(100%)
<b>Adjusted net result for the period</b>	<b>223</b>	<b>188</b>	<b>19%</b>
Operating cost/premium ratio	8.0%	8.8%	
New annual premium equivalent Life	91	68	34%
Value New Business	22	15	47%

### 13.3.1 Result 2011 compared to 2010

REAAL Life's net profit was up markedly compared to 2010 and adjusted for one-off items in 2010, net profit increased significantly, driven by higher results on derivatives used for protecting solvency against declining interest rates and lower operating expenses.

The underlying net result of REAAL Life increased slightly to € 185 million from € 180 million in 2010. This increase was driven by lower operating expenses, partly compensated by a lower direct investment income.

**Table 17: Underlying result REAAL Life**

<i>In € millions</i>	<b>2011</b>	<b>2010</b>	<b>Change</b>
Net result for the period	223	208	7%
Realised gains, losses and impairments on equity	(18)	3	(700%)
Realised gains, losses and impairments on fixed-income securities	44	54	(19%)
Result on financial instruments	115	61	89%
Changes in insurance contracts due to movements of fair value items	(33)	(18)	(83%)
<b>Total net impact investment portfolio and hedges</b>	<b>108</b>	<b>100</b>	<b>8%</b>
Impact of one-off items	--	20	(100%)
<b>Net result excluding impact of one-off items and impact of investment portfolio and hedges</b>	<b>115</b>	<b>88</b>	<b>31%</b>
Amortisation VOBA and other intangible assets	(70)	(92)	24%
<b>Underlying result REAAL Life</b>	<b>185</b>	<b>180</b>	<b>3%</b>

*Results on equity hedges are included in realised gains/losses on equity portfolio in stead of result on financial instruments*

*Net of capitalised external and internal acquisition costs*

*Includes changes in provision for interest rate guarantees in unit-linked portfolio and separate accounts and the impact of shadow accounting.*

In 2011, realised gains, losses and impairments on equities were € 18 million negative compared to € 3 million positive in 2010. This decrease was due to higher impairments partly compensated by higher unrealised gains on put options, both driven by lower equity markets. Realised gains, losses and impairments on the fixed-income portfolio had a positive net impact of € 44 million compared to € 54 million in 2010.

Decreasing interest rates in 2011 led to substantial unrealised gains on interest rate derivatives. As a consequence, the result on financial instruments was € 115 million positive. In 2010, declining interest rates had led to a net positive result on financial instruments of € 61 million, including a realised gain on interest rate swaps of € 41 million.

Changes in insurance contracts due to movements of fair value items amounted to € 33 million negative, mainly consisting of the net impact of shadow accounting. In 2010, the net impact of shadow accounting amounted to € 16 million negative.

Amortisation of VOBA and other intangibles decreased as lower premium income and lower deferred acquisition costs of more recent life policies led to lower amortisation of acquisition costs.

## 13.4 Income

Regular life premiums of REAAL Life showed a modest decline. In a shrinking Dutch market, the market share of individual new regular premiums increased to 21.9% (2010: 13.7%). The Dutch market is shifting away from savings insurance products towards mortality coverage insurance, in which REAAL has strengthened its position. Single life premiums decreased strongly and market share in single life premiums fell from 9.8% in 2010 to 8.8% due to the continued focus on protecting profitability. However, new annual premium equivalent (NAPE) rose to € 91 million.

REAAL Life continued to focus on growth in the most value creating segments, term life and offset mortgage products, where Value of New Business (VNB) margins are sound. The focus on the product mix together with the impact of cost control measures led to a sharp improvement of the VNB from € 15 million in 2010 to € 22 million.

Reinsurance premiums paid increased due to the new traditional life reinsurance transaction entered into in the first quarter of 2011. This reinsurance transaction also led to decreased technical claims and benefits, decreased operating and acquisition costs and increased other interest expenses. It had a net negative effect on earnings of € 7 million in 2011 and impacted solvency positively by 18%-points by releasing approximately € 225 million of capital.

**Table 18: Breakdown Investment income for own account REAAL Life**

<i>Gross amounts in € millions</i>	<b>2011</b>	<b>2010</b>	<b>Change</b>
Total investment income	1,011	1,017	(1%)
Realised gains/losses on equities	11	15	27%
Realised gains/losses on fixed income securities	59	52	13%
Other realised gains/losses	1	(1)	(200%)
<b>Realised gains/losses</b>	<b>71</b>	<b>66</b>	<b>8%</b>
Unrealised gains/losses	(16)	(10)	(60%)
<b>Direct investment income</b>	<b>956</b>	<b>961</b>	<b>(1%)</b>

Both total and direct investment income for own account were only marginally lower compared to 2010. De-risking measures (reducing exposure to financials and peripheral European sovereigns) led to a lower direct investment income. This was compensated by higher results on private loans linked to savings accounts, as part of direct investment income, which are offset by higher technical charges. Furthermore, higher realised gains compensated the increased unrealised losses.

Investment income for risk of policyholders was sharply lower due mainly to lower equity markets in 2011.

Other operating income in 2010 had consisted mainly of a subsequent payment from AXA following the acquisition of AXA NL in 2007.

## 13.5 Expenses

Technical claims and benefits declined, driven by lower charges for account of policyholders corresponding to the decreased investment income for risk of policyholders and by the decrease in single life premiums. Furthermore, the new reinsurance transaction led to lower technical claims and benefits.

Acquisition costs for insurance operations declined due to lower amortisation of acquisition costs and due to the new reinsurance transaction.

**Table 19: Breakdown impairment charges REAAL Life**

<i>Gross amounts in € millions</i>	<b>2011</b>	<b>2010</b>	<b>Change</b>
Impairment charges on equities	38	7	443%
Impairment charges in fixed income securities	--	(20)	(100%)
Other impairment charges	(3)	9	(133%)
<b>Total impairment charges</b>	<b>35</b>	<b>(4)</b>	<b>(975%)</b>

At REAAL Life, total impairment charges were € 35 million due to impairments on equities. In 2010, reversals of earlier impairments in the fixed-income portfolio had compensated for the impairments on equities and other assets.

Operating costs were down significantly due to cost reduction measures. As a result, the operating cost/premium ratio improved from 8.8% to 8.0%. The reinsurance transaction led to a decrease in operating costs of € 8 million, which is not taken into account in the cost/premium ratio.

Other interest expenses increased by € 111 million, of which € 106 million was due to the reinsurance transaction. In addition to other abovementioned benefits, this was offset by lower technical claims and benefits.

## 13.6 Financial developments at REAAL Non-Life

**Table 20: REAAL Non-Life**

*In € millions*

	2011	2010	Change
<b>Result</b>			
Non-Life premiums	848	809	5%
Reinsurance premiums	54	67	(19%)
<b>Net premium income</b>	<b>794</b>	<b>742</b>	<b>7%</b>
Net fee and commission income	1	2	(50%)
Share in result of associates	1	2	(50%)
Investment income	66	62	6%
Other operating income	--	--	0%
<b>Total income</b>	<b>862</b>	<b>808</b>	<b>7%</b>
Technical claims and benefits	490	476	3%
Acquisition costs for insurance operations	192	178	8%
Impairment charges	--	--	0%
Total operating expenses	128	120	7%
Other interest expenses	9	13	(31%)
Other expenses	--	--	0%
<b>Total expenses</b>	<b>819</b>	<b>787</b>	<b>4%</b>
Result before tax	43	21	105%
Taxation	10	5	100%
<b>Net result for the period</b>	<b>33</b>	<b>16</b>	<b>106%</b>
One-off items	--	--	0%
<b>Adjusted net result for the period</b>	<b>33</b>	<b>16</b>	<b>106%</b>
Combined ratio Non-Life operations	96.0%	98.5%	
Claims ratio	57.8%	60.8%	

### 13.6.1 Adjusted for various effects

REAAL Non-Life posted a sharply higher net profit due to lower claims in fire and a release of provisions for unearned premiums and acquisition costs held for authorised agents of € 12 million net. The underlying net profit of REAAL Non-Life increased for the same reasons.

**Table 21: Underlying result REAAL Non-Life**

*In € millions*

	2011	2010
Net result for the period	33	16
Realised gains, losses and impairments on equity	--	(2)
Realised gains, losses and impairments on fixed-income securities	3	1
Result on financial instruments	--	--
<b>Total net impact investment portfolio and hedges</b>	<b>3</b>	<b>(1)</b>
Impact of one-off items	--	--
<b>Net result excluding impact of one-off items and impact of investment portfolio and hedges</b>	<b>30</b>	<b>17</b>
Amortisation intangible assets	(6)	(1)
<b>Underlying result REAAL Non-Life</b>	<b>36</b>	<b>18</b>

*Results on equity hedges are included in realised gains/losses on equity portfolio in stead of result on financial instruments*

In 2011, realised gains, losses and impairments on fixed-income securities had a small positive impact on investment income, while in 2010 losses and impairments on equities had a small negative impact.

Amortisation of intangible assets increased to € 6 million due mainly to higher amortisation of the customer's portfolio.

## 13.7 Income

In a stable non-life market, REAAL Non-Life's premium income increased slightly in almost all business lines. Disability insurance premiums increased modestly to € 105 million (+3%), 12% of total Non-Life premiums. Value of New Business of Disability increased to € 14 million compared to € 4 million in 2010.

Furthermore, premium income was higher due to the release of the provision for premiums for authorised agents. In 2011 SNS REAAL changed the calculation of the provision for these unearned underwriting premiums to a modified, more accurate method, taking into account the fact that in recent years policyholders switched more and more to payments on a monthly or quarterly basis instead of annual payments, and authorised agents provide more timely information, enabling more accurate estimates. Due to the change, an amount of € 16 million was released to the pre-tax result in 2011 (€ 24 million in premium income partly offset by € 8 million in acquisition costs).

Reinsurance premiums decreased due to lower reinstatement premiums as a result of fewer large claims in 2011. Furthermore, positive run-off results in 2010 led to a decreased ability to claim from reinsurers and therefore to lower reinsurance premiums.

**Table 22: Breakdown Investment income REAAL Non-Life**

*Gross amounts in € millions*

	2011	2010
Total investment income	66	62
Realised gains/ losses on equities	--	(3)
Realised gains/losses on fixed income securities	5	2
<b>Realised gains</b>	<b>5</b>	<b>(1)</b>
Unrealised gains/losses	--	--
<b>Direct investment income</b>	<b>61</b>	<b>63</b>

Total investment income showed a limited increase compared to 2010, due to higher realised gains on fixed-income securities and the absence of realised losses on equities which impacted the 2010 result. Direct investment income decreased only modestly.

## 13.8 Expenses

Technical claims were down due to lower claims in fire, partly offset by higher claims in motor. The lower claims resulted in an improvement of the overall claims ratio to 57.8%.

Acquisition costs were markedly up compared to 2010 mainly due to the € 8 million release of accrued acquisition costs as part of the release of provision for unearned premiums and acquisition costs. The acquisition ratio was almost stable (24.2% compared to 23.7% in 2010). Operating expenses were up due mainly to higher amortisation of capitalised costs of the customers' portfolio. However the operating cost/premium ratio of 14.0% was in line with 2010 due to the higher premium income. The lower combined ratio of 96.0% was due to the lower claims ratio.

## 13.9 REAAL Other

The Other activities of REAAL comprise the activities not directly managed by REAAL Life or REAAL Non-Life and holding activities. The net result of € 1 million was € 19 million up compared to 2010, due to the sale of the subsidiary REAAL Reassurantie SA, REAAL's reinsurance company. The result achieved on the sale amounted to € 18 million net and is part of the capital release programme of SNS REAAL. The underlying net result of REAAL Other, excluding the result of the sale, amounted to € 18 million negative and was in line with the € 15 million negative result in 2010.

As at 1 January 2011, € 2.2 billion of securitised retail DBV mortgages were transferred from REAAL Other to SNS Retail Bank. This transfer did not have a material impact on the net result of REAAL Other.

## **14 Developments Zwitserleven**

Underlying net result was higher due to improved technical results. Net result fell from a € 36 million profit to a € 91 million loss, mainly due to the net impairment on goodwill of € 107 million and a provision for guarantee products as a result of lower interest rates. Premium income increased by 7% due to strong market presence.

### **14.1 Strategy**

Zwitserleven wants to be the leading pension insurer in the Netherlands. Its clients are director-shareholders, SME companies and large companies. In this respect, Zwitserleven uses market teams that focus on specific market segments.

#### **14.1.1 Sales and brand experience**

Sales and distribution are effected through specialised intermediaries and professional consultants. Zwitserleven aims for profitable growth on the basis of high-quality products, excellent service and close collaboration with intermediaries and professional advisors. The brand experience of 'het Zwitserleven Gevoel' is substantiated and sustained by means of good communication with intermediaries, professional advisors, employers and employees, and excellent service.

#### **14.1.2 Sustainability and satisfaction**

Zwitserleven wants to invest its customers' pension money only in companies who pass a sustainability test based on ESG criteria (environmental, social and governance). Client and employee satisfaction are important long-term objectives. Zwitserleven considers the professionalism and commitment of its employees one of the cornerstones of the company's success. Zwitserleven wants to optimise the organisation's efficiency and effectiveness by teaming up with other SNS REAAL business units.

## 14.2 Financial developments

**Table 23: Zwitserleven**

*In € millions*

	2011	2010	Mutation
<b>Result</b>			
Regular life premiums	820	776	6%
Single life premiums	341	309	10%
Premium income	1,161	1,085	7%
Reinsurance premiums	5	5	0%
<b>Net premium income</b>	<b>1,156</b>	<b>1,080</b>	<b>7%</b>
Net fee and commission income	14	6	133%
Investment income	359	375	(4%)
Investment income for account of policyholders	202	451	(55%)
Result on financial instruments	28	18	56%
Income invested collateral securities lending	2	2	0%
Other operating income	--	9	
<b>Total income</b>	<b>1,761</b>	<b>1,941</b>	<b>(9%)</b>
Technical claims and benefits	1,527	1,680	(9%)
Acquisition costs for insurance operations	26	27	(4%)
Impairment charges	145	32	353%
Total operating expenses	137	131	5%
Income invested collateral securities lending	1	1	0%
Other interest expenses	37	25	48%
<b>Total expenses</b>	<b>1,873</b>	<b>1,896</b>	<b>(1%)</b>
Result before tax	(112)	45	(349%)
Taxation	(21)	9	(333%)
<b>Net result for the period</b>	<b>(91)</b>	<b>36</b>	<b>(353%)</b>
One-off items	(107)	(25)	(328%)
<b>Adjusted net result for the period</b>	<b>16</b>	<b>61</b>	<b>(74%)</b>
Operating cost/premium ratio	14.9%	15.4%	
New annual premium equivalent Life	258	249	4%
Value New Business	8	13	(38%)

### 14.2.1 Result 2011 compared to 2010

Zwitserleven posted a significant net loss due to a goodwill impairment of € 107 million net (€ 131 million pre-tax). This related to the difficult circumstances in the pensions market, as evidenced by the continued low interest rate environment, the longer life expectancy and the expected higher future capital requirements. In addition, the lower risk profile of the investment portfolio implies lower future investment income.

Adjusted for one-off items, Zwitserleven's net result also decreased sharply due to additions to provisions for interest rate guarantees and lower realised gains on the fixed-income portfolio.

However, mainly due to higher technical results on mortality, the underlying net result increased with 6%, even though the release of a provision for pension commitments had impacted the underlying result positively in 2010.



**Table 24: Underlying result Zwitserleven**

<i>In € millions</i>	2011	2010	Change
Net result for the period	(91)	36	(353%)
Realised gains, losses and impairments on equity	3	7	(57%)
Realised gains, losses and impairments on fixed-income securities	11	35	(69%)
Result on financial instruments	21	13	62%
Changes in Insurance contracts due to movements of fair value items	(60)	(21)	(186%)
<b>Total net impact investment portfolio and hedges</b>	<b>(25)</b>	<b>34</b>	<b>(174%)</b>
Impact of one-off items	(107)	(25)	(328%)
<b>Net result excluding impact of one-off items and impact of investment portfolio and hedges</b>	<b>41</b>	<b>27</b>	<b>52%</b>
Amortisation VOBA and other intangible assets	(14)	(25)	44%
<b>Underlying result Zwitserleven</b>	<b>55</b>	<b>52</b>	<b>6%</b>

*Results on equity hedges are included in realised gains/losses on equity portfolio in stead of result on financial instruments*

*Net of capitalised external and internal acquisition costs*

*Including changes in provisions for interest rate guarantees in unit-linked portfolio and separate accounts, the impact of shadow accounting and the impact of the hedging of inflation. Comparative figures of Zwitserleven are restated, reflecting the net impact of hedging inflating.*

In 2011, realised gains, losses and impairments on equities were limited to € 3 million positive compared to € 7 million positive for 2010. Realised gains, losses and impairments on the fixed-income portfolio decreased to € 11 million positive compared to € 35 million positive for 2010.

The result on financial instruments of € 21 million positive increased by € 8 million compared to 2010. The increase was mainly due to higher results on derivatives related to interest rate guarantees and higher results on inflation swaps, largely offset by sharply lower unrealised gains on interest rate derivatives. The result on inflation swaps was partly mirrored in changes in insurance contracts due to movements of fair value items.

Changes in insurance contracts due to movements of fair value items amounted to € 60 million negative in 2011. This consisted of the net impact of additions to provisions for interest rate guarantees (€ 74 million), due mainly to the low interest environment, the net impact of shadow accounting (€ 19 million positive) and higher technical expenses due to the impact of inflation (€ 5 million).

In 2010, changes in insurance contracts due to movements of fair value items had amounted to € 21 million negative. This consisted of higher provisioning for inflation (€ 2 million) and the net impact of shadow accounting (€ 19 million negative).

Amortisation of Value of Business Acquired (VOBA) and other intangibles decreased due to lower actuarial amortisation of VOBA and higher capitalised costs of software.

### 14.3 Income

Both regular and single premium income increased compared to 2010, supported by high retention rates. Market share of new regular pension premium income increased from about 17% year-end 2010 to 29% as at end September 2011. Single pension premium income benefitted from new large group contracts. Zwitserleven successfully attracted new clients in the corporate and SME segment and was voted 'best pension insurer in The Netherlands' for the fourth year in a row.

As a result of the new client contacts, NAPE was significantly up to € 258 million. The VNB was € 8 million compared to € 13 million in 2010 due to the low interest rate environment and pressure on margins. To increase profitability, a number of products with a negative margin was classified as non-selling during 2011. From mid November 2011 proposals for new clients and renewals of contracts use a reduced technical interest of 2.5% and unit linked guarantees are limited to 2%.

**Table 25: Breakdown Investment income for own account Zwitserleven**

<i>Gross amounts in € millions</i>	<b>2011</b>	<b>2010</b>	<b>Change</b>
Total investment income	359	375	(4%)
Realised gains/losses on equities	7	15	53%
Realised gains/losses on fixed income securities	22	47	(53%)
<b>Realised gains/losses</b>	<b>29</b>	<b>62</b>	<b>(53%)</b>
Unrealised gains/losses	(2)	(1)	(100%)
<b>Direct investment income</b>	<b>332</b>	<b>314</b>	<b>6%</b>

Total investment income for own account was modestly down compared to 2010 due to lower realised gains on equities and fixed-income securities. Direct investment income was positively affected by the acquisition of retail mortgages from SNS Bank at the end of 2010. However, interest expenses also increased due to the funding of these mortgages.

Investment income for risk of policyholders decreased due to widened credit spreads which led to negative revaluations of fixed-income securities and due to lower equity markets.

The result on financial instruments increased as lower unrealised gains on interest rate derivatives were more than compensated by higher results on derivatives used for hedging risks related to interest rate guarantees and higher results on inflation swaps.

## 14.4 Expenses

Operating expenses increased by € 6 million. However, expenses in 2010 had included a € 12 million release of a provision for pension commitments related to the harmonisation of employment conditions. Adjusted for this provision release, operating expenses showed a limited decline. Acquisition costs for insurance operations were in line with the level of 2010.

**Table 26: Breakdown Impairment charges Zwitserleven**

<i>Gross amounts in € millions</i>	<b>2011</b>	<b>2010</b>	<b>Change</b>
Impairment charges of equities	2	7	(71%)
Impairment charges of fixed income securities	8	--	--
Other impairment charges	135	25	440%
<b>Total impairment charges</b>	<b>145</b>	<b>32</b>	<b>353%</b>

Impairment charges increased sharply due to the abovementioned goodwill impairment (€ 131 million pre-tax). Other impairment charges in 2010 were related to the distribution network. Impairments on the investment portfolio were somewhat higher, as lower impairments of equities did not wholly compensate for higher impairments on fixed-income securities.

## 14.5 Market position reinforced

Zwitserleven's share in the overall pension insurance market, based on new business and income from inflow of regular premiums, rose to about 23,5%. Zwitserleven maintained its position on the SME market. Customer retention remained very high. Key success factors were the growth of the Exclusief Pensioen ('Exclusive Pension') and the simplification of products, which had already begun in 2010. The changes to Zwitserleven.nl enhanced its accessibility for clients and their employees. New quote software also made the services more accessible for intermediaries.

### **14.5.1 Retention and quality in the large corporate market**

With a retention rate of more than 90%, the large corporate market also retained much of its client base. Total new premiums grew by 154%, facilitated to a significant extent by the Exclusive Pension in this segment as well. Zwitserleven furthermore distinguishes itself in this segment by its high-quality services, its understanding of the client's situation, tailor-made solutions and good communication with its employees. The customer forums and brainstorming sessions about product innovation and the seminars for consultants and clients underscore the accessibility of Zwitserleven.

### **14.5.2 Good position with Exclusive Pension**

Introduced in 2010, the Exclusive Pension is unique in its clarity of the communication and transparent costs for employers and employees. Thanks to the Exclusive Pension, Zwitserleven is well-positioned to compete with so-called Defined Contribution Pension Institutions (premiepensioeninstellingen, or PPIs), which have gained access to the market. In 2011, it also became possible for companies other than pension funds and insurers to obtain a licence for executing a pension scheme. These PPIs are able to operate efficiently because they start with new systems and new products, but they may also be faced with high costs for outsourcing insurance and investment activities. In 2011, PPIs still had a limited effect on Zwitserleven's market share.

## **14.6 Corporate responsibility**

Zwitserleven's social responsibility is inherently motivated. Also, Zwitserleven believes that commitment to society is key to restoring trust in the financial sector. Zwitserleven is furthermore convinced that responsible investment generates at least as much return in the long term for all stakeholders. That is why all of Zwitserleven's investments satisfy the ESG criteria (environmental, social and governance) developed by SNS Asset Management, the investment manager of SNS REAAL.

### **14.6.1 Corporate responsibility Leadership Journey**

Under the title 'Leadership Journey', Zwitserleven started a broad dialogue with various groups of stakeholders: clients and their staff, social institutions, leading customer service companies and other SNS REAAL business units. The goal was to advise the Management Board on how corporate responsibility (CR) should be developed further within Zwitserleven. Personal leadership is a key CR objective of SNS REAAL and Zwitserleven. Over a period of three months, nineteen employees spent two days per month on this aspect. In order to be allowed to take part, they had to state their motivation and set a personal learning goal for their 'journey'. Part of the journey was made in the employee's own time. During their journey, the staff members sought to establish a link between their own personal motivation and the challenges facing Zwitserleven as a company.

### **14.6.2 Quality mark and Gouden Schild**

Zwitserleven was the first Dutch pension insurer to receive the Eurosif quality mark for its transparent and social investment policy. The objective of this European organisation is to promote corporate sustainability in the financial sector.

Zwitserleven won a Gouden Schild award for its CR policy. The jury particularly praised Zwitserleven's investment policy and operations. Including initiatives such as Zorgen met Gevoel and the Leadership Journey a number of employees made in 2011. Zorgen met Gevoel is an annual project as part of which Zwitserleven staff work as volunteers in the Amstelveen region, where Zwitserleven is located.

## 14.7 Changes to own costs and customers' pension contributions

Zwitserleven continued its programme to reduce its operating costs. Essential elements are the improvement of processes and organisational structures, fewer products and fewer systems. This way, Zwitserleven is adapting to a changing market situation. Commitments towards policyholders are increasing because of the – happy – fact that our life expectancy has risen. The low actuarial interest rate, resulting from the situation in the financial markets, also led to more commitments in 2011. Because of this, Zwitserleven raised its pension contributions as from October 2011 in respect of new pension contracts based on defined benefits. Zwitserleven determined the higher contributions on the basis of an assumed 0.5% drop in the actuarial interest rate.

## 14.8 Ban on commission fee promotes quality of advice

As from the beginning of 2011, the Zwitserleven intermediaries can only receive regular commission for new group contracts, group contracts to be renewed and pensions for director-shareholders. With this, Zwitserleven anticipates the government decision to ban commission fees on complex products in 2013. The intermediary collaborating with Zwitserleven can earn back the income lost by means of a fixed fee agreed with his client and a regular commission. The point of departure here is that this will not have any adverse financial consequences for the client. Zwitserleven supports the new pricing structure, which warrants objective and expert advice and promotes market transparency.

## 14.9 Accessible and clear information

In 2011, Zwitserleven informed its clients and their staff through its website and personal letters about the substance and execution of the compensation scheme for the costs of unit linked insurance policies. With regard to a small part (approximately 15%) of unit linked insurance taken out previously at Zwitserleven or one of its predecessors, Zwitserleven reimburses part of the costs charged at the time. The scheme is part of an [overall agreement](#) that SNS REAAL concluded with several stakeholders in 2010. According to the guideline of the Dutch Association of Insurers, Zwitserleven must provide compensation no later than on the retirement date. Zwitserleven decided not to wait until this date, but to incorporate the compensation into its policy administration systems and value statements as quickly as possible. This will likely be completed in 2012.

Zwitserleven asked visitors to [Zwitserleven.nl](http://Zwitserleven.nl) for suggestions to improve the information on investment funds. Partly based on the outcome, the graphs on price developments and information on historical prices, returns and comparisons between funds have been improved. In addition, Zwitserleven enhanced its information about its own responsible investment policy.

Zwitserleven introduced 'MijnZwitserlevenPensioen.nl', a personal environment on the website bringing together information that applies specifically to each individual. Employers can request this additional service, giving their employees an easier way to find relevant and up-to-date information about their pensions and investments.

### 14.9.1 Information on internet site, in brochure and (digital) reference book

Zwitserleven received reactions from worried employers following problems about the cover ratios of a large number of pension funds. The media speculated that this could result in pension benefit cuts. Zwitserleven explained on her website that she is not a pension fund, but a pension insurer. This means that not the cover ratio, but solvency is the determining factor of its financial position. The assurance of payment of guaranteed nominal pensions is substantially higher at an insurer than what applies for many pension funds.

In 2011, new clients received the brochure 'Mijn Zwitserleven Pensioen', written by Annemarie van Gaal on behalf of Zwitserleven. Mijn Zwitserleven Pensioen accompanies the reader in an accessible manner along ten important moments in life that affect pension accrual.

Every year Zwitserleven provides its clients with 'Zwitserleven's Mini-Update', a work of reference about pensions and taxes. The first digital version for smartphones and tablet PCs appeared in 2011.

### 14.10 Awards underscore quality of services

A leading pension insurer in the Netherlands, Zwitserleven again received a large number of awards and high ratings in surveys in 2011. Although market surveys rate Zwitserleven top of the market, Zwitserleven aims for even better services. The following awards underscored the high quality of services:

- Number one in the Performance Onderzoek Pensioen survey, in which intermediaries rate pension insurers on aspects including services (digital or otherwise), accessibility and knowledge of office staff, and the transparency and quality of products.
- Best insurer in the Group Life Insurance category according to Adfiz, an organisation representing intermediaries. The aspects assessed by Adfiz included the quality of products, pricing, and quality and accuracy of quotes and contracts.

The satisfaction of pension fund members, clients' staff, was measured on the basis of the [NPS measurement method](#) and rose from -65% at the beginning of 2011 to -47% at the end of 2011. Although this represents a substantial improvement and is good compared to the peers, we are working hard to improve on this figure.

### 14.11 Introduction of advertising campaign 'thinking ahead'

Zwitserleven launched a new advertising campaign: the advantage of thinking ahead. In this campaign, rationale is combined with known intuition. The goal is to show that a pension insurer almost always thinks about the future of its customers and to encourage the Dutch population to make proper arrangements for their pensions now. Then it shows 'Het Zwitserleven Gevoel' is still feasible. This campaign builds on 'Het Zwitserleven Gevoel', one of the longest running campaigns in the Netherlands.

## 15 Developments Group activities

The Group activities, including investment manager SNS Asset Management (SNS AM) and the Group staff departments, are holding company activities aimed primarily at supporting the business units.

SNS REAAL's Group activities comprise SNS Asset Management, SNS REAAL Invest and the staff departments. These activities are managed directly by the Executive Board. Income and expenses that are directly attributable are allocated to SNS Bank, Property Finance, REAAL and Zwitserleven. Consequently, the result on Group activities is the balance of income and expenses that are not directly attributable.

### 15.1 Financial developments

The net result from Group activities fell by € 22 million to € 93 million negative.

The impact of one-off items decreased from € 25 million negative in 2010 to € 19 million negative, with both years impacted by impairments on strategic stakes. Impairment charges on Van Lanschot NV amounted to € 19 million in 2011 compared to € 12 million in 2010.

Adjusted for the impact of one-off items the net result decreased by € 28 million. This was partly due to lower income from loans down-streamed to the Insurance activities, following the refinancing of subordinated debt at the insurance operating entity level. Furthermore, operating expenses increased by € 13 million gross, related to projects such as Solvency II and Basel III, redundancy costs and adjustments of costs allocated to business units.

### 15.2 SNS Asset Management Strategy

The primary task of SNS Asset Management is the responsible management and administration of the investments of REAAL and Zwitserleven for own account and the investment funds of SNS Bank, ASN Bank and Zwitserleven. SNS Asset Management also focuses on external institutional clients, such as pension funds and insurers, charities and religious institutions.

The strategy for investment fund management comprises the following:

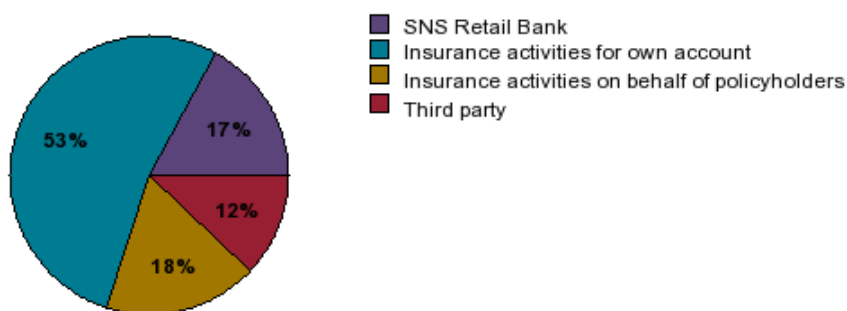
- Independent management of the investment funds focusing on the Netherlands and on responsible capital growth.
- Joint management of a number of other investment funds with a partner, pooling joint expertise and management capacity.
- Management of investment funds composed of the specialised funds of other investment fund managers.

SNS Asset Management also focuses on external institutional clients, such as pension funds and insurers, charities and religious institutions. A fully responsible investment manager, SNS Asset Management offers two responsible fund types:

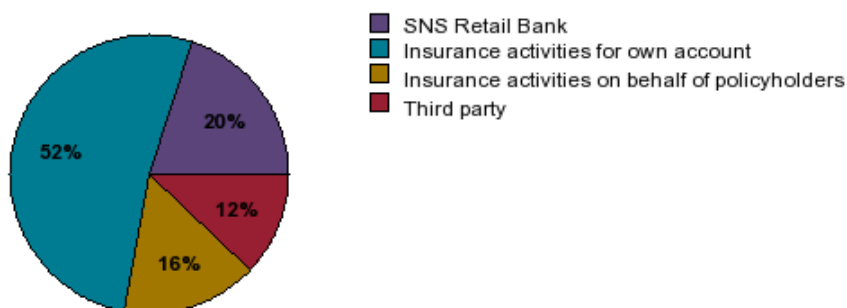
- Responsible index funds based on ESG (Environment, Social and Governance) exclusion criteria, including an active voting policy and critical engagement in companies' management on ESG aspects;
- Impact investing, aimed at improving the circumstances of people with low income levels and local economies in disadvantaged areas.

SNS Asset Management bases its management on comprehensive company analyses, assessing not only companies' financial performance but also their policies and performance in respect of social, environmental and administrative matters. For more information on [SNS Asset Management's responsible management](#), see Chapter 6, Developments corporate responsibility.

**Distribution assets under management SNS Asset Management 2011**



**Distribution assets under management SNS Asset Management 2010**



### 15.3 Management on behalf of internal clients SNS Asset Management

SNS Asset Management's total assets under management rose from € 42.4 billion to € 42.6 billion (+0.6%). Approximately 88% of which originated from internal clients. The market developments regarding mainly the fixed-income portfolio had a positive effect on the net inflow. The inflow was particularly limited due to the continued decline in the sales of unit linked insurance policies and unit linked mortgages.

SNS Asset Management's major clients are REAAL, Zwitserleven, SNS Bank and ASN Bank and also SNS REAAL Pension Fund is a client. SNS REAAL wants all of its business units' investments and these business units' investment funds to meet fundamental SNS Asset Management principles. These comprise what are known as ESG criteria, which relate to the environment, social policy and good governance. In 2011, the percentage of investments meeting these criteria grew further to approximately 96%.

Effective 1 July 2011, the ESG criteria are also applied to the SNS Euro Vastgoedfondsen. This means that the fund takes account of aspects such as the use of sustainable materials in the construction sector, efficient water and energy consumption in new property projects and greater awareness among users and developers. Social aspects and corporate governance are also subjected to critical assessment.

## **15.4 Management on behalf of external institutional clients SNS Asset Management**

In 2011, external clients deposited € 193 million in the Responsible Index funds. The assets under management of these index funds rose from € 1,007 million to € 1,014 million in 2011 (+0.7%).

### **15.4.1 SNS Impact Investing**

As from 1 January 2011, the impact investing activities have been transferred to the new department SNS Impact Investing. This department invests in social development, including through investments in microfinance, SME finance and responsible agriculture in developing countries. The focus is on emerging economies, but investments in more developed economies are not ruled out by definition.

The assets under management in impact investing, particularly in microfinance, rose from € 283 million to € 327 million (+16%). The increase was mainly the result of rising interest rates on investments and investors making good on their previous commitments in the second microfinance fund. There was continued demand for finance of microfinance institutions in emerging markets. Both funds achieved a positive result in 2011, with the first fund's yield rising to more than 5%.

SNS Impact Investing prepared the introduction of the SNS African Agricultural Fund in 2011. The commencement date depends in part on market conditions. This fund invests in farms in southern and central Africa, including in countries like South Africa, Zambia, Namibia, Kenya, Tanzania and Ghana. The fund responds to the opportunities that the African agriculture sector offers and rising global need for food. The fund focuses on investments in African agricultural land, agricultural business management entities and agricultural infrastructure, thereby complying with international environmental and social requirements. We aim to increase agricultural productivity by providing capital and management knowledge. Besides the ambition to generate a market financial return, the fund also explicitly focuses on reinforcing the position of employees and the local community. The fund does so by providing affordable access to health care and education, among other things.

For full details of SNS Asset Management's investment philosophy and principles, please visit [www.snsam.nl](http://www.snsam.nl).

## **15.5 Critical voting policy**

SNS Asset Management casts votes at shareholders' meetings on behalf of its clients. Executive board proposals that are put to the vote at those shareholders' meetings are reviewed in terms of corporate governance guidelines. These guidelines are based on:

- International best practice guidelines from the prestigious International Corporate Governance Network. SNS Asset Management is a member of the Dutch branch of this organisation.
- Specific country codes.
- SNS Asset Management's own fundamental policy principles.

If serious shortcomings are detected, SNS Asset Management uses the option of voting against a management proposal or supports a shareholder resolution.

If companies fail to comply with the fundamental principles but are expected to have an open mind for improvements in policy and performance, they will be designated as eligible for a constructive dialogue. This dialogue can be conducted through individual conversations with senior management, including relevant experts and/or members of the Executive Board or Supervisory Board, or through forums of various collaborating shareholders.



## 16 Risk and capital management

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

### 16.1 Key risks for SNS REAAL

The main risks for SNS REAAL end of 2011 were:

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

### 16.2 Risk management in exceptional circumstances

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

- Since the end of 2009, the risk in the investment portfolio of European government bonds increased substantially because partial defaults of European Union member states are no longer considered unfeasible. Increasingly, market participants question the viability of the euro in its present form. As a consequence, SNS REAAL has implemented additional risk indicators and limits. This resulted in an exposure reduction to peripheral countries which reduced the risk appetite for this type of risk.
- Managing the balance sheet of the Insurance activities required considerable attention in 2011 in connection with the uncertainties surrounding the euro, extreme volatility in the financial markets, falling interest rates and increasing risk premiums. As a consequence, the risk profile of the Insurance activities was further reduced. Due to the big fluctuations on the capital markets, the internal stress indicator for solvency at the Insurance activities fell outside the internally defined limits several times. At year-end, all risks are within the limits again.

- The housing market is weak in terms of volume and price developments. In case of arrears, an important question is when to foreclose on a house. This is a difficult choice, both from the interests of the customer and the bank. SNS Bank pursues a balanced policy in this respect.
- Property Finance's total outstanding loans were sharply reduced. The reduction of these loans is one of SNS REAAL's strategic priorities. Despite the ongoing challenging conditions in the financial and property markets, total commitments of Property Finance were further reduced in 2011.

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

## **16.3 New regulation and implementation thereof**

### **16.3.1 New regulation for the Banking activities**

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

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

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

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

### **16.3.2 Basel III migration plan**

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

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

### **16.3.3 Solvency II preparations for Insurance activities**

In 2011, SNS REAAL devoted a great deal of attention to the preparations for the coming into force of Solvency II. The internal programme for this is in full progress. However, the execution of this extensive programme is made more difficult because both content and schedules of the regulations are subject to change.

SNS REAAL uses the period to the introduction of Solvency II to make a number of processes more future proof and to link the internal data to the external reporting models.

## **16.4 Change to the risk management organisation**

Since 2009, SNS REAAL has a risk management organisation which has been aiming at strengthening the corporate policy and the framework within which the risk policy is shaped. Key elements are quality improvement and achieving risk management efficiency. In 2010 and in 2011, we looked at ways to improve the existing structure.

Developments in the financial markets have led to an increased need for a more decisive risk management organisation. The cultural change in the financial services industry demands increased attention to putting the customer's best interests first. An analysis of the risk management organisation led to recommendations for further improvements. This resulted in a plan to optimise the existing structure. Changes were set in motion in the course of 2011 and implemented at the end of 2011. The new structure guarantees that the risk framework and escalation procedures are univocal.

The following basic principles of the governance structure remained unaltered:

- The management of the Banking and Insurance activities is divided into three business units: SNS Bank, REAAL and Zwitserleven.
- Within the Group frameworks for risk policy, the business unit management teams achieve the corporate objectives by choosing the best possible products, services, product/market combinations, labelling and distribution channels.
- Asset & Liability management is managed at the Group level.

A summary of the changes made to the risk management organisation in 2011 are described below.

### **16.4.1 Structure of the Group Risk Committee**

The Group Risk Committee (GRC) was designed as the highest and primary policy formulating risk management body. The GRC defines the desired risk profile for financial and non-financial risks and defines the risk appetite, risk policy frameworks and risk management framework. The GRC also defines SNS REAAL's liquidity and capital plans.

### **16.4.2 Restructuring of other Group committees under the Group Risk Committee**

The Group risk committees shifted their focus to optimisation of risks and returns within the scope of the GRC. Where necessary, the Group committees work out the frameworks as defined by the GRC in more detail. The Group Credit Committee (GCC) was set up to draw up the Group policy and decision making on credit extension beyond local authorities.

### **16.4.3 Restructuring of local risk committees**

The local risk committees make and execute decisions within the frameworks of the higher-level risk committee and ultimately the GRC.

## **16.5 Developments in capital and solvency**

### **16.5.1 Solvency Banking activities**

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

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

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

### **16.5.2 Solvency Insurance activities**

Regulatory solvency of the Insurance activities improved from 195% at year-end 2010 to 203%, supported by the traditional reinsurance transaction and profit retention. This was partly offset by an € 80 million dividend (six percentage points of solvency). In addition, solvency was negatively impacted by changes in the financial markets, particularly the decline in long-term interest and the widening of credit spreads. Based on the average yield curve in the fourth quarter of 2011, the solvency of the Insurance activities stood at approximately 229%

The ECB-AAA government yield used in the regulatory liability adequacy test showed a downward shift for all maturities. This positively impacted the fair value reserve of the fixed-income portfolio. However, the decrease of the yield curve had a negative impact on the capital surplus based on the regulatory liability adequacy test due to a higher market value of the technical provisions.

### **16.5.3 Capital position SNS REAAL**

In 2011, SNS REAAL's total shareholders' equity saw big fluctuations due to interest rate volatility and risk surcharges, which had an impact on the fair value reserve of the fixed-income portfolio. The total shareholders' equity rose to € 5.428 million compared to year-end 2010 due to the positive net result and the rise in the cash flow hedge reserve and fair value reserve. This was partly offset by the impact of shadow accounting. As at year-end 2011, the fair value reserve of the equity portfolio was € 161 million, € 10 million below year-end 2010 and the fair value reserve of the fixed-income portfolio was € 979 million, € 768 higher than at the end of 2010.

Group double leverage dropped to 114.2%, benefitting from a dividend of € 102 million in the first half of 2011, of which € 80 million came from the Insurance activities and € 22 million from SNS Asset Management. In the second half of 2011, the double leverage benefitted from the higher fair value reserve. This was partly compensated by a capital transfer of € 50 million to SNS Bank.

## **16.6 Balanced approach capital support**

SNS REAAL opts for a balanced approach in repurchasing the core Tier 1 capital securities issued to the Dutch State. Maintaining a sound capital position is a key objective.

Capital can be released from organic growth of the capital by profit retention and by various alternatives, such as the program to release € 700 million in capital. Moreover, the cooperative approach by Stichting Beheer SNS REAAL (the Foundation) with respect to the redemption of its core Tier 1 capital securities is of importance. In 2010, the Foundation announced its willingness to abandon the condition of the agreed pro rata repurchase of its core Tier 1 capital securities at the same time as the core Tier 1 capital securities of the Dutch State, on a number of conditions. To use released capital to repurchase the capital securities issued to the Dutch State, SNS REAAL needs to obtain assent from the Dutch Central Bank.

In 2011, the European Commission (EC) reconfirmed its approval for the capital support by the Dutch State to SNS REAAL. The reconfirmation of approval follows the renotification of the capital support earlier that year.

## **16.7 Capital Adequacy ICAAP 2011 and ORSA 2011**

SNS REAAL periodically assesses the capital adequacy under Basel II of its Banking activities by means of the Capital Adequacy Assessment Process (ICAAP). The capital adequacy of the Insurance activities is assessed by means of the Solvency II supervisory framework in the Own Risk and Solvency Assessment (ORSA). There is uncertainty as to the future ICAAP and ORSA regulations and the applicability thereof.

### **16.7.1 Capital requirement of SNS Bank according to ICAAP**

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

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

### **16.7.2 Capital assessment Insurance activities according to ORSA**

The Insurance activities' capital adequacy is as yet evaluated within the Solvency I regulatory framework. In 2011, SNS REAAL carried out an ORSA of its Insurance activities, to prepare for the coming Solvency II supervisory framework. The ORSA, like ICAAP at the Banking activities, is an internal process to evaluate the capital adequacy of an insurance company.

SNS REAAL voluntarily participated in the EIOPA stress test for its Insurance activities in 2011. The results show that SNS REAAL remains well above the solvency standard for its Insurance activities in a stress scenario.

## **16.8 Temporary solvency buffer EBA**

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

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

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

## **16.9 Funding, liquidity position**

### **16.9.1 Banking activities**

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

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

### **16.9.2 Insurance activities**

In the first half of 2011, SRLEV, the legal entity comprising most of the life Insurance activities of SNS REAAL, successfully placed € 400 million of 30-year Tier 2 notes. Furthermore, in June, SRLEV placed CHF 105 million of perpetual subordinated notes. The proceeds were used by SRLEV to repay subordinated loans placed by SRLEV at SNS REAAL.

### **16.9.3 Liquidity SNS Bank tested with ILAAP**

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

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

The ILAAP will be further integrated to be able to prove the extent of control.

## **16.10 Developments in market risk of Banking activities**

### **16.10.1 Duration**

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

### **16.10.2 Earnings-at-risk**

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

### **16.10.3 Spread risk**

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

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

### **16.10.4 Trading risk**

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

## **16.11 Developments in credit risk Banking activities**

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

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



### **16.11.1 SNS Retail Bank**

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

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

### **16.11.2 SNS SME**

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

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

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

### **16.11.3 Property Finance**

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

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

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

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

## **16.12 Developments in market risk of Insurance activities**

Value-at-Risk models and stress scenarios are used for measuring market risks at the Insurance activities of SNS REAAL. SNS REAAL does not only calculate the total risk, but also calculates the breakdown into every individual source of market risk (interest, spread, etc.) as well. At year-end 2010, the VaR was 46% based on a 99.5% confidence interval. In 2011, the VaR decreased to 25% which is below the current limit of 45%.

In 2011, in connection with the euro crisis, the limited exposure of the Insurance activities to Southern European sovereign debt was reduced further for reasons of risk reduction to € 329 million, 2% of the total portfolio in government bonds. There was no exposure to Greek and Portuguese bonds.



The positions in government bonds of France and Belgium were also reduced. These were primarily reinvested in the Netherlands and Germany. The majority of the sovereign debt exposure of the Insurance activities still concerns Germany and the Netherlands.

solvency at the Insurance activities is the most sensitive to interest rate fluctuations and changes in credit risk surcharges. Thus, the focus in 2011 was on these two risk sources.

The Insurance activities' balance sheet has become more sensitive to declines in interest rates and the impact of interest rate increases became slightly more favourable in particular as a result of the declining yield curve. The sensitivity of the solvency to 1% parallel decreases in interest rates, developed from around -20% at year-end 2010 to about -26% at year-end 2011, also caused by the decreasing yield curve.

The credit risk in the bond portfolio was further reduced in 2011. To reduce the interest rate risk on the balance sheet of the Insurance Activities, SNS REAAL also purchased interest rate derivatives.

The above-mentioned measures were also taken in connection with the interest rate hedging programme. This programme, which was launched in 2009, is aimed at strongly reducing interest rate sensitivity of the solvency. Because of the following reasons, a cautious schedule is of great importance because:

- The hedging project may lead to many transactions, which could have a potentially large impact on the IFRS result.
- Good timing can prevent securing income from investments at too low a rate for a longer period of time, negatively impacting the profit generating capital of the Insurance activities.

## **16.13 Developments in technical claims and benefit risks**

### **16.13.1 Development in technical claims and benefits risks**

SNS REAAL includes the excess or deficit in the book value of the technical provisions with respect to the fair value of these in the available solvency. The excess or deficit of the technical provisions is determined by performing a Liability Adequacy Test (LAT) for the Dutch Central Bank.

The outcome of the LAT strongly depends on the term structure of interest rates. The term structure for the LAT fluctuated strong in 2011 with a rise in the first half and a considerable fall in the third quarter. The LAT showed a substantial deficit at that time. In the months of October and November, the risk-free term structure went up again after which the curve went down again in December to September's low point.

Besides the effects of the low risk-free term structure, other principles, such as accounting principles, costs, mortality, and lapse and early surrender, also play a role in the LAT developments.

### **16.13.2 Adjustment of life expectancies**

To forecast the life expectancies of the entire population, SNS REAAL uses the model published by the Pension and Annuity Rate Tables (PART) Committee of the Dutch Association of Insurers. In 2011 the data of the PART model 2008 were updated to reflect the most recent data from the Dutch Government Central Bureau of Statistics CBS. No adjustments were made in the model. The up-to-date CBS data, pointed to a slight flattening of the acceleration of the life expectancy. The update of this data in 2011 resulted in an increase of the best estimate market values of the insurance liabilities and consequently had a negative impact on the outcome of the LAT.

### **16.13.3 Developments in reinsurance**

Reinsurances cover insurance risks within the various portfolios of the Life and Non-Life insurance operations. The reinsurance contracts of the various business units are being integrated within the (combined) SNS REAAL reinsurance programmes as much as possible.

Reinsurance contracts are not only entered into in view of risks, but also increasingly for capital management purposes. Following on the reinsurance of October 2009, another reinsurance contract was concluded effective 1 January 2011 for a portion of the REAAL individual term life portfolio. Both transactions aim to use capital as efficiently as possible.

## **16.14 Management of non-financial risks**

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

### **16.14.1 Existing factors**

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

- A clear governance structure, including a transparent assignment of duties and responsibilities and escalation procedures, boosted/supported by the [new risk management structure](#). SNS REAAL implemented a so-called 'Three Lines of Defence' model, making line management primarily responsible for recognising and managing risks and taking decisions in that respect. Along with several other Group staff departments, CS&O has an important role to play in the second Line of Defence. The third Line of Defence is formed by Group Audit, which tests the set-up and operation of the system as a whole.
- CS&O annually executes a monitoring programme in consultation with Group Audit. On the basis of the risk-based analysis, they decide which means are used for what issues each year.
- CS&O draws up a non-financial risk report on a quarterly basis, giving an overview of the main developments in non-financial risks, progress in the follow-up of action items and the implementation of new/adjusted regulations and an analysis of the developments in incidents.
- In addition to other Group staff departments, CS&O provides advice in the business units' product development, approval and periodic review processes.
- The training & awareness programme comprises information meetings, e-learning programmes, presentations and 'train the trainer' workshops.
- As second Line of Defence, CS&O formulates the Group (wide) policy on operational integrity with respect to non-financial risks. The first Line is responsible for the implementation (and compliance) of this policy and will draw up an implementation plan. If required, CS&O provides advice on the implementation in the business units.

- By means of semi-annual in-control statements (ICSs), the management teams of each business unit reports about how the real risks are managed, providing demonstrable foundations. In the ICS, management reports on the main risks and accompanying control measures, the improvements realised over the previous period and the progress on improvement measures.
- To calculate the capital requirement for the operational risk of the Banking activities, a standardised Approach is used. This implies that, based on a fixed percentage of the turnover per business line of the bank, we allocate an amount for the Pillar 1 capital. This Pillar 1 capital is assessed under the ICAAP, in which greatest risks to the bank are validated on probability of occurrence and impact. For this reason, SNS Bank's ICS is important input device. For the Insurance activities too, the standardised approach of Solvency II is used to calculate the capital requirement in Pillar I. In 2011, a first step was taken with regard to the internal ORSA process to test this Pillar I capital. This process will be further worked out in more detail in 2012.

### **16.14.2 New developments**

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

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

## 17 Funding and credit ratings

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

### 17.1 Public funding strategy

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

### 17.2 Funding transactions in 2011

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

SNS Bank kept its liquidity position at a high level throughout the year. The liquidity position at the end of 2011 was € 11.1 billion, compared to € 11.9 billion at the 2010 year-end. The high cash balance at the end of 2010, the winding down of Property Finance and SNS SME, and the growth of the savings deposits meant it was not necessary for SNS Bank to go to the capital market to find funding. There were no significant transactions for the funding of the banking operation, with the exception of an exchange offer to increase the core Tier 1 capital. SNS Bank, as underwriter, did place a 30-year Tier 2 bond loan worth € 400 million and a subordinated perpetual bond loan worth 105 million Swiss franc on the market, both for SRLEV, the legal entity that contains the life operations of REAAL and Zwitterleven. The first bonds identified above were priced at 101.00%, and have a fixed coupon of 7.00% per year until the first call date. The 30-year Tier 2 bonds were priced at 100% and have a fixed coupon of 9.00% per year until the first call date on 15 April 2021. These transactions were part of the capital management of SRLEV and were related to the replacement of internal funding by external funding.

### 17.3 Increasing capital buffers

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

### 17.4 Risk loadings increased

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

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

- Covered bond 140 basis points
- RMBS 175 basis points

### 17.5 No private placements

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

### 17.6 Credit ratings

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

On 5 April 2011, Moody's downgraded the rating of SNS Bank with a notch from A3 to Baa1 because of high impairments at Property Finance, which restrict the profit earning capacity of SNS Bank in the short and medium term. The ratings of the insurance operations were also reduced by a notch from A2 to A3. Moody's was referring in this context to the pressure on the underlying profit in 2010, competition in the Dutch market, and the negative impact of low interest rates. For all its ratings, Moody's replaced the ‘negative outlook’ by a ‘stable outlook’.

On 15 February, 2012, Moody's placed all ratings of SNS REAAL and its operating entities on review for possible downgrade. The review was part of a wider action, placing the ratings of a number of European banks under review, for who Moody's wants to reassess the influence of a weakening macro-economic environment, more costly market funding and a pressure on profits.

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

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

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

**Table 27: Credit ratings as per 31 December 2011**

	S&P	Moody's	Fitch
<b>Long-term</b>			
SNS REAAL	BBB+ (negative)	Baa1 (stable)	BBB+ (stable)
SNS Bank	A- (negative)	Baa1 (stable)	BBB+ (stable)
REAAL Verzekeringen	BBB+ (negative)		
SRLEV	A- (negative)	A3 (stable)	A- (stable)
REAAL Non life	A- (negative)	A3 (stable)	A- (stable)
<b>Short-term</b>			
SNS REAAL	A2	P-2	F2
SNS Bank	A2	P-2	F2

## 18 Our people

Many employees are satisfied with their jobs and with SNS REAAL as an employer. Employee satisfaction rose from 7.0 to 7.5. To fixing our foundation and to build for our future, we reorganised activities in many parts of the company. This often resulted in the loss of jobs and positions. Despite these changes it appears that most employees are pleased with the way we adapt ourselves to changing circumstances.

### 18.1 Responsible employer

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

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

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

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

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

### 18.2 Sustainable employability

#### 18.2.1 From work to work

At SNS SME, Property Finance, REAAL, Zwitserleven and IT & Change considerable reorganisations took place in 2011. We offered employees who were looking for a new position support, after they lost their job because of a reorganisation. They were given intensive guidance and support by a mobility manager and a career advisor. The Social Plan's basic principle is 'from work to work', preferably within SNS REAAL or else outside the organisation. To encourage internal transfers, we organised career events. In 2011, 110 reassignment candidates entered the reassignment pool and 222 reassignment candidates left the pool. Well over half of the reassignment candidates found a new suitable position within the reassignment term.

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

### **18.2.2 In the interest of everyone**

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

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

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

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

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

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

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



## 18.4 Education and training

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

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

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

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

### 18.4.2 Internships and traineeships

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

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

### 18.4.3 Talent Development

SNS REAAL has a Talent Development programme for talented employees. It is intended for managers and specialists that perform very well and have growth potential. Including the 48 employees that started this programme in 2011, the talent pool now has more than 400 employees. The outflow rate of these employees is below average and they transfer to other positions more frequently. This helps us achieve important goals: developing, binding and retaining talented employees.

#### **18.4.4 Management Development**

The Management Development programme focuses on senior level employees. The aim is to help them move up to the most senior management levels. An important target group are the MD potentials: managers and specialists with the potential to grow to the level of director. This MD programme has been developed especially for this group in collaboration with Nyenrode Business University. The eighteen participants carried out special projects for which a member of the Management Committee was the principal and/or sponsor. As part of continuing education, we organised two leadership symposia for the Top 100. In addition we organised sessions on our core values for the Top 35. In 2011, we extensively dwelled on the succession planning for the Top 35 positions.

#### **18.5 Feeling good**

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

#### **18.6 Moderate remuneration Executive Board and senior management**

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

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

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

More information on the remuneration of the Executive Board, senior management and the Supervisory Board can be found in the [Remuneration report](#).

## 18.7 Room for Wajong youngsters

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

With regard to the gender ratio too, SNS REAAL aims at diversity. We want to encourage more women to move into top-level management positions. For instance by informing relevant bodies such as management teams of the percentage of women per management level and the gender ratio. We make sure that this topic is regularly on the agenda and that its progress is discussed. The percentage of women at SNS REAAL was 42%, the same as last year. The percentage of women in management positions rose.

## 18.8 Employment conditions

### 18.8.1 Present Collective Labour Agreement and Social Plan

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

### 18.8.2 Retrenchment key theme in new CAO

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

In practice this means that a moderate performance bonus is paid in relation to 2011. In 2012 and 2013 probably no performance bonuses will be paid as long as the capital support of the Dutch state has not been repaid in full and market conditions improve significantly. The Central Workers Council (CWC) is deeply involved in this decision. The top 100 of SNS REAAL receives in any case no variable remuneration as long as the capital support of the Dutch state is not repaid in full. In 2011, it was already decided, in consultation with the CWC, that profit sharing is not distributed as long as the capital support has not fully been repaid by SNS REAAL, irrespective of whether the company is making a profit or not. In the upcoming collective bargaining discussions retrenchment, including salary reduction, will be an important starting point of us.

### 18.8.3 Simplification and flexibilisation

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

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

## 18.9 SNS REAAL Pension Fund

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

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

## 18.10 Employer surveys

We believe we do our utmost to be a good employer. Naturally, we also want to know if others think the same way. In the Top Employers Survey 2011 conducted by Intermediair, the career platform for highly educated employees in the Netherlands, SNS REAAL finished ninth, compared to 16th place in 2010. In 2011, SNS REAAL entered the top 10 of Incompany 500's corporate image survey into good employers. This meant a sharp increase, while other financial institutions dropped down the list.

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

## 18.11 Employee participation

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

## 18.12 Number of employees (FTEs) drops to 6,926 (-2.6%)

**Table 28: Key figures employees**

	2011	2010	2009	2008
Average number (FTEs)	7,002	7,301	7,530	7,287
Number of FTEs at year-end	6,928	7,113	7,520	7,535
Male/female ratio	58% / 42%	58% / 42%	58% / 42%	58% / 42%
Full-time/part-time ratio	71% / 29%	72% / 28%	70% / 30%	68% / 32%
Training costs (in € per FTE)	1,554	1,393	1,559	2,086
Absenteeism	4.4%	4.3%	4.2%	4.4%
Inflow	7.4%	6.8%	10.6%	15.3%
Outflow	8.8%	11.1%	11.1%	13.9%

In 2011, the outflow of personnel remained below the level of 2010. The size of the work force nevertheless decreased because the outflow of employees was higher than the inflow of new employees. About half of the outflow was the result of reorganisations, which took place throughout almost the entire organisation.

## 19 Report of the Supervisory Board

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

### 19.1 Themes

#### 19.1.1 Main topics and discussions

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

#### Impact financial crisis

The financial crisis and consequent developments have had a marked impact on the world in which financial institutions operate. Customers, investors, legislators, regulators and other stakeholders make demands on the way in which financial institutions engage in activities, every now and then accompanied by big dilemmas. Investors demand a strong capital position, but are also looking for a return on their investment. Regulators, legislators and politicians demand simple products, but also make increasingly higher demands on those products. Customers want a cheap product, and at the same time they want a financial services company that keeps their money safe. Employees want to put the client and the clients' interests first and provide good customer service, but they also have to reduce costs to be able to offer that customer the cheapest possible product.

#### Support, encourage, advice

It is on this playing field that the Executive Board is navigating and working towards an organisation that complies with the fundamentally changed perception of the financial sector. This requires a long-term vision that will result in restoring trust in the financial sector, notwithstanding the very turbulent environment. No easy task, but one that the Executive Board, in the Supervisory Board's opinion, has performed well. Through SNS REAAL's [mission](#), [core value](#) and [strategy](#) and compliance with [the Banking and Insurance Codes](#), the Executive Board helped restore trust in and improve the functioning of the Dutch financial services industry. The Supervisory Board supports and encourages the Executive Board in this endeavour by taking a critical stance where necessary, giving advice where required and encouraging them where possible.

### 19.1.2 Performance of the Supervisory Board

The Supervisory Board has noticed that the materiality, complexity and quantity of issues that require the attention of the Executive Board and management of SNS REAAL is growing. This demands greater involvement of the Supervisory Board and intensified collaboration between the Supervisory Board and the Executive Board. Hence, good preparation for the decision-making process by the various committees of the Supervisory Board is, therefore, also becoming increasingly important.

The Supervisory Board annually evaluates its own performance. The outcome of the evaluation in 2010 led to the expansion of the expertise in the area of banking with the appointment of Piero Overmars. In 2011, the Supervisory Board's expertise in the area of pensions and insurance was further expanded with the appointment of Jan Nijssen. The Supervisory Board evaluated its own performance in 2011 by means of self-assessment. The implementation of a well-prepared and [organised agenda and an improved segregation of duties](#) between the Board and its committees had the desired effect in 2011. The content and quality of the discussions was further optimised. Especially due to the increased specific expertise in the Supervisory Board and the complementarities of the Supervisory Board members. The Board's size too, is playing a part in this. It is still considered large. The open and critical discussions are appreciated, just like the openness with which the Executive Board provides information.

### 19.1.3 Collaboration

#### Collaboration with committees

[Collaboration](#) between the Supervisory Board and its committees was already improved considerably in 2010. In 2011, this progress continued. The results of the evaluation by the [Audit Committee](#) and the [Risk Committee](#) and the [Board](#) itself confirms this. Subsequent to the decision taken in 2010 to phase-out part of Property Finance's Dutch portfolio in addition to its international portfolio, the usefulness of an independently operating Credit Committee has lapsed. This committee assessed loan applications and revisions in excess of € 50 million. As SNS REAAL rarely provides loans of that size, it has been decided to dissolve the Credit Committee and to transfer its duties to the Risk Committee.

#### Collaboration with management

The intensified collaboration between the Supervisory Board, the Executive Board and senior management demands an effort of all parties involved. The amount of information to be assessed by the Supervisory Board has increased considerably, while the Supervisory Board has to keep challenging the Executive Board and senior management. Despite the high (time)pressure from the outside world on the Executive Board and senior management, the Executive Board takes time to evaluate decisions and implemented policies with the Supervisory Board. This year, the Executive Board has once again proven not to yield to this pressure. The collaboration between the Board, the Executive Board and senior management is characterised by the open and informed discussions held during meetings.

The Supervisory Board is of the opinion that the Executive Board performed well over the past year, as team as well as at individual level. The Executive Board is a well-oiled team. Moreover, individual members are well aware of the responsibilities resulting from their areas of speciality. They exchange, each from their own specific background, know-how and experience and the Supervisory Board in a proactive, fraternal and thorough manner.

## **Collaboration with external experts**

Yet, the Board understands that additional information from external experts is indispensable to properly perform the supervisory duties. The regular contact between the Supervisory Board and the Audit Committee and Risk Committee and in particular with the external auditor and actuary is a result from this. Moreover, the Remuneration Committee sought advice from various external advisors, such as HR advisors and legal advisors during the decision process related to SNS REAAL's remuneration policy.

### **19.1.4 Personnel**

This year, the Supervisory Board, the Remuneration Committee and the Nomination Committee also dealt with the personnel of SNS REAAL and the HR policy. The economical, political and social climate in 2011 caused hard times for the employees in the financial services industry and as such for SNS REAAL personnel. The prolonged difficult financial market conditions, cost reductions, ongoing changes in the regulations, more stringent supervision by regulators and the frequent – mostly negative – media attention for the financial sector and SNS REAAL in particular, have had a considerable impact on work and performance pressure. Moreover, these developments forced the Executive Board to ask all employees to take a step back in the variable remuneration in 2011. Moderation of the fixed annual income will come up for discussion with the trade unions in 2012. Despite these conditions, the open and direct culture at SNS REAAL remained intact and its employees put up a good performance. What's more, despite the tough times, employee satisfaction grew in 2011 and the integrity survey showed a positive development as well. The Supervisory Board greatly appreciates these developments. The Supervisory Board is confident that SNS REAAL personnel will continue to build on the execution of SNS REAAL's mission, strategy and core values.

The Supervisory Board supports the Executive Board where possible in maintaining good working relationships with the works councils and trade unions. Some Supervisory Board members have regular meetings with the Central Works Council.

## **19.2 Composition of the Supervisory Board**

On 20 April 2011, the Annual General Meeting of Shareholders resolved that the number of Supervisory Board members would be reduced to nine. In that meeting, Hans van de Kar and Henk Muller stepped down and Jaap Lagerweij and Robert-Jan van de Kraats were reappointed for a period of four years. Jaap Lagerweij was appointed with the reinforced right of recommendation of the Central Works Council. Piero Overmars succeeded Hans van de Kar as Deputy Chairman of the Supervisory Board. On 13 September 2011, an Extraordinary General Meeting of Shareholders was held at which – among other things - Jan Nijssen was appointed as member of the Supervisory Board. With the appointment of Jan Nijssen, the knowledge and experience in the areas of pensions and insurance and financial services were further expanded on the Supervisory Board.

With the stepping down of Henk Muller from the Supervisory Board, all Supervisory Board members are independent within the meaning of the Corporate Governance Code.

Further information on the [composition of the Supervisory Board and its members](#) in 2011 can be found in chapter 20.2.1.



### **19.3 Composition of the Executive Board**

After discussing the proposed appointment of Wim Henk Steenpoorte as member of the Executive Board at the Extraordinary Meeting of Shareholders on 13 September 2011, Rien Hinssen stepped down as member of the Executive Board with effect from 15 September 2011. Wim Henk Steenpoorte was appointed Chief Technology Officer and member of the Executive Board. As a result of this appointment, the allocation of duties to individual board members also changed.

Further information on the composition and allocation of duties of the [Executive Board and its members](#) in 2011 can be found in chapter 20.1.

### **19.4 Meetings of the Supervisory Board**

#### **19.4.1 Main topics**

In 2011, the Supervisory Board met twelve times, two of which via telephone conference: in February, March, April, May, June, August, September, October, November and December. None of the Supervisory Board members were frequently absent.

The following is an overview of the main topics discussed.

#### **February (two meetings, one by telephone)**

- Annual results and press release annual results.
- Auditor's report 2010 of the external auditor.
- Developments unit-linked insurance policies.
- Update on regular meetings with regulators.
- Feedback on meetings with rating agencies.
- Status per business unit (REAAL, SNS Bank, Property Finance, Zwitserleven).
- Presentation on life insurance by REAAL.
- Performance indicators and remuneration policy Executive Board.
- Developments Monitoring Report for the European Committee.
- Agenda Annual General Meeting of Shareholders.
- Feedback on previous meetings held by the Audit Committee, the Remuneration Committee and the Risk Committee.
- Performance of the Executive Board and its individual members.
- Performance of the Supervisory Board.

#### **March**

- Feedback on road show on the occasion of the Annual Report.
- Update on regular meetings with regulators.
- Developments Monitoring Report for European Committee.
- Financial Annual Report 2010 SNS REAAL and SNS Bank.
- Annual Report Corporate Responsibility 2010 SNS REAAL.
- Auditor's report on financial statements 2010 of the external auditor.
- Update on strategy, including financial markets and risk management developments.
- Developments Property Finance.
- Developments unit-linked insurance policies.
- Feedback on meeting held by the Nomination Committee and de Remuneration Committee.



- Structure and composition of the Supervisory Board.
- Remuneration policy of the Executive Board and senior management.
- Composition and segregation of duties of the Executive Board.

## **April**

- Feedback on the Annual General Meeting of Shareholders.
- Update on regular meetings with regulators.
- Developments Property Finance.
- Developments unit-linked insurance policies.
- Composition and segregation of duties of the Executive Board.
- Composition Supervisory Board.
- Merger of Supervisory Board's Risk Committee and Credit Committee.

## **May**

- Update on regular meetings with regulators.
- Developments unit-linked insurance policies.
- EBA stress test.
- Status per business unit (REAAL, Zwitserleven).
- Developments Property Finance.
- Presentation on SNS Bank by management team of SNS Bank.
- Q1 figures and reception of these results.
- Developments remuneration policy.
- Financial statements 2010 REAAL.
- Feedback on meetings held by the Audit Committee, the Remuneration Committee and the Risk Committee.
- Composition of the Executive Board.
- Update on strategy, including financial markets and risk management developments.

## **June**

- Update on regular meetings with regulators.
- Developments unit-linked insurance policies.
- Developments Property Finance.
- Update on strategy, including financial markets and risk management developments.

## **August**

- Update on regular meetings with regulators.
- Developments unit-linked insurance policies.
- Status per business unit (SNS Bank, REAAL, Property Finance).
- Presentation on Zwitserleven by management team of Zwitserleven.
- Half-year results and interim dividend.
- Performance evaluation of Audit Committee and Risk Committee.
- Update on strategy, including financial markets and risk management developments.
- Developments remuneration policy.
- Feedback on meetings held by the Audit Committee, the Remuneration Committee and the Risk Committee.

### September (strategy session)

- Feedback on Extraordinary General Meeting of Shareholders.
- Feedback on half-year results road show.
- ICAAP (Internal Capital Adequacy and Assessment Process) SNS Bank.
- Various strategic topics, such as developments on financial markets, capital and liquidity position, risk management, tightened strategy, regulatory and supervisory pressure, Property Finance, distribution and multibrand strategy and putting the clients' interests first.
- Feedback on the meeting held by the Nomination Committee.

### October (by telephone)

- Approval lower Tier 2 exchange offer.

### November (two meetings)

- Update on regular meetings with regulators.
- Developments unit-linked insurance policies.
- Status per business unit (SNS Bank, REAAL, Zwitserleven).
- Presentation on REAAL by management team of REAAL.
- Q3 figures and reception of these results.
- Putting the clients' interests first and multibrand strategy.
- Update on strategy, including developments on financial markets and risk management and preparations for Investor Day.
- Regulations Supervisory Board and its committees.
- Feedback on meetings held by the Audit Committee, the Remuneration Committee and the Risk Committee.

### December

- Update on regular meetings with regulators.
- Developments unit-linked insurance policies.
- Status per business unit (SNS Bank, REAAL, Zwitserleven).
- Presentation on Property Finance by management team of Property Finance.
- Update on strategy, including developments on financial markets and risk management.
- Operational plan for 2012-2014, capitalisation and funding plan 2012-2014.
- Risk appetite SNS REAAL.
- Strategy IT&Change.
- Performance Supervisory Board.
- Feedback on meetings held by the Audit Committee, the Remuneration Committee and the Risk Committee.

### 19.4.2 Presence of the Executive Board

In principle, the Supervisory Board meets in the presence of the members of the Executive Board and the Company Secretary. In 2011, the Supervisory Board convened part of the meeting in February without the Executive Board members. During that part of the meeting, the performance of the Executive Board and its individual members and the own performance were discussed. In the Supervisory Board meeting in March, only the CEO attended part of the meeting. During that part, the following topics were discussed: the composition of the Supervisory Board, the remuneration of the Executive Board and senior management and the composition and segregation of duties of the Executive Board.

### **19.4.3 Presence of the external auditor**

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

## **19.5 Committee meetings**

The Supervisory Board has four committees:

- [Audit Committee](#)
- [Nomination Committee](#)
- [Remuneration Committee](#)
- [Risk Committee](#)

In the course of 2011, the Credit Committee was merged with the Risk Committee. The duties of each committee are described below. More detailed information on the composition of the committees and the regulations of each committee can be found on [www.snsreaal.nl](http://www.snsreaal.nl).

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

### **19.5.1 Audit Committee (AC)**

In connection with the stepping down of Hans van de Kar, Piero Overmars joined the AC. Besides the Company Secretary, the CEO, the CFRO, the Group Audit Director, the CFO Group Finance and the external auditor attended all meetings. The external actuary was also present at two meetings. The AC convened six times in 2011.

In 2011, the AC discussed and assessed the structure and operation of SNS REAAL's financial reporting and the corresponding audits, the financial and audit reports, fiscal issues, the reports and activities of the external auditor and the external actuary, the closing process and the fiscal audit framework at Property Finance, Solvency II, the annual plan and the mandate of KPMG and Group Audit and the management letter. When evaluating the AC's performance, special attention was paid to the segregation of duties between the AC and the Risk Committee. The evaluation showed that the segregation of duties has become increasingly clear and that the overlap in the duties of the two committees has consequently practically disappeared.

### **19.5.2 Nomination Committee (NC)**

The composition of the NC did not change in 2011. Besides the Company Secretary, this committee's meetings are attended by the CEO and the HR Director. The committee convened four times in 2011.

The NC focuses on the selection and appointment of members of the Executive Board and the management boards of the business units and examines succession planning of key management positions within SNS REAAL. It also prepares the nomination of new members of the Supervisory Board. In 2011, the NC was, among other things, engaged in the selection of a new member for the Executive Board and the Supervisory Board and in the selection of the new CEO of SNS Asset Management.

### 19.5.3 Remuneration Committee (RemunCo)

The composition of the RemunCo did not change in 2011. Besides the Company Secretary, the CEO and the HR Director and with some regularity the CFRO attend the meetings of the RemunCo. The committee convened eleven times in 2011.

The RemunCo has the task of preparing the decision-making with regard to the remuneration policy applicable to the Executive Board members, senior management, and the remuneration policy principles for other SNS REAAL personnel. Almost every month in 2011, the RemunCo held meetings about the remuneration policy of the top of SNS REAAL in connection with the new European regulations in this area and the implementation of these regulations by the Dutch legislator. The Executive Board's pension scheme was also discussed. For more information, reference is made to [the remuneration report](#), which sets out and accounts for the main aspects of the remuneration policy.

### 19.5.4 Risk Committee (RC)

Hans van de Kar stepped down from the RC in 2011. Piero Overmars took over the role of Chairman of the RC. Moreover, Jaap Lagerweij joined the RC in connection with the merger of the Credit Committee and the RC. Besides the Company Secretary, the RC meetings are attended by the CEO, the CFRO, the Group Audit Director, the Group Risk Management Director and the Compliance, Security and Operational Risk Management Director. The external auditor attends part of the meeting at least once a year. The committee convened five times in 2011.

The RC is primarily engaged in preparing and monitoring the [financial and non-financial risk policies](#) and the operation of the [risk management organisation](#). In 2011, the RC paid special attention to the risk management organisation and the improvement of the organisation, and in view of the developments in the financial markets, to the risk appetite and the investment policy of SNS REAAL and to the risk aspects of the remuneration policy. When evaluating the RC's performance special attention was paid to the segregation of duties between the AC and the RC. The evaluation showed that the allocation of duties has become increasingly clear and that the overlap in duties of the two committees has consequently practically disappeared.

## 19.6 Financial statements and dividend

SNS REAAL published its annual results 2011 on 16 February 2012. The results were discussed prior to the publication in the meeting of the Supervisory Board in February. The Supervisory Board also discussed the financial statements 2011 in its meetings of February and March 2012. KPMG, the external auditor, issued an unqualified [audit report](#) for the financial statements. The financial statements will be presented to the Annual General Meeting of Shareholders on 25 April 2012.

In view of the strengthening of the capital position and expected higher capital demands of the regulatory authorities, SNS REAAL will refrain from distributing a dividend for 2011.

### 19.7 Remuneration report

In 2011, SNS REAAL adopted a new remuneration policy for the Executive Board with effect from 1 January 2011. This policy was adopted at the Extraordinary General Meeting of Shareholders. In this paragraph we provide the main principles of the new remuneration policy of the Executive Board. Subsequently the actual remuneration of the members of the Executive Board is summarised. Finally, we provide an overview of the remuneration of the Supervisory Board.

More detailed information about the Executive Board's remuneration can be found in the full remuneration report, which has been published on the SNS REAAL website. Information on the SNS REAAL Group remuneration policy also can be found there.

### **19.7.1 Remuneration policy of the Executive Board**

In 2011, the remuneration policy of the Executive Board was amended as a result of changes in European legislation and the subsequent coming into force of the Regulation on Sound Remuneration policies pursuant to the Financial Supervision Act (Regeling Beheerst Beloningsbeleid Wft 2011). This new policy was implemented with retroactive effect from 1 January 2011. The amendments relate to additional risk-mitigating measures and a change in the variable remuneration structure. The remuneration of the Executive Board did not change.

#### **Basic principles of the remuneration policy**

The basic principles of the policy that apply to all business units of SNS REAAL are also applicable to the policy of the Executive Board. The remuneration policy is characterised by its consideration of all of the Company's stakeholders, including customers, employees, shareholders and society. Because the Key Performance Indicators are derived from the long-term goals of SNS REAAL, the policy contributes to the realisation of the strategy and long-term interests of SNS REAAL. The remuneration matches the risk profile of SNS REAAL and the risk profile of the person who holds the position in question.

The policy is as consistent as possible for the entire Group to encourage the exchange and movement of staff to other positions. The policy is compliant with current laws and regulations.

As long as SNS REAAL receives capital support from the Dutch State, it exercises great restraint in awarding variable remuneration.

The total salary (fixed and variable) of the Executive Board is slightly below the median of similar positions at Dutch medium-sized financial and other (listed) non-financial institutions.

#### **Remuneration components**

Remuneration of the Executive Board members comprises the following components: the fixed annual income, the variable remuneration and a pension contribution. Based on these remuneration components, the remuneration policy is explained in more detail.

##### **Fixed annual income**

The fixed annual income did not change in 2011. The 1% increase under the Collective Labour Agreement (CLA) as from 1 January 2011 was cancelled for the members of the Executive Board.

The total fixed annual income of the Chairman of the Executive Board of € 570,000 has remained unchanged since 2008. For the other members of the Executive Board, the total fixed annual income of € 467,780 has remained unchanged since 2008. The table presenting the remuneration of the members of the Executive Board presents higher amounts because the social security contributions are added to the fixed annual income.

##### **Variable remuneration**

The variable Remuneration is made up of a direct component and a deferred component. The initial granting of variable remuneration is based on annual targets. Both the direct and deferred components are distributed half in cash and half in SNS REAAL shares. Previously, distribution was 100% in cash.

The variable remuneration for each of the members of the Executive Board is based on both the performance of SNS REAAL and each member's individual performance. Prior to the performance period, the Supervisory Board establishes clear, challenging and measurable Key Performance Indicators (KPIs). Guidelines have been drawn up for the (KPIs). Audit departments check the KPIs prior to the performance period (ex ante risk analysis) and report the outcomes to the Remuneration Committee, after which adjustments can be made.

KPIs are derived from the long-term strategic goals of SNS REAAL and have due regard for the desired risk profile. SNS REAAL focuses on risk management with an emphasis on compliance and measures that take risks and the costs of capital and liquidity into account.

KPIs are divided in financial performance indicators and non-financial performance indicators. Financial indicators include the gross result, solvency and absolute costs. Important non-financial performance indicators include customer satisfaction, employee satisfaction and solving operational risk and compliance issues.

The Supervisory Board determines the level of the variable remuneration based on the weight of the KPI and the performance achieved per KPI. Payment of part of the variable remuneration is deferred and is dependent on the developments in the deferral period. Audit departments perform an ex post risk analysis to map these developments. The Supervisory Board is authorised to adjust the variable remuneration of the members of the Executive Board downwards if the granting or payment of the remuneration would lead to unfair or unintentional outcomes (the 'test of reasonableness').

The Supervisory Board had the authority to adjust the variable remuneration granted and paid based on incorrect (financial) data or inappropriate acting downward and recover the amounts and shares (the so-called 'claw back').

If in any year SNS REAAL makes a loss, the Executive Board will not be awarded a variable remuneration for that year. As long as SNS REAAL receives capital support from the Dutch State, it exercises great restraint in awarding variable remuneration. This means that there is no variable remuneration for 2011, nor will one be awarded to the Executive Board.

#### **Pension**

The members of the Executive Board participate in the same pension scheme as all other SNS REAAL NV personnel. Thus, members of the Executive Board pay a 4.5% member's contribution in accordance with the SNS REAAL Collective Labour Agreement (CLA). Under the CLA, the variable remuneration is part of pensionable income. In case of the Executive Board, this is capped at the level of the 'at target' remuneration.

A retirement age of 60 was laid down in an agreement with Mr Hinssen. As a result, the original accrual rate for his retirement pension (1.85%) has been reduced to 1.55% in accordance with statutory obligations. Mr Hinssen is compensated for this change by means of a supplementary pension right of 0.3% accrual per participation year.

#### **Other**

Mr Latenstein and Mr Lamp receive a gross expense allowance of € 2,448 annually. Mr Okhuijsen and Mr Steenpoorte do not receive a fixed expense allowance and are entitled to claim their business expenses. Executive Board members have a company car with driver for business travel at their disposal. SNS REAAL took out a mortality risk and disability insurance for members of the Executive Board.

Upon termination of employment at SNS REAAL's initiative, members of the Executive Board receive a maximum payment of one year's gross fixed annual salary (the 'fixed' part of the remuneration). A change-of-control clause is also part of the employment agreements of the Executive Board members, for which the same maximum payment applies as for the termination of employment.

## 19.7.2 Remuneration of the Executive Board in 2011

Table 29 provides an overview of the total remuneration paid to each member of the Executive Board.

**Table 29: Gross remuneration of the Executive Board 2011**

In € thousands	Fixed salary		Pension and other		Variable remuneration		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
R.R. Latenstein	580	581	117	117	--	--	--	4	697	702
F.K.V. Lamp	478	479	96	96	--	--	--	--	574	575
M.W.J. Hinssen (tot 15 september 2011)	338	479	76	107	--	--	--	4	414	590
W.H. Steenpoorte (vanaf 15 september 2011)	139	--	21	--	--	--	--	--	160	--
D.J. Okhuijsen	475	475	96	96	--	--	--	55	571	626
<b>Total Executive Board</b>	<b>2,010</b>	<b>2,014</b>	<b>406</b>	<b>416</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>63</b>	<b>2,416</b>	<b>2,493</b>

Fixed salary including holiday allowance and 13th month's bonus, social security contributions, expense allowance and contribution to health insurance.

Other in Pension and other refers to risk insurance premiums. Grossed-up value of the share match shares of Mr Latenstein and Mr Hinssen.

Compensation for Mr Okhuijsen's temporary accommodation until 1 September 2010.

No variable remuneration is paid to the members of the Executive Board for 2011.

After his retirement from the Executive Board, Mr Hinssen will remain in the service of SNS REAAL and be engaged in consultancy work. His conditions of employment, including the payment upon termination of employment at the initiative of SNS REAAL in the amount of one year's gross fixed annual salary, remain applicable with the exception of the variable remuneration scheme. The remuneration of Mr Hinssen after his retirement as member of the Executive Board amounted to € 170 thousand (€ 139 thousand fixed salary and € 31 thousand pension and risk insurance premiums). The total remuneration for executive officers and former executive officers added together in 2011 amounted to € 2,586 thousand.

## Share ownership

The table below provides an overview of the value of shares granted in the past. These are shares granted in 2007 within the context of the long-term bonus scheme. No shares were granted after 2007; the scheme was cancelled when the new remuneration policy was adopted in 2010. One of the adjustments included in the remuneration policy introduced in 2011 is that both the direct component as well as the deferred component of the variable remuneration will be distributed for 50% in SNS REAAL shares. Previously 100% was distributed in cash.

Executive Board members who were granted shares in 2007, obtained ownership in 2010. These shares will be released in 2013, when the three-year lock-up period ends. The one-off shares award of 2006 is not subject to a vesting period, only to a five-year lock-up period. These shares will be released in 2012.

**Table 30: Value of shareholdings**

	Number of shares on deposit				Market value (x € 1.000)	
	One-off 2006	Share match 2006	Regular 2007	Share match 2007	Grant date (31-12-2007)	Vesting date (28-04-2010)
R.R. Latenstein	13,904	3,476	2,037	510	307	11
M.W.J. Hinssen	13,904	3,476	2,037	510	307	11
<b>Total</b>	<b>27,808</b>	<b>6,952</b>	<b>4,074</b>	<b>1,020</b>	<b>614</b>	<b>22</b>

The amounts under vesting date are exclusive of the one-off shares award of 2006 (which is not subject to a vesting period). The 2007 share match has 31 May 2010 as vesting date.

## Loans

The table below provides an overview of the loans granted to members of the Executive Board that were outstanding at 31 December 2011. It concerns a residential mortgage loan to Mr Steenpoorte. This loan was provided in the course of ordinary business and under terms and conditions that also apply to other members of staff.

**Table 31: Loans to members of the executive board**

<i>In € thousands</i>	Outstanding as at 31 December		Average interest rate		Redemptions on mortgages	
	2011	2010	2011	2010	2011	2010
W.H. Steenpoorte	1,193	1,202	4.1%	4.1%	9	9
<b>Total</b>	<b>1,193</b>	<b>1,202</b>			<b>9</b>	<b>9</b>

### 19.7.3 Remuneration of the Supervisory Board in 2011

The fixed annual remuneration is € 30,000 for Supervisory Board members, € 35,000 for the vice-chairman and € 45,000 for the chairman of the Supervisory Board.

The annual remuneration for membership of the Credit Committee, the Risk Committee, the Nomination Committee and the Remuneration Committee is € 3,250, and € 7,000 for the Audit Committee.

Members of the Supervisory Board receive a fixed annual expense allowance of € 1,617, whilst the chairman of the Supervisory Board receives a fixed annual expense allowance of € 2,156.

The Supervisory Board members do not hold any shares in SNS REAAL NV.

The table below provides an overview of the total remuneration of the individual members of the Supervisory Board. At 31 December 2011 no loans were outstanding to members of the Supervisory Board.

**Table 32: Gross remuneration of the Supervisory Board**

<i>In € thousands</i>	As Supervisory Board member		As member of a committee		Total	
	2011	2010	2011	2010	2011	2010
R. Zwartendijk	45	45	12	12	57	57
P. S. Overmars (from 7-10-2010)	33	7	18	3	51	10
C. Insinger	30	30	12	14	42	44
R.J. van de Kraats	30	30	12	12	42	42
J.E. Lagerweij	37	30	9	10	46	40
J. A. Nijhuis	30	30	9	11	39	41
H.W.P.M.A. Verhagen	30	30	8	8	38	38
L. Wijngaarden	30	30	12	14	42	44
J.A. Nijssen (from 13-09-2011)	9	--	2	--	11	--
H.M. van de Kar (until 20-4-2011)	11	35	5	15	16	50
H. Muller (until 20-4-2011)	9	30	3	10	12	40
S.C.J.J. Kortmann (until 7-10-2010)	--	23	--	12	--	35
<b>Total</b>	<b>294</b>	<b>320</b>	<b>102</b>	<b>121</b>	<b>396</b>	<b>441</b>

*The remuneration as a member of a committee includes other allowance and, for Mr Muller, including the compensation he received for his Supervisory Board activities at ASN Beleggingsfondsen N.V. during the first six months of 2010.*



## **19.8 Closing words**

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

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

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

Utrecht, 5 March 2012

On behalf of the Supervisory Board,

Rob Zwartendijk, Chairman

## 20 Corporate governance

This chapter contains information on a wide range of corporate governance issues:

The chapter starts by providing various information on the Executive Board and the Supervisory Board, the shareholders, shares and core Tier 1 securities issued by SNS REAAL. Subsequently an outline of several codes (the Corporate Governance Code, the Banking Code and the Governance Principles of the Dutch Association of Insurers (the Insurance Code)) that apply to SNS REAAL as a whole or to specific business units of SNS REAAL. The chapter concludes with statements required pursuant to the Corporate Governance Code and the law.

### 20.1 The Executive Board



#### 20.1.1 Composition and duties

The Executive Board of SNS REAAL (Executive Board) comprises the following members as per 31 December 2011:

- [Ronald Latenstein](#) (Chair and CEO)
- [Ferenc Lamp](#) (CFRO)
- [Dick Okhuijsen](#) (COO)
- [Wim Henk Steenpoorte](#) (CTO)

The Executive Board's responsibilities include drawing up and implementing Group-wide objectives, the corporate strategy on sales and distribution and the subsequent development of results, compliance policy, risk management policy, corporate communication, the IT policy and the Human Resource policy of SNS REAAL.

The Executive Board adopts resolutions by an absolute majority of votes. The rules for the formal aspects of the Executive Board's functioning are laid down in [regulations](#), which also contain the segregation of duties between the Executive Board members. The regulations have been approved by the Supervisory Board. The members of the Executive Board have declared that they agree to the contents of the regulations and that they will comply with the rules in the regulations. The Articles of Association and the regulations contain a list of resolutions that are subject to the approval of the Supervisory Board.

The Executive Board and the chairmen of the management boards of SNS Bank, REAAL and Zwitserleven, the HR Director, the Director of SNS Asset Management (as per 1 October 2011) and the Chief Information Officer, together form the Management Committee of SNS REAAL. Following the appointment of the Chief Technology Officer to the Executive Board as per 15 September 2011, the position of Chief Information Officer has become superfluous with effect from 31 December 2011. This position is no longer part of the Management Committee with effect from 2012.

### **20.1.2 Responsibilities, curricula vitae and additional positions**

#### **Ronald Latenstein**

Ronald Latenstein (1964) has been Chairman and Chief Executive Officer since 15 April 2009.

He is also responsible for the Group staff departments Group Audit, Corporate Communication, Compliance, Security and Operational Risk Management, Corporate Strategy and Human Resource.

Ronald Latenstein began his career at SNS REAAL in 1995 after he had gained experience in various financial management positions. After a brief intermezzo as CFO at Bank Insinger de Beaufort, he returned to SNS REAAL in 2002 as CFO and member of the Executive Board.

Additional positions: member of the Supervisory Board of Sligro Food Group N.V., Chairman of the Dutch Association of Insurers (Verbond van Verzekeraars), member of the Board of Vereniging VNO-NCW, member of the Board of Oranje Fonds and board member of Stichting Weet Wat Je Besteedt.

#### **Ference Lamp**

Ference Lamp (1971) has been Chief Financial and Risk Officer on the Executive Board since April 2009. In addition, he is responsible for Property Finance since September 2011 and is responsible for the Group staff departments Group Risk Management, Investor Relations, Group Finance, Fiscal Affairs and Insurance Treasury & Investment Management.

Ference Lamp began his career at MeesPierson Investment Banking but switched over to Lehman Brothers after several years. At Lehman Brothers he was Managing Director of the Benelux Financial Institutions Group when he joined SNS REAAL.

Additional positions: member of the Board of the Duisenberg School of Finance, member of the Supervisory Committee of Stichting Radio Nederland Wereldomroep, and member of the Supervisory Committee of ROC Amsterdam-Flevoland.

#### **Dick Okhuijsen**

Dick Okhuijsen (1965) has been a member of the Executive Board since 3 December 2009 and in his capacity as Chief Operations Officer focuses on the business operations of SNS Bank, REAAL, Zwitserleven and SNS Asset Management. Before Dick Okhuijsen joined SNS REAAL, he held several positions at Nationale Nederlanden and ING Group, including that of CEO of ING Life Insurance in Japan.

Additional positions: member of the Board of the Dutch Bankers' Association (Nederlandse Vereniging van Banken) and member of the Board of Stichting Management Studies.

## **Wim Henk Steenpoorte**

Wim Henk Steenpoorte (1964) has been a member of the Executive Board since 15 September 2011 and in his capacity as Chief Technology Officer focuses on IT & Change. In addition, he is responsible for the Group staff departments Facility Management and Legal Affairs.

Wim Henk Steenpoorte joined SNS REAAL in 2000. He was a member of the management team of REAAL since 2006, followed by his appointment as CEO in 2009. Before joining SNS REAAL, Wim Henk Steenpoorte was ICT manager at Ogilvy Netherlands and he held various positions in the insurance industry at predecessors in title of REAAL.

Additional positions: chairman of the Supervisory Board at Meetingpoint B.V. and member of the Supervisory Board of the Dutch Associated Insurance Companies Netherlands N.V. (VAN).

## **20.2 The Supervisory Board**

### **20.2.1 Composition, appointment and duties**

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

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

A Supervisory Board member is appointed for a term of four years. Reappointment only takes place after careful consideration and at most twice, each time for a term of four years. In reappointing Supervisory Board members due consideration is given to the profile of the Supervisory Board, the performance of the relevant individual and the length of tenure.

The Executive Board adopts resolutions by a majority of votes. The Supervisory Board has established regulations to further specify a number of provisions in [the Articles of Association](#). All Supervisory Board members have declared that they agree to the contents of the regulations and that they will comply with the rules included in said regulations. SNS REAAL is what is known as a two-tier company with a Supervisory Board carrying all powers allocated to the Supervisory Board of a two-tier company under the Dutch Civil Code. In addition, the Supervisory Board has certain additional powers as laid down in the regulations of the Executive Board and the Articles of Association. The Supervisory Board meets at least six times a year in accordance with a schedule to be drawn up annually.

On 11 December 2008, SNS REAAL issued core Tier 1 capital securities to the Dutch State in exchange for financial support. The arrangements related to the issuance have been laid down in an agreement between SNS REAAL and the Dutch State. Under said agreement, the latter acquired the right to nominate two members for the Supervisory Board. The Dutch State exercised that right. Thus, Charlotte Insinger and Ludo Wijngaarden were appointed members of the Supervisory Board at the Annual General Meeting of Shareholders (AGM) on 15 April 2009. In addition, it was agreed with the Dutch State that these Supervisory Board members had to approve some very important decisions, including the issue, acquisition and disposal of SNS REAAL shares, a significant acquisition or participation by SNS REAAL in the share capital of another company, significant investments, proposals to amend the Articles of Association, and amendments to SNS REAAL's remuneration policy. The full text of the agreement can be found on the website of SNS REAAL: [www.snsreaal.nl](http://www.snsreaal.nl).

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

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

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

The Supervisory Boards of SNS Bank NV, REAAL NV and SRLEV NV are composed of the same individuals as the Supervisory Board of SNS REAAL.

### **20.2.2 Curricula vitae, terms of office and additional positions**

All Supervisory Board members carry the Dutch nationality.

#### **Rob Zwartendijk**

Rob Zwartendijk (1939) worked at Ahold N.V. for many years (1977-1999), where he became a member of the Executive Board in 1981. In addition, he was President and CEO of Ahold USA from 1989 to 1999. He was Chairman of the Board of Stichting Beheer SNS REAAL for several years, and as such is very familiar with SNS REAAL. Rob Zwartendijk is also chairman of the Supervisory Board of Nutreco Holding N.V. Besides this, he is a member of the Supervisory Board of Randstad Holding N.V. and a member of the board of Stichting Preferente Aandelen Mediq.

Rob Zwartendijk was appointed Supervisory Board member for the first time on 15 April 2009. He will resign no later than at the first meeting of shareholders after 15 April 2013.

#### **Piero Overmars**

Piero Overmars (1964) is Chairman of the Nyenrode Foundation (this Foundation is the owner of Nyenrode Business University), member of the Supervisory Board of Aronsohn Raadgevende Ingenieurs and member of the Supervisory Board of Van Dijk Educatie. From 1989 to 2007, Piero Overmars held various positions at ABN AMRO Bank, both in the Netherlands and abroad, before he became a member of the Executive Board of ABN AMRO in 2006.

Piero Overmars was appointed Supervisory Board member for the first time on 7 October 2010. He will resign no later than at the first meeting of shareholders after 7 October 2014.

#### **Charlotte Insinger**

Charlotte Insinger (1965) is an independent management consultant. Insinger is partner of the Nieuwe Commissaris Consult, member of the Supervisory Board of the Vesteda Group, member of the Supervisory Committee of Koninklijke Diergaarde Blijdorp Foundation, member of the board of the Doping Autoriteit and member of the Advisory Council of Between Us, member of the Supervisory Committee of Rijnland zorggroep and as per 1 March 2012 member of the Supervisory Committee Luchtverkeersleiding Nederland. Before that, she worked for the Erasmus MC, the Robeco Group and Shell.

Charlotte Insinger was appointed Supervisory Board member for the first time on 15 April 2009 on nomination of the Dutch State. She will resign no later than at the first meeting of shareholders after 15 April 2013 or upon repayment of the core Tier 1 capital securities issued to the Dutch State, whichever occurs earlier.

### **Robert-Jan van de Kraats**

Robert-Jan van de Kraats (1960) is Vice Chairman of the Executive Board and CFO of Randstad Holding N.V. In addition to Finance, M&A and Investor Relations, Van de Kraats is also responsible for a number of subsidiaries in various countries. He is a former member of the Executive Board and CFO of NCM Holding N.V. Robert-Jan van de Kraats is currently also a member of the Supervisory Board of Ordina N.V.

Robert-Jan van de Kraats was appointed Supervisory Board member for the first time on 12 October 2006. He will resign no later than at the first meeting of shareholders after 20 April 2015.

### **Jaap Lagerweij**

Jaap Lagerweij (1947) is Director and partner of Motus Retail. Until 1 January 2010 Lagerweij was Managing Director of the Sperwer Group and a member of the Board of Superunie, a purchasing organisation for a large number of Dutch supermarket organisations. Jaap Lagerweij is a member of the Supervisory Boards of Nederlandse Staatsloterij, Macintosh, Coolcat Fashion, HG International, Beerensgroep and LTP. In addition to these supervisory board memberships, Jaap Lagerweij is member/chairman of a number of advisory councils, as well as supervisory board member/advisor of two family businesses.

Jaap Lagerweij was appointed Supervisory Board member for the first time on 12 October 2006. He will resign no later than at the first meeting of shareholders after 20 April 2015.

### **Jos Nijhuis**

Jos Nijhuis (1957) is President of Schiphol Group. Before that, he was Chairman of the Executive Board of PriceWaterhouseCoopers. Jos Nijhuis is a member of the Supervisory Committee of Stichting Kids Moving the World, member of the Board of Stichting Common Purpose, chairman of the Supervisory Committee of the Dutch National Ballet, member of the Supervisory Committee of Het Muziektheater and Non-executive Director of Aeroports de Paris.

Jos Nijhuis was appointed Supervisory Board member for the first time on 15 April 2009. He will resign no later than at the first meeting of shareholders after 15 April 2013.

### **Jan Nijssen**

Jan Nijssen (1953) is partner at Montae (independent pensions & insurance consultants). From 1978 to 2005 Jan Nijssen held several positions at Nationale Nederlanden and ING Group both in the Netherlands and abroad. In 1997, he became a member of the Board of ING Nederland, in 2000 member of the Board of ING Europe and in 2004 CEO of Central Europe ING Insurance & Pensions. He is also Chairman of the Supervisory Committee of Envia.

Jan Nijssen was appointed Supervisory Board member for the first time on 13 September 2011. He will resign no later than at the first meeting of shareholders after 13 September 2015.

### **Herna Verhagen**

Herna Verhagen (1966) is a member of the Board of Management of PostNL. She is former Managing Director of Group HR at TNT and former Sales Director of TNT Post. Herna Verhagen is a member of the Advisory Council of Rijkswaterstaat and member of the Supervisory Board of Nutreco.

Herna Verhagen was appointed Supervisory Board member for the first time on 12 June 2008. She will resign no later than at the first meeting of shareholders after 12 June 2012.

## **Ludo Wijngaarden**

Ludo Wijngaarden (1947) was Chairman of the Board of Nationale Nederlanden and member of the Board of ING Nederland until 2008. Before that, he was the Chairman of the Board of Postbank and the ING Retail division. Until October 2008, he was Chairman of the Dutch Association of Insurers (Verbond van Verzekeraars), member of the Board of VNO-NCW and member of the Bank Council of DNB. Ludo Wijngaarden is Chairman of the Supervisory Board of Oasen, Chairman of the Supervisory Board of LTP, member of the Supervisory Board of the residential building cooperative Rochdale, member of the Executive Board of DAK, member of the Advisory Council of College Bescherming Persoonsgegevens and member of the Advisory Council of Oracle Nederland.

Ludo Wijngaarden was appointed Supervisory Board member for the first time on 15 April 2009 on nomination of the Dutch State. He will resign no later than at the first meeting of shareholders after 15 April 2013 or upon repayment of the core Tier 1 capital securities issued to the Dutch State, whichever occurs earlier.

## **20.3 Rules regarding the appointment and dismissal of Executive Board and Supervisory Board members**

The members of the Executive Board are, pursuant to Book 2, section 162 of the Dutch Civil Code, appointed by the Supervisory Board. Each member of the Executive Board can be suspended or dismissed at any time by the Supervisory Board, but a member of the Executive Board can only be dismissed after the Supervisory Board has consulted the General Meeting of Shareholders (GMS).

Members of the Supervisory Board are appointed by the General Meeting of Shareholders (GMS) on nomination of the Supervisory Board. The GMS and the Works Council may recommend persons to the Supervisory Board to be nominated for the position of Supervisory Board member. To that end, the Supervisory Board will inform these bodies in good time of the term, the reason and of the profile of the vacancy in the Supervisory Board to be filled. If the reinforced right of recommendation as referred to in Article 18.4 of the SNS REAAL Articles of Association applies to the vacancy, the Supervisory Board shall make this known as well.

One-third of the members of the Supervisory Board is nominated by the Supervisory Board on the recommendation of the Works Council, unless the Supervisory Board objects to this recommendation on the grounds that it expects that the recommended person will be unsuitable to act as a member of the Supervisory Board or that the Supervisory Board would not be properly constituted if the appointment was made according to the recommendation. If the Supervisory Board objects to the recommendation of the work council for these reasons, the Supervisory Board will consult with the work council as soon as possible.

If the Supervisory Board fails to reach an agreement with the Works Council on the nomination, the Enterprise Section of the Amsterdam Court of Appeal will issue a ruling. The GMS may reject the recommendation by an absolute majority of votes, representing at least one-third of the issued share capital. If at least one-third of the share capital is not represented at the meeting, a new meeting will be convened, in which the nomination may be rejected by an absolute majority of votes. If the nomination is then rejected, the Supervisory Board will make a new recommendation in accordance with the above-mentioned procedure. If the General Meeting of Shareholders (GMS) does not appoint the nominated person and does not resolve to reject the nomination, the Supervisory Board will appoint the nominated person.

A member of the Supervisory Board can only be dismissed by the Enterprise Section of the Amsterdam Court of Appeal for neglecting his duties, other serious considerations or a drastic change in circumstances due to which the Company can no longer be reasonably expected to retain the Supervisory Board member. A Supervisory Board member may be suspended by the Supervisory Board. The GMS may pass a motion of no confidence in the Supervisory Board by an absolute majority of votes, representing at least one-third of the issued share capital. If at least one-third of the issued share capital was not represented at the meeting, a new meeting may be convened at which the GMS, by an absolute majority of votes, may pass the motion of no confidence in the Supervisory Board, irrespective of the portion of capital represented at that meeting. This motion will result in the immediate dismissal of the entire Supervisory Board. If a



motion of no confidence has been passed, the Executive Board will request the Enterprise Section of the Amsterdam Court of Appeal to temporarily appoint one or more Supervisory Board members without delay.

## **20.4 Shareholders, shares and core Tier 1 capital securities**

### **20.4.1 Information on shareholders of SNS REAAL**

Stichting Beheer SNS REAAL (the Foundation) currently holds 50.00001% of the shares in SNS REAAL. At the IPO in 2006, it reduced its interest from 100% to 65.5%. In May 2007, the Foundation sold another 15.2 million shares at the issue to finance the acquisition of AXA NL and further reduced its interest from 65.5% to 54.3%. On 29 September 2009, a share issue was completed that resulted in the Foundation's interest reducing even further, to 50.00001%.

The Foundation is an independent trust that was established in 1988. The goals of the Foundation are:

- To participate in SNS REAAL's capital in the form of shares.
- To represent SNS REAAL's interests in such a way that the interests of the Company and all those involved in it are safeguarded.
- To make disbursements of a philanthropic or social nature.

The Board of the Foundation comprises Jan Overmeer, Mick den Boogert, Nol Hoevenaars, Bas Kortmann and Henk Muller. Henk Muller was also a member of the Supervisory Board of SNS REAAL up to 20 April 2011.

Apart from the Foundation, only the following shareholder (as far as we know) reported a (potential) interest of 5% or more on 31 December 2011 in accordance with the Financial Supervision Act ( Wft ): MFSC, holding an interest of 3.15% and a voting right of 5.07% (including voting rights based on proxies) as at 30 November 2010.

### **20.4.2 Ordinary shares and B shares**

SNS REAAL has issued ordinary shares. All ordinary shares of SNS REAAL are listed on the Euronext NYSE in Amsterdam. There are no special controlling rights attached to the ordinary SNS REAAL shares. SNS REAAL has set no restrictions on the transfer of the ordinary shares. The Articles of Association of SNS REAAL contain no share transfer restriction clause for the ordinary shares and there is no agreement between the Company and any shareholder that might result in the restriction of the transfer of shares.

On 28 April 2008, SNS REAAL issued 6 B shares to the Foundation. The B shares were issued for an aggregate issue price of € 600 million in cash. This amount was used for the acquisition of Zwitserleven. The B shares are not listed and have the following characteristics:

1. No special controlling rights are attached to the B shares. Accordingly, the B shares entitle the holder to cast a total of 6 votes at the General Meeting of Shareholders of SNS REAAL.
2. The B shares do not entitle the holder to any accrued or future profit reserves.
3. The dividend yield on the B shares will always be lower than the yield on the ordinary shares. The B shares entitle the holder to a dividend that depends on the dividend distributed on ordinary shares, such that the dividend yield of the B shares (expressed as a percentage of the total nominal amount of the B shares and the share premium reserve and the share premium recovery reserve related to the B shares) will amount to ninety percent (90%) of the dividend yield of the ordinary shares (expressed as a percentage of the average closing price of the ordinary shares in the final three months of the relevant financial year).
4. The Articles of Association of SNS REAAL contain a formula in connection with the dividend to be paid on the B shares, where it is assumed that 45% of the freely distributable profits, after deduction of the dividend for the B shares, will be paid as dividend to the holders of the ordinary shares each year. However, SNS REAAL's dividend policy allows for the distribution of a lower percentage in any given financial year. For such an event, the Foundation and SNS REAAL



agreed in the deed of issuance that the Foundation will relinquish, for the benefit of SNS REAAL, any excess dividend on the B shares that was paid out.

5. If in any financial year the pay-out ratio in respect of the ordinary shares should be higher than 45%, the Foundation will not receive any compensation.

6. Insofar as any future losses are charged against the share premium amount to be paid on the B shares, any profits made subsequently will be used to clear the deficit.

7. The B shares are not freely transferable. They can only be transferred with the prior consent of the Executive Board upon approval by the Supervisory Board.

8. In the deed of issuance of the B shares, SNS REAAL and the Foundation agreed that if a material change occurs in the control of SNS REAAL, including the situation that the Foundation is no longer the major shareholder of SNS REAAL, SNS REAAL will submit a proposal to the Foundation for refinancing of the amount of € 600 million that is paid on the B shares. The deed of issuance can be found on the website of SNS REAAL.

### **20.4.3 Functioning of the General Meeting of Shareholders**

The Annual General Meeting of Shareholders (AGM) is held within six months after the end of the fiscal year.

Extraordinary General Meetings of Shareholders (EGM) are held as often as the Executive Board or the Supervisory Board deems appropriate. In addition, a meeting will be convened when one or more shareholders, representing at least ten percent of the issued capital, submit a request to this end to the Executive Board and the Supervisory Board, stating the topics to be discussed.

The agenda states the items placed on the agenda by the Executive Board or the Supervisory Board. The agenda also states items that the Executive Board is requested to place on the agenda with due observance of the relevant statutory provisions. It is possible to place items on the agenda if the request is submitted at least sixty days prior to the date of convocation by one or more of the shareholders and other persons authorised to attend the meeting, representing at least one-hundredth part of the issued capital or represent a value of at least fifty million euros. The agenda of the GMS states which items will be discussed and which will be put to the vote. Material changes to the Articles of Association as well as proposals to appoint members of the Executive Board and Supervisory Board are presented separately to the GMS in accordance with the Corporate Governance code.

Resolutions are adopted by an absolute majority of votes, insofar as the law or Articles of Association do not explicitly prescribe a larger majority. General meetings of shareholders have always taken place in Utrecht. SNS REAAL has not set any restrictions to the exercise of the voting rights.

Majority shareholders have the same voting rights as other shareholders.

The agendas, explanatory notes to the agenda and minutes are available at [www.snsreaal.nl](http://www.snsreaal.nl).

The Executive Board may resolve to designate as entitled to vote or entitled to attend the meeting those who (I) are shareholders on a record date set by the Executive Board and (II) are registered as such in a register designated by the Executive Board (or one or more parts thereof), provided (III) the holder of the register, at the request of the applicant, has given notice in writing to the Company prior to the GMS that the relevant shareholder intends to attend the GMS, regardless of who the shareholder is at the time of the GMS. The requirement stated under (III) also applies to the holder of a written proxy provided by a shareholder. The notice must contain the name and the number of shares which the shareholder is entitled to represent at the GMS. The record date and the date by which the intention to attend the GMS has to be made known cannot be earlier than the period set by law. The convocation of the GMS will contain those dates (insofar as applicable), as well as the place where and the manner in which registration and notification will take place.

The GMS may resolve to amend the Articles of Association. A motion to amend the Articles of Association requires a majority of at least two-thirds of the votes cast at a GMS.

#### **20.4.4 Powers of the Executive Board to issue shares and to acquire own shares**

The GMS has delegated to the Executive Board the authority to issue shares. This authority can only be delegated for a fixed period of no more than five years and may each time be extended for no more than five years. The authority of the Executive Board will end on 20 October 2012, unless extended by the GMS. A resolution by the Executive Board to issue shares requires the approval of the Supervisory Board. If the GMS has delegated the authority to issue shares to the Executive Board, the Executive Board will determine the price and further conditions of any issue, subject to the approval of the Supervisory Board, taking into account the relevant provisions of the Articles of Association of SNS REAAL. The above applies correspondingly to the granting of rights to subscribe for ordinary shares, such as options, but does not apply to an issue of ordinary shares to a person exercising a previously acquired right to subscribe for ordinary shares.

The Executive Board, subject to the authorisation of the GMS and subject to Book 2, Section 98d of the Dutch Civil Code, may procure the repurchase of fully paid-up SNS REAAL shares for consideration. Such repurchases are only permitted if, and to the extent that:

- (I) the shareholders' equity, minus the purchase price, of SNS REAAL is not less than the issued share capital, plus the reserves required to be maintained by law or the Articles of Association; and
- (II) the nominal amount of the shares in its capital that SNS REAAL would acquire, hold or hold in pledge, or that would be held by any subsidiary, does not exceed one-tenth of the issued share capital.

The GMS must specify in the authorisation, which shall be valid for at most 18 months, the number of shares that may be acquired, the way in which they may be acquired and the limits within which the price must be set. The Executive Board has been authorised by the GMS to procure the acquisition, for consideration, of fully paid-up shares in its own share capital. The authorisation will end on 20 October 2012, unless the GMS extends the authorisation.

In principle, every shareholder has a pre-emptive right to shares issued by SNS REAAL in proportion to the aggregate amount of his shareholding. No pre-emptive right exists in respect of shares that are issued for a consideration other than in cash or shares issued to employees of SNS REAAL or any of its Group companies. Pre-emptive rights may be limited or excluded by a resolution of the GMS. Such a resolution requires at least a two-third majority of the votes cast if less than half of the issued share capital is represented at the meeting.

The GMS may designate the Executive Board as the competent body. In that case, the Executive Board may limit or exclude the pre-emptive right subject to the approval of the Supervisory Board. The Executive Board may only be designated for a limited period of no more than five years, which designation may be extended each time by no more than five years.

The Executive Board has been designated by the GMS as the body competent to decide on restricting or excluding the pre-emptive right. This authority will end on 20 October 2012, unless the GMS extends the designation.

SNS REAAL is not authorised to cooperate in the issue of depositary receipts.

#### **20.4.5 Securities issued to the Stichting Beheer SNS REAAL and the Dutch State**

On 11 December 2008, SNS REAAL issued two types of securities. The Foundation received 5,000,000 securities, each with a nominal value of € 100.00, for a total amount of € 500 million. The Dutch State received 142,857,140 securities, each with a nominal value of € 1.63, at an issue price of € 5.25, for a total amount of € 750 million.

On 30 November 2009, SNS REAAL repurchased securities in the amount of € 250 million, of which amount € 65 million had been issued to the Foundation and € 185 million to the Dutch State.

## 20.4.6 Securities issued to the Stichting Beheer SNS REAAL

### Characteristics

The characteristics of the securities issued to the Foundation (Stichting Securities) are:

- Non-voting securities.
- Perpetually subordinated, and rank pari passu with the ordinary shares and B shares.
- Qualified as core Tier 1 capital securities by the Dutch Central Bank (DNB).
- Non-convertible into ordinary shares.
- Subject to a [loss absorption clause](#), as a result of which the holder of the securities shares in the losses of the issuer of the securities.

### Developments since the issue of the securities

In November 2009, the Foundation and SNS REAAL agreed that SNS REAAL can repurchase € 167 million of the Stichting Securities at 100% of the original issue price (instead of 120%), subject to approval of the Dutch Central Bank. According to the arrangements made in December 2008, SNS REAAL can repurchase all or some of the other Stichting Securities at any time at 120% of the original issue price, also subject to the Dutch Central Bank's approval. On 30 November 2009, SNS REAAL repurchased Stichting Securities with a value of € 65 million, at which time the Foundation waived its right to the pro rate repurchase of € 58 million of securities issued to the Dutch State (State Securities).

The Foundation indicated in November 2010 that, in principle, it was willing to waive the condition with regard to the pro rata repurchase of its core Tier 1 capital securities simultaneously with the repurchase of the core Tier 1 capital securities issued to the Dutch State, subject to the following conditions:

- The Foundation adheres to its existing right of repurchase of € 58 million, and should part of the core Tier 1 capital securities of the Dutch State be repurchased early before the end of 2012, SNS REAAL will also have to repurchase the part of the € 58 million that has not yet been repurchased, subject to approval of the Dutch Central Bank.
- Given its substantial interest in non-voting capital, the Foundation considers it important to maintain its majority interest in ordinary SNS REAAL shares, as already indicated at the Annual General Meeting in April 2010. Should ordinary shares be issued in the period before the Stichting Securities have been fully repurchased, the Foundation will have the opportunity to maintain its majority interest by means of a conversion of core Tier 1 capital securities.

### Loss absorption clause

The Stichting Securities have a loss absorption clause. This means that the Foundation, unlike the Dutch State, shares in the losses of SNS REAAL (loss absorption), both during the term of the Stichting Securities and upon any dissolution and liquidation of SNS REAAL.

#### Loss absorption during the term of the Stichting Securities

If SNS REAAL incurs any losses during the term of the Stichting Securities, these losses will in part be borne by the Foundation. This loss participation is realised by reducing the nominal value of the Stichting Securities (issue price of € 100 per Stichting Security), with each Foundation Security having a minimum value of € 0.01.

The amount of this reduction constitutes part of the losses, to the extent that these losses exceed the SNS REAAL net profit reserves attributable to the period after 1 January 2009. The part referred to is a fraction comprising the aggregate of the nominal values of the outstanding Stichting Securities prior to the application of loss absorption, divided by the sum of (a) the aggregate of the nominal values of the outstanding Stichting Securities prior to the application of loss absorption, (b) the aggregate of the nominal values of the outstanding ordinary shares of SNS REAAL, increased by the corresponding share premium reserves and the share premium recovery reserves, as well as all other free reserves and reserves required by law and the Articles of Association, and (c) the aggregate of the nominal values of the outstanding

B shares, increased by the corresponding share premium reserves and share premium recovery reserves.

If SNS REAAL makes a profit in any subsequent year, that profit will partly be used to increase the nominal value of the Stichting Securities, up to a maximum of the initial nominal value of € 100 per Foundation Security. The amount of this increase is calculated in a manner similar to the reduction of the nominal value described above.

#### **Loss absorption upon dissolution and liquidation**

In the event of any dissolution and liquidation of SNS REAAL, the Foundation will share in any losses of SNS REAAL as follows. The balance that remains after full settlement of the amounts owed to all other creditors of SNS REAAL will be distributed pro rata among the holders of the Stichting Securities (currently the Foundation), the ordinary shares and the B shares based on the initial nominal value of the Stichting Securities as well as the nominal value of the ordinary shares and the B shares.

### **20.4.7 Securities issued to the Dutch State**

The characteristics of the securities issued to the Dutch State are:

- Non-voting securities.
- Perpetually subordinated, and rank pari passu with the ordinary shares and B shares.
- Qualified as core Tier 1 capital securities by the Dutch Central Bank (DNB).
- No loss absorption clause as a result of which the holder of the securities does not share in the losses of the issuer of the securities.

SNS REAAL may convert the State Securities into ordinary shares (at a 1 to 1 ratio) since 10 February 2012. In this situation, the Dutch State may opt for repayment in cash at the issue price of € 5.25 per security, increased by the interest accrued up until then. SNS REAAL is at all times entitled to repurchase all or part of the securities at € 7.875 per security (i.e. 150% of the issue price), increased by the interest accrued up until then, subject to the approval of the Dutch Central Bank.

### **20.4.8 Payments to the Stichting Beheer SNS REAAL and the Dutch State**

Payment to the Foundation and the Dutch State is dependent on the payment of (interim) dividend to ordinary shareholders. If no dividend is distributed to ordinary shareholders, then no payment is owed by SNS REAAL to the holders of the securities. If dividends are distributed, the payment to the Foundation will be 6% of the issue price per year. The payment to the Dutch State is either (per security) 8.5% of the issue price or, per security, the dividend paid on each ordinary share multiplied by a factor of 1.2 for 2010 and a factor of 1.25 for the years 2011 and onwards.

### **20.4.9 Approval capital support reconfirmed by European Commission**

On 19 December 2011, the European Committee (EC) reconfirmed its approval for the capital support by the Dutch State to SNS REAAL. The reconfirmation of approval followed the renotification by the Dutch State earlier in 2011. SNS REAAL and the Dutch State committed to the repurchase by SNS REAAL of the capital support by the Dutch State by the end of 2013. The reconfirmation of approval by the EC requires that SNS REAAL will if necessary execute sufficient additional measures to facilitate full State repayment by the end of 2013, subject to regulatory approval. The Dutch authorities will continue to report to the EC on SNS REAAL's progress regarding repurchase of the capital support, by means of a monitoring report.

In case the capital support by the Dutch State is not repurchased in full by the end of 2013, renotification is required in January 2014.

## **20.5 Various codes**

### **20.5.1 Corporate Governance Code**

The Corporate Governance Code (the Code) is applicable to all Dutch listed companies and, as such, also to SNS REAAL N.V. In its Annual Report, SNS REAAL reports on the compliance with the principles and best practices of the Code intended for the Executive Board or the Supervisory Board of SNS REAAL N.V. The full text of the Code is available on [www.commissiecorporategovernance.nl](http://www.commissiecorporategovernance.nl).

The Code defines that a company also complies with the Code if the General Meeting of Shareholders of that company gives approval to the corporate governance structure and deviations from the Code's principles. SNS REAAL is committed to adhering to the Code's best practice provisions as much as possible. SNS REAAL provides reasons for all deviations on the basis of its stakeholders' best interests.

#### **Deviation from best practice provision II.1.1**

The first deviation from the Code relates to best practice provision II.1.1: 'A management board member is appointed for a maximum period of four years. A member may be reappointed for a term of not more than four years at a time.' One member of the Executive Board (Ronald Latenstein) was appointed for an indefinite period in line with the statutory provisions prevailing at the time of his appointment. SNS REAAL considers it inappropriate to change the terms of his employment contract in this respect. Rien Hinssen was member of the Executive Board until 15 September 2011. He was also appointed for an indefinite period. Other members of the Executive Board (FERENCE Lamp, Dick Okhuijsen and Wim Henk Steenpoorte) have been appointed for a maximum period of four years, naturally with the possibility of being reappointed.

#### **Deviation from best practice provision III.5.11**

The second deviation from the Code relates to best practice provision III.5.11: 'The Remuneration Committee will not be chaired by the Chairman of the Supervisory Board, nor by a former member of the Executive Board of the Company, nor by a Supervisory Board member who is a member of the Executive Board of another listed company.' Herna Verhagen was already Chairman of the Remuneration Committee when she became an Executive Board member of a listed company following PostNL's flotation. A chairmanship change at that stage was undesirable in view of the phase the remuneration policy's amendment proposals were in. Herna Verhagen will step down as Chairman immediately after the closure of the General Meeting of Shareholders of 25 April 2012 at which time Jaap Lagerweij will be appointed Chairman of the Remuneration Committee.

#### **Deviation from best practice provision III.6.2**

The third deviation from the code relates to best practice provision III.6.2: 'A Supervisory Board member may not take part in a discussion and/or decision-making on a subject or transaction in relation to which he has a conflict of interest with the Company.' The Code's point of departure is that a Supervisory Board member is not deemed independent if he is a member of the management board at a legal entity that holds at least 10% of the shares in the Company. Stichting Beheer REAAL (the Foundation) holds more than 10% of the shares in SNS REAAL. Until 20 April 2011, one member of the Supervisory Board (Henk Muller) also sat on the Board of the Foundation. One of the objectives of the Foundation is to look after the interests of SNS REAAL. Depending on the specific circumstances, a situation could have arisen in which the member of the Supervisory Board who also sat on the Board of the Foundation had a conflict of interest with regard to certain topics or transactions, in connection with his position on the Board of the Foundation. SNS REAAL believes that such a conflict of interest, in view of the special objectives of the Foundation, could rarely have come to pass. For this reason, it had been decided that until 20 April 2011: (I) the member of the Supervisory Board referred to did not take part in discussions and decision-making within the Supervisory Board on agreements between SNS REAAL and the Foundation and (II) he did, in principle, take part in discussions and decision-making within the Supervisory Board. Henk Muller retired as member of the Supervisory Board on 20 April 2011.

### **Deviation from best practice provision IV.1.5**

The fourth deviation from the Code relates to best practice provision IV.1.5: 'A resolution to pay a dividend shall be dealt with as a separate agenda item at the General Meeting of Shareholders.' Partly in connection with the issue of six B shares in the capital of SNS REAAL to the Foundation in order to finance the acquisition of Zwitterleven, SNS REAAL's Articles of Association were amended on 28 April 2008. As a result of this amendment to the Articles of Association, SNS REAAL's authorised capital has been increased by six B shares and the provisions in the Articles of Association pertaining to profits, losses and dividend have been changed. The amended Articles of Association provide, inter alia, that as a result of the adoption of the financial statements, the freely distributable profits, to the extent that there are no Losses to be Cleared and after reservation of the Ordinary Reservation Amount (both as defined in the Articles of Association), will be distributed to the holders of ordinary shares and holders of B shares in accordance with the proportions stipulated in the Articles of Association. Accordingly, it follows from the Articles of Association that, upon adoption of the financial statements, the dividend is declared and, moreover, is distributable.

## **20.5.2 Banking Code and Insurance Code**

### **Mission, core value and strategy of SNS REAAL emphasise Banking Code and Insurance Code principles**

The [mission](#), [core value](#) and [strategy](#) of SNS REAAL confirm the principles of the Banking Code and Insurance Code (jointly referred to as the Codes). Since 2009, SNS REAAL has been implementing the recommendations of the Codes within its organisation where appropriate.

### **Contributions to restoring trust in the financial sector**

The Banking Code (and the Insurance Code) are aimed towards restoring trust in the financial sector. Naturally this is also the commitment of SNS REAAL. SNS REAAL does this by following these Codes and her [mission](#), [core value](#) and [strategy](#). In 2011 SNS REAAL undertook new initiatives to continue the direction taken in 2009.

### **SNS REAAL adopts Codes before coming into force**

The Banking Code is applicable to all of SNS REAAL's Banking activities and came into force on 1 January 2010. The Insurance Code applies to all of SNS REAAL's Insurance activities and came into force a year later. Even before these dates, in 2009, SNS REAAL started applying the Codes. From that moment on, SNS REAAL aimed at applying the Codes to all its activities.

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

### **SNS REAAL applies Codes to all activities**

Right from the start, SNS REAAL has applied the Codes to all of its activities almost completely, without making a distinction between Banking and Insurance activities. In doing so SNS REAAL is ahead compared to our competitors in the market.

Some examples are:

- SNS REAAL's mission Simplicity in finance starts from putting its clients and its clients' best interests first in accordance with the Codes.
- The remuneration policy of the Executive Board and senior management complies with the Codes and the applicable laws and regulations.
- The Executive Board and senior management of SNS REAAL signed the moral-ethical statement in February 2010. The principles included in this statement provide all SNS REAAL personnel with an ethical framework to guide them in their conduct.

- In 2011, the Executive Board members and the management teams of the various business units participated in continuing education under the Codes.
- The Product Approval Process has been implemented in all relevant business units under the Codes and will be audited per business unit every year.
- The entire SNS REAAL Group has a risk management structure that is compliant with the Codes and that is constantly in development. [Chapter 16](#) discusses recent developments in the field of risk management.
- The internal audit function is organised at Group level and is compliant with the Codes.

## Application of the Codes in practice

On its website, SNS REAAL provides an up-to-date [overview](#) of the manner in which SNS REAAL and its business units implement and apply the recommendations of the Codes.

## Compliance with the Code

SNS REAAL applies the Codes to all its activities almost completely. On some points, full implementation could only take place in the course of 2011 and could, therefore, only come into force with retroactive effect from 1 January 2011:

Recommendation 6.2.1, 6.3.2, 6.3.3, 6.3.4: In 2011, the remuneration policy for the Executive Board and senior management has, in close cooperation with the regulatory authorities, been amended in connection with the taking effect of the CRD III remuneration rules and the Decree on Controlled Remuneration Policies (Wft 2011). Subsequently, a remuneration policy for these officers came into force at the end of 2011 that is compliant with the aforementioned recommendations. This policy is applicable with retroactive effect from 1 January 2011. In 2011 some managers received a severance payment of more than 100% of the annual salary based on existing contractual arrangements.

## Putting clients first

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

SNS REAAL is convinced that these recommendations are embedded in the culture of all of its business units and receive constant attention from senior management and employees of SNS REAAL. One of the elements of SNS REAAL's [strategy](#) is putting clients and clients' interests first, which is embedded in the mission Simplicity in finance and the core value CARE! Due care is exercised when considering the interests of all of SNS REAAL's stakeholders. Putting clients first is part of employees' performance appraisal and of the product approval process for existing and new products. Business units must report to the Executive Board on the way in which they put the clients first.

The implementation of these recommendations from the Codes is discussed in more detail in other sections of this Annual Report:

- [Our brands](#)
- [Attracting, helping and retaining customers](#)
- [Customers' interests and satisfaction](#)
- [Sustainable growth of our brands](#)
- [Application of the Banking Code and Insurance Code](#)
- [Embedding via performance criteria](#)
- [Embedding via behavioural change](#)
- [Responsible service provision](#)
- [Main objectives for 2012](#)



- SNS Bank: innovation through simplicity
- ASN Bank: continued growth
- RegioBank: personal contact and advice
- Commercial developments SNS Retail Bank
- Strategy
- Life insurance product range simple and comprehensive
- Unit linked insurance
- Disability insurance
- Customer contact and service
- Transparent rates and conditions, appropriate advice
- Customer-driven and efficient organisation
- Sustainability and satisfaction
- Retention and quality in the large corporate market
- Corporate responsibility Leadership Journey
- Changes to own costs and customers' pension contributions
- Ban on commission fee promotes quality of advice
- Accessible and clear information

### **Continuing education en competence Supervisory Board, Executive Board and senior management**

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

The know-how of the members of the Executive Board and senior management teams is part of their performance appraisal.

## **20.6 Management statements**

The members of the Executive Board state the following:

### **20.6.1 In-control statement**

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

- In the area of SNS REAAL's capitalisation, the (timely) repayment of the support provided by the Dutch State and the Foundation, the phase-out and restructuring of Property Finance, and management of the consequences of the low interest rates and longevity risk are given priority.
- Society is increasingly faced with the threat of cybercrime. SNS REAAL is closely monitoring this development and takes appropriate measures where necessary.
- In 2011 SNS REAAL further tightened its product management process compared to 2010. Progress is visible in the area of the active product portfolio. As a result of advice given in the past, changing legislation and regulations and changing public opinion, the non-active product portfolio will also continue to be a point of focus.



### **20.6.2 Managing financial reporting**

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

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

### **20.6.3 Transparency statement**

The members of the Executive Board state the following: "SNS REAAL prepares the consolidated and company financial statements 2011 of SNS REAAL N.V. in accordance with International Financial Reporting Standards (IFRS), as adopted within the European Union (EU) and with Title 9 Book 2 of the Dutch Civil Code. To the best of our knowledge they give a true and fair view of the assets, liabilities, composition of equity, financial position as per 31 December 2011 and financial result of the Group and its consolidated companies. The annual report gives, to the best of our knowledge, a true and fair view of the position as per the balance sheet date and the development and performance of the business during the financial year. The principal risks SNS REAAL N.V. faces are described in the Annual Report."

Utrecht, 5 March 2012

Ronald Latenstein CEO

Ference Lamp CFRO

Wim Henk Steenpoorte CTO

Dick Okhuijsen COO

## 21 Consolidated financial statements

### 21.1 Consolidated balance sheet

#### Consolidated balance sheet

Before result appropriation and in € millions

	Notes	31-12-2011	31-12-2010
<b>Assets</b>			
Intangible assets	1	2,179	2,441
Property and equipment	2	341	350
Investments in associates	3	56	60
Investment properties	4	197	194
Investments	5	31,435	31,001
Investments for account of policyholders	6	12,420	12,637
Invested collateral securities lending	7	117	176
Derivatives	8	3,893	2,579
Deferred tax assets	9	542	481
Reinsurance contracts	19	3,426	355
Property projects	10	512	467
Loans and advances to customers	11	67,534	69,117
Loans and advances to banks	12	2,171	2,029
Corporate income tax		299	159
Other assets	13	1,543	875
Cash and cash equivalents	14	5,509	4,671
Assets held for sale	15	--	121
<b>Total assets</b>		<b>132,174</b>	<b>127,713</b>
<b>Equity and liabilities</b>			
Share capital		469	469
Other reserves		3,892	3,509
Retained earnings		87	(260)
<b>Shareholders' equity</b>	<b>16</b>	<b>4,448</b>	<b>3,718</b>
Equity attributable to securityholders	16	979	999
Minority interests		1	2
<b>Total equity</b>		<b>5,428</b>	<b>4,719</b>
Participation certificates and subordinated debt	17	2,129	2,396
Debt certificates	18	27,429	31,460
Insurance contracts	19	38,827	38,814
Provision for employee benefits	20	440	404
Other provisions	21	86	83
Securities lending liabilities	7	120	182
Derivatives	8	3,618	2,968
Deferred tax liabilities	9	1,038	813
Savings	22	30,341	27,397
Other amounts due to customers	23	12,142	9,267
Amounts due to banks	24	7,245	6,528
Corporate income tax	12	177	--
Other liabilities	25	3,154	2,682
<b>Total equity and liabilities</b>		<b>132,174</b>	<b>127,713</b>

The references next to the balance sheet items relate to the notes to the consolidated balance sheet starting from paragraph 28.1

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 22.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.

## 21.2 Consolidated income statement

### Consolidated income statement

In € millions

	Notes	2011	2010
<b>Income</b>			
Interest income		2,753	2,477
Interest expense		1,866	1,541
<b>Net interest income</b>	29	<b>887</b>	<b>936</b>
Premium income		3,696	3,728
Reinsurance premiums		246	154
<b>Net premium income</b>	30	<b>3,450</b>	<b>3,574</b>
Fee and commission income		217	222
Fee and commission expense		58	48
<b>Net fee and commission income</b>	31	<b>159</b>	<b>174</b>
Share in result of associates	32	(2)	(5)
Investment income	33	1,375	1,457
Investment income for account of policyholders	34	(40)	815
Result on financial instruments	35	275	73
Income invested collateral securities lending	7	4	3
Other operating income	36	(3)	41
Result assets and liabilities held for sale	37	14	--
<b>Total income</b>		<b>6,119</b>	<b>7,068</b>
<b>Expenses</b>			
Technical claims and benefits	38	2,624	3,222
Charges for account of policyholders	39	1,090	1,553
Acquisition costs for insurance operations	40	302	323
Staff costs	41	715	713
Depreciation and amortisation of fixed assets	2	121	121
Other operating expenses	42	279	306
Impairment charges	43	615	996
Interest expense securities lending	7	1	1
Other interest expenses	44	243	146
Other expenses		--	3
<b>Total expenses</b>		<b>5,990</b>	<b>7,384</b>
<b>Result before tax</b>		<b>129</b>	<b>(316)</b>
Taxation	45	41	(57)
<b>Net result continued operations</b>		<b>88</b>	<b>(259)</b>
Net result discontinued operations		--	--
<b>Net result for the period</b>		<b>88</b>	<b>(259)</b>
<b>Attribution:</b>			
Net result attributable to shareholders		80	(239)
Net result attributable to securityholders		7	(21)
<b>Net result attributable to shareholders and securityholders</b>		<b>87</b>	<b>(260)</b>
Net result attributable to minority interests		1	1
<b>Net result for the period</b>		<b>88</b>	<b>(259)</b>

The references next to the income statement items relate to the notes to the consolidated income statement starting from paragraph 28.29

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 22.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.

## Earning per share / security

In €

### Earnings per ordinary share

Earnings per ordinary share from continued operations	46	0.28	-0.83
Earnings per ordinary share from discontinued operations		--	--
Earnings per ordinary share	46	0.28	-0.83

### Earnings per B share

Earnings per B share from continued operations		--	--
Earnings per B share from discontinued operations		--	--
Earnings per B share		--	--

### Earnings per security issued to Stichting Beheer SNS REAAL

Earnings per security issued to Stichting Beheer SNS REAAL from continued operations	46	1.74	(4.81)
Earnings per security issued to Stichting Beheer SNS REAAL from discontinued operations		--	--
Earnings per security issued to Stichting Beheer SNS REAAL	46	1.74	(4.81)

### Earnings per security issued to the Dutch State

Earnings per security issued to the Dutch State from continued operations		--	--
Earnings per security issued to the Dutch State from discontinued operations		--	--
Earnings per security issued to the Dutch State		--	--

### Diluted earnings per ordinary share

Diluted earnings per ordinary share from continued operations	46	0.20	-0.83
Diluted earnings per ordinary share from discontinued operations		--	--
Diluted earnings per ordinary share	46	0.20	-0.83

### Diluted earnings per B share

Diluted earnings per B share from continued operations		--	--
Diluted earnings per B share from discontinued operations		--	--
Diluted earnings per B share		--	--

The references next to the income statement items relate to the notes to the consolidated income statement starting from paragraph 28.29

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 22.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.

## 21.3 Consolidated statement of comprehensive income

### Consolidated statement of comprehensive income

*In € millions*

Net result for the period	88	(259)
Unrealised revaluations property and equipment	(5)	2
Impairments property and equipment	3	--
<b>Change in revaluation reserve</b>	<b>(2)</b>	<b>2</b>
Unrealised revaluations from cash flow hedges	91	25
Deferred interest income from cash flow hedges	(6)	(2)
Realised revaluations through profit or loss	(12)	(46)
<b>Change in cash flow hedge reserve</b>	<b>73</b>	<b>(23)</b>
Unrealised revaluations investments available for sale	820	159
Impairments fair value	55	(12)
Realised revaluations through profit or loss	(111)	(109)
Change in shadow accounting	(214)	(27)
<b>Change in fair value reserve</b>	<b>550</b>	<b>11</b>
Change in profit sharing reserve	--	--
Change in other reserves	1	(3)
Change in minority interests	(2)	--
<b>Change in other comprehensive income (after tax)</b>	<b>620</b>	<b>(13)</b>
<b>Total comprehensive income</b>	<b>708</b>	<b>(272)</b>

#### Attribution:

Total comprehensive income attributable to shareholders and securityholders	702	(252)
Total comprehensive income to security holders	7	(21)
<b>Total comprehensive income attributable to shareholders and securityholders</b>	<b>709</b>	<b>(273)</b>
Total comprehensive income to minority interests	(1)	1
<b>Total comprehensive income</b>	<b>708</b>	<b>(272)</b>

## 21.4 Consolidated statement of changes in equity

### Consolidated statement of changes in total equity 2011

In € millions

	Issued share capital ordinary and B-shares	Share premium reserve ordinary and B-shares	Sum revaluation reserves	Sum other reserves	Equity attributable to shareholders	Securities capital	Minority interests	Group equity
Balance as at 1 January 2011	469	1,363	444	1,442	3,718	999	2	4,719
Transfer of net result 2010	--	--	--	21	21	(21)	--	--
<b>Transfers 2010</b>	--	--	--	21	21	(21)	--	--
Unrealised revaluations from cash flow hedges	--	--	91	--	91	--	--	91
Deferred interest income from cash flow hedges	--	--	(6)	--	(6)	--	--	(6)
Unrealised revaluations	--	--	815	--	815	--	--	815
Impairments	--	--	58	--	58	--	--	58
Realised revaluations through profit or loss	--	--	(123)	--	(123)	--	--	(123)
Change in shadow accounting	--	--	(214)	--	(214)	--	--	(214)
Other movements	--	--	--	1	1	--	(2)	(1)
<b>Amounts charged directly to total equity</b>	--	--	621	1	622	--	(2)	620
Net result 2011	--	--	--	87	87	--	1	88
<b>Total result 2011</b>	--	--	621	88	709	--	(1)	708
Transactions with shareholders and securityholders	--	--	--	--	--	1	--	1
<b>Total changes in equity 2011</b>	--	--	621	109	730	(20)	(1)	709
Balance as at 31 December 2011	469	1,363	1,065	1,551	4,448	979	1	5,428

### Statement of revaluation reserves and other reserves 2011

In € millions

	Revaluation property and equipment	Cash flow hedge reserve	Fair value reserve	Sum revaluation reserves	Other reserves	Retained earnings	Sum other reserves
Balance as at 1 January 2011	48	89	307	444	1,702	(260)	1,442
Transfer of net result 2010	--	--	--	--	(239)	260	21
<b>Transfers 2010</b>	--	--	--	--	(239)	260	21
Unrealised revaluations from cash flow hedges	--	91	--	91	--	--	--
Deferred interest income from cash flow hedges	--	(6)	--	(6)	--	--	--
Unrealised revaluations	(5)	--	820	815	--	--	--
Impairments	3	--	55	58	--	--	--
Realised revaluations through profit or loss	--	(12)	(111)	(123)	--	--	--
Change in shadow accounting	--	--	(214)	(214)	--	--	--
Other movements	--	--	--	--	1	--	1
<b>Amounts charged directly to total equity</b>	(2)	73	550	621	1	--	1
Net result 2011	--	--	--	--	--	87	87
<b>Total result 2011</b>	(2)	73	550	621	1	87	88
Transactions with shareholders and securityholders	--	--	--	--	--	--	--
<b>Total changes in equity 2011</b>	(2)	73	550	621	(238)	347	109
Balance as at 31 December 2011	46	162	857	1,065	1,464	87	1,551

For more information, please refer to the chapter [Shareholders, shares and core Tier 1 capital securities](#) in the chapter on Corporate Governance.

SNS REAAL declared not to distribute dividend for the year 2011.

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

### Consolidated statement of changes in total equity 2010

*In € millions*

	Issued share capital ordinary and B-shares	Share premium reserve ordinary and B-shares	Sum revaluation reserves	Sum other reserves	Equity attributable to share- holders	Securities capital	Minority interests	Group Equity
Balance as at 1 January 2010	469	1,363	454	1,705	3,991	999	20	5,010
Unrealised revaluations from cash flow hedges	--	--	25	--	25	--	--	25
Deferred interest income from cash flow hedges	--	--	(2)	--	(2)	--	--	(2)
Unrealised revaluations	--	--	161	--	161	--	--	161
Impairments	--	--	(12)	--	(12)	--	--	(12)
Realised revaluations through profit or loss	--	--	(155)	--	(155)	--	--	(155)
Change in shadow accounting	--	--	(27)	--	(27)	--	--	(27)
Other mutations	--	--	--	(3)	(3)	--	(18)	(21)
<b>Amounts charged directly to total equity</b>	<b>--</b>	<b>--</b>	<b>(10)</b>	<b>(3)</b>	<b>(13)</b>	<b>--</b>	<b>(18)</b>	<b>(31)</b>
Net result 2010	--	--	--	(260)	(260)	--	--	(260)
<b>Total result 2010</b>	<b>--</b>	<b>--</b>	<b>(10)</b>	<b>(263)</b>	<b>(273)</b>	<b>--</b>	<b>(18)</b>	<b>(291)</b>
<b>Transactions with shareholders and securityholders</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Total changes in equity 2010</b>	<b>--</b>	<b>--</b>	<b>(10)</b>	<b>(263)</b>	<b>(273)</b>	<b>--</b>	<b>(18)</b>	<b>(291)</b>
<b>Balance as at 31 December 2010</b>	<b>469</b>	<b>1,363</b>	<b>444</b>	<b>1,442</b>	<b>3,718</b>	<b>999</b>	<b>2</b>	<b>4,719</b>

*Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 22.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.*

**Statement of revaluation reserves and other reserves 2010**
*In € millions*

	Revaluation property and equipment	Cash flow hedge reserve	Fair value reserve	Sum revaluation reserves	Other reserves	Retained earnings	Sum other reserves
Balance as at 1 January 2010	46	112	296	454	1,695	10	1,705
Transfer of net result 2009	--	--	--	--	17	(17)	--
Transfer of coupon paid on securities 2009	--	--	--	--	(7)	7	--
<b>Transfers 2009</b>	--	--	--	--	<b>10</b>	<b>(10)</b>	--
Unrealised revaluations from cash flow hedges	--	25	--	25	--	--	--
Deferred interest income from cash flow hedges	--	(2)	--	(2)	--	--	--
Unrealised revaluations	2	--	159	161	--	--	--
Impairments	--	--	(12)	(12)	--	--	--
Realised revaluations through profit or loss	--	(46)	(109)	(155)	--	--	--
Change in shadow accounting	--	--	(27)	(27)	--	--	--
Other movements	--	--	--	--	(3)	--	(3)
<b>Amounts charged directly to total equity</b>	<b>2</b>	<b>(23)</b>	<b>11</b>	<b>(10)</b>	<b>(3)</b>	--	<b>(3)</b>
Net result 2010	--	--	--	--	--	(260)	(260)
<b>Total result 2010</b>	<b>2</b>	<b>(23)</b>	<b>11</b>	<b>(10)</b>	<b>(3)</b>	<b>(260)</b>	<b>(263)</b>
<b>Transactions with shareholders and securityholders</b>	--	--	--	--	--	--	--
<b>Total changes in equity 2010</b>	<b>2</b>	<b>(23)</b>	<b>11</b>	<b>(10)</b>	<b>7</b>	<b>(270)</b>	<b>(263)</b>
<b>Balance as at 31 December 2010</b>	<b>48</b>	<b>89</b>	<b>307</b>	<b>444</b>	<b>1,702</b>	<b>(260)</b>	<b>1,442</b>

*Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 22.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.*



## 21.5 Consolidated cash flow statement

### Consolidated cash flow statement

In € millions

	2011	2010
<b>Cash flow from operating activities</b>		
Operating profit before taxation	129	(316)
Adjustments for:		
Depreciation and amortisation of fixed assets	270	312
Changes in technical provisions own risk	(2,880)	111
Changes in other provisions	203	(13)
Impairment charges / (reversals)	615	996
Unrealised results on investments through profit or loss	(8)	(330)
Retained share in the result of associates	2	23
Tax (paid) / received	(1)	17
Change in operating assets and liabilities:		
Change in loans and advances to customers	4,458	2,553
Change in loans and advances to banks	575	(2,347)
Change in savings	2,944	2,962
Change in trading portfolio	51	26
Change in other operating activities	(1,458)	(1,576)
<b>Net cash flow from operating activities</b>	<b>4,900</b>	<b>2,418</b>
<b>Cash flow from investment activities</b>		
Sale of property and equipment	19	12
Sale of investments in associates	121	--
Sale of investment property	195	7
Sale and redemption of investments and derivatives	20,621	17,014
Purchase of intangible fixed assets	(107)	(103)
Purchase of property and equipment	(63)	(37)
Purchase of investments in associates	(6)	(11)
Purchase of investment property	--	(31)
Purchase of investments and derivatives	(19,942)	(16,373)
<b>Net cash flow from investment activities</b>	<b>838</b>	<b>478</b>
<b>Cash flow from finance activities</b>		
Issue of subordinated loans	540	638
Issues of debt certificates	1,556	6,191
Repurchase of securities	--	--
Redemption of subordinated loans	(934)	(260)
Redemption of debt certificates	(6,055)	(8,271)
<b>Net cash flow from financing activities</b>	<b>(4,893)</b>	<b>(1,702)</b>
Cash and cash equivalents 1 January	4,671	3,472
Effect of exchange rate fluctuations on cash held	(7)	5
Change in cash and cash equivalents	845	1,194
<b>Cash and cash equivalents as at 31 December</b>	<b>5,509</b>	<b>4,671</b>
<b>Additional disclosure with regard to cash flows from operating activities</b>		
Interest income received	3,885	3,578
Dividends received	163	188
Interest paid	1,998	1,534

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 22.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.

## 22 Accounting principles for the consolidated financial statements

### 22.1 Adoption of the financial statements

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

### 22.2 General information

SNS REAAL NV, incorporated and established in the Netherlands, is a public limited liability company incorporated under the laws of the Netherlands. SNS REAAL NV's registered office is located at Croeselaan 1, 3521 BJ Utrecht. SNS REAAL NV is the parent company of SNS Bank NV, REAAL NV, SNS REAAL Invest NV, SNS Asset Management NV and their subsidiaries (referred to as 'SNS REAAL'). The consolidated financial statements of SNS REAAL comprise the accounts of all the companies controlled by SNS REAAL and the interest of SNS REAAL in associated companies and entities.

Stichting Beheer SNS REAAL has a 50.00001% interest in 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.

### 22.3 Basis of preparation

#### 22.3.1 Statement of IFRS compliance

SNS REAAL 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 REAAL prepares its company financial statements in accordance with the same accounting principles as those used for the consolidated financial statements.

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

New or amended standards become effective on the date specified in the relevant IFRS, but may allow early adoption. In 2011, the following standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee respectively, became mandatory, and are adopted by the EU. Unless stated otherwise, the changes will have no material effect on the consolidated financial statements of SNS REAAL.

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – 'Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters'.
- Revision of IAS 24 Related Party Disclosures.
- Amendments to IAS 32 Financial Instruments: Presentation – 'Classification of Rights Issues'.
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.
- Improvements to IFRSs' 2010.

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

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

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

IFRS 9 Financial Instruments: Classification and Measurement, will be effective 1 January 2015. This IFRS is phase 1 of a complete revision of IAS 39 Financial Instruments. The new standard has not yet been adopted by the EU. Expectations are that the standard will affect the classification and measurement of financial assets and liabilities. Its full impact will not become clear until this IASB project has been completed in full, and published.

In June 2011 the amendment to IAS 19 Employee Benefits was published. The main changes are the elimination of the use of the corridor approach of the defined benefit plans and deviations from actuarial assumptions to be recognised directly in equity (OCI). The amendment will be effective for accounting periods beginning on or after 1 January 2013. The change is limited, since the SNS REAAL staff pension entitlements are, to the largest extent, part of a defined contribution plan. The corridor of the defined benefit plan amounts to € 75 million negative at year-end 2011 (€ 18 million negative at year-end 2010).

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

## 22.3.4 Changes in principles, estimates and presentation

### 22.3.4.1 Changes in principles

SNS REAAL has implemented shadow accounting as of 1 January 2011. This accounting change reduces the existing asymmetry in the liability adequacy test of the Insurance activities, and ensures that SNS REAAL's financial statements better reflect the economic relationship of insurance assets and liabilities.

Shadow accounting is applied on gains and losses on (derivative) assets that match insurance liabilities, regardless of whether these have or have not been realised and regardless of whether the unrealised gains and losses are recognised in the income statement or directly in the fair value reserve (OCI).

A gain and loss on assets recognised in OCI has a mirrored movement in the insurance liabilities. A gain and loss on assets recognised in the income statement has a mirrored change in the gains and losses presented in the technical claims and benefits. As a consequence, the volatility in the income statement and OCI will be mitigated.

This change in principle will not materially impact regulatory solvency of the Insurance activities.

As a result of the change, the restated Group net result for the year 2010 decreases by € 35 million and the restated Group equity end of 2010 decreases by € 114 million.

For the purpose of calculating the Earnings per share for the year 2010, the decrease of the net result has been attributed in full to the ordinary shareholders.

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

#### Reported balance sheet Insurance activities by segment 31 December 2010

<i>In € millions</i>	<b>Zwitserleven</b>	<b>REAAL Life</b>	<b>REAAL Non-life</b>	<b>REAAL Other</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets</b>						
Deferred tax assets	93	44	2	21	--	160
<b>Total assets</b>	<b>17,060</b>	<b>32,558</b>	<b>2,765</b>	<b>6,211</b>	<b>(5,589)</b>	<b>53,005</b>
<b>Equity and liabilities</b>						
Shareholders' equity	1,518	2,092	623	(1,217)	--	3,016
Equity attributable to securityholders	47	108	--	570	--	725
Minority interests	--	3	--	--	--	3
<b>Total equity</b>	<b>1,565</b>	<b>2,203</b>	<b>623</b>	<b>(647)</b>	<b>--</b>	<b>3,744</b>
Insurance contracts	12,402	24,984	1,373	--	(68)	38,691
<b>Total equity and liabilities</b>	<b>17,060</b>	<b>32,558</b>	<b>2,765</b>	<b>6,211</b>	<b>(5,589)</b>	<b>53,005</b>

**Adjusted balance sheet Insurance activities by segment 31 December 2010**

<i>In € millions</i>	<i>Zwitserleven</i>	<i>REAAL Life</i>	<i>REAAL Non-life</i>	<i>REAAL Other</i>	<i>Eliminations</i>	<i>Total</i>
<b>Assets</b>						
Deferred tax assets	119	57	2	21	--	199
<b>Total assets</b>	<b>17,086</b>	<b>32,571</b>	<b>2,765</b>	<b>6,211</b>	<b>(5,589)</b>	<b>53,044</b>
<b>Equity and liabilities</b>						
Shareholders' equity	1,443	2,053	623	(1,217)	--	2,902
Equity attributable to securityholders	47	108	--	570	--	725
Minority interests	--	3	--	--	--	3
<b>Total equity</b>	<b>1,490</b>	<b>2,164</b>	<b>623</b>	<b>(647)</b>	<b>--</b>	<b>3,630</b>
Insurance contracts	12,503	25,036	1,373	--	(68)	38,844
<b>Total equity and liabilities</b>	<b>17,086</b>	<b>32,571</b>	<b>2,765</b>	<b>6,211</b>	<b>(5,589)</b>	<b>53,044</b>

**Reported income statement Insurance activities by segment 2010**

<i>In € millions</i>	<i>Zwitserleven</i>	<i>REAAL Life</i>	<i>REAAL Non-life</i>	<i>REAAL Other</i>	<i>Eliminations</i>	<i>Total</i>
<b>Income</b>						
<b>Total income</b>	<b>1,941</b>	<b>3,300</b>	<b>808</b>	<b>65</b>	<b>(15)</b>	<b>6,099</b>
<b>Expenses</b>						
Technical claims and benefits	811	1,888	476	--	--	3,175
Other expenses	1,058	1,128	311	89	(15)	2,571
<b>Total expenses</b>	<b>1,869</b>	<b>3,016</b>	<b>787</b>	<b>89</b>	<b>(15)</b>	<b>5,746</b>
<b>Result before tax</b>	<b>72</b>	<b>284</b>	<b>21</b>	<b>(24)</b>	<b>--</b>	<b>353</b>
Taxation	16	60	5	(6)	--	75
<b>Net result continued operations</b>	<b>56</b>	<b>224</b>	<b>16</b>	<b>(18)</b>	<b>--</b>	<b>278</b>
Net result discontinued operations	--	--	--	--	--	--
<b>Net result for the period</b>	<b>56</b>	<b>224</b>	<b>16</b>	<b>(18)</b>	<b>--</b>	<b>278</b>
Minority interests	--	1	--	--	--	1
<b>Net result attributable to shareholder and securityholder</b>	<b>56</b>	<b>223</b>	<b>16</b>	<b>(18)</b>	<b>--</b>	<b>277</b>

**Adjusted income statement Insurance activities by segment 2010**

<i>In € millions</i>	<i>Zwitserleven</i>	<i>REAAL Life</i>	<i>REAAL Non-life</i>	<i>REAAL Other</i>	<i>Eliminations</i>	<i>Total</i>
<b>Income</b>						
<b>Total income</b>	<b>1,941</b>	<b>3,300</b>	<b>808</b>	<b>65</b>	<b>(15)</b>	<b>6,099</b>
<b>Expenses</b>						
Technical claims and benefits	838	1,908	476	--	--	3,222
Other expenses	1,058	1,128	311	89	(15)	2,571
<b>Total expenses</b>	<b>1,896</b>	<b>3,036</b>	<b>787</b>	<b>89</b>	<b>(15)</b>	<b>5,793</b>
<b>Result before tax</b>	<b>45</b>	<b>264</b>	<b>21</b>	<b>(24)</b>	<b>--</b>	<b>306</b>
Taxation	9	55	5	(6)	--	63
<b>Net result continued operations</b>	<b>36</b>	<b>209</b>	<b>16</b>	<b>(18)</b>	<b>--</b>	<b>243</b>
Net result discontinued operations	--	--	--	--	--	--
<b>Net result for the period</b>	<b>36</b>	<b>209</b>	<b>16</b>	<b>(18)</b>	<b>--</b>	<b>243</b>
Minority interests	--	1	--	--	--	1
<b>Net result attributable to shareholder and securityholder</b>	<b>36</b>	<b>208</b>	<b>16</b>	<b>(18)</b>	<b>--</b>	<b>242</b>

### 22.3.4.2 Changes in estimates

In 2011 SNS REAAL changed the calculation of the provision for unearned underwriting premiums to a modified, more accurate method, taking into account the fact that in recent years policyholders switched more and more to term payments (payments on a monthly or quarterly basis) instead of annual payments, and authorised agents provide more timely information, enabling more accurate estimates.

Due to the change in estimate, a one-off release of the provision for unearned premiums has been taken to the result in 2011 in the amount of € 16 million gross (€ 12 million net).

### 22.3.4.3 Changes in presentation

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

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

### Reported balance sheet Banking activities by segment 31 December 2010

*In € millions*

	SNS Retail Bank	Property Finance	Eliminations	Total
<b>Assets</b>				
Intangible assets	116	48	--	164
Property and equipment	109	1	--	110
Investments in associates	--	6	--	6
Investment properties	1	--	--	1
Investments	4,249	--	--	4,249
Derivatives	2,317	--	--	2,317
Deferred tax assets	258	9	--	267
Property projects	--	467	--	467
Loans and advances to customers	53,635	11,378	--	65,013
Loans and advances to banks	14,050	10	(12,379)	1,681
Corporate income tax	97	7	(2)	102
Other assets	530	279	(222)	587
Cash and cash equivalents	3,813	977	(957)	3,833
Assets held for sale	--	121	--	121
<b>Total assets</b>	<b>79,175</b>	<b>13,303</b>	<b>(13,560)</b>	<b>78,918</b>
<b>Equity and liabilities</b>				
Shareholders' equity	936	644	(4)	1,576
Equity attributable to securityholders	256	--	4	260
Minority interests	--	--	--	--
<b>Total equity</b>	<b>1,192</b>	<b>644</b>	<b>--</b>	<b>1,836</b>
Participation certificates and subordinated debt	2,022	--	--	2,022
Debt certificates	29,523	--	--	29,523
Other provisions	35	6	--	41
Derivatives	2,880	--	--	2,880
Deferred tax liabilities	313	10	--	323
Savings	27,398	--	--	27,398
Other amounts due to customers	10,292	190	--	10,482
Amounts due to banks	4,049	12,383	(13,336)	3,096
Corporate income tax	2	--	(2)	--
Other liabilities	1,469	70	(222)	1,317
<b>Total equity and liabilities</b>	<b>79,175</b>	<b>13,303</b>	<b>(13,560)</b>	<b>78,918</b>

**Adjusted balance sheet Banking activities by segment 31 December 2010**
*In € millions*

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

**Reported income statement Banking activities by segment 2010**
*In € millions*

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



**Adjusted reported income statement Banking activities by segment 2010**
*In € millions*

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

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

With effect from January 2011, SNS REAAL changed its presentation of the segment information to align it to the way management assesses the segments' performance. Corrections to one-off, Group-directed intercompany transactions for which eliminations and/or corrections in the consolidated results are required, are incorporated directly in the segment in question. Formerly, these corrections were made in the eliminations column. This change has no influence on the comparative figures in the segment information.

#### 22.3.4.4 Change in accounting principles financial statements 2012

As a result of the changed economic and social circumstances, the prudence in the current accounting treatment of deferred acquisition costs (DAC) has declined. New legislation prohibits payment of commission to intermediaries as of 1 January 2013. Demand for unit-linked products has declined and products with low cost structures are being introduced to the market. SNS REAAL's view is that by taking the acquisition costs directly to the result prudence will be restored and transparency of the financial statements enhanced.

SNS REAAL has therefore decided on a change in accounting treatment. With effect from 1 January 2012, internal and external acquisition costs will no longer be deferred, but instead charged directly to the results. This change in accounting treatment will be applied in the annual accounts of 2012. The book value of the DAC, taking into account the corporate tax effect, will be charged directly to Shareholder's equity. The effect on solvency will be marginal.

### **22.3.5 Accounting principles used in the preparation of the financial statements**

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

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

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

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

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

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

#### **22.3.5.2 Functional currency and reporting currency**

The consolidated financial statements have been prepared in millions of euros (€). The euro is the functional currency of SNS REAAL. All financial data presented in euros are rounded off to the nearest million, unless stated otherwise. Counts are based on unrounded figures. Their sum may differ from the sum of the rounded figures.

### **22.3.6 Main accounting principles, estimates and assumptions**

#### **22.3.6.1 The use of estimates and assumptions in the preparation of the financial statements**

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

Estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised or in the period of revision and future periods if the revision impacts both the reporting period and future periods. The main accounting principles involving the use of estimates concern the methods for determining the provisions for insurance contracts, determining the provisions for bad debts, determining the net realisable value of property projects, determining the fair value of assets and liabilities and determining impairments.

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

### **22.3.6.2 Life insurance provision**

The provision for insurance contracts is determined on the basis of a sufficiently conservative prospective actuarial method taking into account all future benefit payments and premiums to be received, to the extent applicable. The calculation deviates from using a prospective method if the nature of the relevant type of life insurance does not allow the application of this method.

Actual payments and the timing of payments depend on factors such as social, economic and demographic trends, inflation, investment returns, the behaviour of policyholders and other factors, and, for life insurance contracts, assumptions about developments in mortality and disability rates. Lapse, like early surrender or a waiver of premium, is also taken into account for some risk products. The assumptions used in the valuation of life insurance policies at the balance sheet date are based on the calculation principles set at the time of the issue of the policy. Using different assumptions for these factors than have been used in preparing these accounts could have a significant effect on the technical provisions and related expenses for insurance contracts.

Most policies have a fixed discount rate, which is 3% for contracts issued after 1999 and a maximum of 4% for contracts prior to this time. For offset mortgages and other guaranteed products, the rate of return guaranteed in the contract is used. The actuarial interest for these products equals the investment return achieved on the corresponding investments.

#### ***IFRS liability adequacy test on Insurance liabilities***

The insurance liabilities reported at the balance sheet date are valued using premium calculation principles for interest and mortality (life insurance contracts) or historically observed claim development patterns (non-life insurance). A combination of both methods is used in relation to the disability insurance contracts. The adequacy of the provisions is tested periodically during the reporting period by means of the IFRS liability adequacy test.

#### ***IFRS liability adequacy test life insurance***

In accordance with IFRS an IFRS liability adequacy test is performed to establish whether the balance sheet provision less the related capitalised acquisition costs and Value of Business Acquired (VOBA) is adequate to meet the commitments vis-à-vis the policyholders with a large degree of certainty. When performing this test, best estimate future contractual cash flows are projected, taking into account current and future developments of mortality, disability, the behaviour of policyholders, claims handling and management costs, and differences in the valuation of investments (to the extent they are not recognised at fair value). Valuation of the future expected profit sharing and the time value of embedded derivatives is included in these cash flows. The estimate is increased by a risk margin. The Cost of Capital method is used in calculating the risk margin. Finally the cash flows are discounted. If the thus calculated provision turns out to be higher than the bookvalue of the technical provision present in the balance sheet, VOBA is impaired or this shortfall is added to the provision and charged directly to the income statement.

This IFRS liability adequacy test is performed every quarter for the entire life insurance portfolio to determine whether the reported technical provision, based on the most current assumptions, is still adequate.

The following current assumptions were used in performing the IFRS liability adequacy test as at 31 December 2011:

- Discount rate calculated on the Dutch Central Bank curve with an add-on to ECB all-government yields.
- Profit allocation where surplus interest exceeds the assumed interest plus 0.5%, with tranches of surplus interest running off over time.
- Cost allocation and distribution of efficiency advantages based on internal assessment.
- Projected mortality data for the entire population (CBS statistics Netherlands data from 2010) adjusted for experience in the company's portfolio based on internal research.
- Lapse and early surrender data based on internal research.
- Inflation derived from market data.
- Salary increases in collective labour agreements in accordance with the inflation assumption.

The primary discount rate is the ECB all-government curve. Due to the volatile interest rate developments in 2011, the sensitivity of interest decreases was assessed with an additional test. This showed that even at lower interest rates the provision was adequate.

Mortality tables are used in the test on the provision for insurance contracts. These tables contain historical information (data) on mortality. SNS REAAL uses what is referred to as the PLT tables prepared by the Dutch Association of Insurers. The model as was used by SNS REAAL to forecast the mortality development has been updated to the most recent mortality observations as taken by CBS up to and until 2010.

The mortality rates used in the projection of the liabilities is the probability according to the population mortality rate multiplied by a portfolio factor. The portfolio factor measures the difference between population mortality and mortality in the insurance portfolio. Within the framework set by SNS REAAL, this factor is individually determined for each business unit and is also dependent on product characteristics, gender, and elapsed time / age. This portfolio factor is revised annually based on internal research and the mortality rates of the latest CBS observations.

### ***Liability adequacy test non-life insurance***

A test is carried out twice a year to establish the adequacy of the provisions for non-life claims. This test is performed on the provision for non-life claims, the provision for unearned premiums and the provision for claims-handling expenses.

The test first determines a best estimate, followed by a risk margin. The best estimate serves as a realistic estimate of future claim payments, claims-handling expenses and future expenses arising from insurance contracts. The risk margin is based on the cost of capital method.

The test is performed on individual portfolios. The classification in portfolios (by use of branches and distribution channels) has been carried out in such a manner that the portfolios can be considered homogenous as far as risk is concerned. Practically the entire portfolio is subjected to a quantitative test, only part of the incoming reinsurance contracts is subjected to a qualitative test.

The test takes into account the effects that the reserve policy for case provisions has on the amount of the claims provision and the possibility of inadequacy of premiums. The adequacy of the technical provisions for the entire non-life portfolio is assessed by combining these various test elements. Any shortfall is charged directly to the income statement.

### **22.3.6.3 Provision for bad debts**

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

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

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

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

#### **22.3.6.4 Net realisable value of property projects**

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

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

#### **22.3.6.5 Fair value of financial assets and liabilities**

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

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

For some financial assets and liabilities, no prices are available. The fair value of these financial assets and liabilities is determined with valuation techniques, which may vary from net present value calculation to valuation models that use accepted economic methods. Input in the models is as far as possible based on observable market data. All valuation methods used are assessed and approved in-house according to internal governance procedures.

#### **22.3.6.6 Impairment charges of intangible assets and financial instruments**

##### ***Intangible fixed assets***

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

## **Goodwill**

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

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

## **Capitalised acquisition costs and Value of Business Acquired (VOBA)**

The acquisition costs and VOBA are tested simultaneously using the IFRS liability adequacy test for insurance contracts. If, on the balance sheet date, the combined book value of the VOBA and the capitalised costs is higher than the difference between the book value of the provision for insurance contracts and the test provision (best estimate market value provision for insurance contracts plus a risk margin), the shortfall will be charged to the results.

## **Software and other intangible assets**

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

The Zwitserleven brand name is 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 royalty rate. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

## **Reversal of impairments on intangible fixed assets**

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

## **Financial assets**

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

### *Investments in debt securities*

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

### *Equity investments*

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

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

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

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

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

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

## **22.4 Accounting principles used for consolidation**

### **22.4.1 Subsidiaries**

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

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

### **22.4.2 Special Purpose Entities (SPEs)**

SNS REAAL has securitised mortgage receivables in SPEs. With these transactions, the economic ownership of the mortgage loans is transferred to separate entities. SNS REAAL does not have any direct or indirect interests in these entities.

SNS REAAL fully consolidates these SPEs in its financial statements if, on the basis of the economic reality of the relationship between SNS REAAL and the SPE, SNS REAAL controls the SPE, or if SNS REAAL retains the majority of the risks and rewards.

### **22.4.3 Associated companies and joint ventures**

Investments in associated companies (associates) are entities in which SNS REAAL generally has between 20% and 50% of the voting power, or over which SNS REAAL can exercise significant influence on the operational and financial policies, but she has no control.

Joint ventures are entities over which SNS REAAL has joint control, which control is laid down in an agreement, and strategic decisions on the financial and operational policies are taken unanimously.

The consolidated financial statements include SNS REAAL's share in the total results of associates and joint ventures, from the date that SNS REAAL 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 REAAL's accounting principles, if needed.

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

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

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

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

### **22.4.4 Elimination of group transactions**

Intra-group transactions, intra-group balances and unrealised gains arising from intra-group transactions were eliminated in the preparation of the consolidated financial statements.

Unrealised gains on transactions between SNS REAAL and its associates and joint ventures are eliminated to the extent of SNS REAAL'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.

### **22.4.5 Foreign currencies**

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

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



historical cost are measured at the exchange rate applicable on the initial transaction date.

#### **22.4.6 Accounting based on transaction date and settlement date**

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

#### **22.4.7 Offsetting of financial instruments**

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

#### **22.4.8 Discontinued operations or assets held for sale**

Assets and liabilities that are part of operations to be discontinued and assets held for sale, of which it is highly probable that the discontinuation or sale is within 12 months, are recognised at the lower of the book value and fair value less expected sales costs.

Property projects of Property Finance held for sale are measured at the lower of cost or net realisable value. Financial instruments held for sale follow the measurement of the instrument.

#### **22.4.9 Information by segment**

The five primary business segments of SNS REAAL are clearly distinctive organisational components, and carry out activities that generate income and expenses. It encompasses also the operational segment Group Activities that primarily performs transactions and activities with and on behalf of other parts of SNS REAAL. The Management Committee defines the performance targets and authorises and monitors the budgets that have been prepared by these business units. The management of each business unit defines the policy of that business unit, in accordance with the strategy and the performance targets as formulated by the Management Committee. The business segments are:

- SNS Bank
- Property Finance
- Zwitserleven
- REAAL
- Group Activities

The segment SNS Bank has two subsegments SNS Retail Bank and SNS SME. REAAL has three subsegments, REAAL Life, REAAL Non-life and REAAL Other. More information on the different segments can be found in the section [Information by segment](#).

With effect from January 2011, SNS REAAL changed its presentation of the segment information to align this to the way management assesses the segments' performance. In case of one-off, Group-directed intercompany transactions, the necessary corrections and eliminations in the consolidated results are incorporated directly in the segment in question. Formerly, these corrections were made in the eliminations column.

#### **22.4.10 Insurance contracts**

Insurance contracts are contracts that bear significant insurance risks. These contracts can also involve investment risks. SNS REAAL has insurance contracts for Life and Non-Life. For detailed information reference is made to paragraph [Insurance contracts](#) and the [Notes to the financial statements](#).

### **22.5 Specific balance sheet principles**

#### **22.5.1 Intangible fixed assets**

##### **22.5.1.1 Goodwill**

Acquisitions are accounted for according to the purchase method, with the cost of the acquisitions being allocated to the fair value of the acquired identifiable assets, liabilities and contingent liabilities. Goodwill, being the difference between the cost of the acquisition and SNS REAAL's interest in the fair value of the acquired identifiable assets, liabilities and contingent liabilities on the acquisition date, is capitalised as an intangible fixed asset. Any negative goodwill is recognised directly in the income statement.

If the provisionally determined fair value of acquired assets or liabilities is adjusted within a year of the acquisition date, the adjustment is recognised as an adjustment charged to goodwill. Adjustments that occur after a period of one year are recognised in the income statement. Adjustments to the purchase price that are contingent on future events and insofar these are not already included in the purchase price, are included in the purchase price of the acquisition at the time when the adjustment is likely and can be measured reliably.

Goodwill is not amortised. Instead, an impairment test is performed annually or more frequently if there are indications of impairment (see [Impairment of intangible fixed assets and financial instruments](#) ).

##### **22.5.1.2 Software**

Costs that are directly related to the development of identifiable software products that SNS REAAL controls, and that are likely to generate economic benefits that exceed these costs, are capitalised as intangible fixed assets. The direct costs comprise external costs and staff costs directly attributable to software development. All the other costs associated with the development or maintenance of computer software are included as an expense in the period during which they are incurred.

The capitalised development costs for computer software are amortised on a straight-line basis over the useful life, with a maximum of three years. Every reporting date an assessment is carried out for possible impairments.

##### **22.5.1.3 Capitalised acquisition costs from Insurance activities**

Acquisition costs are the direct or indirect costs related to activities necessary for the production of new life insurance business and disability insurance business and modification of existing contracts. Acquisition costs comprise non-commission (internal) and commission (external) expenses.

Non-commission acquisition expenses are capitalised to the extent that they can be recovered from the projected gross profits of the underlying new business in a given year. Non-commission acquisition expenses are amortised based on the expected average term over which premiums will be received.

Commission acquisition expenses (capitalised commissions) are amortised over the period over which they are earned i.e. either 5 or 10 years, and this varies by product. These terms are re-assessed on a regular basis.

An impairment test is performed at each reporting date. Capitalised acquisition costs are included as part of the technical provision in the IFRS liability adequacy test. For a more detailed explanation and recognition of any deficits demonstrated by this test, please refer to paragraph [Provision for insurance contracts](#).

#### **22.5.1.4 Value of Business Acquired (VOBA)**

VOBA is the net present value of estimated future cash flows from current insurance contracts of a business or insurance portfolio acquired as at the acquisition date and represents the difference between the fair value and the book value on SNS REAAL principles of the insurance portfolios acquired.

SNS REAAL amortises the VOBA on the basis of the established release pattern of the value of the actuarial calculated surplus value at the date of purchase of the underlying portfolios at the acquisition date. The amortisation charge is thus in line with the results from the underlying portfolios.

As part of the IFRS liability adequacy test, an impairment test is performed at each balance sheet date. For a more detailed explanation on this please refer to [Provision for insurance contracts](#) and [Impairment of intangible fixed assets and financial instruments](#).

#### **22.5.1.5 Other intangible fixed assets**

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

### **22.5.2 Property and equipment**

#### **22.5.2.1 Land and buildings in own use**

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

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

Increase in the fair value exceeding the cost price is added to the revaluation reserve in shareholders' equity, less deferred taxes. Positive revaluations, insofar as these result in the reversal of earlier write-downs on the same asset, are credited to the income statement. Decreases in the fair value, insofar as these result in the reversal of prior positive revaluations of the same asset, are charged to the revaluation reserve. All other decreases in the fair value are accounted for in the income statement.

Buildings are depreciated over their economic life using the straight-line method, with a maximum of 50 years, taking into account the possible residual value. Land is not depreciated. Regular impairment tests are carried out on land and buildings.

Repairs and maintenance expenses are recognised under 'other operating expenses' the moment the expense is incurred. Expenses incurred after the acquisition of an asset that increase or extend the future economic benefits of land and buildings in own use in relation to their original use are capitalised and then amortised.

Upon the sale of a property, the part of the revaluation reserve related to the sold property is transferred to 'other reserves'.

### **22.5.2.2 IT equipment and other tangible fixed assets**

All other tangible fixed assets included in this item are measured at cost net of accumulated depreciation and, if applicable, accumulated impairment losses.

The cost price comprises the expenses directly attributable to the acquisition of the asset and is depreciated on a straight-line basis over the useful life, taking into account any residual value. The estimated useful life can vary from three to ten years.

Regular impairment tests are performed on the other tangible fixed assets. If the book value of the tangible asset exceeds the realisable value, it is written down to the realisable value.

Repairs and maintenance expenses are recognised under 'other operating expenses' the moment the expense is incurred. Expenses incurred after the acquisition of an asset that increase or extend the future economic benefits of the other tangible fixed assets in relation to their original use are capitalised and then amortised.

Results on the sale of tangible fixed assets are defined as the balance of the realisable value less transaction costs and the book value. These results are recognised as part of 'other operating income'.

### **22.5.3 Investment properties**

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

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

### **22.5.4 Financial assets**

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

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

The categories are explained in more detail in the following section.

### 22.5.4.1 Investments

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

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

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

Investments that do not meet the criteria defined by management for 'loans and receivables' or 'fair value through profit or loss' are classified as available for sale.

After initial recognition, investments available for sale are restated at fair value in the balance sheet. Unrealised gains and losses resulting from fair value adjustments of these investments are recognised in other comprehensive income (shareholders' equity), taking account of deferred taxes.

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

#### *Fair value through profit or loss*

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

- a This eliminates or considerably limits an inconsistency in valuation or recognition that would otherwise arise; or
- b SNS REAAL manages and assesses the investments on the basis of fair value.

The investments are recognised at fair value. Realised and unrealised gains and losses are recognised directly in the income statement under 'investment income'.

Interest income earned on securities is recognised as interest income under 'interest income' at the Banking activities and under 'investment income' at the Insurance activities. Dividend received is recorded under investment income.

### 22.5.4.2 Investments for account of policyholders (fair value through profit or loss)

Investments on behalf of policyholders are classified as measured at fair value through profit or loss. They are designated as such, as the corresponding financial liabilities are also measured at fair value (see [Life insurance contracts on behalf of policyholders](#)). Amounts due by policyholders in this context are recognised in the income statement as 'premium income'. Adjustments in the value of investments and results on the sale of investments are recorded in the income statement under 'investment income for account of policyholders'.

### 22.5.4.3 Invested collateral securities lending (fair value through other comprehensive income)

SNS REAAL has programmes in which financial assets are pledged, and collateral is obtained which is sometimes invested by SNS REAAL. These investments are not freely available. The investments can only be used to redeem the collateral provided by the borrower in connection with the lending and borrowing transaction. The obligation to repay the collateral provided in cash is included in the balance sheet under [securities lending liabilities](#). These investments are classified as available for sale and are treated as such.

#### **22.5.4.4 Derivatives**

##### **General**

Derivatives are derivative financial instruments and are measured at fair value upon entering into the contract. The fair value of publicly traded derivatives is based on listed bid prices for assets held or liabilities to be issued, and listed offer prices for assets to be acquired or liabilities held.

The fair value of non-publicly traded derivatives depends on the type of instrument and is based on a present value model or an option valuation model. SNS REAAL recognises derivatives with a positive market value as assets and derivatives with a negative market value as liabilities.

Adjustments in the fair value of derivatives that do not qualify for cash flow hedge accounting (see [Hedge accounting](#)) are accounted for in the income statement under 'result on financial instruments'.

##### **Embedded derivatives**

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

##### **Hedge accounting**

SNS REAAL 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 REAAL can designate certain derivatives as either:

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

Hedge accounting is applied for derivatives that are thus designated and are in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

A hedge relationship is considered to be effective if SNS REAAL, at the inception of and during the term, can expect that adjustments in the fair value or cash flows of the hedged position will be almost fully offset by adjustments in the fair value or cash flows of the hedging instrument, insofar as they are attributable to the hedged risk, and the actual results remain within a bandwidth of 80% to 125% of the expected outcome.

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

##### **Fair value hedge accounting**

Derivatives designated as a hedge of the fair value of recognised assets or of a firm commitment are stated as fair value hedges. Changes in the fair value of the derivatives that are designated as a hedge are recognised directly in the income statement and reported together with corresponding fair value adjustments to the hedged item attributable to the hedged risk.

If the hedge no longer meets the conditions for hedge accounting, an adjustment in the book value of a hedged financial instrument is amortised and taken to the income statement during the expected residual term of the hedged item.

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

#### **Cash flow hedge accounting**

Derivatives can be designated as a hedge of the risk of future variability of the cash flows of a recognised asset or liability or highly probable forecast transaction. Adjustments in the fair value of the effective portion of derivatives that are designated as a cash flow hedge and that meet the conditions for cash flow hedge accounting are stated in the cash flow hedge reserve as a separate component of shareholders' equity. The underlying measurement of the hedged item, which is designated as part of a cash flow hedge, does not change.

If the forecast transaction leads to the actual inclusion of an asset or a liability, the accumulated gains and losses that were previously taken to the cash flow hedge reserve are transferred to the income statement and classified as income or expense in the period during which the hedged transaction influences the result.

When determining the portion of the fair value adjustment of the hedging instrument that is included in the cash flow hedge reserve, the portion of the gain or loss on the hedging instrument that is considered an effective hedge of the cash flow risk is included in shareholders' equity, while the ineffective portion is recognised in the income statement.

If the hedging instrument itself expires or is sold, terminated or exercised, or no longer satisfies the conditions for hedge accounting, the accumulated result that was included in the cash flow hedge reserve remains in the cash flow hedge reserve (OCI) until the expected transaction actually takes place.

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

### **22.5.4.5 Loans and advances to customers**

#### *Mortgages and mortgage-backed property finance*

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

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

### **Credit guarantees**

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

### **Non-mortgage backed property finance and other loans and advances**

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

### **Lease**

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

### **Provisions for customers**

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

## **22.5.4.6 Loans and advances to banks**

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

## **22.5.4.7 Cash and cash equivalents**

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

## **22.5.5 Taxes**

### **22.5.5.1 Deferred tax assets**

Deferred tax assets and liabilities are recognised for tax loss carry forwards and for temporary differences between the tax base of assets and liabilities and the book value. This is based on the tax rates applicable as at the balance sheet date and the tax rates that will apply in the period in which the deferred tax assets or tax liabilities are settled. Deferred taxes are measured at nominal value.

Deferred tax assets are only recognised if sufficient tax profits are expected to be realised in the near future to compensate these temporary differences. A provision for deferred taxes is made for temporary differences between the book value and the value for tax purposes of investments in group companies and associates, unless SNS REAAL can determine the time at which these temporary differences are realised or settled and if it is likely that these differences will not be realised or settled in the near future.



Deferred tax assets are assessed at the balance sheet date and if it is no longer likely that the related tax asset can be realised, the asset is reduced to the recoverable value.

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

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

### **22.5.5.2 Deferred tax liabilities**

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

### **22.5.5.3 Corporate income tax**

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

## **22.5.6 Other assets**

### **22.5.6.1 Reinsurance contracts**

Contracts entered into with reinsurance companies and by virtue of which SNS REAAL receives compensation for losses on insurance contracts SNS REAAL has issued are designated as ceded reinsurance contracts. Insurance contracts entered into where the contract holder is another insurance company are classified as incoming reinsurance contracts and are recognised as insurance contracts.

Reinsurance premiums, commissions, payments and technical provisions for reinsurance contracts are accounted for in the same way as the direct insurance policies that are reinsured. The share of reinsurance companies in the technical provisions and the benefits to which SNS REAAL is entitled by virtue of its reinsurance contracts are accounted for as a reinsurance asset. These assets comprise short-term receivables from reinsurance companies (presented under 'other assets'), and long-term receivables (presented under 'reinsurance contracts'). These receivables depend on the expected claims and benefits arising from the insurance contracts that SNS REAAL has reinsured. Deposit components of (re)insurance contracts that are within the scope of IFRS 4 Insurance Contracts will be recognised in the balance sheet under 'insurance contracts'.

The amounts receivable from, and payable to, reinsurance companies are valued in accordance with the terms and conditions of each reinsurance contract. Reinsurance obligations relate primarily to premiums payable for reinsurance contracts. These premiums are recognised as an expense over the period in which they are due.

Reinsurance receivables are assessed for impairment at the reporting date.

### **22.5.6.2 Property projects**

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

### **22.5.6.3 Other assets**

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

## **22.5.7 Equity**

### **22.5.7.1 Issued share capital and share premium reserve**

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

### **22.5.7.2 Ordinary and B-share dividend**

Dividend for a financial year, which is payable after the balance sheet date, is disclosed in [Provisions regarding profit or loss appropriation](#) under Other information.

### **22.5.7.3 Revaluation reserve**

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

### **22.5.7.4 Cash flow hedge reserve**

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

### **22.5.7.5 Fair value reserve**

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

#### **22.5.7.6 Other reserves**

Other reserves mainly comprise SNS REAAL's retained profits.

#### **22.5.7.7 Securities capital and securities capital share premium reserve**

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

#### **22.5.7.8 Securities dividend**

The securities dividend amount for a financial year, which is payable after the balance sheet date, is disclosed in the paragraph [Provisions regarding profit or loss appropriation](#).

### **22.5.8 Participation certificates, subordinated debt and final bonus account**

#### **22.5.8.1 Participation certificates**

SNS Bank issues participation certificates to third parties. These certificates have an open-ended term, with SNS Bank maintaining the right to early redemption in full after 10 years, provided permission is given by the regulator. The amount of the dividend, in the form of a coupon rate, is fixed over a period of 10 years and equal to the CBS (Statistics Netherlands) return on 9-10 year Government bonds plus a mark-up. Participation certificates are initially measured at fair value, in other words, the issue income (the fair value of the received payment) net of transaction costs. Thereafter, they are measured at amortised cost, using the effective interest method. Benefit payments on participation certificates are recorded under 'interest expense, Banking activities'.

The participation certificates are classified as debt capital in the financial statements. For SNS Bank's solvency reports to the Dutch Central Bank, this item is part of the Tier 1 capital.

#### **22.5.8.2 Subordinated debt**

The subordinated (bond) loans issued by SNS Bank, SRLEV and SNS REAAL are included under the subordinated debt. The Dutch Central Bank includes these loans as Tier 1 and/or Tier 2 capital for the solvency test at SNS Bank, and as Tier 2 capital at SRLEV. They are initially measured at fair value, in other words, the issue income (the fair value of the received payment) net of the transaction costs incurred. Thereafter, they are measured at amortised cost, using the effective interest method.

#### **22.5.8.3 Final bonus account**

The final bonus account concerns final bonus commitments in relation to certain life insurance policies. Entitlement to a final bonus applies only to specific individual policies that become payable upon expiry of the agreed term or upon the death of the insured party. Entitlement to a final bonus is cancelled when the policy is surrendered. Entitlements to final bonuses not yet paid out are subordinated to all other debts. It is also stipulated that entitlement to a final bonus is cancelled if and insofar as the results erode the capital base to the extent that the regulatory solvency requirements can or may no longer be complied with.

The final bonus account is determined actuarially based on the same accounting principles that are applied for determining the profit additions, which form part of the provision for insurance contracts. In addition, the estimated probability of early termination of insurance contracts is taken into account.

Part of the final bonus account is converted annually, according to a fixed method, into an unconditional right of the policyholder and added to the provision for insurance contracts.

The obligations arising from the final bonus scheme are classified as debt capital in the financial statements. This item is part of the available regulatory capital in the solvency reports to the Dutch Central Bank of the Insurance activities.

### **22.5.9 Debt certificates**

Outstanding debt certificates are measured at fair value upon initial recognition, in other words, the issue income (the fair value of the received payment) net of the transaction costs incurred. Thereafter, they are measured at amortised cost, using the effective interest method.

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

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

### **22.5.10 Insurance contracts**

#### **22.5.10.1 Life insurance**

Life insurance contracts can be separated into individual policies and group contracts. These contracts provide mostly long-term insurance for events that lead to a payment in cash, or of the counter value of investment units, upon maturity or death of the insured.

#### *Life insurance in cash*

SNS REAAL's individual life insurance contracts in cash can be divided into the following product groups: offset mortgages, annuities, term insurance policies, savings policies, and funeral insurance policies. These contracts concern life insurance whereby the risk is borne by SNS REAAL.

In addition to non-profit sharing insurance contracts, the insurance portfolio also contains insurance contracts with discretionary or contractual profit-sharing rights. Discretionary profit sharing schemes are connected to the contractual right of individual policyholders to receive additional benefit payments over and above any insured or guaranteed capital. The determination of the amount and timing of these additional benefits is at the discretion of SNS REAAL's Executive Board. As regards future distributable profit sharing, a designated amount has been included in the provision for insurance contracts. The profit-sharing obligations already granted are also included in the provision for insurance contracts.

In addition to discretionary profit sharing, there are also individual and group contracts with contractual profit sharing. These include profit-sharing based on a share of any surplus interest profits and profit sharing based on a share of any insurance profits. The obligations of these are included in the provision for insurance contracts.

#### *Unit linked life insurance*

The claims from these insurance contracts are directly linked to the underlying investments. Given this link, the technical provisions held in respect of these policies move in line with movements in the value of these investments. The policyholder determines how SNS REAAL should invest the amount of any premiums paid after deduction of costs and risk premium. To this end, SNS REAAL has created separate investment funds.

The investment risk is borne by the unit linked policyholders. In addition to deciding how funds should be invested, policyholders are also free to alter the policy at any time depending upon their personal and/or financial situation. Within investment insurance, SNS REAAL issues guarantees on returns for a limited number of investment funds.

Group insurance contracts with segregated pools are recognised under unit linked group insurance contracts.

### **22.5.10.2 Life insurance policies for own account**

An obligation to make future contractual payments is recognised as soon as the policy takes effect. The provision for life insurance policies for own account and risk consists of the discounted value of expected future benefits payments to policyholders or other beneficiaries, less future premiums (net premium method).

The assumptions used in the valuation of life insurance policies at the balance sheet date are based on the calculation principles set at the time of the issue of the policy. Furthermore, a periodic IFRS liability adequacy test is performed. For estimates, assumptions and an explanation of the test, please refer to [Provision for insurance contracts](#).

Particularly with regard to the pension portfolio, the provisions may become insufficient on this item due to the extended life expectancy of the insured persons. For this longevity risk, additional allocations were made to the provision in the past and provisions of acquired insurance companies have been maintained. Since 2008, in conjunction with the legal merger of different life entities and the increased possibility of compensation with short-life risk, the provisioning policy has been differently shaped, with no additions to the provision for longevity risks if the outcome of the IFRS liability adequacy test indicates that the total amount of the provisions is adequate.

Gross premiums include loadings to cover expenses. When the premiums are received or fall due, the amount of any expenses loading is released and is then available to cover actual expenses, including renewal expenses, acquisition costs and the amortisation of capitalised acquisition costs. The provisions are net of capitalised interest rate rebates. These interest rate rebates are amortised on an actuarial basis.

A provision is maintained for the entitlement to a waiver of premium in the event of disability and for the no-claim disability annuities. This provision is based on a factor times the annual premium that applies for the disability risk. The level of the factor is determined, inter alia, based on IBNR techniques derived from empirical data for claim behaviour. The principles for valuation of disability cover that has entered into force, including the waiver of premium, are the same as the principles for the main insurance policy.

### **22.5.10.3 Life insurance contracts on behalf of policyholders**

These contracts concern insurance policies where the investment risk is borne by the policyholders. The technical provisions for these insurance policies are set equal to the book value at the balance sheet date of the related underlying investments. As a result, these technical provisions are recorded at fair value through profit or loss. Transaction costs and commission are not included in the initial valuation but charged to the income statement as these transactions are concluded.

Interest rate guarantees have been issued with a number of unit linked insurance policies. This guarantee only applies at the maturity date of the insurance policy. Prior to maturity, the provision held for these policies is equal to at least the accumulated amount of premiums paid plus interest less any expense and mortality charge deductions, adjusted for future lapses. If the income from investments is not sufficient to cover the obligations due to guaranteed returns, an additional provision is made and charged to the income statement.

### **22.5.10.4 Non-life insurance**

Non-life insurance policies are insurance policies that provide cover that is not related to the life or death of the insured persons. These contracts generally provide cover for a relative short period. SNS REAAL's non-life insurance contracts can be divided into the following product groups: accident and health, motor vehicles, fire, transport and other.

Payments made after the occurrence of a specified insured event are either fixed (e.g. in the event of disability) or linked to the scale of the economic loss suffered by the policyholder (in accordance with the indemnity principle).

The provision for unearned premiums reflects premiums related to the period of any unexpired cover as at the balance sheet date. The provision is equal to the unearned gross premiums, whereby the commission paid is deducted from the gross premium. The provision for unearned premiums is calculated separately for each insurance contract in proportion

to the unexpired risk period, adjusted where necessary for variations in risk and claim frequencies over the term of the insurance contract.

The change in the provision for unearned premiums is recorded in the income statement in order to recognise income over the period of exposure to risk.

The provision for current risks is made to meet obligations stemming from:

- Claims and claims-handling expenses that may arise after the balance sheet date and which are covered by contracts issued prior to that date, insofar as the amount estimated in connection with this exceeds the provision for unearned premiums and the premiums claimable in relation to these contracts.
- The premiums received, be they single or regular, for contracts where the underlying risk increases over time. This is particularly the case for disability insurance.

The provision for claims payable has been set aside to meet claims arising from the current and preceding years that have not been settled as at the reporting date. The provision is determined systematically on a claim by claim basis. In the case of disability claims, this provision is referred to as the 'provision for regular payments'.

REAAL holds co-insurance contracts, mainly relating to the transport sector. In the calculation of the technical provision, all risks entered into as of the reporting date are accounted for, as are claims, both reported and unreported, incurred during the financial year. The expected balances for risks covered and losses incurred arising from transport insurance are determined on an underwriting-year basis.

The provision for claims incurred but not reported (IBNR provision) is intended for events that occurred prior to the reporting date but have not yet been reported as at that date. Upon measurement, projected subrogation amounts are deducted from this experience-based provision.

A separate provision for internal claims handling costs is formed as part of the provision for claims payable. This provision provides an estimate of the expenses involved in dealing with payments to be made in respect of claims arising from insured events that have already occurred.

Contrary to the Liability Adequacy Test – which uses actuarial analyses – the IBNR and claims handling costs provisions in the balance sheet are measured by reference to the bookvalue of the previous month, adjusted (if needed) for large developments during the month. Twice a year these provisions are reassessed, based inter alia on business information as well as the actuarial analyses from the most recent Liability Adequacy Test.

In accordance with general practice in the industry, SNS REAAL does not discount the non-life provisions mentioned in this paragraph, with the exception of disability claims provisions. This also applies with regard to the provision for claims handling costs. Changes in estimates are reflected in the result in the period during which the estimates are adjusted.

#### **22.5.10.5 Derivatives embedded in insurance contracts**

SNS REAAL does not separately recognise derivatives embedded in insurance contracts, or options to surrender insurance contracts at a fixed amount, or at a fixed amount and an interest rate, and thus closely linked to the basic insurance contract but recognises these under the host contract from which they stem. The embedded derivatives are measured as soon as the technical provision made for the host contract drops below the guaranteed minimum. The time value is not included in the measurement.

### **22.5.10.6 Profit sharing, bonuses and rebates**

The present value of any profit sharing that has been awarded but not yet distributed is included under the provision for profit sharing, bonuses and rebates.

### **22.5.10.7 Shadow accounting**

SNS REAAL has implemented shadow accounting in accordance with IFRS 4, which reduces the asymmetry in the liability adequacy test of the Insurance activities, and therefore ensures that SNS REAAL's financial statements better reflect the economic matching of insurance assets and liabilities. Shadow accounting is applied on:

- Insurance contracts with profit sharing.
- Insurance contracts without profit sharing, in and insofar the current market interest rate is below the interest rate used in pricing the contract when it was entered into, seen at portfolio level.
- Certain interest related derivatives embedded in insurance contracts.

The assets on which shadow accounting is applied concern fixed income investments available for sale and interest derivatives.

Shadow accounting is applied on gains and losses on (derivative) assets that match insurance liabilities, regardless of whether these have or have not been realised and regardless of whether the unrealised gains and losses are recognised in the income statement or directly in the fair value reserve (shareholders' equity).

The gains and losses on assets recognised in shareholders' equity have a mirrored change as gains and losses in the insurance liabilities. The gains and losses on assets recognised in the income statement have a mirrored change in the gains and losses presented in the technical claims and benefits.

## **22.5.11 Employee benefits**

### **22.5.11.1 Short-term remunerations for employees**

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

### **22.5.11.2 Pension benefits**

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

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

SNS REAAL also has a number of defined benefit pension plans relating to acquisitions. The pension rights of the employees of Property Finance and the pension rights of (former) employees continuing under the old acquired pension schemes of AXA, Winterthur, Zwitserleven, Zürich, NHL and DBV can be designated as defined benefit schemes. SNS REAAL's net commitments arising from defined benefit pension plans are calculated separately for each plan by making an assessment of the pension entitlements that staff have accrued in exchange for their services during the reporting period and prior periods. These pension entitlements are discounted in order to determine the present value, and the fair value of the plan assets is deducted from this. The discount rate represents the return as at the balance sheet date of

bonds with an AA credit rating whose maturities approach the term of SNS REAAL's commitments. The present value of the pension entitlements for self-administered pension plans is included separately in the balance sheet. The investments related to these pension plans are recognised under 'investments'.

The actuarial gains and losses arising from defined benefit pension plans, insofar as any non-recognised accumulated actuarial gains and losses exceed 10% of the higher of the present value of the defined benefit obligation, or the fair value of the plan assets, are recognised in the income statement for the average expected remaining period of services rendered of the employees participating in the plan. Other actuarial gains or losses are not included in the income statement.

When the calculation results in a positive balance for SNS REAAL, the asset is stated at an amount no higher than the balance of any non-recognised actuarial losses and past service pension charges and the present value of any future repayments by the fund or lower future premiums.

#### **22.5.11.3 Other employee commitments**

The other employee commitments refer mostly to discounts granted for bank and insurance products to (former) employees after the date of their retirement. The size of the provision is based on the present value of the discounts offered after the retirement date, taking into account actuarial assumptions about mortality and interest. Furthermore, a provision has been made for reimbursement of medical expenses.

To qualify for these benefits, the employment contract of the employee should normally have continued until the retirement age, and it should have lasted for a specified minimum period. A liability is taken for the estimated costs of these benefits during the term of employment using a method that corresponds with that used for defined benefit pension plans.

#### **22.5.11.4 Share-based remunerations**

SNS REAAL has a share based payment plan in which a number of employees of SNS REAAL and its group entities may participate. This share-based remuneration is denominated in SNS REAAL shares. When the share-based remuneration is settled in shares this results in an increase of shareholders' equity. If the share-based remuneration is settled in cash, a liability is taken into account.

The costs of share-based remunerations are accounted for over the period in which the services are rendered for the part that is unconditionally granted. As for the part granted on the condition of continuation of employment during a number of years (the loyalty period) the cost are taken into account in the service period. If the employment is terminated before the end of the loyalty period and the entitlement to the remuneration expires, the cost already expensed are reversed to profit and loss.

The fair value of the share-based remuneration that will be settled in shares is determined on the grant date. The number of shares to be granted is adjusted on each balance sheet date.

The costs of the shares related to the share-based remuneration of staff of group entities are charged by SNS REAAL to these entities.



## 22.5.12 Provisions

### 22.5.12.1 General

Provisions are made if there is a legally enforceable or present obligation arising from events in the past, the settlement of which is likely to require an outflow of assets, and a reliable estimate of the size of the obligation can be made.

Provisions are measured at the present value of the expected future cash flows. Additions and any subsequent releases are recorded in the income statement.

### 22.5.12.2 Restructuring provision

The restructuring provision is a specific provision that consists of anticipated severance payments and other costs that are directly related to restructuring programmes. These costs are accounted for in the period in which a legally enforceable or actual obligation to make the payment arises. No provision is formed for costs or future operating losses stemming from continuing operations.

SNS REAAL recognises severance payments if SNS REAAL 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.

### 22.5.12.3 Legal provisions

SNS REAAL 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.

## 22.5.13 Financial liabilities

### 22.5.13.1 Securities lending liabilities

The requirement to repay the pledged collateral in cash (see [Invested collateral from securities lending](#)) is recognised in the balance sheet as 'securities lending liabilities'. These liabilities are stated at amortised cost.

### 22.5.13.2 Derivatives

See paragraph [Derivatives](#).

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

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

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

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

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

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

#### **22.5.14 Other liabilities**

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

### **22.6 Specific income statement accounting principles**

Income and expenditure are allocated to the period to which they relate. Costs are recognised in the cost category to which they relate. Costs are capitalised insofar as they pertain to the acquisition of insurance contracts. For more information, please refer to paragraph [Specific balance sheet principles](#).

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

#### **22.6.1 Income**

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

##### **22.6.1.1 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 cash flows, taking into account the risk of early redemption of the underlying financial instruments and the direct costs and income, such as the transaction costs charged, brokerage fees and discounts or premiums. If the risk of early redemption cannot be reliably determined, SNS REAAL calculates the cash flows over the full contractual term of the financial instruments.

Commitment fees, together with related direct costs, are deferred and recognised as an adjustment of the effective interest on a loan if it is likely that SNS REAAL will conclude a particular loan agreement. If the commitment expires without SNS REAAL 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 cash flows.

### **22.6.1.2 Interest expenses**

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

### **22.6.1.3 Premium income**

The premium income from insurance contracts, excluding taxes and other charges, is divided into regular life (including pensions), single-premium life and non-life premiums.

Regular Life premiums, single-premium contracts and limited-premium life insurance policies from life insurance contracts are recognised as income when payment by the policyholder falls due. Interest rate rebates and rate rebates are included in gross premium income and charged to claims and benefits during the amortisation period.

Premium income from non-life insurance contracts is recognised as income (earned premium) during the term of the contract in proportion to the elapsed insurance term, taking into account the movement in the provision for unearned premium. In general it concerns insurance contracts with a maximum term of twelve months.

### **22.6.1.4 Reinsurance premiums**

This item represents the premiums on reinsurance contracts. These are recognised as a charge to the income statement in proportion to the term of the contract.

### **22.6.1.5 Fee and commission income**

Fee and commission income include income from securities transactions for clients, asset management, commission from the insurance operations and other related services offered by SNS REAAL. 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.

### **22.6.1.6 Fee and commission expenses**

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

### **22.6.1.7 Share in the result of associates**

The share of SNS REAAL in the results of the associates is here accounted for. If the book value of the associated company falls to zero, no further losses are accounted for, unless SNS REAAL 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 REAAL.

### **22.6.1.8 Investment income**

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

#### **Interest**

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

#### **Dividend**

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

#### **Rental income**

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

#### **Revaluations**

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

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

### **22.6.1.9 Investment income for account of policyholders**

This is the investment income on investments held on behalf of life insurance policyholders are measured at fair value. Increases and decreases in the value of investments are recognised in the income statement as 'investment income for account of policyholders'. The dividend and interest on behalf of policyholders are also accounted for in this item.

### **22.6.1.10 Result on financial instruments**

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

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

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

#### **22.6.1.11 Other operation income**

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

### **22.6.2 Expenses**

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

#### **22.6.2.1 Technical claims and benefits**

Net movements in technical provisions are recorded under this item. This includes mainly the addition of required interest and premium payments to cover future benefit payments, less payments due (life and non-life), developments in the portfolio, such as benefit payments and surrenders, the actuarial result on surrender, cancellation and mortality, and the VOBa amortisation costs.

#### **22.6.2.2 Charges for account of policyholders**

The changes in provisions for insurance contracts for the account and risk of policyholders are accounted for under this item (see paragraph [Life insurance contracts on behalf of policyholders](#)). Payments to policyholders are also recorded under this item.

#### **22.6.2.3 Acquisition costs for insurance activities**

Acquisition costs comprise the direct and indirect costs associated with acquiring an insurance contract or the conclusion of a mortgage in combination with an Insurance product, including brokerage fees, the costs of medical check-ups and administrative costs for administering new policies in the portfolio. Amortisation of capitalised acquisition costs for Insurance activities is included in this item, to the extent that the charge relates to capitalised external costs. The amortisation of capitalised internal costs is included in depreciation and amortisation on tangible and intangible fixed assets. The change in the provision for unearned premiums, insofar this change relates to the related paid commissions, is also accounted for under acquisition costs.

#### **22.6.2.4 Impairment charges / reversals**

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

#### **22.6.2.5 Staff costs**

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

#### **22.6.2.6 Depreciation and amortisation of fixed assets**

This item comprises all depreciation and amortisation of tangible and intangible fixed assets, with the exception of VOBA amortisation. The specific principles for depreciation and amortisation are explained in more detail in [Specific balance sheet principles](#) under the applicable items.

#### **22.6.2.7 Lease**

The lease agreements that SNS REAAL (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.

#### **22.6.2.8 Other operating expenses**

This includes office, accommodation and other operating costs.

#### **22.6.2.9 Other interest expenses**

Other interest expenses comprises the interest expenses in respect of financial obligations arising from insurance operations and group operations. The interest expenses are recognised in the income statement under the effective interest method.

#### **22.6.2.10 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.

### **22.7 Contingent liabilities and commitments**

Contingent liabilities are liabilities not recognised in the balance sheet because the existence is contingent on one or more uncertain events that may or may not occur in the future not wholly within the control of SNS REAAL. 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.

### **22.8 Cash flow statement**

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

Investments in (consolidated) subsidiaries and associates are stated under cash flow from investing activities. The cash and cash equivalents available at the acquisition date are deducted from the purchase price.

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

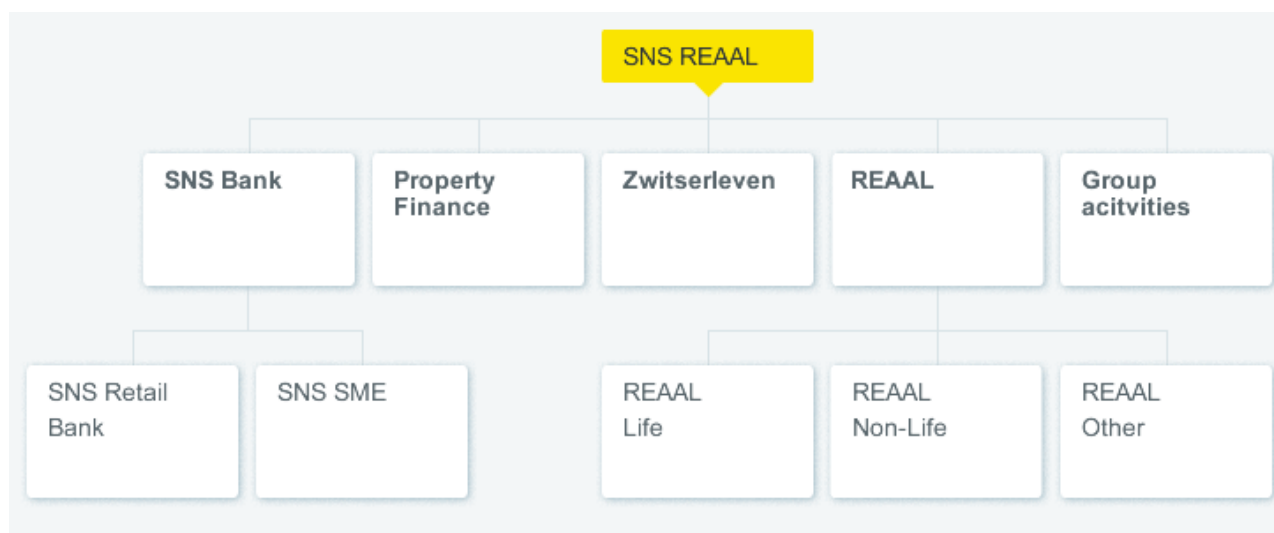
## 23 Segmented financial statements

### 23.1 Information by segment

SNS REAAL is a Dutch financial services provider that focuses mainly on the Dutch retail and SME markets. The product range consists of three core products: mortgages and SME finance, asset management (savings and investments) and insurance (Life, Non-life, disability) and pensions. The services to private individuals and the SME clients are mostly rendered through the main brands SNS Bank, REAAL and Zwitserleven and through several distribution channels.

In addition to the Executive Board, a Management Committee is in place, comprising of the Executive Board, the chairmen of the boards of SNS Bank, REAAL and Zwitserleven, the Chief Information Officer and the director of Human Resource Management. The Executive Board defines the strategy, the performance targets and authorises and monitors the budgets that have been prepared by these business units. The management boards of the business unit determine the business unit policy, in accordance with the strategy and performance targets.

The business unit structure follows this approach, consisting of five segments (SNS Bank, Property Finance, REAAL, Zwitserleven and Group Activities). Within the business unit REAAL the focus of REAAL Leven is on the life-portfolio. The business unit Zwitserleven focuses on the pension-portfolio.



For a segment, the same principles for valuation and determination of the result are used as set out in the accounting principles for the consolidated balance sheet and the income statement of SNS REAAL. For the settlement of transactions between business units, the prices are used that would ensue from regular market conditions ('at arm's length'), excluding the specific transactions referred to under [Related parties](#). Intercompany common control transactions are accounted for using book value accounting.

#### 23.1.1 SNS Bank

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

#### **23.1.1.1 SNS Retail Bank**

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

#### **23.1.1.2 SNS SME**

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

#### **23.1.2 Property Finance**

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

#### **23.1.3 Zwitserleven**

This segment, as a specialist pension insurer, offers products aimed at future income: ranging from pensions to mortgages and investment products. Zwitserleven focuses on both business and private customers. For distribution purposes, Zwitserleven works closely together with intermediaries, which play a vital role in advising consumers and businesses.

#### **23.1.4 REAAL**

The segment REAAL has three subsegments: REAAL Life, REAAL Non-life and REAAL Other.

##### **23.1.4.1 REAAL Life**

This segment offers life insurance to the retail and SME markets. The segment includes REAAL Levensverzekeringen and Proteq Levensverzekeringen.

##### **23.1.4.2 REAAL Non-life**

This segment offers non-life insurance for property, mobility, bodily injury, invalidity and disability. The segment includes the units REAAL Schadeverzekeringen, Proteq Schadeverzekeringen and until the end of December Reaal Reassurantie SA. All shares in Reaal Reassurantie SA in Luxembourg were sold by REAAL NV and SNS REAAL NV to Amtrust Holdings Limited on 29 December 2011.

##### **23.1.4.3 REAAL Other**

This segment includes the activities of REAAL which are managed separately from the segments REAAL Life and REAAL Non-life. These principally include activities of SNS Verzekeringen, Route Mobiel and DBV Finance. End of January 2011, the shares in DBV Finance BV were transferred to SNS Bank NV, with effect of 1 January 2011. DBV Finance BV then legally merged with SNS Bank NV. DBV Finance is included in the segment SNS Retail Bank.



### **23.1.5 Group activities**

Group activities include the business units that are managed directly by the Executive Board and whose income and expenses are not attributed to the other segments. The Group activities segment includes SNS REAAL Invest and SNS Asset Management.

#### **23.1.5.1 Allocation of group costs**

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

## 23.2 Balance sheet by segment

### Balance sheet by segment 31 December 2011

In € millions

	SNS Bank	Property Finance	REAAL	Zwitserleven	Group Activities	Eliminations	Total
<b>Assets</b>							
Intangible assets	153	--	1,490	519	17	--	2,179
Property and equipment	88	2	139	32	21	59	341
Investments in associates	1	16	38	--	2	(1)	56
Investment properties	1	--	225	30	--	(59)	197
Investments	4,106	--	21,295	8,696	52	(2,714)	31,435
Investments for account of policyholders	--	--	5,644	6,799	--	(23)	12,420
Invested collateral securities lending	--	--	--	117	--	--	117
Derivatives	3,321	--	391	181	43	(43)	3,893
Deferred tax assets	220	5	146	136	35	--	542
Reinsurance contracts	--	--	3,424	2	--	--	3,426
Property projects	7	505	--	--	--	--	512
Loans and advances to customers	60,007	4,784	2,235	808	471	(771)	67,534
Loans and advances to banks	7,063	--	466	33	140	(5,531)	2,171
Corporate income tax	112	13	196	18	113	(153)	299
Other assets	981	307	335	46	95	(221)	1,543
Cash and cash equivalents	5,129	223	1,036	152	18	(1,049)	5,509
Assets held for sale	--	--	--	--	--	--	--
<b>Total assets</b>	<b>81,189</b>	<b>5,855</b>	<b>37,060</b>	<b>17,569</b>	<b>1,007</b>	<b>(10,506)</b>	<b>132,174</b>
<b>Equity and liabilities</b>							
Shareholders' equity	1,514	185	2,176	1,802	(1,229)	--	4,448
Equity attributable to securityholders	156	--	383	17	423	--	979
Minority interests	--	--	2	--	--	(1)	1
<b>Total equity</b>	<b>1,670</b>	<b>185</b>	<b>2,561</b>	<b>1,819</b>	<b>(806)</b>	<b>(1)</b>	<b>5,428</b>
Participation certificates and subordinated debt	1,121	--	790	212	604	(598)	2,129
Debt certificates	27,361	--	--	--	302	(234)	27,429
Insurance contracts	--	--	25,482	13,345	--	--	38,827
Provision for employee benefits	--	--	169	194	77	--	440
Other provisions	33	2	33	6	12	--	86
Securities lending liabilities	--	--	--	120	--	--	120
Derivatives	3,606	--	15	38	2	(43)	3,618
Deferred tax liabilities	298	5	522	213	--	--	1,038
Savings	30,342	--	--	--	--	(1)	30,341
Other amounts due to customers	10,035	180	4,044	202	628	(2,947)	12,142
Amounts due to banks	4,919	5,402	2,193	961	73	(6,303)	7,245
Corporate income tax	--	--	311	1	18	(153)	177
Other liabilities	1,804	81	940	458	97	(226)	3,154
<b>Total equity and liabilities</b>	<b>81,189</b>	<b>5,855</b>	<b>37,060</b>	<b>17,569</b>	<b>1,007</b>	<b>(10,506)</b>	<b>132,174</b>

**Balance sheet by segment 31 December 2010**
*In € millions*

	SNS Bank	Property Finance	REAAL	Zwitserleven	Group Activities	Eliminations	Total
<b>Assets</b>							
Intangible assets	164	--	1,585	675	17	--	2,441
Property and equipment	110	--	135	35	11	59	350
Investments in associates	1	5	55	--	1	(2)	60
Investment properties	1	--	220	32	--	(59)	194
Investments	4,249	--	21,756	8,454	77	(3,535)	31,001
Investments for account of policyholders	--	--	6,199	6,442	--	(4)	12,637
Invested collateral securities lending	--	--	--	176	--	--	176
Derivatives	2,317	--	118	107	37	--	2,579
Deferred tax assets	258	9	80	119	15	--	481
Reinsurance contracts	--	--	354	1	--	--	355
Property projects	11	456	--	--	--	--	467
Loans and advances to customers	59,229	5,784	3,752	858	991	(1,497)	69,117
Loans and advances to banks	8,461	--	348	8	440	(7,228)	2,029
Corporate income tax	49	53	104	1	95	(143)	159
Other assets	511	828	252	126	84	(926)	875
Cash and cash equivalents	3,812	209	2,002	52	107	(1,511)	4,671
Assets held for sale	27	94	--	--	--	--	121
<b>Total assets</b>	<b>79,200</b>	<b>7,438</b>	<b>36,960</b>	<b>17,086</b>	<b>1,875</b>	<b>(14,846)</b>	<b>127,713</b>
<b>Equity and liabilities</b>							
Shareholders' equity	1,148	432	1,459	1,443	(760)	(4)	3,718
Equity attributable to securityholders	256	--	678	47	14	4	999
Minority interests	--	--	3	--	--	(1)	2
<b>Total equity</b>	<b>1,404</b>	<b>432</b>	<b>2,140</b>	<b>1,490</b>	<b>(746)</b>	<b>(1)</b>	<b>4,719</b>
Participation certificates and subordinated debt	2,022	--	866	119	603	(1,214)	2,396
Debt certificates	29,523	--	1,771	--	303	(137)	31,460
Insurance contracts	--	--	26,341	12,503	--	(30)	38,814
Provision for employee benefits	--	--	142	191	41	30	404
Other provisions	38	3	30	4	8	--	83
Securities lending liabilities	--	--	--	182	--	--	182
Derivatives	2,880	--	83	1	4	--	2,968
Deferred tax liabilities	316	7	348	142	--	--	813
Savings	27,398	--	--	--	--	(1)	27,397
Other amounts due to customers	10,292	190	578	1,051	1,257	(4,101)	9,267
Amounts due to banks	3,279	6,785	3,433	1,073	276	(8,318)	6,528
Corporate income tax	--	--	136	7	--	(143)	--
Other liabilities	2,048	21	1,092	323	129	(931)	2,682
<b>Total equity and liabilities</b>	<b>79,200</b>	<b>7,438</b>	<b>36,960</b>	<b>17,086</b>	<b>1,875</b>	<b>(14,846)</b>	<b>127,713</b>

*Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 22.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.*

## 23.3 Income statement by segment

### Income statement by segment 2011

In € millions

	SNS Bank	Property Finance	REAAL Zwitserleven		Group Eliminations Activities		Total
<b>Income</b>							
Interest income third parties	2,550	203	--	--	--	--	2,753
Interest income group companies	162	8	--	--	--	(170)	--
Interest expense third parties	1,866	--	--	--	--	--	1,866
Interest expense group companies	101	158	--	--	--	(259)	--
<b>Net interest income</b>	<b>745</b>	<b>53</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>89</b>	<b>887</b>
Premium income	--	--	2,535	1,161	--	--	3,696
Reinsurance premiums	--	--	241	5	--	--	246
<b>Net premium income</b>	<b>--</b>	<b>--</b>	<b>2,294</b>	<b>1,156</b>	<b>--</b>	<b>--</b>	<b>3,450</b>
Fee and commission income third parties	124	--	62	9	22	--	217
Fee and commission income group companies	15	--	13	6	24	(58)	--
Fee and commission expense third parties	42	--	9	1	6	--	58
Fee and commission expense group companies	11	--	10	--	--	(21)	--
<b>Net fee and commission income</b>	<b>86</b>	<b>--</b>	<b>56</b>	<b>14</b>	<b>40</b>	<b>(37)</b>	<b>159</b>
Share in result of associates	--	(1)	(1)	--	--	--	(2)
Investment income	45	--	1,080	359	53	(162)	1,375
Investment income for account of policyholders	--	--	(241)	202	--	(1)	(40)
Result on financial instruments	122	(30)	155	28	--	--	275
Income invested collateral securities lending	--	--	2	2	--	--	4
Other operating income	2	(8)	3	--	--	--	(3)
Result assets and liabilities held for sale	--	(4)	18	--	--	--	14
<b>Total income</b>	<b>1,000</b>	<b>10</b>	<b>3,366</b>	<b>1,761</b>	<b>93</b>	<b>(111)</b>	<b>6,119</b>
<b>Expenses</b>							
Technical claims and benefits	--	--	2,020	604	--	--	2,624
Charges for account of policyholders	--	--	167	923	--	--	1,090
Acquisition costs for insurance operations	--	--	280	26	--	(4)	302
Staff costs	228	30	129	49	279	--	715
Depreciation and amortisation of fixed assets	29	1	58	26	7	--	121
Other operating expenses	234	51	124	62	(169)	(23)	279
Impairment charges	159	251	35	145	25	--	615
Interest expense securities lending	--	--	--	1	--	--	1
Other interest expenses	--	--	224	37	66	(84)	243
Other expenses	--	--	--	--	--	--	--
<b>Total expenses</b>	<b>650</b>	<b>333</b>	<b>3,037</b>	<b>1,873</b>	<b>208</b>	<b>(111)</b>	<b>5,990</b>
<b>Result before tax</b>	<b>350</b>	<b>(323)</b>	<b>329</b>	<b>(112)</b>	<b>(115)</b>	<b>--</b>	<b>129</b>
Taxation	88	(75)	71	(21)	(22)	--	41
<b>Net result continued operations</b>	<b>262</b>	<b>(248)</b>	<b>258</b>	<b>(91)</b>	<b>(93)</b>	<b>--</b>	<b>88</b>
Net result discontinued operations	--	--	--	--	--	--	--
<b>Net result for the period</b>	<b>262</b>	<b>(248)</b>	<b>258</b>	<b>(91)</b>	<b>(93)</b>	<b>--</b>	<b>88</b>
Minority interests	--	--	1	--	--	--	1
<b>Net result attributable to shareholders and securityholders</b>	<b>262</b>	<b>(248)</b>	<b>257</b>	<b>(91)</b>	<b>(93)</b>	<b>--</b>	<b>87</b>

**Income statement by segment 2010**
*In € millions*

	SNS Bank	Property Finance	REAAL	Zwitserleven	Group Activities	Eliminations	Total
<b>Income</b>							
Interest income third parties	2,234	243	--	--	--	--	2,477
Interest income group companies	136	--	--	--	--	(136)	--
Interest expense third parties	1,435	106	--	--	--	--	1,541
Interest expense group companies	201	--	--	--	--	(201)	--
<b>Net interest income</b>	<b>734</b>	<b>137</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>65</b>	<b>936</b>
Premium income	--	--	2,643	1,085	--	--	3,728
Reinsurance premiums	--	--	149	5	--	--	154
<b>Net premium income</b>	<b>--</b>	<b>--</b>	<b>2,494</b>	<b>1,080</b>	<b>--</b>	<b>--</b>	<b>3,574</b>
Fee and commission income third parties	121	--	76	13	12	--	222
Fee and commission income group companies	17	--	14	--	34	(65)	--
Fee and commission expense third parties	30	--	11	1	6	--	48
Fee and commission expense group companies	16	--	15	6	--	(37)	--
<b>Net fee and commission income</b>	<b>92</b>	<b>--</b>	<b>64</b>	<b>6</b>	<b>40</b>	<b>(28)</b>	<b>174</b>
Share in result of associates	--	(9)	6	--	(2)	--	(5)
Investment income	47	--	1,123	375	76	(164)	1,457
Investment income for account of policyholders	--	--	364	451	--	--	815
Result on financial instruments	9	(29)	78	18	(3)	--	73
Income invested collateral securities lending	--	--	1	2	--	--	3
Other operating income	4	--	28	9	--	--	41
<b>Total income</b>	<b>886</b>	<b>99</b>	<b>4,158</b>	<b>1,941</b>	<b>111</b>	<b>(127)</b>	<b>7,068</b>
<b>Expenses</b>							
Technical claims and benefits	--	--	2,384	838	--	--	3,222
Charges for account of policyholders	--	--	711	842	--	--	1,553
Acquisition costs for insurance operations	--	--	300	27	--	(4)	323
Staff costs	231	25	135	44	278	--	713
Depreciation and amortisation of fixed assets	34	1	52	28	6	--	121
Other operating expenses	247	38	163	59	(183)	(18)	306
Impairment charges	89	852	(3)	32	26	--	996
Interest expense securities lending	--	--	--	1	--	--	1
Other interest expenses	--	--	153	25	74	(106)	146
Other expenses	--	--	2	--	--	1	3
<b>Total expenses</b>	<b>601</b>	<b>916</b>	<b>3,897</b>	<b>1,896</b>	<b>201</b>	<b>(127)</b>	<b>7,384</b>
<b>Result before tax</b>	<b>285</b>	<b>(817)</b>	<b>261</b>	<b>45</b>	<b>(90)</b>	<b>--</b>	<b>(316)</b>
Taxation	73	(174)	54	9	(19)	--	(57)
<b>Net result continued operations</b>	<b>212</b>	<b>(643)</b>	<b>207</b>	<b>36</b>	<b>(71)</b>	<b>--</b>	<b>(259)</b>
Net result discontinued operations	--	--	--	--	--	--	--
<b>Net result for the period</b>	<b>212</b>	<b>(643)</b>	<b>207</b>	<b>36</b>	<b>(71)</b>	<b>--</b>	<b>(259)</b>
Minority interests	--	--	1	--	--	--	1
<b>Net result attributable to shareholders and securityholders</b>	<b>212</b>	<b>(643)</b>	<b>206</b>	<b>36</b>	<b>(71)</b>	<b>--</b>	<b>(260)</b>

*Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 22.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.*

## 23.4 Balance sheet Banking activities by segment

### Balance sheet Banking activities by segment 31 December 2011

In € millions

	SNS Retail Bank	SNS SME	Property Finance	Eliminations	Total
<b>Assets</b>					
Intangible assets	106	47	--	--	153
Property and equipment	88	--	2	--	90
Investments in associates	--	1	16	--	17
Investment properties	1	--	--	--	1
Investments	4,106	--	--	--	4,106
Derivatives	3,321	--	--	--	3,321
Deferred tax assets	218	2	5	--	225
Property projects	--	7	505	--	512
Loans and advances to customers	54,351	5,656	4,784	--	64,791
Loans and advances to banks	11,201	2,534	--	(12,053)	1,682
Corporate income tax	123	--	13	(12)	124
Other assets	926	3,083	307	(3,218)	1,098
Cash and cash equivalents	5,109	273	223	(477)	5,128
Assets held for sale	--	--	--	--	--
<b>Total assets</b>	<b>79,550</b>	<b>11,603</b>	<b>5,855</b>	<b>(15,760)</b>	<b>81,248</b>
<b>Equity and liabilities</b>					
Shareholders' equity	1,004	510	185	--	1,699
Equity attributable to securityholders	156	--	--	--	156
Minority interests	--	--	--	--	--
<b>Total equity</b>	<b>1,160</b>	<b>510</b>	<b>185</b>	<b>--</b>	<b>1,855</b>
Participation certificates and subordinated debt	505	616	--	--	1,121
Debt certificates	27,361	--	--	--	27,361
Other provisions	30	3	2	--	35
Derivatives	3,606	--	--	--	3,606
Deferred tax liabilities	296	2	5	--	303
Savings	30,342	--	--	--	30,342
Other amounts due to customers	6,407	3,628	180	--	10,215
Amounts due to banks	5,174	6,670	5,402	(12,530)	4,716
Corporate income tax	--	12	--	(12)	--
Other liabilities	4,669	162	81	(3,218)	1,694
<b>Total equity and liabilities</b>	<b>79,550</b>	<b>11,603</b>	<b>5,855</b>	<b>(15,760)</b>	<b>81,248</b>

**Balance sheet Banking activities by segment 31 December 2010**
*In € millions*

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

*Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 22.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.*

## 23.5 Income statement Banking activities by segment

### Income statement Banking activities by segment 2011

In € millions

	SNS Retail Bank	SNS SME	Property Finance	Eliminations	Total
<b>Income</b>					
Interest income	2,474	470	211	(399)	2,756
Interest expense	1,873	326	158	(399)	1,958
<b>Net interest income</b>	<b>601</b>	<b>144</b>	<b>53</b>	<b>--</b>	<b>798</b>
Fee and commission income	132	7	--	--	139
Fee and commission expense	53	--	--	--	53
<b>Net fee and commission income</b>	<b>79</b>	<b>7</b>	<b>--</b>	<b>--</b>	<b>86</b>
Share in result of associates	--	--	(1)	--	(1)
Investment income	45	--	--	--	45
Result on financial instruments	128	(6)	(30)	--	92
Other operating income	2	--	(8)	--	(6)
Result assets and liabilities held for sale	--	--	(4)	--	(4)
<b>Total income</b>	<b>855</b>	<b>145</b>	<b>10</b>	<b>--</b>	<b>1,010</b>
<b>Expenses</b>					
Staff costs	201	27	30	--	258
Depreciation and amortisation of fixed assets	29	--	1	--	30
Other operating expenses	213	21	51	--	285
Impairment charges	113	46	251	--	410
<b>Total expenses</b>	<b>556</b>	<b>94</b>	<b>333</b>	<b>--</b>	<b>983</b>
<b>Result before tax</b>	<b>299</b>	<b>51</b>	<b>(323)</b>	<b>--</b>	<b>27</b>
Taxation	75	13	(75)	--	13
<b>Net result continued operations</b>	<b>224</b>	<b>38</b>	<b>(248)</b>	<b>--</b>	<b>14</b>
Net result discontinued operations	--	--	--	--	--
<b>Net result for the period</b>	<b>224</b>	<b>38</b>	<b>(248)</b>	<b>--</b>	<b>14</b>
Minority interests	--	--	--	--	--
<b>Net result attributable to shareholders and securityholders</b>	<b>224</b>	<b>38</b>	<b>(248)</b>	<b>--</b>	<b>14</b>



**Income statement Banking activities by segment 2010**
*In € millions*

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

*Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 22.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.*

## 23.6 Balance sheet Insurance activities by segment

### Balance sheet Insurance activities by segment 31 December 2011

<i>In € millions</i>	<b>Zwitserleven</b>	<b>REAAL Life</b>	<b>REAAL Non-life</b>	<b>REAAL Other</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets</b>						
Intangible assets	519	1,275	213	2	--	2,009
Property and equipment	32	107	--	32	--	171
Investments in associates	--	33	5	--	--	38
Investment properties	30	225	--	--	--	255
Investments	8,696	19,476	1,851	521	(785)	29,759
Investments for account of policyholders	6,799	5,644	--	--	--	12,443
Invested collateral securities lending	117	--	--	--	--	117
Derivatives	181	391	--	--	--	572
Deferred tax assets	136	137	3	6	--	282
Reinsurance contracts	2	3,248	176	--	--	3,426
Loans and advances to customers	808	2,231	4	--	--	3,043
Loans and advances to banks	33	458	--	8	--	499
Corporate income tax	18	53	1	142	--	214
Other assets	46	879	320	830	(1,733)	342
Cash and cash equivalents	152	978	45	13	--	1,188
<b>Total assets</b>	<b>17,569</b>	<b>35,135</b>	<b>2,618</b>	<b>1,554</b>	<b>(2,518)</b>	<b>54,358</b>
<b>Equity and liabilities</b>						
Shareholders' equity	1,802	2,616	731	(1,171)	--	3,978
Equity attributable to securityholders	17	41	--	342	--	400
Minority interests	--	2	--	--	--	2
<b>Total equity</b>	<b>1,819</b>	<b>2,659</b>	<b>731</b>	<b>(829)</b>	<b>--</b>	<b>4,380</b>
Participation certificates and subordinated debt	212	704	86	--	--	1,002
Debt certificates	--	--	--	--	--	--
Insurance contracts	13,345	24,389	1,311	--	(218)	38,827
Provision for employee benefits	194	12	--	8	149	363
Other provisions	6	8	--	25	--	39
Securities lending liabilities	120	--	--	--	--	120
Derivatives	38	15	--	--	--	53
Deferred tax liabilities	213	469	50	3	--	735
Other amounts due to customers	202	3,796	30	772	(785)	4,015
Amounts due to banks	961	1,561	6	626	--	3,154
Corporate income tax	1	--	--	311	--	312
Other liabilities	458	1,522	404	638	(1,664)	1,358
<b>Total equity and liabilities</b>	<b>17,569</b>	<b>35,135</b>	<b>2,618</b>	<b>1,554</b>	<b>(2,518)</b>	<b>54,358</b>

**Balance sheet Insurance activities by segment 31 December 2010**
*In € millions*

	Zwitserleven	REAAL Life	REAAL Non-life	REAAL Other	Eliminations	Total
<b>Assets</b>						
Intangible assets	675	1,359	218	8	--	2,260
Property and equipment	35	108	--	27	--	170
Investments in associates	--	50	5	--	--	55
Investment properties	32	220	--	--	--	252
Investments	8,454	20,280	1,785	742	(1,931)	29,330
Investments for account of policyholders	6,442	6,199	--	--	--	12,641
Invested collateral securities lending	176	--	--	--	--	176
Derivatives	107	117	--	1	--	225
Deferred tax assets	119	57	2	21	--	199
Reinsurance contracts	1	150	204	--	--	355
Loans and advances to customers	858	1,492	4	2,256	--	4,610
Loans and advances to banks	8	335	5	8	--	356
Corporate income tax	1	94	10	--	--	105
Other assets	126	542	233	2,998	(3,643)	256
Cash and cash equivalents	52	1,568	299	150	(15)	2,054
<b>Total assets</b>	<b>17,086</b>	<b>32,571</b>	<b>2,765</b>	<b>6,211</b>	<b>(5,589)</b>	<b>53,044</b>
<b>Equity and liabilities</b>						
Shareholders' equity	1,443	2,053	623	(1,217)	--	2,902
Equity attributable to securityholders	47	108	--	570	--	725
Minority interests	--	3	--	--	--	3
<b>Total equity</b>	<b>1,490</b>	<b>2,164</b>	<b>623</b>	<b>(647)</b>	<b>--</b>	<b>3,630</b>
Participation certificates and subordinated debt	119	705	162	141	(167)	960
Debt certificates	--	110	--	1,766	(105)	1,771
Insurance contracts	12,503	25,036	1,373	--	(68)	38,844
Provision for employee benefits	191	15	--	127	--	333
Other provisions	4	6	--	24	--	34
Securities lending liabilities	182	--	--	--	--	182
Derivatives	1	2	--	81	--	84
Deferred tax liabilities	142	289	52	7	--	490
Other amounts due to customers	1,051	534	31	819	(1,661)	774
Amounts due to banks	1,073	2,363	76	994	--	4,506
Corporate income tax	7	--	--	136	--	143
Other liabilities	323	1,347	448	2,763	(3,588)	1,293
<b>Total equity and liabilities</b>	<b>17,086</b>	<b>32,571</b>	<b>2,765</b>	<b>6,211</b>	<b>(5,589)</b>	<b>53,044</b>

*Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 22.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.*

## 23.7 Income statement Insurance activities by segment

### Income statement Insurance activities by segment 2011

<i>In € millions</i>	<b>Zwitserleven</b>	<b>REAAL Life</b>	<b>REAAL Non-life</b>	<b>REAAL Other</b>	<b>Eliminations</b>	<b>Total</b>
<b>Income</b>						
Premium income	1,161	1,687	848	--	--	3,696
Reinsurance premiums	5	187	54	--	--	246
<b>Net premium income</b>	<b>1,156</b>	<b>1,500</b>	<b>794</b>	<b>--</b>	<b>--</b>	<b>3,450</b>
Fee and commission income	15	56	1	18	--	90
Fee and commission expense	1	7	--	12	--	20
<b>Net fee and commission income</b>	<b>14</b>	<b>49</b>	<b>1</b>	<b>6</b>	<b>--</b>	<b>70</b>
Share in result of associates	--	(2)	1	--	--	(1)
Investment income	359	1,011	66	23	(26)	1,433
Investment income for account of policyholders	202	(241)	--	--	--	(39)
Result on financial instruments	28	155	--	--	--	183
Income invested collateral securities lending	2	2	--	--	--	4
Other operating income	--	3	--	--	--	3
Result assets and liabilities held for sale	--	--	--	18	--	18
<b>Total income</b>	<b>1,761</b>	<b>2,477</b>	<b>862</b>	<b>47</b>	<b>(26)</b>	<b>5,121</b>
<b>Expenses</b>						
Technical claims and benefits	604	1,530	490	--	--	2,624
Charges for account of policyholders	923	167	--	--	--	1,090
Acquisition costs for insurance operations	26	89	192	(1)	--	306
Staff costs	49	53	55	21	--	178
Depreciation and amortisation of fixed assets	26	40	17	1	--	84
Other operating expenses	62	62	56	6	--	186
Impairment charges	145	35	--	--	--	180
Interest expense securities lending	1	--	--	--	--	1
Other interest expenses	37	210	9	25	(26)	255
Other expenses	--	--	--	--	--	--
<b>Total expenses</b>	<b>1,873</b>	<b>2,186</b>	<b>819</b>	<b>52</b>	<b>(26)</b>	<b>4,904</b>
<b>Result before tax</b>	<b>(112)</b>	<b>291</b>	<b>43</b>	<b>(5)</b>	<b>--</b>	<b>217</b>
Taxation	(21)	67	10	(6)	--	50
<b>Net result continued operations</b>	<b>(91)</b>	<b>224</b>	<b>33</b>	<b>1</b>	<b>--</b>	<b>167</b>
Net result discontinued operations	--	--	--	--	--	--
<b>Net result for the period</b>	<b>(91)</b>	<b>224</b>	<b>33</b>	<b>1</b>	<b>--</b>	<b>167</b>
Minority interests	--	1	--	--	--	1
<b>Net result attributable to shareholder and securityholder</b>	<b>(91)</b>	<b>223</b>	<b>33</b>	<b>1</b>	<b>--</b>	<b>166</b>

**Income statement Insurance activities by segment 2010**

<i>In € millions</i>	<b>Zwitserleven</b>	<b>REAAL Life</b>	<b>REAAL Non-life</b>	<b>REAAL Other</b>	<b>Eliminations</b>	<b>Total</b>
<b>Income</b>						
Premium income	1,085	1,834	809	--	--	3,728
Reinsurance premiums	5	82	67	--	--	154
<b>Net premium income</b>	<b>1,080</b>	<b>1,752</b>	<b>742</b>	<b>--</b>	<b>--</b>	<b>3,574</b>
Fee and commission income	13	66	2	22	--	103
Fee and commission expense	7	10	--	16	--	33
<b>Net fee and commission income</b>	<b>6</b>	<b>56</b>	<b>2</b>	<b>6</b>	<b>--</b>	<b>70</b>
Share in result of associates	--	4	2	--	--	6
Investment income	375	1,017	62	59	(15)	1,498
Investment income for account of policyholders	451	364	--	--	--	815
Result on financial instruments	18	78	--	--	--	96
Income invested collateral securities lending	2	1	--	--	--	3
Other operating income	9	28	--	--	--	37
<b>Total income</b>	<b>1,941</b>	<b>3,300</b>	<b>808</b>	<b>65</b>	<b>(15)</b>	<b>6,099</b>
<b>Expenses</b>						
Technical claims and benefits	838	1,908	476	--	--	3,222
Charges for account of policyholders	842	711	--	--	--	1,553
Acquisition costs for insurance operations	27	124	178	(2)	--	327
Staff costs	44	67	45	23	--	179
Depreciation and amortisation of fixed assets	28	39	13	--	--	80
Other operating expenses	59	82	62	19	--	222
Impairment charges	32	(4)	--	1	--	29
Interest expense securities lending	1	--	--	--	--	1
Other interest expenses	25	109	13	46	(15)	178
Other expenses	--	--	--	2	--	2
<b>Total expenses</b>	<b>1,896</b>	<b>3,036</b>	<b>787</b>	<b>89</b>	<b>(15)</b>	<b>5,793</b>
<b>Result before tax</b>	<b>45</b>	<b>264</b>	<b>21</b>	<b>(24)</b>	<b>--</b>	<b>306</b>
Taxation	9	55	5	(6)	--	63
<b>Net result continued operations</b>	<b>36</b>	<b>209</b>	<b>16</b>	<b>(18)</b>	<b>--</b>	<b>243</b>
Net result discontinued operations	--	--	--	--	--	--
<b>Net result for the period</b>	<b>36</b>	<b>209</b>	<b>16</b>	<b>(18)</b>	<b>--</b>	<b>243</b>
Minority interests	--	1	--	--	--	1
<b>Net result attributable to shareholder and securityholder</b>	<b>36</b>	<b>208</b>	<b>16</b>	<b>(18)</b>	<b>--</b>	<b>242</b>

*Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 22.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.*

## 24 Risk and capital management

### 24.1 Maintaining a moderate risk profile

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

SNS REAAL's commercial activities, such as offering accessible banking and insurance products, involve risks, whereby the exposure to high-risk activities, such as proprietary trading, complex products or foreign currencies, is limited. The mainly Dutch customers are well-diversified within the retail and SME market segments. The business property portfolio is being phased out in a controlled manner.

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

Property Finance's net loan portfolio amounted to € 4.8 billion at year-end 2011 (2010: € 5.8 billion), 61% of which originated in the Netherlands (2010: 57%). The credit risks in the loan portfolio remain high. The difficult market conditions in the commercial property markets are reflected in the lower valuation of the real estate, higher additions to the loan provisions and increasing default rates. By reducing the portfolio and raising provisions, exposure to these risks is partly reduced on the one hand. On the other hand, the risk has increased due to the uncertain economic situation in Europe.

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

At year-end 2011, the total investment portfolio of the Insurance activities amounted to € 29.8 billion (2010: € 29.3 billion), largely invested in fixed-income investments (96%) and partly invested in shares (4%). 76% of the fixed-income portfolio had an A rating or higher.

During 2011, additional hedging activities were undertaken to further de-risk the balance sheet of the Insurance activities. The maturity of the fixed-income portfolio was adjusted, interest rate swaptions were purchased and the equity portfolio was protected following the purchase of put options. The purpose of these measures is to reduce the volatility of the Insurance activities' solvency.

## 24.2 Main developments

The most important developments are:

### *Capital and solvency*

- At the end of the year, the capital ratios for the Banking and Insurance activities were strong. The double leverage decreased to 114.2%. Core Tier 1 ratio Banking activities increased to 9.2% (year-end 2010: 8.1%). Regulatory solvency Insurance activities to 203% (year-end 2010: 195%).
- In 2011, SNS Bank's solvency ratios improved. The solvency position was positively affected by the decline in risk-weighted assets. The main reason for this decline was the reduction of loan commitments at Property Finance and SNS SME. In addition the offer to exchange Tier 2 capital strengthened core Tier 1 capital (€ 72 million) and received SNS Bank a € 50 million capital contribution from SNS REAAL.
- Based on the methodology in the capital EBA test, SNS Bank reported a capital deficit of € 159 million at end September 2011. Year-end 2011 the deficit was reduced to € 32 million. SNS Bank will ensure that there will be no longer a deficit at the end of June 2012.
- SNS REAAL's capital position is sensitive to interest and the developments in the life expectancy of insured persons. In 2011 SNS REAAL updated its mortality rates on the basis of the most recent CBS statistics. In the years to come changes in views of life expectancy may also affect its capital position.

### *Liquidity*

- The liquidity of the Banking activities was maintained during the year on a high level. At the end of 2011, the liquidity position of the bank was € 11.1 billion (year-end 2010: € 11.9 billion).
- SNS Bank was mainly funded through the retail market in 2011. Savings deposits increased by € 2.9 billion (+11%) compared with year-end 2010 due to a large inflow of new deposits, while the retention level remained high. The liquidity position is strong.
- In 2011, SNS Bank for the first time completed the internal liquidity process introduced by the Dutch Central Bank in 2011, which is also referred to as the ILAAP (Internal Liquidity Adequacy Assessment Process). This process makes an assessment of how risks are dealt with and to what extent the liquidity of SNS Bank in current and possibly future circumstances is sufficiently robust to absorb the risks.

### *Market risk*

- The market risk position is actively managed within the Insurance activities. The sensitivity to downward developments in the share prices was reduced and the maturities of the investments were better aligned with those of its insurance liabilities. In addition, interest rate swaptions were purchased to better hedge the guarantees issued to policyholders.
- As a result of the eurozone crisis, during 2011 the government bond portfolio was positioned more defensively by substantially reducing exposure to government loans from the peripheral countries in Europe.

### *Credit risk*

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

### **24.3 Risk management organisation**

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

The activities of the legal entities SNS Bank NV and REAAL NV are organised into three business units. The business unit of the Banking activities is SNS Bank, the business units of the Insurance activities are REAAL and Zwitserleven.



*SNS REAAL risk management organisation*



This structure was implemented year-end-2011.

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

The business unit management boards are responsible for achieving the commercial, operational and financial objectives by choosing the best possible products, services, product/market combinations, labelling and distribution channels. In this context, the business units operate within the established group frameworks for credit risk, insurance risk, integrity risk and operational risk and report to the Executive Board. It should be noted here that the former business unit Property Finance no longer has its own status as a business unit, but is maintained as a separate business in order to phase out the non-core portfolio.

### **Responsibility levels in risk management**

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

- the first line is the line organisation, which is responsible for the risk and the management of the risk.
- the second line is formed by the risk management departments, which support the first line in policy matters and have a monitoring role with regard to risk positions and the quality of risk management.
- the third line is the independent internal auditor (the Group Audit department), which reviews the planning, the process and the performance of the risk organisation.

The responsibilities within the risk management organisation have been clearly defined, with the Group Risk Committee (GRC) being the highest risk management body reporting to the Executive Board and primarily setting frameworks. SNS REAAL's Chief Financial Officer is also the Chief Risk Officer. Risk owners have been appointed within the Executive Board and the management boards of the three business units. These risk owners are responsible for the formulation and execution of the risk policy for their designated areas of attention.

The risk principles used for the risk management structure, which aim at a consistent risk management approach, remain unchanged. These principles aim for an integral risk management geared to maintaining a moderate risk profile and include:

- One shared Group-wide risk type classification.
- A pre-set risk tolerance for each type of risk we have identified.
- Scenario analyses for stress situations and measures for emergency situations with regard to the key risks.
- Testing and validating the models that are used for risk management.
- Allocating risk owners to all identified risks.
- Monitoring and assessment of risks independently of commercial operations.

## **24.4 Risk committees**

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

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

### **Risk Committee**

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

### **Group Risk Committee**

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

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

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

### **Risk Committees at Group level**

At Group level, SNS REAAL also has the following risk committees:

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

### **Risk Committees at Business Unit level**

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

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

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

### ***Decision-making processes***

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

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

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

## **24.5 Risk management departments**

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

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

SNS REAAL has the following risk management departments in place:

- Group Risk Management (GRM)
- Group Actuarial department and BU Actuarial departments
- Compliance, Security & Operational Risk Management (CS&O)
- Legal Affairs (LA)
- Credit Risk Management (CRM)
- Insurance Treasury & Investment Management (IT&IM)
- Group Audit (GA)

### ***Group Risk Management (GRM)***

GRM supports the Executive Board and the management boards in:

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

### ***Group Actuarial department and BU Actuarial departments***

The actuarial duties are allocated across Group Actuarial Risk Management within GRM and the actuarial departments of REAAL and Zwitserleven. Group Actuarial Risk Management's areas of attention include drawing up policies, drawing up standards and frameworks, and monitoring the risk/return ratio. Data are also consolidated and reported to the various parties involved. Important focal points are the supervisory role and advising on developments to the Group and the business. In addition, GRM fleshes out the areas of attention pertaining to Reinsurance and Economic Capital: drawing up policies and frameworks, modelling, implementing and monitoring/advising.

The operational actuarial duties are vested in the actuarial departments of REAAL and Zwitserleven. Besides reporting, the duties are modelling and carrying out analyses, providing the business with advice on insurance risk management and implementing the adopted policies.

The Insurance activities manage their insurance risk using a system of procedures and criteria for product development and acceptance. Risks that do not meet the criteria or risks that exceed pre-set limits – if accepted – are transferred to a reinsurance company as much as possible.

A panel consisting of representatives of the management boards of the Insurance activities, the Finance & Control department and the Actuarial department regularly monitor the portfolio's development. For life Insurance activities, this includes monitoring developments in expenses, interest and turnover; for the non-life Insurance activities, the developments of premiums and loss ratios are analysed by segment.

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

CS&O advises the Executive Board and the management boards of the business units on the control of non-financial risks. These are the risks that are related to human behaviour and the structure of the business processes. The main duties of the department are providing recommendations for ethical and controlled business conduct, and coordinating and promoting operational risk management, security risk management and integrity risk management, formulating policies, monitoring the functioning of processes and reporting in this respect.

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

### ***Legal Affairs***

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

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

### ***Credit Risk Management (CRM)***

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

- Advising on the credit risk policy;
- Independent analysis of and advice on credit proposals;
- Performing the secretarial duties for the SNS Bank Credit Committee;
- Serving as a voting member on the credit committee.

*Mid Office Mortgages and Corporate Credits:*

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

*Special Credits department for loans in arrears and in default*

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

**Insurance Treasury & Investment Management**

The duties and responsibilities of Insurance Treasury & Investment Management (IT&IM) are primarily aimed at investments for own account and risk of SNS REAAL's Insurance activities. In the risk governance structure, IT&IM has become the central point of contact of the operationally responsible investment managers. On 1 January 2011, the director of IT&IM became a member of ALCO Insurer and ALCO Group as advisor on the investment policy and its implementation.

The main responsibilities of IT&IM are:

- Advising and supporting the ALCO Group and the management boards of the insurance activities in their investment policy preparations;
- Providing operational support in the implementation of the investment policy;
- Drawing up and monitoring investment mandates approved by the ALCO Group, given the ALM and investment policies;
- Monitoring if the actions of investment managers are within the mandates given, and assessing their performance;
- Monitoring security lending and repo activities in the insurance portfolios, the execution of which has been outsourced to professional and specialised parties.

**Group Audit**

Group Audit (GA) reports to the chairman of the Executive Board and also has a reporting line to the Audit Committee of the Supervisory Board. In this way, the department is able to perform its activities independently of the business units and the departments of SNS REAAL.

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

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

## 24.6 Risk classification

### Financial risks

#### Credit risk

The risk that a borrower and/or counterparty does not comply with a financial or other contractual obligation. Credit risk is split into default risk, counterparty risk and transfer risk.

#### Liquidity risk

The risk that there are insufficient liquid assets available in the short term to meet financial obligations, whether under normal circumstances or in time of stress, without this leading to unaccepted costs or losses.

#### Market risk

The risk of movements in the level and/or volatility of market prices. Market risk is split into price risk, interest rate risk and currency risk.

#### Insurance risk

The risk of abnormalities occurring in timing and extent of the cash flows resulting from assumed mortality, disability insurance claims or behavior of policyholders, or due to the impact of catastrophes on mortality, disability, insurance claims and policyholder behavior.

### Non-financial risks

#### Strategic risk

The risk that strategic objectives are not achieved due to lack of response or inadequate response to changes in the environment and business climate.

#### Integrity risk

The risk that the codes of conduct emanating from SNS REAAL standards, social standards and laws and regulations are insufficiently observed by the Executive Board or employees of the company.

#### Operational risk

The risk due to unreliability of information or due to unforeseen losses arising from fraud, inadequate or failed internal processes, external events, systems or security.



## **24.7 Framework for business control**

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

- The strategy and strategic risk analyses, to direct the activities of the business units and the organisation as a whole.
- The risk profile, which sets limits for taking risks in order to manage risks with respect to the capital requirements and other laws and regulations applicable to SNS REAAL.
- The management structure, which includes the risk committees, to streamline management focus, to allocate duties and responsibilities, and to deal with new or external impulses (e.g. through takeovers and reorganisations);
- Traineeships, talent and management development programmes, to manage staff quality and appointments ('the right person in the right place');
- A remuneration structure that gives substance to the mission and the realisation of SNS REAAL's (long term) strategy;
- Requirements for internal processes, to steer predictability of performance, prevent unforeseen losses and ensure the reliability of information.

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

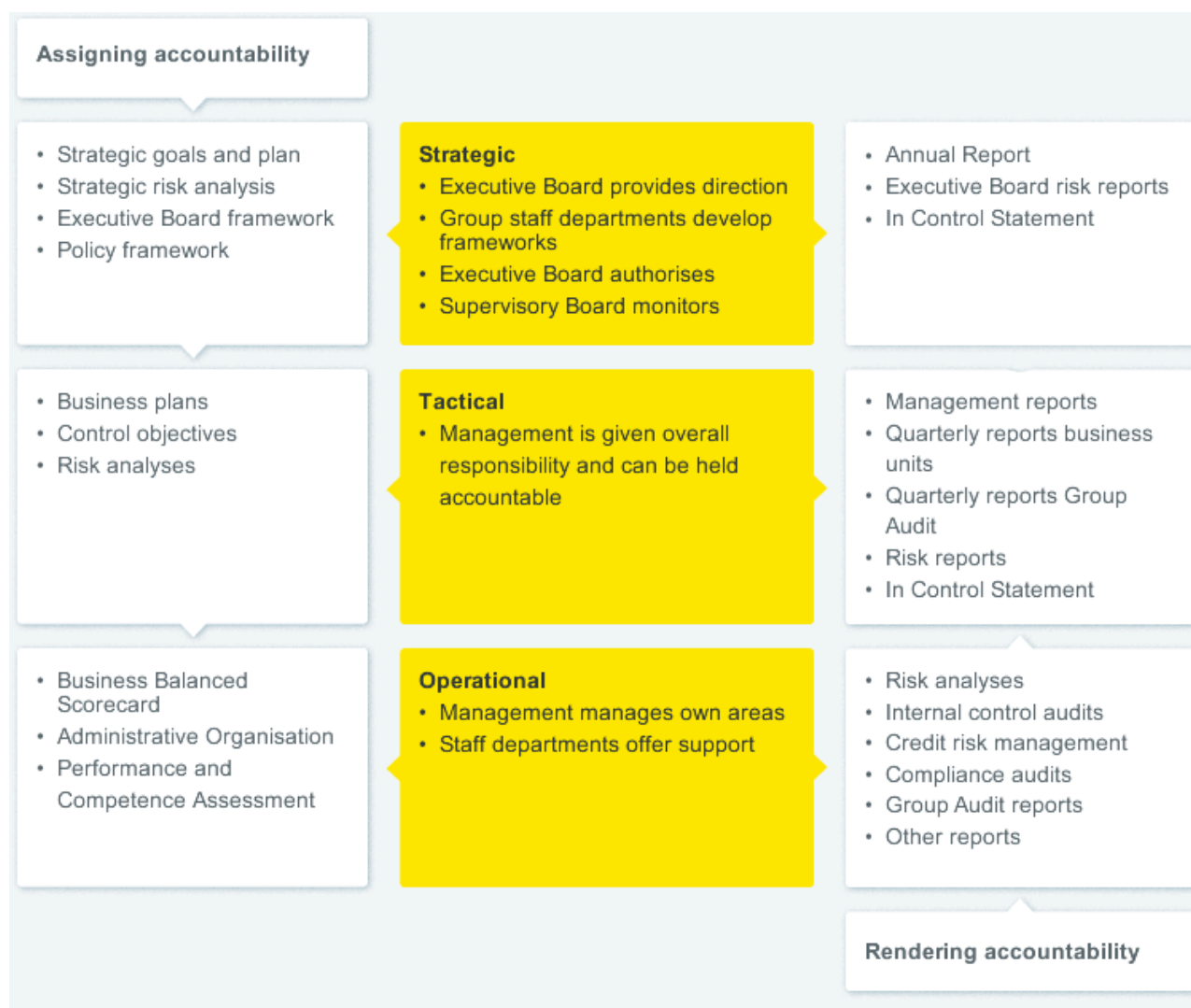
The framework for business control sets out how responsibility is awarded within SNS REAAL and how this must be accounted for. This framework forms the basis for controlling the risk management processes.

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

SNS REAAL has set up a procedure to determine biannually the extent to which the management boards of each business unit control essential risks. This particularly concerns the discussions between the layers of management on the risks in the business operations and the measures taken for the purpose of controlling these risks. Key input for this procedure are the regular in-control statements per business unit. The outcome of this procedure contributes to the management statement that is included in the SNS REAAL annual report.



### Framework for business control



In each in-control statement the management board of each business unit states, with due observance of changes to internal and external factors, whether it has identified the main risks and corresponding control measures with a reasonable degree of certainty, which improvements have been made to the (risk) management procedures, whether the established control measures function adequately, whether the provision of information is sufficient and which aspects the relevant business unit intends to improve further. The management board of each business unit states whether it expects the risk management system to work adequately during the next one-year period.

The Executive Board assesses the internal statements by the various business units and Group staff departments. This assessment includes a strategic risk analysis. This information forms the basis for the internal statement that every Executive Board member prepares. The statements from the management boards translate into the external in-control statement, which is discussed with the Audit Committee and the Risk Committee.

## 24.8 Non-financial risk management

As described in the risk classification SNS REAAL recognizes, in addition to the financial risks, also non-financial risks, including strategic, integrity and operational risk. The Department of Compliance, Safety & Operational Risk Management (CS&O) advises on the management of these non-financial risks.

The key components for controlling non-financial risks are:

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

forms the basis for the internal statement that every Executive Board member prepares.

- To calculate the capital requirement on the basis of operational risk, the standardised approach for Banking activities is used. This means that an amount for pillar 1 capital is allocated on the basis of a fixed percentage of the turnover per business line of the bank. This pillar 1 capital is assessed on the basis of the Internal Capital Adequacy Assessment Process (ICAAP), in which the bank's largest risks are validated as to the chance of occurrence and impact. To this end, the in-control statement of SNS Bank is important input. For the Insurance activities, too, the standardised approach of Solvency II is used for the calculation of the capital requirement in pillar I. In 2011, a first onset was developed with regard to the internal process of the Own Risk and Solvency Assessment (ORSA) for assessing this pillar I capital. This will be further developed in 2012.

## **24.9 Capital management**

SNS REAAL's capital management is aimed to again obtain a solid A rating at the rating agencies, as well as on permanent compliance with regulatory requirements. Through active capital management, SNS REAAL aims for optimum capital allocation among the various business units to achieve maximum returns on its activities.

Based on Basel III, new guidelines were published to raise capital levels in the banking sector whilst also improving the quality of the capital. SNS Bank actively anticipates these developments within the framework of its capital management. SNS REAAL remains focused on strong capital ratios and capital-generating measures in order to repurchase the capital support it received from the Dutch State and Stichting Beheer SNS REAAL ('the Foundation') at the end of 2008 in a responsible manner.

SNS REAAL opts for a balanced approach with regard to the core Tier 1 capital securities that were issued to the Dutch State, while maintaining SNS REAAL's capital position is key.

Capital can be freed up from organic growth of the capital through retained profits and through other initiatives to generate capital, such as the € 700 million capital release programme which has already been initiated. In addition, Stichting Beheer SNS REAAL's cooperative attitude with regard to the redemption of its core Tier 1 capital securities is important. In 2010, the Foundation declared itself willing to abandon the condition of the agreed pro rata repurchase of its core Tier 1 capital securities at the same time as the core Tier 1 capital securities of the Dutch State, on a number of conditions. Using released capital for the repurchase of the securities issued to the Dutch State and the Foundation requires the approval of the Dutch Central Bank.

In 2011, the state support granted to SNS REAAL had to be notified again to the European Commission. Based on this renotification, the European Commission reconfirmed its approval for the capital support from the Dutch State at the end of 2011.

### **24.9.1 Objectives and standards framework**

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

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

The double leverage ceiling is 115%. This target limits the degree to which debt raised by the Group can be reallocated to subsidiaries as shareholders' equity. This double leverage fell from 115.4% at year-end 2010 to 114.2% at year-end 2011. SNS REAAL aims for a further reduction of double leverage in the years ahead. The double leverage decreased amongst others by an upstream € 80 million capital from the insurer.

### Solvency standards

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

#### Solvency standards SNS REAAL

	Standard	Target	Realisation	
<i>in percentages</i>			2011	2010
SNS REAAL	Double leverage	< 115%	114.2%	115.4%
Insurance activities	Regulatory solvency	> 175%	203%	195%
Banking activities	Tier 1 ratio	> 10%	12.2%	10.7%
	core Tier 1 ratio	> 8%	9.2%	8.1%

To calculate its solvency ratios, SNS Bank applies the Basel II regulatory framework, taking into account a transition floor of 80% on Basel I standards. Application of Basel II without a transition floor results in a tier 1 ratio of 13.06%. This percentage includes the risk types credit risk, market risk of trading portfolios and operational risk, and applies the Internal Rating Based method for the credit risk for residential mortgages.

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

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

The solvency position of the banking business has improved. The improvement of the Tier 1 ratio was mainly caused by the decrease in risk-weighted assets, as a result of the reduction of credit limits at Property Finance and SNS SME. In the fourth quarter, SNS Bank effectuated an exchange offer on Tier 2 capital to improve the quality of its capital by the creation of core Tier 1 capital (€ 72 million). SNS REAAL also downstreamed capital for an amount of € 50 million to SNS Bank.

Regarding the Insurance activities, the solvency ratios for the various insurance units all exceeded the internal standards as at year-end 2011: 234% for Life and 464% for Non-Life. After consolidation, the solvency ratio amounted to 203% year end. The available solvency includes (part of) the available excess value of the technical provisions in the life Insurance activities. This excess value is determined in the adequacy test performed in accordance with DNB guidelines.

### 24.9.2 Capital management framework

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

### **24.9.3 Required economic capital**

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

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

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

### **24.9.4 Results of European and Dutch stress tests**

#### ***DNB stress test on Banking activities***

In April 2011, SNS REAAL performed a macro stress test on its Banking activities at the Dutch Central Bank's request. With a view to this stress test, the Dutch Central Bank drew up basic and stress scenarios for the years 2011 and 2012. The calculations are based on the situation as at year-end 2010, and in the stress scenario takes into account a continued deterioration of the economy and the financial markets. For example, this stress scenario includes a considerable value decrease of residential property and offices (40% in 2 years) and rising unemployment rates.

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

#### ***EBA stress test on Banking activities***

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

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

**ICAAP stress test on Banking activities**

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

**EIOPA stress test**

On 23 March 2011, the European Insurance and Occupational Pensions Authority (EIOPA) launched a stress test for the European insurance industry in cooperation with the national supervisory authorities. SNS REAAL was not asked to participate in this stress test, but decided to voluntarily participate. The stress test is aimed at the Insurance activities of SNS REAAL and based on Solvency II principles. The purpose of the stress test is to gain insight into the resilience of individual organisations and the insurance industry as a whole. The calculations were based on the figures at year-end 2010. With a view to this stress test, EIOPA set out three core scenarios (baseline, adverse and inflation) and a satellite scenario aimed at sovereign exposure. The effects of these scenarios are instantaneously deducted from the starting position (no projections made). The results of this stress test show that the Insurance activities of REAAL remain well above the solvency standard following stress.

**ORSA stress test on Insurance activities**

In the first half of 2011, SNS REAAL performed its Own Risk & Solvency Assessment (ORSA). An important part of an ORSA is the performance of an internal stress test. For this purpose, SNS REAAL used the calculations for the EIOPA stress test. The calculations were based on the balance sheet at year-end 2010. The results of the stress test show that REAAL is adequately capitalised to absorb stress scenarios.

**24.9.5 Going concern capital management**

SNS REAAL prepares operational plans each year with a three-year horizon. At the same time it prepares the Capitalisation and Funding plan with the same horizon, in which the capital and funding requirements and their fulfilment are set such that SNS REAAL can satisfy the internal and external standards. Instruments to lower the risks and to increase the available capital are used for control. The capital of the Banking and Insurance activities is a combination of various types of capital, with the emphasis on shareholders' equity. Different bandwidths are applied per entity for the other classes of capital. SNS REAAL capitalises its business units and subsidiaries in accordance with the internal and external solvency standards that apply to the Banking activities, the Insurance activities and the Group. This allows the Group to manage any capital surplus, if necessary. For more details on funding, please refer to chapter '[Funding and credit ratings](#)'.

Each month, a 12-month rolling forecast of capitalisation developments is made for the Banking activities. This forecast makes it possible to take additional measures if necessary, such as. The quantitative assessment of the capital position comprises a comparison of the capital available and the internal standards under the current regulatory framework as well as the economic capital. In addition, the expected capital ratios are confronted with the applicable standards after a stress event. In determining the available capital, the restrictions that supervisory authorities and rating agencies require with regard to the composition of capital are taken into account. In 2011 the requirements set for current and future banking capital were further specified on the basis of Basel III.

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

### **Capital adequacy assessment**

The assessment of capital adequacy comprises the following elements:

An ICAAP for the Banking activities is performed on an annual basis and a solvency sensitivity analysis is performed for the Insurance activities on a monthly basis, with close involvement of senior management to determine the capital adequacy; Every year, the Insurance activities are also subjected to an ORSA.

As part of the ICAAP and ORSA, the capital requirements ensuing from stress testing are compared to the existing qualifying capital.

The results of the stress tests are annually compared with the economic capital required. The economic capital is calculated and reported to the Group ALCO on a quarterly basis. Every month, sensitivity analyses are performed and forecasts of capital development are made.

### **24.9.6 Value creation**

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

### **24.9.7 Preparations for Solvency II**

In 2011, a Risk Based Metric was developed for the Insurance activities, which is in line with the RAROC and EVA principles used by the bank. An important difference with the current method of measuring value creation is that there is a much more sophisticated and more explicit connection with the risks involved with activities. The new metric is also based on current-value bases and meets the requirements and expectations set out in Solvency II. Next few years, the Key Performance Indicators will be more systematically linked to the Risk Based Metric.

## **25 Financial risks Banking activities**

### **25.1 Credit risk Banking activities - overview**

The Banking activities recognise various categories of credit risk. The main categories are loans and advances to customers, loans and advances to banks, and investments. More than 93% of the loans and advances to customers are backed by mortgage collateral. The other items, which are not mortgage-backed, are mainly loans and advances to banks and investments (primarily bonds). The investments in connection with the Company's own liquidity management and held for trading are low-risk.

The loan portfolios of the retail businesses of SNS Retail Bank and SNS SME focuses on the Dutch market in particular. The portfolio of Property Finance will be phased out in a controlled manner.

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



## Credit risk Banking activities

In € millions	SNS Retail Bank		SNS SME		Property Finance		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Investments	4,106	4,249	--	--	--	--	4,106	4,249
Derivatives	3,321	2,317	--	--	--	--	3,321	2,317
Loans and advances to customers	54,555	52,193	5,760	7,278	5,378	6,512	65,693	65,983
Loans and advances to banks	1,671	1,672	11	11	--	--	1,682	1,683
Other assets, no lending operations	1,446	1,094	88	120	783	715	2,317	1,929
Cash and cash equivalents	5,110	3,813	--	-	19	21	5,129	3,834
<b>Total</b>	<b>70,209</b>	<b>65,338</b>	<b>5,859</b>	<b>7,409</b>	<b>6,180</b>	<b>7,248</b>	<b>82,248</b>	<b>79,995</b>

### Off-balance sheet commitments

Liabilities from pledges and guarantees given	33	42	20	27	124	169	177	238
Liabilities from irrevocable facilities	720	856	39	87	161	418	920	1,361
<b>Total</b>	<b>70,962</b>	<b>66,236</b>	<b>5,918</b>	<b>7,523</b>	<b>6,465</b>	<b>7,835</b>	<b>83,345</b>	<b>81,594</b>

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

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

In € millions	Risk weighted assets		Regulatory capital	
	2011	2010	2011	2010
<b>Standardised approach</b>				
Central Government and Central Banks	20	21	2	2
Institutions	1,056	987	85	79
Corporates	9,660	12,283	773	983
Retail	1,181	1,289	94	103
Shares	26	14	2	1
Other assets	1,606	927	128	74
<b>Internal rating based approach</b>				
Retail mortgages	2,991	3,055	239	244
Securitisation positions	763	750	61	60
<b>Subtotal</b>	<b>17,303</b>	<b>19,326</b>	<b>1,384</b>	<b>1,546</b>
Market risk	107	195	9	16
Operational risk	1,773	1,781	142	142
Additional transitional Capital requirements	1,351	829	108	66
<b>Total</b>	<b>20,534</b>	<b>22,131</b>	<b>1,643</b>	<b>1,770</b>

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



## 25.2 Credit risk profile and credit risk management

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

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

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

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

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

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

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

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

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

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

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

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

The credit rating of SNS Retail Bank's mortgage portfolio deteriorated in 2011 compared to the mortgage portfolio in 2010. This was the result of the slow economic growth, a difficult market for owner-occupied houses and falling prices on the housing market in the Netherlands. On the other hand, the quality of new inflow is improving thanks to stricter standards and a higher share of mortgages covered by the National Mortgage Guarantee.

In 2011, 242 foreclosure sales were made in respect of residential mortgages, which provisional compensated, on average, 64.9% cover for the outstanding loans (2010: 61.8%). Furthermore, SNS Retail Bank makes use of repayment arrangements for clients unable to meet mortgage payments in the short run.

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

The default rate of residential mortgages rose from 1.00% to 1.15% and the contamination rate of the portfolio increased from 1.56% in 2010 to 1.93% in 2011. Contamination rate is defined as arrears plus defaults.

### **25.2.2 Credit risk profile and credit risk management PF SME and Property Finance**

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

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

#### **Valuations**

A valuation of the collateral is carried out at loan origination in order to determine the value of the collateral for the loans provided. In addition, the collateral value is evaluated during periodic loan revisions. A valuation guideline is part of PF SME's and Property Finance's review policy. The collateral values of the Property Finance portfolio are valued at least once a year. In addition, an annual valuation is made of the collateral of PF SME's portfolio exceeding € 10 million and of project loans. Smaller collateral are valued at least once every three years.

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

### **Defaults**

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

### **Provisions**

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

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

### **Property projects**

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

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

### **Impairments**

The impairments on PF SME's and Property Finance's loans and property projects reflect the changes in the expectations regarding the cash flow profile of the underlying assets. Expected cash flows are driven by items such as rental income, price per square metre, construction costs, interest costs and recent valuation reports provided by professional appraisers. In the estimation of future cash flows, transactions are used which can be observed in the market and which are comparable to the extent possible. Due to the lack of liquidity in the market, it is not always possible to test against recent comparable transactions. This means that the estimates made by PF SME and Property Finance in the valuation of loans are exposed to uncertainties greater than under normal market conditions, which results in broader bandwidth for the valuations.

## **25.3 Credit risk SNS Retail Bank**

### **25.3.1 Loans and advances to customers**

A distinction has been made in credit management for individual customers and clients and credit management on a portfolio level.

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

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

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

The securities provided by the collateral and the National Mortgage Guarantee (NHG) are important risk indicators for managing the portfolio. The LtFV shows the level of collateralisation by taking the outstanding loan as a percentage of the foreclosure value of the collateral. A low percentage is considered favourable. If a loan is granted pursuant to NHG, there is no additional security.

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

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Mortgages < 75% of foreclosure value	18,447	18,464
Mortgages > 75% of foreclosure value	4,116	4,175
Mortgages with National Mortgage Guarantee	7,829	6,562
Securitised mortgages	20,900	19,998
<b>Residential property in the Netherlands</b>	<b>51,292</b>	<b>49,199</b>
Residential property outside of the Netherlands	100	113
<b>Residential property outside of the Netherlands</b>	<b>100</b>	<b>113</b>
Mortgage-backed loans	144	139
Issued to government	1,204	1,176
Unsecured loans	1,660	1,459
<b>Non-residential property in the Netherlands</b>	<b>3,008</b>	<b>2,774</b>
Other collateral and unsecured loans	155	107
<b>Non-residential property outside of the Netherlands</b>	<b>155</b>	<b>107</b>
Specific provisions	(194)	(150)
IBNR provision	(10)	(13)
<b>Provisions for bad debt</b>	<b>(204)</b>	<b>(163)</b>
<b>Total</b>	<b>54,351</b>	<b>52,030</b>

In the table above, the securitised mortgage loans whose bonds were issued by securitisation entities and sold to investors have been included in 'Securitised mortgages'. The underlying mortgage loans of securitisation transactions held for own account (€ 9.0 billion, 2010: € 8.8 billion) are included in mortgages.

The securitised mortgages were sold on the basis of what is known as a deferred purchase price. This means that, for most transactions, SNS Retail Bank has claims against the securitisation entity that will not be settled in full until the transaction is concluded. Some of the notes issued by the securitisation entity are E-notes, which are high-risk bonds. Stress tests have shown that the remaining credit risk for SNS REAAL manifests itself in the deferred purchase price and the E-notes. SNS Retail Bank has now placed all E-notes externally (€ 64 million was sold to the Insurance activities). The sum of the deferred purchase prices was € 6 million as at year-end 2011 (2010: € 12 million).

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

<i>In € millions</i>	2011	2010
Retail	53,147	50,800
Public sector	1,204	1,230
<b>Total</b>	<b>54,351</b>	<b>52,030</b>

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

<i>In € millions</i>	2011	2010
The Netherlands	54,215	51,926
EMU	134	98
United Kingdom	1	--
United States	1	4
Other	--	2
<b>Total</b>	<b>54,351</b>	<b>52,030</b>

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

### Financial assets in arrears SNS Retail Bank 2011

<i>In € millions</i>	No arrears	< 3 months	3 - 6 months	6 months - 1 year	> 1 year	Provision	Total
Investments	4,106	--	--	--	--	--	4,106
Derivatives	3,321	--	--	--	--	--	3,321
Loans and advances to customers	52,763	1,153	206	175	258	(204)	54,351
Loans and advances to banks	1,671	--	--	--	--	--	1,671
Other assets	6,226	--	--	--	--	--	6,226
<b>Total</b>	<b>68,087</b>	<b>1,153</b>	<b>206</b>	<b>175</b>	<b>258</b>	<b>(204)</b>	<b>69,675</b>

### Financial assets in arrears SNS Retail Bank 2010

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

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

<i>In € millions</i>	2011	2010
Book value non provisioned loans	52,763	50,577
Book value provisioned loans (gross value)	1,792	1,616
Specific provisions	(194)	(155)
IBNR provision	(10)	(8)
<b>Total book value non provisioned and provisioned loans</b>	<b>54,351</b>	<b>52,030</b>
Fair value collateral provisioned loans	1,784	1,655

### Loan to Foreclosure Value

The weighted average LtFV at year-end 2011 of the mortgage portfolio of SNS Retail Bank was 92% (2010: 93%); based on an indexed LtFV it was 92% (2010: 90%). The foreclosure value determined at the time of application is indexed with the Land Registry Office's Prijsindex Bestaande Koopwoningen. The Land Registry Office updates this index every month. The Prijsindex Bestaande Koopwoningen is broken down into province and type of residence. Examples of type of residence are apartments, terraced houses or end-of-terrace houses, semi-detached or detached houses. SNS Retail Bank follows this breakdown. The national index for all types of residence decreased by 4% from December 2010 to December 2011. The development of the index varies per region and type of residence. Generally, no new valuation reports are requested for existing residential mortgages.

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

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

<i>In € millions</i>	2011		2010	
Mortgage loans	50,332	93%	48,177	93%
Other	4,019	7%	3,853	7%
<b>Total loans and advances to customers</b>	<b>54,351</b>	<b>100%</b>	<b>52,030</b>	<b>100%</b>

### Loans and advances to customers SNS Retail Bank by LtFV buckets

NHG	10,081	20%	7,694	16%
LtFV ≤ 75%	14,800	30%	15,745	33%
LtFV >75 ≤ 100%	9,277	18%	9,037	19%
LtFV >100 ≤ 125%	10,672	21%	12,212	25%
LtFV > 125%	5,502	11%	3,489	7%
<b>Total</b>	<b>50,332</b>	<b>100%</b>	<b>48,177</b>	<b>100%</b>

### 25.3.2 Loans and advances to banks and derivatives

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

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

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

### 25.3.3 Investments

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

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

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

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

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

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

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

**Fixed income investments SNS Retail Bank by rating 2010**

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

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

<i>In € millions</i>	2011		2010	
Ireland	165	4%	166	4%
Greece	26	1%	47	1%
Italy	271	7%	804	20%
Spain	29	1%	57	1%
<b>Subtotal GIIPS</b>	<b>491</b>	<b>13%</b>	<b>1,074</b>	<b>26%</b>
Germany	1,548	39%	767	19%
France	213	5%	473	11%
The Netherlands	1,138	29%	1,058	26%
Austria	309	8%	437	11%
Belgium	164	4%	200	5%
Other	102	2%	74	2%
<b>Total</b>	<b>3,965</b>	<b>100%</b>	<b>4,083</b>	<b>100%</b>



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

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

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

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

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

<i>In € millions</i>	<b>2011</b>		<b>2010</b>	
AAA	3,199	80%	2,519	61%
AA	208	5%	280	7%
A	346	9%	1,011	25%
BBB	186	5%	199	5%
< BBB	26	1%	51	1%
Unrated	--	0%	23	1%
<b>Total</b>	<b>3,965</b>	<b>100%</b>	<b>4,083</b>	<b>100%</b>

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

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

## 25.4 Credit risk SNS SME

### 25.4.1 General

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

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

### Breakdown portfolio SNS SME

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

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

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

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

### Loans and advances SNS SME by region

<i>In € millions</i>	2011	2010
The Netherlands	5,645	7,166
EMU	8	29
United States	1	2
Other	2	2
<b>Total</b>	<b>5,656</b>	<b>7,199</b>

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

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

#### Loan to value

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

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

<i>In € millions</i>	<b>2011</b>		<b>2010</b>	
Mortgage loans	5,544	98%	7,042	98%
Other	112	2%	157	2%
<b>Total loans and advances to customers</b>	<b>5,656</b>	<b>100%</b>	<b>7,199</b>	<b>100%</b>

### Loans and advances to customers SNS SME by LtV buckets

LtV <= 75%	2,008	36%	3,158	45%
LtV >75 <=100%	2,116	38%	2,734	39%
LtV >100 <=125%	861	16%	644	9%
LtV > 125%	559	10%	506	7%
<b>Total</b>	<b>5,544</b>	<b>100%</b>	<b>7,042</b>	<b>100%</b>

## 25.4.2 Credit risk SNS Retail Bank SME

### SME loan portfolio

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

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

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

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Retail	793	674
Public sector	--	--
Service sector companies	351	472
Industry	205	205
Agriculture	36	64
Other commercial	167	190
<b>Total</b>	<b>1,551</b>	<b>1,605</b>

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

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

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

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

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

## 25.4.3 Credit risk PF SME

### Breakdown loans and advances PF SME by assets

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Residential	1,475	1,962
Offices	790	979
Retail	721	1,210
Industrial	794	831
Other	378	635
<b>Total</b>	<b>4,158</b>	<b>5,617</b>

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

#### Impairments

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

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

#### Loans

93.6% of the € 4.2 billion gross loan portfolio pertains to investment loans (2010: 93.5%). The Loan-to-Value (LTV) of PF SME's loan portfolio was 74.4% as at year-end 2011, the average LTV of the provisioned loans is 150.9% (2010: 129.5%).

#### Probability of default (PD)

The average probability of default (PD) in PF SME's non-default portfolio increased from 1.05% to 4.20% in 2011. This means that as at year-end 2011, assuming that the portfolio stays the same, a number of new defaults is expected during the next 12 months that is substantially higher than the number that was expected as at year-end 2010. This

increase was mainly caused by a recalibration of the PD rating model in 2011 in response to the changing market conditions. The increase also reflects the increased risks in the portfolio. The PD percentage of 4.20% end of 2011 is in line with what is usual in the market.

### Credit quality of loans

The table below breaks down the gross outstanding loans of PF SME into non-default, non-provisioned default and provisioned default. The procedure for declaring loans in default is described in chapter '[Credit risk profile and credit risk management PF SME and Property Finance](#)'.

### Defaults PF SME

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

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

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

### Arrears in loans and advances PF SME

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

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

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

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

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

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

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

### Provisioned loans and advances PF SME

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

## 25.5 Credit risk Property Finance

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

### Breakdown portfolio Property Finance

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

### Breakdown portfolio Property Finance by region

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
The Netherlands	2,953	3,327
Other Europe	1,904	2,245
North-America	431	762
<b>Total</b>	<b>5,288</b>	<b>6,334</b>

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

### Impairments

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

### Impairments Property Finance

*In € millions*

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

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

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



## Loans and advances Property Finance

### Loans and advances Property Finance by security type

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

### Breakdown loans and advances Property Finance by assets

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Residential	1,392	2,015
Offices	1,721	1,977
Retail	1,273	1,454
Industrial	325	396
Other	667	670
<b>Total</b>	<b>5,378</b>	<b>6,512</b>

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

#### Loan to value

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

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

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

*In € millions*

	<b>2011</b>		<b>2010</b>	
Loans and advances to customers	5,378	112%	6,512	113%
Provision loans and advances to customers	(595)	(12%)	(728)	(13%)
<b>Total loans and advances to customers</b>	<b>4,783</b>	<b>100%</b>	<b>5,784</b>	<b>100%</b>

## Loans and advances to customers Property Finance by LtV buckets

LtV <= 75%	572	11%	1,019	16%
LtV >75 <=100%	1,927	36%	2,733	42%
LtV >100 <=125%	1,558	29%	1,539	23%
LtV > 125%	1,321	24%	1,221	19%
<b>Total</b>	<b>5,378</b>	<b>100%</b>	<b>6,512</b>	<b>100%</b>

## Credit quality of loans

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

## Defaults Property Finance

<i>In € millions</i>	Outstanding		Loan to Value	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Not in default	2,807	3,522	87.7%	81.8%
Default, not impaired	843	1,229	110.1%	108.5%
Default, impaired	1,728	1,761	140.9%	135.7%
<b>Total in default</b>	<b>2,571</b>	<b>2,990</b>	<b>128.9%</b>	<b>123.0%</b>
<b>Total</b>	<b>5,378</b>	<b>6,512</b>	<b>103.3%</b>	<b>96.4%</b>

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

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

## Arrears in loans and advances Property Finance

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

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

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

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

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

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

### Provisioned loans and advances Property Finance 2011

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

### Provisioned loans and advances Property Finance 2010

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

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

### Property projects Property Finance

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

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

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

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

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

## 25.6 Market risk of Banking activities

The market risk of the Banking activities, including Property Finance, is managed by SNS Bank's ALM Committee. Interest rate risk is a significant component within the market risk. Interest rate risks arise due to the fact that there are differences in the interest rate sensitivity of the assets and liabilities in the balance sheet. When managing the interest rate risk, assessments are made to establish whether the risk indicators fall within pre-set limits. Managing within those limits takes place on the basis of risk/return considerations in conjunction with the short-term and medium-term expectations for interest rate movements. When managing interest rate risk, rather than considering separate items, the total of interest-bearing assets and liabilities, including interest rate swaps, is examined. These interest rate swaps are used to lower the interest rate sensitivity. See paragraphs '[Hedging](#)', and '[Hedge accounting](#)', for more information.

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

### 25.6.1 Interest rate risk Banking activities

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

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

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

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

In addition to the duration of shareholders' equity, VaR and EaR, the net (assets minus liabilities) position of redeeming nominal amounts per interest rate period is a key objective. These amounts are presented in a 'gap profile'. The gap profile is used to determine which maturities should be used for the interest rate swaps to steer the interest rate position to the desired level.

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

### Term to maturity gap profile Banking activities 2011

*In € millions*

	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Provision	Total
<b>Assets</b>							
Investments (interest bearing)	696	772	463	533	1,624	--	4,088
Derivatives	650	1,069	557	409	636	--	3,321
Loans and advances to customers	19,620	5,558	7,738	19,321	13,457	(903)	64,791
Loans and advances to banks	1,681	2	--	--	--	(1)	1,682
Other assets	2,348	--	--	--	--	(110)	2,238
Cash and cash equivalents	5,128	--	--	--	--	--	5,128
<b>Subtotal</b>	<b>30,122</b>	<b>7,402</b>	<b>8,757</b>	<b>20,263</b>	<b>15,717</b>	<b>(1,014)</b>	<b>81,248</b>
Off-balance sheet products	10,610	17,465	9,093	6,684	10,935	--	54,787
<b>Total assets</b>	<b>40,732</b>	<b>24,867</b>	<b>17,850</b>	<b>26,947</b>	<b>26,652</b>	<b>(1,014)</b>	<b>136,035</b>
<b>Liabilities</b>							
Participation certificates and subordinated debt	492	429	87	78	35	--	1,121
Debt certificates	8,642	15,943	1,211	1,080	485	--	27,361
Derivatives	872	623	680	714	717	--	3,606
Savings	2,535	677	3,282	14,842	9,006	--	30,342
Other amounts due to customers	5,034	919	476	1,250	2,536	--	10,215
Amounts due to banks	4,713	4	--	--	--	--	4,717
Other liabilities	2,032	--	--	--	--	--	2,032
<b>Subtotal</b>	<b>24,320</b>	<b>18,596</b>	<b>5,736</b>	<b>17,962</b>	<b>12,779</b>	<b>--</b>	<b>79,394</b>
Off-balance sheet products	7,735	9,558	13,093	13,218	11,183	--	54,787
<b>Total liabilities</b>	<b>32,055</b>	<b>28,154</b>	<b>18,829</b>	<b>31,181</b>	<b>23,962</b>	<b>--</b>	<b>134,181</b>
<b>Interest rate sensitivity gap (assets - liabilities)</b>	<b>8,678</b>	<b>(3,287)</b>	<b>(978)</b>	<b>(4,233)</b>	<b>2,690</b>	<b>(1,014)</b>	<b>1,854</b>

**Term to maturity gap profile Banking activities 2010**
*In € millions*

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

**Quotation risk**

Quotation risk is the risk due to increasing interest rates between the time the quotation is made and the time the loan is extended. Each month a trade-off is made between the hedging costs and the scope of the quotation risk. The quotation risk on fixed-rate mortgages is limited by a VaR limit of € 16.1 million (2% of the estimated gross interest margin). The average quotation VaR for fixed-rate mortgages was € 4.5 million in 2011. At year-end 2011, the quotation VaR was € 1,5 million. The quotation VaR remained within the limit throughout 2011.

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

**25.6.2 Spread risk GIIPS countries**

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

## 25.6.3 Exchange rate risk Banking activities

### Exchange rate position Banking activities (net exposure)

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

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

## 25.6.4 Sensitivity test for interest rate risks and shares Banking activities

The interest rate risks of the Banking activities can be illustrated by a sensitivity analysis. This analysis shows the impact of an immediate parallel shift of the yield curve of +1% and -1%, and an immediate shock in stock prices of +10% and -10% on the fair value of shareholders' equity. The results are after taxation.

### Sensitivity interest rates and stock prices Banking activities

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

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

The column 'Result' shows the sensitivity of the result to interest rate fluctuations, which is calculated according to the following method: for the first 12-monthly gaps, including the new production expected in 2012, the changes in net interest income are calculated in the event that interest rates immediately rise or fall by 1% (parallel shift). Unlike last year, the cash position and the bank balances held for collateral are included in the results listed in the table.

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

## 25.6.5 Effective interest rates Banking activities

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

### Effective interest rates Banking activities

*In percentages*

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

## 25.6.6 Market risk Banking activities trading portfolio

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

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

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

### Market risk Banking activities trading portfolio (limit)

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



## 25.7 Liquidity risk Banking activities

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

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

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

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

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

The liquidity risk management of the Banking activities is based on the composition of its funding portfolio as a going concern. The daily cash management activities of the central treasury are in line with the operational requirements of the Banking activities and take place in accordance with the regulatory guidelines in this field.

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

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

### Development liquidity position SNS Bank

*In € millions*

	2011	2010
Cash	4,217	2,980
Liquid assets	6,861	8,939
<b>Total liquidity position</b>	<b>11,078</b>	<b>11,919</b>

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

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

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

### 25.7.1 ILAAP

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

### 25.7.2 Management of liquidity risks

Liquidity risks are managed on the basis of the net (assets less liabilities) nominal amounts due per contractual maturity in a liquidity gap profile. The following table represents the gap profile of the Banking activities at year-end 2010 and 2011 on the basis of the remaining contractual maturity. With regard to the following table, it should be noted that deposits and savings due on demand are presented in the 'less than one month' bucket. In practice, these products have a longer liquidity profile. For mortgages, the contractual maturity is maintained without taking into account prepayments.

**Liquidity risk Banking activities 2011**
*In € millions*

	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Provision	Total
<b>Assets</b>							
Investments (interest bearing)	40	42	48	1,510	2,448	--	4,088
Derivatives	17	16	95	1,108	2,086	--	3,321
Loans and advances to customers	5,418	1,280	1,391	2,541	55,064	(903)	64,791
Loans and advances to banks	1,670	--	--	13	--	(1)	1,682
Other assets	6,586	1	3	10	878	(110)	7,367
<b>Total assets</b>	<b>13,731</b>	<b>1,338</b>	<b>1,536</b>	<b>5,183</b>	<b>60,476</b>	<b>(1,014)</b>	<b>81,249</b>
<b>Liabilities</b>							
Shareholders' equity	--	--	--	--	1,855	--	1,855
Participation certificates and subordinated debt	--	-	242	57	821	--	1,121
Debt certificates	2,132	958	1,821	7,597	14,853	--	27,361
Derivatives	8	51	131	1,117	2,298	--	3,606
Savings	24,419	141	2,543	2,599	640	--	30,342
Other amounts due to customers	6,337	61	205	463	3,149	-	10,215
Amounts due to banks	1,324	10	247	3,005	130	--	4,717
Other liabilities	2,027	--	-	-	6	--	2,033
<b>Total equity and liabilities</b>	<b>36,247</b>	<b>1,222</b>	<b>5,190</b>	<b>14,838</b>	<b>23,752</b>	<b>-</b>	<b>81,249</b>
<b>Net liquidity gap</b>	<b>(22,516)</b>	<b>116</b>	<b>(3,654)</b>	<b>(9,655)</b>	<b>36,724</b>	<b>(1,014)</b>	<b>-</b>

**Liquidity risk Banking activities 2010**
*In € millions*

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

## **26 Financial risk management Insurance activities**

### **26.1 Insurance risk Life**

The insurance portfolio has a moderate risk profile. The life portfolio contains insurance policies with both short-life risk and longevity risk. The individual life insurance portfolios focuses on the retail and SME markets in the Netherlands. SNS REAAL's group life insurance portfolio focuses on the entire corporate market in the Netherlands.

#### **26.1.1 Content of the life insurance portfolio**

The life insurance portfolio contains individual and group insurance policies. Individual insurance policies are sold as policies with cash benefits (traditional policies) and with payment in units (unit linked insurance policies). The individual life insurance portfolio primarily focuses on unit linked policies, mortgage-related endowment policies and life annuity insurance policies. The group insurance portfolio consists of both traditional contracts, for which the insurer bears the investment risk, as well as separate accounts and unit linked insurance contracts, for which the policyholder bears the investment risk.

Content of the life insurance portfolio	Main conditions	Main risks	Policyholders guarantees	Policyholder profit sharing / interest rate
<b>Individual insurance policies in cash</b>				
Savings mortgages	Premium (sum of risk premium, savings premium and cost loadings) is fixed as of the commencement date of the contract. With the exception of the savings mortgage: for which the savings premium is based on the mortgage interest rate. When the mortgage interest rate changes, the savings premium also changes.	Mortality, expenses	Interest rate equal to mortgage interest rate	No
Life annuity		Interest, mortality, expenses	Life annuity is fixed	Interest rate rebate upon one-off payment of single premium
Risk		Mortality, expenses	Total mortality benefit upon death and / or maturity is fixed	Partially company profit sharing
Savings insurance		Interest, mortality, expenses		Partially company profit sharing; partially interest rate rebate; and partially share in surplus interest
Funeral insurance		Interest, mortality, expenses		Partially company profit sharing at payment of single premium: on occasion interest rate rebate
<b>Individual insurance policies in investment units</b>	Variable premium, cost and risk loading fixed	Mortality, expenses	A number of insurance contracts carry a minimum guaranteed return on the maturity date	No
<b>Group insurance policies in cash</b>	Premiums and cost loading are set for the duration of the contract (usually 5 years)	Interest, mortality, expenses	Guaranteed minimum return	Partially sharing in surplus interest; partially interest rate rebate
<b>Group insurance policies in investment units</b>	Premiums and cost loading are set for the duration of the contract (usually 5 years)	Mortality, expenses	A number of insurance contracts carry a minimum guaranteed return on the maturity date	No
<b>Collective separate accounts</b>	Premiums and cost loading are set for the duration of the contract (usually 5 years)	Interest, mortality, expenses	On maturity date of contract the premium can be waived	No

## 26.1.2 Concentration of risk

In life insurance, concentration of risks mainly exists in the group insurance portfolio. The participants in a group contract often work at the same location or undertake joint activities, which brings about a concentration of risks.

Such concentration of risk was partly offset in 2011 by the use of reinsurance. For more information, please refer to 'Reinsurance'.

### Scope of various insurance categories 2011

*In € millions*

	Annual premium	Insured capital	Insured annuity	Technical provision for insurance contracts	Risk capital
Savings mortgages	382	20,033	-	5,131	14,819
Life annuity	1	-	592	4,257	353
Risk	160	39,121	12	364	40,300
Savings insurance	166	11,199	37	7,378	3,192
Funeral insurance	41	2,462	-	1,026	1,736
<b>Individual insurance policies in cash</b>	<b>750</b>	<b>72,815</b>	<b>642</b>	<b>18,157</b>	<b>60,400</b>
Individual insurance policies in investment units	711	43,056	536	6,175	39,507
Group insurance policies in cash	296	12,410	1,906	6,397	28,150
Group insurance policies in investment units	515	23,641	1,004	6,823	26,819
<b>Subtotal</b>	<b>2,273</b>	<b>151,921</b>	<b>4,087</b>	<b>37,551</b>	<b>154,876</b>
Reinsurance risk	(6)	(87)	--	(1)	(2,270)
Proportional reinsurance	(149)	(5,422)	(20)	(3,249)	(71,448)
<b>Total</b>	<b>2,118</b>	<b>146,412</b>	<b>4,067</b>	<b>34,301</b>	<b>81,157</b>

### Scope of various insurance categories 2010

*In € millions*

	Annual premium	Insured capital	Insured annuity	Technical provision for insurance contracts	Risk capital
Savings mortgages	384	20,764	6	4,875	15,901
Life annuity	--	--	681	4,461	380
Risk	140	31,867	49	340	32,315
Savings insurance	185	12,206	40	6,468	2,909
Funeral insurance	42	2,473	--	2,393	1,782
<b>Individual insurance policies in cash</b>	<b>751</b>	<b>67,310</b>	<b>776</b>	<b>18,537</b>	<b>53,287</b>
Individual insurance policies in investment units	268	14,828	49	7,734	41,421
Group insurance policies in cash	288	11,501	1,828	5,924	26,187
Group insurance policies in investment units	333	11,687	997	5,468	15,019
<b>Subtotal</b>	<b>1,640</b>	<b>105,326</b>	<b>3,650</b>	<b>37,663</b>	<b>135,914</b>
Reinsurance risk	(8)	(308)	--	(4)	(10,042)
Proportional reinsurance	(94)	(376)	--	(147)	(48,888)
<b>Total</b>	<b>1,538</b>	<b>104,642</b>	<b>3,650</b>	<b>37,512</b>	<b>76,984</b>

### **26.1.3 Co-insurance**

SNS REAAL concludes co-insurance contracts with one or more other insurers. In general, risk assessments are based on the information provided by the administrating company. In the event of co-insurance, each co-insurer is, in principle, liable for its part of the total obligations. If a co-insurer defaults, its insurance liabilities will be transferred to the remaining co-insurers. The total size of the provisions for incoming co-insurance amounts to € 139 million (2010: € 171 million). In view of the limited interest and the spread over several insurers, the risk is limited.

### **26.1.4 Insurance risks for the life insurance portfolio**

A life insurance policy entitles the policyholder to death benefits and/or a benefit payable on the maturity date of the policy.

The most distinctive risk with respect to life insurance policies is the mortality risk. This risk mainly affects the duration and timing of the payment of the insured cash flows. The mortality risk indicates the death benefit risk of the policyholder dying earlier than expected (short-life risk). In case of an annuity insurance policy, the mortality risk for the insurer is that the policyholder might live longer than expected (longevity risk). The financial impact of the difference between the calculated timing of mortality and the realised mortality can be substantial, particularly with longevity risk.

SNS REAAL periodically reviews the level of longevity and short-life risk compensation that is inherent in its portfolios. For an adequate assessment of these compensation effects, SNS REAAL monitors the profit and loss development in time of its mortality assumptions for the entire portfolio. The liability adequacy test largely depends on the movements of the risk-free interest rate curve. Therefore, the life insurance liability adequacy test does not function as an adequate basis to assess longevity and short-life risk compensation. Furthermore, a comparison of the current present value of surpluses and deficits does not imply a guarantee that there will be no future deficits.

Other insurance risks that affect the life insurance portfolio are the risk of disability (the policyholder becomes incapacitated for work) and risks associated with policyholders' behaviour, such as early surrender (the policyholder terminates the policy before the maturity date), and conversion to a non-contributory status (the policyholder terminates the regular premium payment before the maturity date). For more information on disability risk, please refer to '[Insurance risk Non-Life](#)'.

### **26.1.5 Life insurance portfolio - Investment risk and interest rate guarantees**

With both traditional and unit linked insurance contracts, the policyholder pays regular premiums and/or a single premium. For traditional policies, the insurer bears the investment risk of its commitments to policyholders. When a benefit or annuity payment is due, the insurer pays the policyholder a predetermined nominal amount. In contrast, on unit linked contracts the insurer does, as for the investment component, not run a risk for the amount paid out. This insured amount is dependent on the value of the funds in which the units have been invested. The policyholder therefore bears the investment risk.

In a number of cases, interest rate guarantees were issued for individual unit linked insurance contracts. At REAAL Life, these interest rate guarantees relate to a provision amounting to € 0.8 billion. In this case, a guaranteed minimum return at maturity applies to the individual unit linked insurance policies with interest rate guarantee.

In the case of group insurance policies with separate accounts, the contracting party bears in principle the investment risk. On the expiry date of the contract, however, there should at least be a minimum investment value to cover a provision for contractual accrued rights. To compensate for investment losses up to a certain amount, an additional provision (buffer) is created from premium loadings for the relevant contracts if stipulated by contract. If this buffer turns out to be insufficient on the expiry date of the contract, the remaining shortfall is then for risk of the insurer.

## 26.1.6 Managing insurance risks in the life insurance portfolio

Risks are managed by means of risk policy (see also 'Reinsurance' and 'Market risk Insurance activities'), by understanding the factors involved and by review.

Developments in the insurance risks of mortality are investigated annually and developments in early surrender biannually. The results of this investigation are used for setting prices for new life insurance contracts and for the valuation of the insurance portfolio including embedded value. Risk diversification in the composition of the life insurance portfolio is another goal. Furthermore, an active reinsurance policy is pursued.

To gain insight into the sensitivity of the insurance portfolio resulting from changes in parameters used in calculating the technical provisions, the effects of changes in mortality, surrender probabilities (including non-contributory) and costs on solvency were investigated. Hereby the changes in the parameters for the entire life portfolio were calculated and expressed in the solvency of REAAL NV.

The solvency sensitivity to changes in the insurance technical parameters is mostly stable in comparison with last year, except for the sensitivity to the longevity risk. The longevity risk increases in case of a decreasing interest rate. The sensitivity to the risks of surrender, including premium free continuation, and short-life risk is strongly mitigated by the surrender floor in the Liability Adequacy Test.

### Sensitivity solvency as a result of changes in technical parameters

*In € millions*

	2011	2010
Solvency ratio	203%	195%
Impact of the sensitivities:		
- 50% increase in surrender rates	(3%)	(4%)
- 15% higher mortality rates (short-life risk)	(4%)	(3%)
- 20% lower mortality rates (longevity risk)	(30%)	(25%)
- 10% increase in renewal expenses + 1% higher cost inflation	(18%)	(16%)

The sensitivity of the solvency of the insurance changes in the financial markets is explained in the chapter 'Risk and capital management' in the annual report.

## 26.2 Insurance risk of Non-life business

All major non-life sectors are represented in the non-life portfolio. The non-life insurance portfolio focuses on the retail and SME markets in the Netherlands. REAAL Non-Life focuses on the medium-sized and large business segments of the corporate insurance market.

### Contents of the non-life insurance portfolio

The emphasis of the insurer's non-life insurance portfolio is on the main segments: Fire, Motor Vehicles, and Accident and Health. Apart from these segments, the insurer also operates in the Marine segment, mainly within the co-insurance unit. The insurance policies are mostly sold through authorised agents, intermediaries and SNS Bank's distribution channel to retail and SME clients.

### Combined ratio and claims ratio

In 2011, the combined ratio was 96.0.% (2010: 98.5%) and the claims ratio was 57.8% (2010: 60.8%).



### 26.2.1 Co-insurance

REAAL Non-Life is represented at the Rotterdam Insurance Exchange through its co-insurance unit. Risks in the segments Fire, Marine and Miscellaneous are underwritten there. REAAL Non-Life focuses on the medium-sized and large business segments of the corporate insurance market. In 2011, the REAAL Non-Life co-insurance portfolio posted a gross earned premium income of € 108 million (2010: € 105 million).

### 26.2.2 Catastrophe

The insurer reinsures catastrophe risks resulting from perils of nature, such as storms, and terrorism (see paragraph on Insurance risk reinsurance). Catastrophes resulting from acts of violence, nuclear incidents or flooding are excluded under the standard policy conditions.

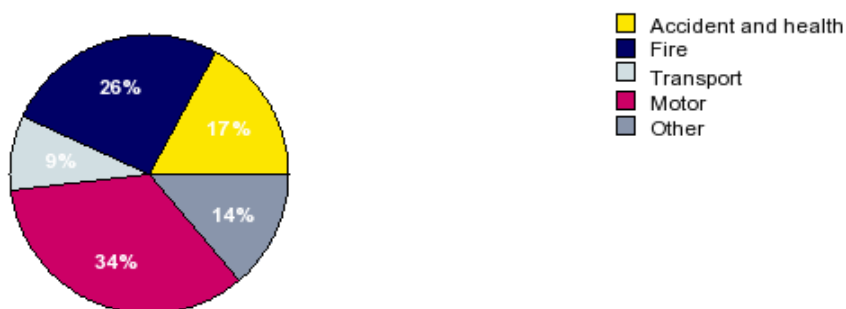
### 26.2.3 Concentration of risks

Geographically, the insurer's non-life portfolio risk is almost entirely concentrated in the Netherlands. The concentration of insurance risks is in the Fire segment, where storm risk plays an important role. In addition, the concentration of risks can occur in blocks of flats, rows of houses and office buildings.

The concentration of risk is also present in the group accident portfolio and the group disability schemes. The underwriting of group disability policies related to the Work and Income disability act (WIA - Wet werk en inkomen naar arbeidsvermogen) is effectuated through an alliance with another Dutch insurer. In this alliance, each insurer bears half of the insurance risk and the other insurer carries out the administration. See Insurance risk reinsurance for more information about retention and reinsurance of these risks.

### 26.2.4 Premium income and claims reserve

**Gross premium income Non-life 2011**



**Gross claims reserves Non-life 2011**


The diagrams above illustrate the distribution of gross premium income and gross claims reserves across the various segments. The premium volume and the claims reserves for the Transport segment come almost entirely from co-insurance. The diagrams illustrate the long-term non-life obligations of disability insurance policies compared to the limited share the Accident and Health segment has in the gross premium income. A relatively large part of the gross claims reserve relates to the disability insurance policies. The opposite applies to the Fire segment. Due to the rapid settlement of fire claims, this segment, which generates more than a quarter of the premium income, only represents a small part of the total claims reserve.

The total gross premium income of the non-life Insurance activities in 2011 amounted to € 848 million (2010: € 809 million). In 2011, € 54 million (2010: € 67 million) was paid in reinsurance premium. This is 6.4% (2010: 8.3%) of the gross premium income. At year-end 2011, the gross claims reserve amounted to € 1,175 million (2010: € 1,224 million). For more information on retention and incoming reinsurance, see ['Reinsurance'](#).

**Analysis technical results Non-life 2011**

*In € millions*

	Fire	Accident and health	Motor vehicles	Transport	Other segments	Total
Gross earned premium	224	143	286	75	120	848
Gross claims incurred	123	51	221	48	59	502
	101	92	65	27	61	346
Reinsurance balance	(13)	(8)	1	(7)	(15)	(42)
	88	84	66	20	46	304
Operational expenses and profit sharing	(86)	(59)	(110)	(25)	(38)	(318)
Other technical expenses	--	--	--	--	--	--
<b>Operating result</b>	<b>2</b>	<b>25</b>	<b>(44)</b>	<b>(5)</b>	<b>8</b>	<b>(14)</b>
Investment income	8	23	14	4	9	58
<b>Technical result</b>	<b>10</b>	<b>48</b>	<b>(30)</b>	<b>(1)</b>	<b>17</b>	<b>44</b>

## Analysis technical results Non-life 2010

In € millions

	Fire	Accident and health	Motor vehicles	Transport	Other segments	Total
Gross earned premium	219	138	267	74	112	810
Gross claims incurred	158	57	182	52	56	505
	<b>61</b>	<b>81</b>	<b>85</b>	<b>22</b>	<b>56</b>	<b>305</b>
Reinsurance balance	(10)	(6)	(3)	(5)	(10)	(34)
	<b>51</b>	<b>75</b>	<b>82</b>	<b>17</b>	<b>46</b>	<b>271</b>
Operational expenses and profit sharing	(87)	(49)	(105)	(21)	(35)	(297)
Other technical expenses	--	--	(1)	--	(1)	(2)
<b>Operating result</b>	<b>(36)</b>	<b>26</b>	<b>(24)</b>	<b>(4)</b>	<b>10</b>	<b>(28)</b>
Investment income	4	19	10	2	7	42
<b>Technical result</b>	<b>(32)</b>	<b>45</b>	<b>(14)</b>	<b>(2)</b>	<b>17</b>	<b>14</b>

The claims incurred (claim payments including changes to claims reserves) per segment is compared to the gross premium, while the development of the ratio between the two, the claims ratio, serves as an indicator.

### 26.2.5 Insurance risk Non-Life

The insurance risk for the insurer's non-life portfolio is primarily concentrated on covering the risks resulting from third-party liability (WA), bodily injury, general third party liability, catastrophe and disability claims. This is mainly because of the size and the long-term nature of the claims.

- **Motor vehicle third-party injury liability**

Motor vehicle liability is a third-party liability insurance to cover bodily injury, medical care and/or healthcare expenses and loss of income following a road traffic accident. The insurer sells these products through all of its distribution channels.

- **General third party liability (GTPL)**

The insurer provides general third party liability insurance for both private individuals and the business segment; the latter may go together with professional indemnity coverage. The insurer sells these products through all of its distribution channels.

- **Disability**

The disability coverage in the insurer's portfolio includes both individual coverage for self-employed people and semi-group coverage for employees. The latter group also includes additional cover to the WIA disability act, which is offered through the abovementioned co-insurance partnership with another Dutch insurer. The insurer sells these products through all of its distribution channels.

- **Fire and other damage to property**

Fire insurance offers policyholders financial protection against damage to their property and material consequences of interruption of operations as a result of the damage sustained. The insurer sells these products through all of its distribution channels.

#### Insurance risk management for the non-life insurance portfolio

Risks are managed by means of risk policy (see also 'Reinsurance' and 'Market risk insurance activities'), by understanding the factors involved and by review.

Every year, the developments in the non-life insurance risks are examined and economic capital calculations are made. The results of the examination are used to determine rates and the acceptance conditions of non-life insurance policies. Furthermore, an active reinsurance policy is pursued.

The effects of changes in parameters, which can be observed in connection with the economic capital calculations, provide insight into the degree of risk. The table below shows the sensitivity of the profit after tax in the event of a 10% increase or a 10% decrease in non-life claims. The sensitivities are based on a one-off increase or decrease of the claims incurred (claim payments including mutations in claims reserves) in the relevant financial year of non-life insurance policies.

### Sensitivity Non-life

In € millions	Result		Shareholders' equity	
	2011	2010	2011	2010
Claims +10%	(37)	(36)	(37)	(36)
Claims -10%	37	36	37	36

The IBNR and the provision for settlement costs are evaluated at least twice a year and, where necessary, adjusted.

The technical provisions are completely reviewed every year, which includes a quantitative assessment of the majority of the portfolio.

### Non-life insurance portfolio fraud risks management

Fraudulent claims are defined as claims submitted by policyholders for non-events or claims in which the extent of the damage is exaggerated. Fraud prevention and detection is the responsibility of Fraud Coordination, a separate operational department. In addition, decentralised supervision of fraud is conducted by means of an automated process of pattern recognition by various departments, such as Acceptance and Claims Handling.

### Realised claims with a run-off of more than one year

The insurer has assigned specialised departments to the handling and run-off of (bodily injury) claims. The experts in these departments handle claims on an item-by-item basis, make estimates on the size of the claim and monitor the progress of claims settlement. Claims with a run-off period of more than one year include disability claims, bodily injury claims and liability claims.

### Characteristics of the provision for recurrent disability annuity benefits

For non-life, disability liabilities include in-force payments for claims that stem from the individual and the semi-group insurance portfolios. Disability benefits in actual payment relating to life insurances concern coverages within a life insurance contract.

### Characteristics provision for recurrent disability annuity benefits

In € thousands	Life insurance		Non-life insurance		Total	
	2011	2010	2011	2010	2011	2010
Provision for periodic payments	55,825	52,232	253,802	253,498	309,626	305,730
Number of commenced annuities	995	1,089	4,110	4,153	5,105	5,242
Average annual annuity	10.0	9.5	19.5	17.9	17.6	11.9

### Characteristics of the claims reserve for other claims with a run-off of more than one year

Other claims with a run-off longer of than one year generally comprise bodily injury and liability claims. These risks are more diverse than disability risks. This diversity also applies to the expected duration of the claims payments. REAAL Non-Life pursues a strict policy with regard to the settlement of these claims. The aim is to settle them within a maximum of five years. In addition, claims on earlier claim years undergo accelerated settlement. This has resulted in the settlement of a large number of claim files that had been pending for some time.

## 26.2.6 Claims development history

The table below provides a summary of the run-off on claims reserves for earlier claim years.

### Claims development history 2011

*In € thousands*

	Provision as of 1 January	Interest added	Payments	Provision as of 31 December	On balance release / run-off
<b>Claim years:</b>					
2002 and earlier	322,250	4,400	53,320	233,789	39,541
2003	39,981	576	6,044	33,091	1,422
2004	29,589	299	4,963	26,044	(1,119)
2005	34,520	369	6,763	29,032	(906)
2006	38,147	377	8,072	33,193	(2,741)
2007	67,972	766	12,751	57,003	(1,016)
2008	89,116	814	15,922	70,183	3,825
2009	136,423	1,138	27,931	93,240	16,390
2010	263,661	1,350	136,561	139,046	(10,596)
<b>Total through 2010</b>	<b>1,021,659</b>	<b>10,089</b>	<b>272,327</b>	<b>714,621</b>	<b>44,800</b>
Total 2011	--	842	252,125	285,612	--
<b>Total net of reinsurance</b>	<b>1,021,659</b>	<b>10,931</b>	<b>524,452</b>	<b>1,000,233</b>	<b>44,800</b>

In 2011, the IBNR has been reallocated for accident years, which increased the release / run off for 2002 and earlier.

### Claims development history 2010

*In € thousands*

	Provision as of 1 January	Interest added	Payments	Provision as of 31 December	On balance release / run-off
<b>Claim years:</b>					
2001 and earlier	327,342	4,302	32,768	290,489	8,387
2002	28,676	379	4,531	31,761	(7,237)
2003	45,313	449	4,890	39,981	891
2004	40,968	550	7,321	29,589	4,608
2005	48,580	467	6,735	34,520	7,792
2006	54,554	489	11,933	38,147	4,963
2007	90,555	878	16,755	67,972	6,706
2008	138,210	1,072	30,698	89,116	19,468
2009	254,521	1,411	114,191	136,423	5,318
<b>Total through 2009</b>	<b>1,028,719</b>	<b>9,997</b>	<b>229,822</b>	<b>757,998</b>	<b>50,896</b>
Total 2010	--	737	250,591	263,661	--
<b>Total net of reinsurance</b>	<b>1,028,719</b>	<b>10,734</b>	<b>480,413</b>	<b>1,021,659</b>	<b>50,896</b>

## **26.3 Reinsurance**

### **26.3.1 Reinsurance policy**

The reinsurance policy provides protection against technical insurance risks in the various insurance portfolios of both the life insurance and the non-life insurance business. Reinsurance can be divided into two main fields: traditional reinsurance that is taken out based on a risk perspective and reinsurance from the perspective of capital management.

Until recently, the reinsurance policy was mainly aimed at minimising losses ensuing from calamities to a level befitting the risk profile, which means that traditional reinsurance was emphasised.

We see a market-wide trend towards reinsurance for capital management purposes, which is also acknowledged at the Insurance activities. For example, following the proportional reinsurance contract concluded on 1 October 2009, a new proportional reinsurance was concluded for the Insurance activities' individual life portfolio effective 1 January 2011.

The reinsurance policy is determined based on risk analyses for the various portfolios, the size of the portfolios, the nature of the insurance risks, the results, the risk appetite and the financial strength of the Company.

The risk of terrorism is reinsured through the Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden (Netherlands Terrorism Risk Reinsurance Company (NHT)). In order to align the cover in the policy and the reinsurance cover through the NHT, the cover for the terrorism risk in the policy has been limited to the maximum capacity of the NHT, € 1 billion.

### **26.3.2 REAAL Reassurantie SA**

Up to and including 2011, a number of risks from the non-life portfolio in particular were partially reinsured with the Luxembourg-based reinsurance captive REAAL Reassurantie SA. The captive offered reinsurance cover for risks of REAAL Non-Life and Proteq Non-Life. The retentions and reinsured parts as indicated below reflect the figures of REAAL Reassurantie after consolidation in the Insurance activities.

SNS REAAL decided to sell REAAL Reassurantie SA, a small reinsurance subsidiary, as at year-end 2011. Part of the dismantling process was that REAAL Non-Life and SRLEV took over from the captive the run-off of the contracts for which the captive acted as the reinsurer. As the captive no longer participates in the various reinsurance contracts effective 2012, the shares have been placed with external reinsurers effective that date.

### **26.3.3 REAAL Life reinsurance**

The Insurance activities have a thoroughly integrated reinsurance programme for the mortality and disability portfolio. In 2011, separate reinsurance contracts were again purchased for the individual and group portfolios. The catastrophe reinsurance contract was concluded Group-wide for the various subportfolios.

The Insurance activities purchase reinsurance for every risk separately from a relatively high level upwards (see the table below). In view of the risk profile and the size of the portfolio, the retention of both the mortality and disability risks can be considered to be in accordance with the underlying portfolio.

The structure of the 2012 reinsurance programme has not changed as compared to the 2011 programme. The various subportfolios are reinsured by means of reinsurance contracts for the individual portfolio, the group portfolio and the catastrophe risk. Furthermore, a reinsurance contract is in place for the disability portfolio. The retention of the mortality reinsurance contract of the individual life portfolio of the Insurance activities is proportionally reinsured by two quota share contracts. The retention of the reinsurance contract for the group portfolio is increased to € 1.2 million of risk capital effective 1 January 2012.

With the proportional reinsurance concluded as per 1 January 2011, there are two quota share reinsurance contracts in place for REAAL's individual life portfolio. The quota share reinsurance contract on risk capital concluded as of October 2009 is in effect for the product groups risk, savings mortgages and unit linked policies. The quota shares reinsurance contract that took effect as of 1 January 2011 reinsures both risk capital and provisions, and applies to the traditional savings portfolio.

The Insurance activities have concluded their reinsurance contracts at reinsurance companies that have at least an AA-rating (S&P).

### Life insurance retention

<i>In € thousands</i>		2011		2010	
		REAAL	Zwitserleven	REAAL	Zwitserleven
<b>Coverage:</b>					
Mortality (quota share - risk capital)	per risk; savings mortgages, risk and unit linked portfolio	19%	--	30%	--
Mortality (quota share - gross)	per risk; savings insurance portfolio	19%	--	--	--
Mortality (risk capital)	per risk (DBV, concluded before 1 January 2007 respectively 2009)	58% / 70%	--	58% / 70%	--
Mortality (risk capital)	per risk; individual portfolio	1,500	1,500	1,500	1,500
Mortality (risk capital)	per risk; group portfolio	900	900	900	900
Disability (risk capital)	per risk; individual portfolio	1,500	1,500	1,500	1,500
Disability (risk capital)	per risk; group portfolio	900	900	900	900
Catastrophe	per event	15,000	2,000	15,000	2,000

### 26.3.4 REAAL Non-Life reinsurance

The non-life insurance operations have set the retention of the reinsurance contracts in line with the size of the various portfolios. The reinsurance programme makes no specific distinction between the various sales channels, but large risks are reinsured at segment level.

In addition to the regular protection of individual portfolios, REAAL Non-Life has a catastrophe contract for natural perils (storm, hail) and accumulation within the fire portfolio.

Where applicable, Proteq Non-Life is included in the reinsurance programme of REAAL Non-Life for segments. In addition, Proteq has purchased a number of underlying reinsurance covers from REAAL Reassurantie, the Insurance activities' reinsurance captive, for 2011.

The 2012 reinsurance programme is largely a continuation of the programme as it was in 2011. The capacity of the catastrophe programme has been expanded due to the increased underlying exposure. The external retention of the catastrophe programme was € 35 million effective 2012. By using an external reinsurer (instead of REAAL Reassurantie), the retention is lower at the consolidated level compared to 2011. The retentions in the other contracts remain unchanged compared to 2011. The sublayer for Fire, which was formerly purchased from REAAL Reassurantie, is now concluded with an external reinsurer. As a result, net retention amounts to € 1 million. To keep the Fire programme in line with the Catastrophe reinsurance contract, the capacity has been adjusted to the retention of Catastrophe. As regards Accidents, the reinsurance capacity was expanded in connection with the underlying exposure.

### Non-life insurance retention

*In € thousands*

		2011	2010
<b>Coverage:</b>			
Fire	per risk	2,500	2,500
Motor third-party liability	per risk	2,500	2,500
Personal / business liability	per risk	1,000	750
Accidents	per risk	750	500
Transport (up to 2006 NHL)	per risk	1,000	1,000
Disability (risk capital)	per risk	1,500	1,500
Catastrophe	per event	45,000	40,000

The non-life insurer pursues an active policy with regard to placing its reinsurance contracts. A distinction is made in the panel of reinsurers as to the property programme (Fire and Catastrophe) and the casualty programme (Motor Liability, General Liability and Accidents). In the casualty programme, the claims settlement is characterised by its long lead time. Because of this long-term nature, the continuity of the panel is the main consideration in the placement of this programme. The minimum rating of this reinsurance panel is A. A minimum rating of A- applies for the reinsurance of Fire and Catastrophe. The price aspect plays an important role in this.

### 26.3.5 Proteq Non-Life: incoming disability reinsurance

Proteq Non-Life has an incoming reinsurance contract that covers a portfolio of disability pensions related to the WAO (Law on Disability). This contract is not renewed since 2004 and is located in run-off. The premium in 2011 is therefore nil (2010: nil). The gross claims reserve at the end of 2011 amounts to € 65 million (2010: € 78 million), after retrocession, the provision amounts € 25 million (2010: € 29 million).

## 26.4 Market risk Insurance activities

The market risk of the Insurance activities is created by the fact that when the financial markets change, the value changes of investments (equities, property, fixed-income investments) do not change with the same amount as the liabilities. This means that changes in financial markets affect the results and capital position of the insurer.

The market risks are measured and managed by the Asset & Liability Management (ALM) department. This department reports monthly to the Group ALCO through the Asset & Liability Committee Insurance. The main objective in 2011 was to further reduce the insurer's interest rate risk. Within this framework, interest rate derivatives were purchased to better hedge the guarantees issued to policyholders. Despite the purchase of interest rate derivatives the sensitivity to interest rate cuts increased in the last quarter as a result of the very low interest rate environment at the end of 2011.

The table below shows the investment mixes. It should be noted that, within the fixed-income investment portfolio, a strategic mix is determined based on the various fixed-income rating categories.



## Investment mix Insurance activities

*In € millions*

	2011		2010	
Interest bearing investments	28,542	86%	27,995	82%
Equities and options	1,217	4%	1,345	4%
Property	255	1%	252	1%
Mortgages	3,047	9%	4,616	13%
<b>Total</b>	<b>33,061</b>	<b>100%</b>	<b>34,208</b>	<b>100%</b>

The point of departure for the ALM policy is the ALM plan, which is drawn up annually and sets out the strategic investment policy. The ALM plan seeks a balance between risk and return within the preconditions that apply with regard to the Value-at-Risk (VaR), solvency, profitability and IFRS results.

The financial market risks of the portfolio for own account and risk are ,amongst others, managed using the VaR system. VaR is a risk indicator that records the balance of all market risks (interest, equities, etc.). The VaR, expressed as a percentage of the market value of shareholders' equity, was 46% as at year-end 2010. In 2011 the VaR decreased from 46% as at year-end 2010 to 25% as at year-end 2011, dropping below the current limit of 45%. The decrease was mainly caused by the reduction of credit spread exposure in 2011 and a better protection of the equity position.

## Portfolio Insurance activities

*In € millions*

	2011	2010
Property investments	255	252
Interest bearing investments	28,542	27,995
Equities and options	1,217	1,345
Invested collateral securities lending	117	176
Derivatives	572	225
Reinsurance contracts	3,426	355
Loans and advances to customers	3,047	4,616
Loans and advances to banks	499	356
Other assets, no lending operations	3,056	3,006
Cash and cash equivalents	1,188	2,054
<b>Total</b>	<b>41,919</b>	<b>40,380</b>

## 26.4.1 Market sensitivity regulatory solvency ratio

The solvency of the insurer is most sensitive to interest rate changes and changes in credit spreads, this is seen in the table market sensitivity regulatory solvency ratio. In 2011 the focus was therefore on these two sources of risk.

### Market sensitivity regulatory solvency ratio

*In € millions*

	2011	2010
Interest rates -1%	(26%)	(33%)
Interest rates +1%	8%	8%
Credit spreads Corporate Bonds +0.5%	(10%)	(12%)
Credit spreads Sovereign Bonds +0.5%	(2%)	(5%)
Equity prices -10%	(2%)	(2%)

In 2011 the balance of the Insurance activities has become more sensitive to interest rate cuts and the impact of increases in interest rates has remained the same. These changes have mainly been caused by the decrease of the yield curve. The sensitivity of the solvency of parallel interest rate reductions of 1% has evolved from -33% end 2010 to -26% end 2011.

The yield curve SNS REAAL used in determining its solvency is the ECB AAA government curve. This showed such a downward trend that the DNB allowed to use the average yield curve in the fourth quarter. SNS REAAL did not use this opportunity. Based on the ECB AAA government curve end 2011, the deficit in the DNB adequacy test is € 1,292 million. However, this is more than offset by the positive impact of the decrease in interest rate levels on the revaluation reserve in available capital.

The credit risk in the bond portfolio was further reduced in 2011. Here the emphasis was not only on government bonds of the Southern European countries and Ireland, but also on reduction of government bonds of France and to a lesser extent, Austria. In addition, we purchased interest rate derivatives to hedge the balance of the insurer to further reduce the interest rate risk.

### 26.4.2 Interest rate risk Insurance activities

Interest rate risk is a significant component of the Insurance activities market risk profile. There is an interest rate risk when the interest rate sensitivities of the assets and liabilities are not completely equal and it is expressed as movements in the result and/or capital position if market rates fluctuate. Main sources for interest rate risk are the return guarantees given to policyholders. This risk is partly mitigated by the use of interest rate derivatives to hedge the guarantees in traditional life insurance with guarantees and profit sharing. See '[Hedging](#)' for more information.

For products without profit sharing, the fixed-income investments are matched with liabilities as closely as possible.

#### Breakdown provision for own account and risk

<i>In € millions</i>	2011	2010
With profit sharing (company or surplus interest)	8,172	10,021
With interest rate rebate	5,664	6,387
Without profit sharing	5,654	4,718
Savings mortgages balance	1,814	3,193
<b>Total</b>	<b>21,304</b>	<b>24,319</b>

The most significant quantification of interest rate risk is done by using duration analyses, scenario analyses and VaR analyses.

The duration of equity indicates the impact on the fair value of shareholders' equity in the event of a minor parallel shift in the yield curve. In this analysis, those investments and liabilities that are already nearly matched to each other are ignored. This category particularly includes savings policies built up with savings mortgages and the part of the balance sheet items that is kept for account and risk of the policyholders.

Market rate movements rapidly change both the value and interest rate sensitivity of the return guarantees given to customers. This makes the duration of equity extremely volatile and hard to interpret, which is why it was decided not to conduct management based on this indicator. The actual interest rate management (and accompanying hedging policy) is driven by the results of the sensitivity calculations related to solvency.

### Duration fixed assets and liabilities Insurance activities

	2011	2010
Duration of fixed income investments	8.5	7.9
Duration of provision for insurance contracts	11.6	9.8

Scenario analyses periodically test the impact of changes in market rates on solvency and results. The table below shows the indicative impact of parallel shifts in interest rates of 1% on the various balance sheet items.

In economic reality, all balance sheet items (both assets and liabilities) with an underlying cash flow schedule change in value when the interest rate changes. With a 1% decrease in interest rates, the fair value of shareholders' equity decreases by € 155 million (2010: decrease of € 93 million). With a 1% interest rate increase, the fair value of shareholders' equity increases by € 87 million (2010: decrease of € 3 million).

### Interest rate sensitivity fair value shareholders' equity Insurance activities

<i>In € millions</i>	Interest +1%		Interest -1%	
	2011	2010	2011	2010
Investments	(1,766)	(1,487)	1,926	1,801
Technical provisions	1,647	1,323	(2,304)	(1,719)
Other assets and liabilities	207	161	222	(175)
<b>Shareholders' equity</b>	<b>87</b>	<b>(3)</b>	<b>(155)</b>	<b>(93)</b>

The accounting result and shareholders' equity change as a result of value changes in interest rate derivatives and the fixed-income portfolio classified as available for sale. The effect of a 1% increase in interest rates on the result is € 20 million negative (2010: € 21 million negative) and the effect of a 1% decrease in interest rates on the result is € 112 million positive (2010: € 69 million positive). In respect of shareholders' equity, this is € 1,787 million negative in the event of a 1% increase in interest rates (2010: € 1,489 million negative). A 1% decrease in interest rates has an effect of € 2,259 million positive (2010: € 1,527 million positive).

The increase in interest rate sensitivity of the result is due to the addition of interest rate derivatives to the portfolio, which was enhanced in 2010 to hedge the impact of options and guarantees in the provisions.

The overview below shows the average effective interest rates of the financial assets, the financial liabilities and the technical provisions of the Insurance activities as at the balance sheet date.

### Average effective interest rates Insurance activities

*In percentages*

	2011	2010
Financial assets (not valued at fair value through profit or loss):		
Investments for own account:		
- Available for sale (excluding equities)	4.3%	4.6%
- Loans and receivables	4.1%	3.4%
Loans and advances to customers	4.9%	5.3%
Financial liabilities at amortised cost:		
Subordinated debt	7.8%	7.2%
Debt certificates	1.7%	1.1%
Technical provisions insurance operations for own account and risk:	4.0%	4.0%
Individual insurance policies in cash	4.0%	4.0%
- Savings mortgages	5.3%	5.4%
- Life annuity	3.1%	3.3%
- Other	3.5%	3.5%
Group insurance policies in cash	3.6%	3.6%

*The effective interest rates of the technical provisions are before any deferred interest rate rebates and acquisition costs.*

### Insurance contracts on behalf of policyholders

For insurance policies for which policyholders carry the investment risk, the insurer does not, in principle, bear any risk relating to interest rates, prices, exchange rates or credit. Nevertheless, for some portfolios, policyholders have a minimum return guarantee. For these cases, if required, a provision is formed. The value of the guarantees within the portfolio 'on behalf of policyholders' is measured periodically. In 2011, an equity hedge was purchased to protect the equity exposure in Zwitserleven's Separate Accounts.

### Breakdown technical provision on behalf of policyholders

*In € millions*

	2011	2010
Without guarantee	8,518	8,442
With guarantee	4,479	4,752
<b>Total</b>	<b>12,997</b>	<b>13,194</b>

### Equity and investment property risk Insurance activities

The equity and similar investments of the Insurance activities amounted to € 1.217 million at year-end 2011 (2010: € 1,345 million). The decline in 2011 was caused in particular by the lower equity markets.

The IFRS equities classification also includes participations in funds that invest in other types of securities. The ALM policy is adjusted accordingly.

The Insurance activities periodically calculate the impact of changes in equity markets and property markets on the results and on shareholders' equity. As is the case for the interest rate risk, scenario analyses are used here as well. The table below shows the indicative results of this analysis at the balance sheet date net of taxation.

### Sensitivity equities and property Insurance activities

<i>In € millions</i>	Result		Shareholders' equity	
	2011	2010	2011	2010
Equities +10%	--	--	79	109
Equities -10%	(80)	(66)	(79)	(103)
Property +10%	25	25	19	18
Property -10%	(25)	(25)	(19)	(18)

### 26.4.3 Exchange rate risk Insurance activities

The Insurance activities face exchange rate risk through a combination of investments and liabilities in foreign currencies that are not perfectly matched.

With respect to the fixed-income investments, the policy of the Insurance activities is to permit only a very limited exchange rate risk. The exchange rate risk on fixed-income investments with a foreign currency denomination is therefore, in principle, hedged completely with currency swaps.

Exchange rate risk also manifests itself in the equity investments of the Insurance activities. This exchange rate risk, after netting the exchange rate risk in other non-fixed income investments and liabilities, is structurally hedged using forward exchange rate contracts if the net exposure exceeds € 10 million. The table below gives an indication of the Insurance activities' exchange rate position.

### Foreign exchange positions Insurance activities (net exposure)

<i>In € millions</i>	Balance		Hedge derivatives	
	2011	2010	2011	2010
US dollar	100	107	(93)	(67)
Pound Sterling	59	77	(58)	(66)
Swiss franc	(71)	12	72	--
Australian dollar	(33)	(24)	46	--
Other	3	5	--	--
<b>Total</b>	<b>57</b>	<b>177</b>	<b>(34)</b>	<b>(133)</b>

The impact of changes in foreign exchange markets on the result, on shareholders' equity and on solvency are measured periodically using scenario analyses. The table below shows the results of these analyses net of taxation.

### Sensitivity foreign exchange rates Insurance activities

<i>In € millions</i>	Result		Shareholders' equity	
	2011	2010	2011	2010
Currencies +10%	2	4	2	3
Currencies -10%	(2)	(4)	(2)	(3)

## 26.5 Credit risk Insurance activities

The Insurance activities are exposed to various types of credit risk. The main types are the credit risks in the investment portfolio and in the loan portfolio to intermediaries. The mortgage loans of REAAL are well covered and it concerns a relatively aged portfolio. Consequently, the likelihood of non-payment is low and therefore the risk profile of the mortgage portfolio of REAAL is very low.

In the policy documents for the specific credit risk categories, the roles, powers and responsibilities of employees and committees are established, following a successively more senior layer of authorisation.

### 26.5.1 Management of credit risk within the fixed-income investment portfolio

The credit risk within the fixed-income investment portfolios of the Insurance activities is the risk that an issuer of a bond or a debtor of a private loan can no longer meet its obligations. The strategic scope of the various investment grade categories within the fixed-income portfolio is determined in an ALM context and laid down in mandates with the investment managers. Periodically, Insurance Treasury & Investment Management checks whether the investment managers adhere to the mandates and reports on this.

The fixed-income investment portfolios of the Insurance activities have predominantly European and North American debtors, whereby no one represents an interest of more than 10% in the fixed-income investment portfolio.

#### Breakdown fixed income portfolio (industry)

*In € millions*

	2011		2010	
Sovereign	16,351	57%	14,222	51%
Financials	4,730	17%	5,831	21%
Mortgages	4,895	17%	4,872	17%
Corporates	1,246	4%	1,697	6%
Mortgage backed securities	1,231	4%	1,013	4%
Other	89	0%	360	1%
<b>Total</b>	<b>28,542</b>	<b>100%</b>	<b>27,995</b>	<b>100%</b>

#### Fixed income investments Insurance activities by industry 2011

*In € millions*

	Designated as fair value through profit or loss	Available for sale	Loans and receivables	Total
Sovereign	109	16,168	74	16,351
Banks	907	4,084	5,963	10,954
Trade, industry and other services	--	1,071	103	1,174
Other	--	28	35	63
<b>Total</b>	<b>1,016</b>	<b>21,351</b>	<b>6,175</b>	<b>28,542</b>

### Fixed income investments Insurance activities by industry 2010

In € millions

	Designated as fair value through profit or loss	Available for sale	Loans and receivables	Total
Sovereign	148	14,227	34	14,409
Banks	888	3,967	4,214	9,069
Trade, industry and other services	--	963	1	964
Other	8	1,120	2,425	3,553
<b>Total</b>	<b>1,044</b>	<b>20,277</b>	<b>6,674</b>	<b>27,995</b>

The following overview provides a breakdown of the fixed-income investment mix (excluding mortgages) across the various rating categories. The strategic mix of the various categories within the fixed-income portfolio is set annually in the ALM investment plan. The category without any rating mainly consists of investments related to savings mortgages.

### Breakdown fixed income portfolio (rating)

In € millions

		2011		2010
AAA	18,031	63%	15,135	54%
AA	1,333	5%	2,571	9%
A	2,465	9%	2,856	10%
BBB	857	3%	2,182	8%
< BBB	221	1%	151	1%
No rating	5,635	20%	5,100	18%
<b>Total</b>	<b>28,542</b>	<b>100%</b>	<b>27,995</b>	<b>100%</b>

### Fixed income investments Insurance activities by rating 2011

In € millions

	Designated as fair value through profit or loss	Available for sale	Loans and receivables	Total
AAA	501	17,320	210	18,031
AA	157	1,163	13	1,333
A	337	1,874	254	2,465
BBB	21	803	33	857
Below BBB	-	155	66	221
Unrated	-	36	5,599	5,635
<b>Total</b>	<b>1,016</b>	<b>21,351</b>	<b>6,175</b>	<b>28,542</b>

**Fixed income investments Insurance activities by rating 2010**
*In € millions*

	Designated as fair value through profit or loss	Available for sale	Loans and receivables	Total
AAA	548	14,412	83	15,043
AA	159	2,365	1	2,525
A	317	2,334	291	2,942
BBB	20	1,047	1,111	2,178
Below BBB	-	87	64	151
Unrated	-	32	5,124	5,156
<b>Total</b>	<b>1,044</b>	<b>20,277</b>	<b>6,674</b>	<b>27,995</b>

**Breakdown fixed income portfolio (maturity)**
*In € millions*

	<b>2011</b>		<b>2010</b>	
< 3 Months	472	2%	892	3%
< 1 Year	1,108	4%	1,498	5%
< 3 Years	2,229	8%	2,152	8%
< 5 Years	2,379	8%	1,898	7%
< 10 Years	6,230	22%	5,833	21%
< 15 Years	3,025	11%	2,332	8%
> 15 Years	13,099	46%	13,390	48%
No maturity	-	0%	-	0%
<b>Total</b>	<b>28,542</b>	<b>100%</b>	<b>27,995</b>	<b>100%</b>

**Breakdown fixed income portfolio insurance activities (geography)**
*In € millions*

	<b>2011</b>		<b>2010</b>	
Ireland	317	1%	412	1%
Portugal	25	0%	50	0%
Italy	370	1%	823	3%
Spain	403	1%	718	3%
Subtotal GIIPS	1,115	4%	2,003	7%
Germany	7,000	25%	6,219	22%
France	1,342	5%	3,507	13%
The Netherlands	14,264	50%	11,117	40%
Austria	1,696	6%	1,379	5%
Belgium	253	1%	688	2%
Other	2,872	10%	3,082	11%
<b>Total</b>	<b>28,542</b>	<b>100%</b>	<b>27,995</b>	<b>100%</b>



**Breakdown sovereign fixed income portfolio Insurance activities (for own account)**

<i>In € millions</i>	<b>2011</b>		<b>2010</b>	
Ireland	47	0%	89	1%
Italy	232	1%	563	4%
Spain	50	0%	286	2%
Subtotal GIIPS	329	2%	938	7%
Germany	6,470	40%	5,668	40%
France	804	5%	2,803	20%
The Netherlands	6,515	40%	2,764	19%
Austria	1,684	10%	1,315	9%
Belgium	226	1%	602	4%
Other	323	2%	132	1%
<b>Total</b>	<b>16,351</b>	<b>100%</b>	<b>14,222</b>	<b>100%</b>

**26.5.2 Securities Lending Programme**

Zwitserleven has a Securities Lending Programme, under which securities are lent in exchange for compensation. The counterparties provide collateral as security in the form of liquidities, government bonds and other bonds with high ratings. At the end of 2011, € 117 million in securities were lent and € 119 million of collateral was received in return. The collateral received fully concerns liquidities. The Lending Agent reinvests the aforementioned liquidities, on behalf of Zwitserleven, in Money Market Funds with investments with a certain credit risk. The margin between the returns from the Money Market Funds and the compensation to the other parties accrues to Zwitserleven. Any losses from the Money Market Funds will also be borne by Zwitserleven. The current programme made a positive contribution to Zwitserleven's result in the amount of € 1 million. The programme was further reduced in 2011, from € 0.2 billion at year-end 2010 to € 0.1 billion at year-end 2011.

**26.5.3 Management of credit risk loans to intermediaries**

The Insurance activities manage the process of providing loans to intermediaries by a credit committee and the application of strict acceptance criteria.

**26.5.4 Management of credit risk with regard to derivative positions**

The credit risk on the market value of all derivatives held by SNS REAAL with a counterparty is managed through a so-called Credit Support Annex, or CSA, agreement. In accordance with standard industry practice, this agreement stipulates that the underlying value of the derivatives in liquid instruments, such as cash and government bonds, must be held as collateral to cover the credit risk.

**26.5.5 Management of credit risk relating to advances to the reinsurer**

To reinsure motor vehicle third party liability insurance and general third party liability insurance for individuals and companies, the Insurance activities use a panel that consists of reinsurers with a minimum credit rating of A. For the reinsurance of fire and catastrophe risks, the Insurance activities use reinsurers with a minimum credit rating of A-. A minimum rating of A also applies for the reinsurance of Life and Disability, although the reinsurance panel in question consists of reinsurers with a minimum credit rating of AA-.

## 26.5.6 Management of credit risk in the mortgage portfolio

The Insurance activities run a limited credit risk on their mortgage portfolio. Part of this portfolio is guaranteed by the National Mortgage Guarantee fund. The residential property price increases in the past have led to a strong increase in the foreclosure value of the collateral. Although house prices decreased in the past few years, this was not enough to offset past price increases. In the event of non-payment by a debtor, the loans can in many cases be recouped through the sale of the collateral.

### Mortgages Insurance activities by security type

*In € millions*

	2011	2010
Mortgages < 75% of foreclosure value	1,231	1,913
Mortgages > 75% of foreclosure value	781	1,418
Mortgages with National Mortgage Guarantee	1,029	1,278
<b>Residential property in the Netherlands:</b>	<b>3,041</b>	<b>4,609</b>
Corporate mortgages	5	7
Specific provision for bad debts	(4)	(6)
<b>Total</b>	<b>3,043</b>	<b>4,610</b>

The securitized section of the mortgage portfolio of the insurance activities was part of DBV Finance BV. In January 2011, DBV Finance BV was transferred to SNS Bank NV, as a result of which these mortgages are now included in the segment SNS Retail Bank.

The credit risk of the mortgages of the Insurance activities is limited, partially due to NHG guarantees and low Loan-to-Foreclosure Values, but mainly due to the prudent acceptance policy of the Insurance activities. Furthermore, a large part of the portfolio stems from the period 2000-2005. The table below shows a breakdown of the portfolio of the Insurance activities into securitised and not securitised:

### Securitisation mortgages Insurance activities

*In € millions*

	2011	2010
Securitised	-	1,883
Not securitised	3,043	2,727
<b>Total</b>	<b>3,043</b>	<b>4,610</b>

## 26.6 Liquidity risk Insurance activities

The Insurance activities must have sufficient cash to be able to meet claims arising from its insurance portfolio. The table below presents cash flows arising from investments, derivatives (assets) and insurance obligations, net of reinsurance (liabilities) per maturity bucket. The figures provide insight into the liquidity risk management that is part of the ALM policy.

The table only includes the portfolio for own account and risk. The portfolio on behalf of policyholders is not relevant in this context, since the value accumulated in the investment funds are paid to the policyholders at the maturity date. The accrued balances of savings policies and savings mortgages are also not taken into account as these are perfectly matched. The cash flows from investments presented in the table include interest flows. The cash flows arising from the technical provisions are estimated on a best-estimate basis pursuant to European Embedded Value principles. Assumptions are made of mortality, disability, surrender and costs. A change in assumptions can alter the view of the cash flows in the table below. In increase or decrease of 10% of the assumptions results in materially different cash flows.

The cash flows do not include future profit sharing. Equity and other non-fixed income investments are not included in the table.

The table shows that the net cash flows of the Insurance activities will be positive for the technical provisions in the coming years. Since, moreover, the investment portfolios largely comprise liquid investments, such as German and Dutch government bonds, which can easily be liquidated in times of stress, the insurer runs only a limited liquidity risk.

#### Liquidity risk Insurance activities 2011

<i>In € millions</i>	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Investments							
- Fair value through profit or loss	602	335	81	69	43	554	1,684
- Available for sale	1,072	6,002	7,130	3,721	5,197	6,826	29,949
- Loans and receivables	755	240	198	113	95	392	1,793
Derivatives	-	(57)	(108)	(10)	42	537	404
Loans and advances to customers	249	1,071	752	551	101	65	2,789
<b>Total</b>	<b>2,678</b>	<b>7,590</b>	<b>8,055</b>	<b>4,444</b>	<b>5,478</b>	<b>8,374</b>	<b>36,619</b>
Technical provisions Life	928	4,770	5,225	4,246	3,677	11,827	30,675
Technical provisions Non-life	162	593	283	128	55	36	1,257
<b>Total</b>	<b>1,091</b>	<b>5,364</b>	<b>5,508</b>	<b>4,374</b>	<b>3,732</b>	<b>11,864</b>	<b>31,932</b>
<b>Difference in expected cash flows</b>	<b>1,588</b>	<b>2,227</b>	<b>2,546</b>	<b>70</b>	<b>1,746</b>	<b>(3,490)</b>	<b>4,686</b>

#### Liquidity risk Insurance activities 2010

<i>In € millions</i>	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Investments							
- Fair value through profit or loss	320	382	61	56	29	516	1,364
- Available for sale	1,315	5,428	6,669	3,932	3,998	8,297	29,639
- Loans and receivables	(1)	272	140	89	58	165	723
Derivatives	1	9	7	-	-	-	17
Loans and advances to customers	368	666	423	152	89	64	1,762
<b>Total</b>	<b>2,003</b>	<b>6,757</b>	<b>7,300</b>	<b>4,229</b>	<b>4,174</b>	<b>9,042</b>	<b>33,505</b>
Technical provisions Life	1,177	4,668	5,281	4,392	3,876	12,346	31,740
Technical provisions Non-life	173	627	297	136	58	37	1,328
<b>Total</b>	<b>1,350</b>	<b>5,295</b>	<b>5,578</b>	<b>4,528</b>	<b>3,934</b>	<b>12,383</b>	<b>33,068</b>
<b>Difference in expected cash flows</b>	<b>653</b>	<b>1,462</b>	<b>1,722</b>	<b>(299)</b>	<b>240</b>	<b>(3,341)</b>	<b>437</b>

The Insurance activities have a potential liquidity requirement caused by margin requirements on derivatives. This is because the Insurance activities, in the context of credit risk mitigation with its main counterparts, has agreed to settle changes in the fair value of derivatives periodically. As a result there may well be amounts received as amounts paid. At year-end 2011, a net amount of € 551 million is received from counterparties. In relation to the total financing needs this risk is limited.

## 27 Financial instruments and hedge accounting

### 27.1 Disclosures on financial instruments

#### 27.1.1 Fair value accounting of financial assets and liabilities

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

#### Fair value of financial assets and liabilities SNS REAAL 2011

*In € millions*

	Banking activities	Insurance activities	Group activities	Eliminations	Total
<b>Financial assets</b>					
Investments					
- Fair value through profit or loss: held for trading	130	--	--	--	130
- Fair value through profit or loss: designated	98	1,017	--	--	1,115
- Available for sale	3,878	22,570	52	(162)	26,338
- Loans and receivables	--	6,188	--	(2,326)	3,862
Investments for account of policyholders	--	12,443	--	(23)	12,420
Invested collateral securities lending	--	117	--	--	117
Derivatives	3,321	572	43	(43)	3,893
Loans and advances to customers	64,637	2,991	329	(768)	67,189
Loans and advances to banks	1,682	508	124	(148)	2,166
Other assets	1,111	285	96	9	1,501
Cash and cash equivalents	5,129	1,189	18	(825)	5,511
<b>Total financial assets</b>	<b>79,986</b>	<b>47,880</b>	<b>662</b>	<b>(4,286)</b>	<b>124,242</b>
<b>Financial liabilities</b>					
Participation certificates and subordinated debt	944	715	485	(470)	1,674
Debt certificates	27,035	--	295	(231)	27,099
Securities lending liabilities	--	120	--	--	120
Derivatives	3,606	53	2	(43)	3,618
Savings	30,151	--	--	(1)	30,150
Other amounts due to customers	9,703	4,014	623	(2,620)	11,719
Amounts due to banks	4,654	3,154	73	(691)	7,190
Other liabilities	1,694	1,315	98	4	3,111
<b>Total financial liabilities</b>	<b>77,787</b>	<b>9,371</b>	<b>1,575</b>	<b>(4,052)</b>	<b>84,681</b>

**Book value of financial assets and liabilities SNS REAAL 2011**
*In € millions*

	Banking activities	Insurance activities	Group activities	Eliminations	Total
<b>Financial assets</b>					
Investments					
- Fair value through profit or loss: held for trading	130	--	--	--	130
- Fair value through profit or loss: designated	98	1,017	--	--	1,115
- Available for sale	3,878	22,570	52	(162)	26,338
- Loans and receivables	--	6,173	--	(2,320)	3,853
Investments for account of policyholders	--	12,443	--	(23)	12,420
Invested collateral securities lending	--	117	--	--	117
Derivatives	3,321	572	43	(43)	3,893
Loans and advances to customers	64,791	3,043	471	(772)	67,533
Loans and advances to banks	1,682	499	140	(148)	2,173
Other assets	1,111	285	96	9	1,501
Cash and cash equivalents	5,129	1,189	18	(825)	5,511
<b>Total financial assets</b>	<b>80,140</b>	<b>47,908</b>	<b>820</b>	<b>(4,284)</b>	<b>124,584</b>
<b>Financial liabilities</b>					
Participation certificates and subordinated debt	1,121	1,002	604	(598)	2,129
Debt certificates	27,361	--	302	(234)	27,429
Securities lending liabilities	--	120	--	--	120
Derivatives	3,606	53	2	(43)	3,618
Savings	30,342	--	--	(1)	30,341
Other amounts due to customers	10,215	4,014	628	(2,715)	12,142
Amounts due to banks	4,717	3,154	73	(697)	7,247
Other liabilities	1,694	1,315	98	4	3,111
<b>Total financial liabilities</b>	<b>79,056</b>	<b>9,658</b>	<b>1,707</b>	<b>(4,284)</b>	<b>86,137</b>

**Fair value of financial assets and liabilities SNS REAAL 2010**
*In € millions*

	Banking activities	Insurance activities	Group activities	Eliminations	Total
<b>Financial assets</b>					
Investments					
- Fair value through profit or loss: held for trading	156	--	--	(2)	154
- Fair value through profit or loss: designated	92	1,054	--	--	1,146
- Available for sale	4,000	21,611	77	(67)	25,621
- Loans and receivables	--	6,687	--	(2,596)	4,091
Investments for account of policyholders	--	12,640	--	(4)	12,636
Invested collateral securities lending	--	176	--	--	176
Derivatives	2,318	225	37	--	2,580
Loans and advances to customers	66,165	4,656	933	(1,522)	70,232
Loans and advances to banks	1,682	360	430	(447)	2,025
Other assets	586	257	85	(52)	876
Cash and cash equivalents	3,834	2,054	107	(1,324)	4,671
<b>Total financial assets</b>	<b>78,833</b>	<b>49,720</b>	<b>1,669</b>	<b>(6,014)</b>	<b>124,208</b>
<b>Financial liabilities</b>					
Participation certificates and subordinated debt	2,346	1,092	546	(1,321)	2,663
Debt certificates	29,447	1,771	310	(137)	31,391
Securities lending liabilities	--	182	--	--	182
Derivatives	2,880	84	4	--	2,968
Savings	27,266	--	--	(1)	27,265
Other amounts due to customers	9,893	775	1,261	(3,095)	8,834
Amounts due to banks	3,074	4,507	276	(1,346)	6,511
Other liabilities	1,318	1,293	128	(57)	2,682
<b>Total financial liabilities</b>	<b>76,224</b>	<b>9,704</b>	<b>2,525</b>	<b>(5,957)</b>	<b>82,496</b>

**Book value of financial assets and liabilities SNS REAAL 2010**
*In € millions*

	Banking activities	Insurance activities	Group activities	Eliminations	Total
<b>Financial assets</b>					
Investments					
- Fair value through profit or loss: held for trading	156	--	--	(2)	154
- Fair value through profit or loss: designated	92	1,054	--	--	1,146
- Available for sale	4,000	21,611	77	(67)	25,621
- Loans and receivables	--	6,665	--	(2,587)	4,078
Investments for account of policyholders	--	12,640	--	(4)	12,636
Invested collateral securities lending	--	176	--	--	176
Derivatives	2,318	225	37	--	2,580
Loans and advances to customers	65,012	4,610	991	(1,498)	69,115
Loans and advances to banks	1,682	355	440	(448)	2,029
Other assets	586	257	85	(52)	876
Cash and cash equivalents	3,834	2,054	107	(1,324)	4,671
<b>Total financial assets</b>	<b>77,680</b>	<b>49,647</b>	<b>1,737</b>	<b>(5,982)</b>	<b>123,082</b>
<b>Financial liabilities</b>					
Participation certificates and subordinated debt	2,022	960	603	(1,189)	2,396
Debt certificates	29,523	1,771	303	(137)	31,460
Securities lending liabilities	--	182	--	--	182
Derivatives	2,880	84	4	--	2,968
Savings	27,398	--	--	(1)	27,397
Other amounts due to customers	10,482	775	1,256	(3,246)	9,267
Amounts due to banks	3,097	4,507	275	(1,350)	6,529
Other liabilities	1,318	1,293	128	(57)	2,682
<b>Total financial liabilities</b>	<b>76,720</b>	<b>9,572</b>	<b>2,569</b>	<b>(5,980)</b>	<b>82,881</b>

The fair values represent the amounts at which the financial instruments could have been traded between knowledgeable, willing parties in at arm's length transactions on the balance sheet date. The fair values of financial assets and liabilities are based on quoted market prices, where observable. If market prices are not observable, various techniques are developed in order to arrive at an approximation of these instruments' fair values. These techniques are subjective and use various assumptions based on the discount rate and the timing and size of expected future cash flows. Changes in these assumptions can significantly influence the estimated fair values. The main assumptions for each balance sheet category are explained in the section below.

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

### 27.1.1.1 Financial assets

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

#### Investments

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

#### Derivatives

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

### ***Loans and advances to customers and banks***

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

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

- ***Mortgages***

The yield curve used to determine the present value of the cash flows of mortgage loans is the swap rate, increased by risk surcharges derived from the development of mortgage rates compared to the swap rate. The effect of very low interest rates at year-end 2011 exceeds the impact of increased risk premiums.

- ***Property finance***

In calculating the present value of cash flows from property finance, higher risk surcharges are applied. These risk premiums are based on observable market spreads. In addition, a large part of the portfolio was valued with help from external experts on the basis of exit strategies.

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

### ***Other assets***

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

### ***Cash and cash equivalents***

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

## **27.1.1.2 Financial liabilities**

### ***Participation certificates and subordinated debt***

The fair value of the participation certificates was estimated on the basis of the present value of the cash flows, making use of the prevailing interest rate plus a risk surcharge for similar instruments. Subordinated debt surcharges are defined as the coupon rate less the swap rate as at the issue date. The cash flows of the subordinated debts are then converted into cash at the current swap rate, plus the risk surcharge applicable specifically to SNS REAAL.

### ***Debt certificates***

The fair value of debt certificates was estimated on the basis of the present value of the cash flows, making use of the prevailing interest rate for similar instruments.

### ***Amounts due to customers and banks***

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

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



### Other liabilities

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

### Interest rate

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

## 27.1.2 Hierarchy in determining the fair value of financial instruments

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

### Hierarchy financial instruments

In € millions	Level 1		Level 2		Level 3		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
<b>Financial assets</b>								
Investments	20,270	18,522	7,225	8,316	87	85	27,582	26,923
Investments for account of policyholders	7,571	6,470	4,849	6,167	--	--	12,420	12,637
Invested collateral securities lending	--	--	117	176	--	--	117	176
Derivatives	(16)	30	3,910	2,549	--	--	3,893	2,579
Loans and advances to customers	--	--	2,329	2,256	--	--	2,329	2,256
<b>Financial liabilities</b>								
Fair value through profit or loss: debt certificates	--	--	1,601	1,771	--	--	1,601	1,771
Derivatives	--	43	3,618	2,925	--	--	3,618	2,968

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

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

### Level 2 – Fair value based on observable market data

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

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

The loans and advances to customers relate to the mortgages of the Holland Homes MBS securitisation programme. The fair value is calculated on the basis of the current swap curve increased by risk surcharges that have been derived from the development in mortgage rates compared to the swap rate. In addition, estimates of early redemption are taken into account.

### Level 3 – Fair value not based on observable market data

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

### Change in level 3 financial instruments

*In € millions*

	Fair value through profit and loss: held for trading	Available for sale	Total
Balance as at 1 January	14	71	85
Total gains or losses recognised in profit or loss	3	2	5
Sale/settlements	--	(3)	(3)
<b>Balance as at 31 December</b>	<b>17</b>	<b>70</b>	<b>87</b>
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	3	2	5

### Breakdown level 3 financial instruments

*In € millions*

	2011	2010
Bonds issued by financial institutions	17	14
Collateralised debt obligation	31	32
Collateralised loan obligation	39	39
<b>Total</b>	<b>87</b>	<b>85</b>

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

### Impairments on financial instruments by category

<i>In € millions</i>	Level 1		Level 2		Level 3		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Equities	51	40	13	--	--	--	64	40
Bonds issued by financial institutions	8	--	27	--	--	--	35	--
CDOs / CLOs	--	--	--	--	--	(21)	--	(21)
<b>Total</b>	<b>59</b>	<b>40</b>	<b>40</b>	<b>--</b>	<b>--</b>	<b>(21)</b>	<b>99</b>	<b>19</b>

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

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

### Reclassifications between categories 2011

*In € millions To:*

	Level 1	Level 2	Level 3	Total
From:				
Based on published stock prices in an active market (Level 1)	--	26	--	26
Based on observable market data (Level 2)	--	--	--	--
Not based on observable market data (Level 3)	--	--	--	--

### Reclassifications between levels 1, 2 and 3

Compared to the previous financial year, a movement occurred of Greek government bonds moving from level 1 to level 2 due to the sharp decline in liquidity in the market for Greek government bonds.

### 27.1.3 Liquidity maturity calendar for financial liabilities

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

#### Liquidity calendar financial liabilities SNS REAAL 2011

*In € millions*

	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Participation certificates and subordinated debt	--	(1)	(316)	(247)	(1,479)	(2,043)
Debt certificates	(2,250)	(1,412)	(4,765)	(8,975)	(18,924)	(36,326)
Securities lending liabilities	(120)	--	--	--	--	(120)
Savings	(24,494)	(188)	(2,740)	(2,801)	(659)	(30,882)
Other amounts due to customers	(7,113)	(190)	(1,166)	(1,868)	(3,920)	(14,257)
Amounts due to banks	(2,979)	(974)	(920)	(3,031)	(142)	(8,046)
<b>Total</b>	<b>(36,957)</b>	<b>(2,765)</b>	<b>(9,907)</b>	<b>(16,922)</b>	<b>(25,124)</b>	<b>(91,674)</b>

#### Liquidity calendar financial liabilities SNS REAAL 2010

*In € millions*

	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Participation certificates and subordinated loans	--	(134)	(425)	(427)	(2,045)	(3,031)
Debt certificates	(430)	(1,197)	(3,129)	(17,283)	(23,379)	(45,418)
Securities lending liabilities	(182)	--	--	--	--	(182)
Savings	(23,763)	(199)	(806)	(2,775)	(736)	(28,279)
Other amounts due to customers	(6,674)	(89)	(440)	(474)	(3,102)	(10,779)
Amounts due to banks	(3,185)	(1,000)	(1,451)	(2,025)	(213)	(7,874)
<b>Total</b>	<b>(34,234)</b>	<b>(2,619)</b>	<b>(6,251)</b>	<b>(22,984)</b>	<b>(29,475)</b>	<b>(95,563)</b>

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

#### Liquidity calendar derivatives SNS REAAL 2011

<i>In € millions</i>	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Interest rate derivatives	(3)	(43)	(104)	(1,132)	(2,338)	(3,620)
Currency contracts	(11)	(8)	(29)	(15)	(33)	(97)
<b>Total</b>	<b>(14)</b>	<b>(51)</b>	<b>(133)</b>	<b>(1,147)</b>	<b>(2,371)</b>	<b>(3,716)</b>

#### Liquidity calendar derivatives SNS REAAL 2010

<i>In € millions</i>	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Interest rate derivatives	(40)	(197)	(389)	(1,803)	(527)	(2,956)
Currency contracts	(22)	(7)	(14)	(2)	--	(45)
<b>Total</b>	<b>(62)</b>	<b>(204)</b>	<b>(403)</b>	<b>(1,805)</b>	<b>(527)</b>	<b>(3,001)</b>

For a further explanation with regard to the management of the liquidity risk of the Banking activities and Insurance activities, we refer to [Liquidity risk Banking activities](#) and [Liquidity risk Insurance activities](#)

## 27.2 Hedging and hedge accounting

SNS REAAL uses various strategies for the Insurance activities to hedge its interest rate, market value and exchange rate risks with regard to its solvency. In 2011, this strategy was further fleshed out, e.g. by acquiring interest rate options. In addition, interest rate swaps and currency swaps were used. The hedging strategies of the Banking activities are mostly aimed at controlling the interest rate risk. Under IFRS, derivatives are valued at fair value in the balance sheet and any changes in the fair value are accounted for in the income statement. In the event that changes in fair value of hedged risks are not recognised through the income statement, an accounting mismatch occurs, making the results more volatile. In these cases, hedge accounting is applied as much as possible to mitigate accounting mismatching and volatility.

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

#### Derivatives for hedging purposes SNS REAAL 2011

<i>In € millions</i>	Notional amounts				Fair value	
	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
Interest rate contracts						
- Swaps and FRAs	12,966	69,475	56,405	138,845	3,028	(3,363)
- Options	1,237	6,298	2,893	10,428	428	(11)
Index contracts						
- Options	350	6	--	356	23	--
Currency contracts						
- Swaps	166	1,101	230	1,497	177	(9)
- Forwards	204	--	--	204	2	(9)
<b>Total</b>	<b>14,923</b>	<b>76,879</b>	<b>59,528</b>	<b>151,330</b>	<b>3,658</b>	<b>(3,392)</b>

**Derivatives for hedging purposes SNS REAAL 2010**

In € millions	Notional amounts				Fair value	
	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
Interest rate contracts						
- Swaps and FRAs	6,323	83,223	35,980	125,526	1,687	(2,653)
- Options	4,310	6,709	3,005	14,024	406	(23)
Index contracts						
- Options	131	255	--	386	18	--
Currency contracts						
- Swaps	446	1,636	334	2,416	226	(61)
- Forwards	202	--	--	202	4	(2)
	<b>11,412</b>	<b>91,823</b>	<b>39,319</b>	<b>142,554</b>	<b>2,341</b>	<b>(2,739)</b>

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

## 27.2.1 Hedging

### Banking activities

The Banking activities use derivatives for the following purposes:

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

### Insurance activities

The Insurance activities use derivatives to protect the market value of shareholders' equity and solvency from undesired market developments. Examples of this are:

- To hedge exchange rate risks on investments denominated in foreign currencies;
- To hedge interest rate risks resulting from return guarantees issued to policyholders;
- To hedge interest rate risks resulting from obligations to share surplus interest with policyholders.

### Group activities

SNS REAAL uses interest rate swaps to convert fixed-rate funding into floating-rate funding. Where non-euro funding is concerned, cross-currency swaps are used to convert this type of funding into euro funding. The market value of these swaps amounted to € 42 million at year-end 2011.

SNS REAAL has swapped part of the funding (€ 60 million) from a floating-rate to a fixed-rate coupon by means of interest rate swaps. The market value of these interest rate swaps was € 2 million at year-end 2011.

## 27.2.2 Hedge accounting

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

### *Fair value hedges*

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

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

#### **Hedging embedded derivatives in mortgages (macro hedge)**

The Banking activities sell mortgages with interest rate derivatives embedded in the mortgage. These 'embedded options' are hedged by purchasing mirrored interest rate derivatives in the market. The two products to which hedge accounting is applied are the 'Rentedemperhypotheek' and the 'Plafondhypotheek' mortgages. The hedge covers the interest rate risk that occurs as a result of writing the embedded interest rate option to the customer.

#### **Hedging the interest rate risk on funding (micro hedge)**

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

#### **Hedging the interest rate risk on investments (macro hedge)**

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

#### **Hedging the foreign exchange risk in the equity portfolio**

The Insurance activities hedged the foreign exchange risk in their equity portfolio at the macro level using foreign exchange futures contracts.

### *Cash flow hedges*

#### **Hedging the quotation risk of mortgages**

The Banking activities developed a hedge model in order to be able to hedge the mortgage quotation risk with swaptions and forward starting swaps. The risk that is hedged here is the variability of the interest rate up to the time of financing. The intrinsic market value movements of the derivatives until the moment of payment of the mortgage (up to 3 months) are taken to shareholders' equity. After the end of the hedge the value accrued in the hedge is amortised to the result during the duration of the funding. The accrued value in shareholders' equity was € 8.9 million negative as at 31 December 2011.

#### **Hedging floating interest rate cash flows on funding and mortgages**

The Banking activities cover the risks of floating interest rate cash flows on funding and floating interest rate mortgages by entering into interest rate swaps and basis swaps. The accumulated value of the derivatives during the term of the hedge is included in equity. The accumulated value in shareholders' equity as at 31 December 2011 was € 91.2 million, of which € 22.1 million related to the basis swaps entered into.

### Hedging the interest rate risk in future reinvestments

The Insurance activities have lengthened the effective maturity of two investment portfolios at the macro level with the use of interest rate swaps. This fixes interest income over a longer period of time. The risk that is hedged here is the variability of the interest rate at the time of reinvestment. The cash flow hedge consists of a combination of a short-term payer swap and a long-term receiver swap. At the time of reinvestment (in this case, the end of the maturity of the short-term swap), the long-term swap is sold, and the proceeds are reinvested in fixed-income assets. The characteristics of this reinvestment (maturity, coupon dates) are largely similar to those of the sold swap.

At year-end 2011, 5 of these combinations were outstanding (year-end 2010: 3 combinations). As the hedge relationship was terminated, the positive result of € 0.2 million was recognised in the income statement.

### Reinvestment calendar SNS REAAL (notional amounts)

<i>In € millions</i>	2011	2010
< 1 year	--	61
1 - 5 years	58	--
> 5 years	550	--
<b>Total</b>	<b>607</b>	<b>61</b>

At year-end 2011, positive realised and unrealised market values and deferred interest income of € 52 million (2010: € 62 million) had been built up in shareholders' equity. These positive market value and interest are released to the income statement at the reinvestment points indicated above, over a period that is equal to the remaining maturity of the long-term swap in question.

No hedge accounting is applied to the equity options of REAAL, nor is it applied to the swaptions of REAAL.

## 28 Notes to the consolidated financial statements

### 28.1 Intangible assets

#### Specification intangible assets

In € millions	Banking activities		Insurance activities		Group activities		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Goodwill	114	114	422	554	17	17	553	685
Software	21	27	31	30	--	--	52	57
Capitalised acquisition costs Insurance activities	--	--	451	486	--	--	451	486
Value of Business Acquired (VOBA)	--	--	863	939	--	--	863	939
Other intangible fixed assets	18	23	242	251	--	--	260	274
<b>Total</b>	<b>153</b>	<b>164</b>	<b>2,009</b>	<b>2,260</b>	<b>17</b>	<b>17</b>	<b>2,179</b>	<b>2,441</b>

Internal developed and capitalised software amount to € 44 million (2010: € 41 million). The internal acquisition cost of the Insurance activities amount to € 305 million (2010: € 298 million).

#### Statement of change in intangible assets 2011

In € millions	Goodwill	Software	Capitalised acquisition costs	VOBA	Other intangible fixed assets	Total
Accumulated acquisition costs	810	105	1,292	1,224	326	3,757
Accumulated amortisation and impairments	(257)	(53)	(841)	(361)	(66)	(1,578)
<b>Balance as at 31 December</b>	<b>553</b>	<b>52</b>	<b>451</b>	<b>863</b>	<b>260</b>	<b>2,179</b>
Balance as at 1 January	685	57	486	939	274	2,441
Capitalised costs	--	5	55	--	--	60
Purchases	--	15	32	--	--	47
Depreciation capitalised costs	--	(14)	(45)	--	--	(59)
Depreciation purchases	--	(7)	(74)	(77)	(14)	(172)
Impairments	(131)	(4)	--	--	--	(135)
Other	--	--	(3)	1	--	(2)
<b>Balance as at 31 December</b>	<b>553</b>	<b>52</b>	<b>451</b>	<b>863</b>	<b>260</b>	<b>2,179</b>

#### Statement of change in intangible assets 2010

In € millions	Goodwill	Software	Capitalised acquisition costs	VOBA	Other intangible fixed assets	Total
Accumulated acquisition costs	810	98	1,208	1,226	333	3,675
Accumulated amortisation and impairments	(125)	(41)	(722)	(287)	(59)	(1,234)
<b>Balance as at 31 December</b>	<b>685</b>	<b>57</b>	<b>486</b>	<b>939</b>	<b>274</b>	<b>2,441</b>
Balance as at 1 January	755	64	541	1,028	309	2,697
Capitalised costs	--	6	61	--	--	67
Purchases	--	10	26	--	--	36
Depreciation capitalised costs	--	(5)	(41)	--	--	(46)
Depreciation purchases	--	(16)	(101)	(89)	(15)	(221)
Impairments	(70)	(2)	--	--	(20)	(92)
<b>Balance as at 31 December</b>	<b>685</b>	<b>57</b>	<b>486</b>	<b>939</b>	<b>274</b>	<b>2,441</b>



The VOBA is mainly caused by the acquisition of AXA, Winterthur and Zwitserleven. The average remaining amortisation period based on the underlying profit sources is 25-27 years, depending on the business unit.

Client relations and brand names are recognised in other intangible fixed assets. SNS REAAL has capitalised € 215 million (2010: € 224 million) worth of client relations and brand names.

The amortisations mainly concern the client portfolios from ex-AXA, Wintherthur and DBV worth € 89 million (2010: € 96 million), which are recognised at the Insurance activities. The remaining amortisation period of client relations is 10 years.

SNS REAAL has one brand name capitalised with an indefinite use. This concerns the brand name Zwitserleven which is recognised as from 2009 at the Insurance activities in the amount of € 126 million (2010: € 126 million). In December 2011 SNS REAAL hired an external consultant who performed an impairment test on the value of the brand name Zwitserleven. The realisable value according to this test exceeds the book value.

In 2010 there has been an impairment related to Zwitserleven's distribution network of € 19 million in the light of announced changes in legislation. These changes prohibit the payment of commission fees to Independent Financial Advisors (IFAs) within the Pension business.

### 28.1.1 Recoverable amount of goodwill

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

#### Goodwill cash flow generating units

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
SNS Retail Bank	67	67
SNS SME	47	47
Zwitserleven	--	131
REAAL Life	312	313
REAAL Non-life	110	110
Group activities	17	17
<b>Total</b>	<b>553</b>	<b>685</b>

As a result of the goodwill impairment test which has been prepared by an independent consultancy firm, the goodwill of the cash generating unit Zwitserleven was charged with an impairment for the amount of € 131 million. This related to the difficult circumstances in the pensions markets, as evidenced by the continued low interest rate environment, the longer life expectancy and the higher future capital requirements. In addition, the lower risk profile of the investment portfolio implies lower future investment income.

The goodwill impairment tests on the other cash generating units do not lead to an impairment.

## 28.1.2 Principles value-in-use calculations

### Specification principles value-in-use calculations

	SNS Retail Bank	SNS SME	Zwitserleven	REAAL Life	REAAL Non-life	Group Activities
Terminal growth rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Available solvency	10.00%	10.00%	175.00%	175.00%	200.00%	0.00%
Pre-tax discount rate 2011	12.80%	13.60%	11.60%	11.00%	9.50%	12.50%
Pre-tax discount rate 2010	12.80%	13.40%	11.30%	11.10%	8.90%	12.50%

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

- Interest income, premium income and return on (re)investments.
- Long-term net interest income on property finance loan portfolio.
- (Credit) provisions and risk-weighted assets.
- (Operating) expenses.
- Assumptions regarding technical provisions.
- Available and required solvency.
- Discount rate.

The assessment of these parameters differs for each cash-generating unit.

The value-in-use calculations have been prepared on the basis of operational plans for the three-year period 2012-2014 and a steady state growth to normalised returns. The assumptions are based on expected future market developments and past experience and on the long term characteristics of the markets in which the various cash generating units of SNS REAAL operate.

At REAAL Life the key value drivers of the recoverable value are the cost of equity (CoE), the terminal value income growth, the reinvestment return in combination with the technical result on investment for own account and the available solvency. A deterioration within reasonable limits on one of the abovementioned drivers in isolation would not lead to an impairment. The buffer is large and is capable of absorbing a combination of negative factors also. However, should circumstances on multiple factors deteriorate significantly, it could lead to a negative outcome for the buffer (the difference between the recoverable value and the bookvalue)

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

## 28.2 Property and equipment

### Specification property and equipment 2011

*In € millions*

	Banking activities	Insurance activities	Group activities	Consolidation adjustments	Total
Land and buildings in own use	55	157	--	59	271
IT equipment	7	2	21	--	30
Other assets	28	12	--	--	40
<b>Total</b>	<b>90</b>	<b>171</b>	<b>21</b>	<b>59</b>	<b>341</b>

### Specification property and equipment 2010

*In € millions*

	Banking activities	Insurance activities	Group activities	Consolidation adjustments	Total
Land and buildings in own use	73	143	--	59	275
IT equipment	15	6	11	--	32
Other assets	22	21	--	--	43
<b>Total</b>	<b>110</b>	<b>170</b>	<b>11</b>	<b>59</b>	<b>350</b>

A number of investment properties owned by the insurer are used by other group companies and have been reclassified for an amount of € 59 million in the consolidated figures from investment property to land and buildings in own use (2010: 59 million).

In 2011 an amount of € 45 million is under construction regarding new office buildings. The contractual obligations amount to € 32 million.

### Statement of change in property and equipment 2011

*In € millions*

	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	269	82	79	430
Accumulated revaluations	39	--	--	39
Accumulated amortisation and impairments	(37)	(52)	(39)	(128)
<b>Balance as at 31 December</b>	<b>271</b>	<b>30</b>	<b>40</b>	<b>341</b>
Balance as at 1 January	275	32	43	350
Reclassifications	(9)	--	--	(9)
Revaluations	(2)	--	--	(2)
Investments	27	18	18	63
Divestments	(12)	(2)	(5)	(19)
Depreciation	(5)	(18)	(16)	(39)
Impairments	(7)	--	--	(7)
Other	4	--	--	4
<b>Balance as at 31 December</b>	<b>271</b>	<b>30</b>	<b>40</b>	<b>341</b>

### Statement of change in property and equipment 2010

<i>In € millions</i>	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	267	110	125	502
Accumulated revaluations	46	--	--	46
Accumulated amortisation and impairments	(38)	(78)	(82)	(198)
<b>Balance as at 31 December</b>	<b>275</b>	<b>32</b>	<b>43</b>	<b>350</b>
Balance as at 1 January	282	43	51	376
Reclassifications	(8)	--	--	(8)
Revaluations	2	--	--	2
Investments	19	13	5	37
Divestments	(10)	(1)	(1)	(12)
Depreciation	(6)	(23)	(16)	(45)
Impairments	(2)	--	2	--
Other	(2)	--	2	--
<b>Balance as at 31 December</b>	<b>275</b>	<b>32</b>	<b>43</b>	<b>350</b>

### 28.2.1 Rental income

Included in land and buildings are 24 properties that are partly rented out (2010: 24 properties).

### Future rental income based on irrevocable operational leases

<i>In € millions</i>	2011	2010
< 1 year	2	3
1 - 5 year	1	3
> 5 year	--	--
<b>Total</b>	<b>3</b>	<b>6</b>

### 28.2.2 Valuation of land and buildings in own use

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

### Valuation of land and buildings in own use

<i>In € millions</i>	2011	2010	2009
Banking activities	39	48	57
Insurance activities	137	133	96
Group activities	59	59	66
<b>Total</b>	<b>235</b>	<b>240</b>	<b>219</b>
In percentages	87%	87%	78%

## 28.3 Investments in associates

### Specification of investments in associates

<i>In € millions</i>	Associated companies		Joint ventures		Total	
	2011	2010	2011	2010	2011	2010
Banking activities	11	14	6	(8)	17	6
Insurance activities	38	55	--	--	38	55
Group activities	2	1	--	--	2	1
Eliminations	(1)	(2)	--	--	(1)	(2)
<b>Total</b>	<b>50</b>	<b>68</b>	<b>6</b>	<b>(8)</b>	<b>56</b>	<b>60</b>

The reporting dates of all material associates are consistent with the reporting date of SNS REAAL.

### Statement of change in associates

<i>In € millions</i>	2011	2010
Balance as at 1 January	60	100
Reclassifications	12	2
Purchases and expansions	6	11
Disposals and divestments	(3)	--
Share in result of associates	(2)	(5)
Revaluations	(17)	1
Paid dividend	--	(18)
Impairments	3	(45)
Other movements	(3)	14
<b>Balance as at 31 December</b>	<b>56</b>	<b>60</b>

The impairments recognised in associates and joint ventures mainly relate to the reversal of impairments of € 3 million (2010: € 45 million loss).

### Overview most significant investments in associates of SNS REAAL in 2011

<i>In € millions</i>	Country	Interest	Share in equity	Share in result	Assets	Liabilities	Income
Investment fund Ducatus	NL	35%	33	(3)	134	--	15
CED Holding BV	NL	23%	5	1	56	25	106
Überseequartier Betelings GmbH	DE	45%	5	--	297	279	28
Prospect Village LP	US	30%	3	--	41	31	--
Other	Divers	20-50%	4	1	184	156	28
<b>Total</b>			<b>50</b>	<b>(1)</b>	<b>712</b>	<b>491</b>	<b>177</b>

### Overview most significant investments in associates of SNS REAAL in 2010

<i>In € millions</i>	Country	Interest	Share in equity	Share in result	Assets	Liabilities	Income
Investment fund Ducatus	NL	35%	50	4	146	--	14
CED Holding BV	NL	23%	5	2	57	26	101
Überseequartier Betelungungs GmbH	DE	45%	4	(3)	283	286	28
Prospect Village LP	US	30%	3	--	41	30	--
Other	Divers	20-50%	6	(2)	491	495	23
<b>Total</b>			<b>68</b>	<b>1</b>	<b>1,018</b>	<b>837</b>	<b>166</b>

A total of € 113 million (2010: € 401 million) of loans was granted to associates. These have been included under loans and advances to customers. At year end 2011, the associates have no investment commitments (2010: likewise). Participating interests with an interest of less than 20% qualify as an associated company, since SNS REAAL can exercise significant influence based on a combination of SNS REAAL's financial interest, veto rights on important decisions and required unanimity voting in the board of directors, but does not have control.

### Overview most significant joint ventures 2011

<i>In € millions</i>	Country	Interest	Share in equity	Share in result	Assets		Liabilities		Income	Expenses
					Current	Fixed	Current	Long-term		
Homburg LP	CA	50%	--	--	141	--	128	--	4	10
Heyen VG Beleggingen BV	NL	50%	5	--	--	40	1	30	2	1
Other	Divers	15-75%	1	(1)	373	278	353	311	29	36
<b>Total</b>			<b>6</b>	<b>(1)</b>	<b>514</b>	<b>318</b>	<b>482</b>	<b>341</b>	<b>35</b>	<b>47</b>

### Overview most significant joint ventures 2010

<i>In € millions</i>	Country	Interest	Share in equity	Share in result	Assets		Liabilities		Income	Expenses
					Current	Fixed	Current	Long-term		
Homburg LP	CA	50%	(1)	--	168	--	5	137	5	10
Heyen VG Beleggingen BV	NL	50%	5	--	--	40	--	31	2	1
UDC / SNSPF Retail Development Fund	US	25%	--	1	5	45	--	36	3	2
Other	Divers	15-75%	(12)	(7)	342	275	367	270	24	33
<b>Total</b>			<b>(8)</b>	<b>(6)</b>	<b>515</b>	<b>360</b>	<b>372</b>	<b>474</b>	<b>34</b>	<b>46</b>

The joint ventures have been granted a total amount of € 1,017 million (2010: € 1,145 million) of loans and advances. These loans and advances were reported under the loans and advances to customers. At year end 2011, the joint ventures have no investment commitments (2010: likewise). SNS REAAL exercises joint control of the joint ventures together with participants, without any unilateral control by one of the participants.

## 28.4 Investment properties

### Specification investment in properties

<i>In € millions</i>	Banking activities		Insurance activities		Consolidation adjustments		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Land and buildings used by third parties	1	1	255	252	(59)	(59)	197	194

Property rented out by the Insurance activities to other group companies is recognised as investment property by the insurer. At group level, this investment property is included in property and equipment under the item land and buildings in own use and therefore reclassified from the investment property (2011: € 59 million; 2010: € 59 million).

### Statement of change in investment properties

<i>In € millions</i>	2011	2010
Balance as at 1 January	194	193
Reclassifications	9	8
Investments from acquisitions	--	1
Divestments	(1)	--
Revaluations	(5)	(8)
<b>Balance as at 31 December</b>	<b>197</b>	<b>194</b>

## 28.5 Investments

### Investments: overview 2011

<i>In € millions</i>	Fair value through profit or loss				Total
	Held for trading	Designated	Available for sale	Loans and receivables	
Banking activities	130	98	3,878	--	4,106
Insurance activities	--	1,017	22,569	6,173	29,759
Group activities	--	--	52	--	52
Eliminations	--	--	(162)	(2,320)	(2,482)
<b>Total</b>	<b>130</b>	<b>1,115</b>	<b>26,337</b>	<b>3,853</b>	<b>31,435</b>

### Investments: overview 2010

<i>In € millions</i>	Fair value through profit or loss				Total
	Held for trading	Designated	Available for sale	Loans and receivables	
Banking activities	157	92	4,000	--	4,249
Insurance activities	--	1,054	21,611	6,665	29,330
Group activities	--	--	77	--	77
Eliminations	(2)	--	(67)	(2,586)	(2,655)
<b>Total</b>	<b>155</b>	<b>1,146</b>	<b>25,621</b>	<b>4,079</b>	<b>31,001</b>

Part of the investments is lent or pledged to third parties. The book value of the lend investments amount to € 0.6 billion as at 31 December 2011 (2010: € 0.2 billion). The book value of the investments that can be used as collateral to the European System of Central Banks (ESCB) is € 10.1 billion (2010: € 9.5 billion). In addition, SNS REAAL entered into

repurchase transactions for the amount of € 2.9 billion (2010: € 3.7 billion).

### Fair value through profit or loss

In € millions	Held for trading				Designated				Total	
	Shares and similar investments		Fixed income investments		Shares and similar investments		Fixed income investments			
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Banking activities	7	12	123	145	--	--	98	92	228	249
Insurance activities	--	--	--	--	--	10	1,017	1,044	1,017	1,054
Eliminations	--	--	--	(2)	--	--	--	--	--	(2)
<b>Total</b>	<b>7</b>	<b>12</b>	<b>123</b>	<b>143</b>	<b>--</b>	<b>10</b>	<b>1,115</b>	<b>1,136</b>	<b>1,245</b>	<b>1,301</b>

### Fair value through profit or loss: listing

In € millions	Held for trading				Designated				Total	
	Shares and similar investments		Fixed income investments		Shares and similar investments		Fixed income			
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Listed	7	12	121	143	--	1	1,080	1,045	1,208	1,201
Unlisted	--	--	2	--	--	9	35	91	37	100
<b>Total</b>	<b>7</b>	<b>12</b>	<b>123</b>	<b>143</b>	<b>--</b>	<b>10</b>	<b>1,115</b>	<b>1,136</b>	<b>1,245</b>	<b>1,301</b>

### Fair value through profit or loss: statement of change

In € millions	Held for trading:				Designated				Total	
	Shares and similar investments		Fixed income investments		Shares and similar investments		Fixed income			
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Balance as at 1 January	12	9	143	116	10	10	1,136	1,188	1,301	1,323
Purchases and advances	--	--	--	--	--	2	892	1,242	892	1,244
Disposals and redemptions	--	--	--	--	(1)	(2)	(893)	(1,286)	(894)	(1,288)
Revaluations	--	1	25	56	--	--	(16)	(6)	9	51
Change in investments held for trading	(5)	2	(46)	(28)	--	--	--	--	(51)	(26)
Other	--	--	1	(1)	(9)	--	(4)	(2)	(12)	(3)
<b>Balance as at 31 December</b>	<b>7</b>	<b>12</b>	<b>123</b>	<b>143</b>	<b>--</b>	<b>10</b>	<b>1,115</b>	<b>1,136</b>	<b>1,245</b>	<b>1,301</b>

As a consequence of the volatile financial markets SNS REAAL decided in October 2008 to reclassify part of the investments worth € 590 million in the category fair value through profit or loss held for trading purposes into the category available for sale. The reclassification was effected as from 1 July 2008. As from 31 December 2011 this portfolio has a value of € 52 million (2010: € 220 million; 2009: € 341 million; 2008: € 562 million) as a consequence of disposals and revaluations. The change in fair value over the year 2011 amounts to € 1 million negative (2010: € 3 million positive; 2009: € 5 million negative; 2008: € 23 million negative) and has been added to the fair value reserve. In case reclassification had not taken place, the change in fair value would have been recognised in the income statement.



## Available for sale

<i>In € millions</i>	Shares and similar investments		Fixed income investments		Total	
	2011	2010	2011	2010	2011	2010
Banking activities	11	10	3,867	3,990	3,878	4,000
Insurance activities	1,217	1,334	21,352	20,277	22,569	21,611
Group activities	52	77	--	--	52	77
Eliminations	--	--	(162)	(67)	(162)	(67)
<b>Total</b>	<b>1,280</b>	<b>1,421</b>	<b>25,057</b>	<b>24,200</b>	<b>26,337</b>	<b>25,621</b>

## Available for sale: listing

<i>In € millions</i>	Shares and similar investments		Fixed income investments		Total	
	2011	2010	2011	2010	2011	2010
Listed	520	567	24,968	24,002	25,488	24,569
Unlisted	760	854	89	198	849	1,052
<b>Total</b>	<b>1,280</b>	<b>1,421</b>	<b>25,057</b>	<b>24,200</b>	<b>26,337</b>	<b>25,621</b>

## Investments available for sale: statement of change

<i>In € millions</i>	Shares and similar investments		Fixed income investments		Total	
	2011	2010	2011	2010	2011	2010
Balance as at 1 January	1,421	1,781	24,200	23,900	25,621	25,681
Purchases and advances	220	274	11,570	8,395	11,790	8,669
Disposals and redemptions	(291)	(670)	(11,866)	(8,327)	(12,157)	(8,997)
Revaluations	(26)	75	1,250	256	1,224	331
Impairments	(45)	(40)	--	20	(45)	(20)
Amortisation	--	--	3	4	3	4
Other	1	1	(100)	(48)	(99)	(47)
<b>Balance as at 31 December</b>	<b>1,280</b>	<b>1,421</b>	<b>25,057</b>	<b>24,200</b>	<b>26,337</b>	<b>25,621</b>

## Available for sale: valuation 2011

<i>In € millions</i>	Shares and similar investments		Fixed income investments			Total
	Cost price	Revaluation	(Amortised) cost price	Revaluation	Accrued interest	
Banking activities	11	--	3,879	(61)	49	3,878
Insurance activities	1,037	180	19,249	1,614	489	22,569
Group activities	52	--	--	--	--	52
Eliminations	--	--	(63)	--	(99)	(162)
<b>Total</b>	<b>1,100</b>	<b>180</b>	<b>23,065</b>	<b>1,553</b>	<b>439</b>	<b>26,337</b>

### Available for sale: valuation 2010

In € millions	Shares and similar investments		Fixed income investments			Total
	Cost price	Revaluation	(Amortised) cost price	Revaluation	Accrued interest	
Banking activities	9	1	3,986	(75)	79	4,000
Insurance activities	1,138	196	19,324	477	476	21,611
Group activities	77	--	--	--	--	77
Eliminations	--	--	(67)	--	--	(67)
<b>Total</b>	<b>1,224</b>	<b>197</b>	<b>23,243</b>	<b>402</b>	<b>555</b>	<b>25,621</b>

### Loans and receivables

In € millions	Insurance activities		Eliminations		Total	
	2011	2010	2011	2010	2011	2010
Private loans linked to savings mortgages	4,896	4,638	(1,234)	(1,106)	3,662	3,532
Private loans	1,279	2,037	(1,086)	(1,480)	193	557
	<b>6,175</b>	<b>6,675</b>	<b>(2,320)</b>	<b>(2,586)</b>	<b>3,855</b>	<b>4,089</b>
Provision for bad debts	(2)	(10)	--	--	(2)	(10)
<b>Total</b>	<b>6,173</b>	<b>6,665</b>	<b>(2,320)</b>	<b>(2,586)</b>	<b>3,853</b>	<b>4,079</b>

### Loans and receivables: statement of change

In € millions	2011	2010
Balance investments as at 1 January	4,089	4,169
Purchases and advances	166	2,655
Disposals and redemptions	(501)	(2,833)
Amortisation	3	1
Other	98	97
<b>Balance investments as at 31 December</b>	<b>3,855</b>	<b>4,089</b>
Balance provisions as at 1 January	(10)	(7)
Withdrawal	7	--
Release / addition	1	(3)
<b>Balance provisions as at 31 December</b>	<b>(2)</b>	<b>(10)</b>
<b>Total</b>	<b>3,853</b>	<b>4,079</b>

## 28.6 Investments for accounts of policyholders

Investments for account of policyholders include separate deposits for the account and risk of policyholders, investments for unit-linked insurances and separate investment deposits for large group pension contracts.

## Listing investments for account of policyholders

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Shares and similar investments:		
- Listed	4,980	4,200
- Not listed	4,340	5,750
Fixed income investments		
- Listed	2,590	2,274
- Not listed	510	413
<b>Total</b>	<b>12,420</b>	<b>12,637</b>

## Statement of change in Investments for account of policyholders

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Balance as at 1 January	12,637	12,038
Purchases and advances	6,952	3,707
Disposals and redemptions	(6,848)	(3,610)
Revaluations	(282)	565
Other movements	(39)	(63)
<b>Balance as at 31 December</b>	<b>12,420</b>	<b>12,637</b>

## 28.7 Investments collateral and liabilities securities lending

### Specification invested collateral and liabilities securities lending

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Invested collateral securities lending	117	176
Securities lending liabilities	(120)	(182)
<b>Total (liability)</b>	<b>(3)</b>	<b>(6)</b>

### Statement of change in invested collateral securities lending

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Balance as at 1 January	176	540
Disposals/redemptions	(62)	(370)
Revaluations	3	5
Exchange rate fluctuations	–	1
<b>Balance as at 31 December</b>	<b>117</b>	<b>176</b>

SNS REAAL lends securities to third parties in return for cash or securities collateral. Requirements for the collateral vary according to the type of facility. The minimum level varies according to the type of collateral: more risky facilities require a higher level of collateral.

The collateral obtained in cash is invested in money market funds. These funds are set up for the investment and reinvestment of such collateral. The purpose of these investment funds is to provide investors with the highest possible return which can be reconciled with the retention of capital and maintaining sufficient liquidity to meet the expected wishes of the investor. SNS REAAL is running the economic risk and obtains the risks and rewards from the investments in these funds.

The investments are characterised by a limited risk of value movement. Approximately 30% (2010: 53%) of the investments in these funds has a Standard & Poor's rating of AAA, 9% AA (2010: 0%), 19% A (2010: 0%), while 42% (2010: 47%) has no rating.

SNS REAAL cannot freely dispose over the investments in the funds. The investments can only be used for the redemption of the collateral provided by the borrower on the basis of lending and borrowing agreements. The obligation to repay the collateral is included in the balance sheet under securities lending liabilities.

The agent effecting the lending and borrowing transaction and investing the collateral has indemnified SNS REAAL against the borrower in default. If the borrower defaults in returning the securities lent under a lending and borrowing transaction, the agent will be subrogated and assume all right and legal remedies that are exercised on the collateral invested in these money market funds.

### Statement of change in securities lending liabilities

<i>In € millions</i>	2011	2010
Balance as at 1 January	182	550
Disposals/redemptions	(62)	(369)
Exchange rate fluctuations	--	1
<b>Balance as at 31 December</b>	<b>120</b>	<b>182</b>

The fair value of the liabilities does not differ from the book value.

## 28.8 Derivatives

### Specification derivatives

<i>In € millions</i>	Positive value		Negative value		Balance	
	2011	2010	2011	2010	2011	2010
Derivatives held for cash flow hedge accounting	188	69	55	1	133	68
Derivatives held for fair value hedge accounting	2,105	1,338	2,343	1,908	(238)	(570)
Derivatives held in the context of asset and liability management that do not qualify for hedge accounting	1,365	934	994	830	371	104
Derivatives held for trading	235	238	226	229	9	9
<b>Total</b>	<b>3,893</b>	<b>2,579</b>	<b>3,618</b>	<b>2,968</b>	<b>275</b>	<b>(389)</b>

derivatives are financial instruments whose value depends on one or more underlying primary financial instruments. Derivatives contain rights and obligations whereby one or more of the financial risks to which the underlying primary financial instruments are subject, are exchanged between parties. The transactions do not lead to the transfer of the underlying primary financial instrument at the conclusion of the agreement, neither does the transfer have to take place when the agreement expires. Most derivatives are held to hedge against undesired markets risks. This is explained in Risk management's paragraph [Hedging and hedge accounting](#).

## Statement of change in derivatives

*In € millions*

	2011	2010
Balance as at 1 January	(389)	(946)
Purchases	142	98
Disposals	(162)	78
Revaluations	641	141
Exchange rate differences	32	240
Other	11	--
<b>Balance as at 31 December</b>	<b>275</b>	<b>(389)</b>

## 28.9 Deferred tax assets and liabilities

### Specification deferred tax assets and liabilities

*In € millions*

	2011	2010
- Deferred tax assets	542	481
- Deferred tax liabilities	(1,038)	(813)
<b>Total (liability)</b>	<b>(496)</b>	<b>(332)</b>

### Origin of deferred tax assets and tax liabilities 2011

*In € millions*

	1 January	Change through profit or loss	Change through shareholders' equity	Other movements	31 December
Intangible assets	(89)	47	--	--	(42)
Value of business acquired	(167)	(7)	--	--	(174)
(Investment) property and equipment	(49)	3	1	--	(45)
Investments	(124)	287	(528)	--	(365)
Derivatives	173	(169)	(7)	--	(3)
Loans and advances to customers	(320)	19	--	--	(301)
Debt certificates	37	71	--	--	108
Insurance contracts	104	27	70	--	201
Provision for employee benefits	91	(7)	--	--	84
Tax-deductible losses	2	13	--	--	15
Other	10	16	--	--	26
<b>Total liabilities</b>	<b>(332)</b>	<b>300</b>	<b>(464)</b>	<b>--</b>	<b>(496)</b>

## Origin of deferred tax assets and tax liabilities 2010

In € millions

	1 January	Change through profit or loss	Change through shareholders' equity	Other movements	31 December
Intangible assets	(94)	3	--	2	(89)
Value of business acquired	(214)	43	--	4	(167)
(Investment) property and equipment	(53)	3	--	1	(49)
Investments	(163)	94	(56)	1	(124)
Derivatives	228	(62)	11	(4)	173
Loans and advances to customers	(316)	(6)	--	2	(320)
Debt certificates	34	4	--	(1)	37
Insurance contracts	92	(8)	21	(1)	104
Provision for employee benefits	14	77	--	--	91
Tax-deductible losses	81	(78)	--	(1)	2
Other	92	(80)	--	(2)	10
<b>Total liabilities</b>	<b>(299)</b>	<b>(10)</b>	<b>(24)</b>	<b>1</b>	<b>(332)</b>

## Specification tax-effect changes shareholders' equity

In € millions

	2011	2010
Change in revaluation reserve	(9)	--
Change in cash flow hedge reserve	7	(11)
Change in fair value reserve	466	35
<b>Total liabilities</b>	<b>464</b>	<b>24</b>

The deferred tax assets related to tax-deductible losses amount to € 15 million (2010: € 2 million). This amounts to 25% of the total tax-deductible losses of € 60 million. A deferred loss compensation is only recognised if sufficient tax profits are expected to be realised in the next nine years following the year of the loss.

## 28.10 Property projects

### Specification property under development

In € millions

	2011	2010
Property under development	622	571
Cumulative impairments / (reversals) as at 31 December	(110)	(104)
<b>Total</b>	<b>512</b>	<b>467</b>

The accumulated property projects comprise the international property projects over which Property Finance acquired control.

## Statement of change in property projects

*In € millions*

	2011	2010
Balance property under development as at 1 January	467	599
Reclassifications	22	(79)
Foreclosure	160	--
Additions	--	30
Disposals	(61)	(7)
Impairments	(91)	(117)
Exchange rate differences	8	6
Other changes	7	35
<b>Balance property under development as at 31 December</b>	<b>512</b>	<b>467</b>

In 2010 € 79 million of the item property projects is reclassified to assets held for sale. In 2011 an amount of € 22 million of these assets is not sold and this amount is reclassified to the property projects.

The bulk of the portfolio has been valued by independent appraisers in the second half of 2011. The valuation of property projects is based on the best estimates of management. Due to the uncertainty in the market, valuation ranges are wide. However, the construction phases of the property projects have been completed, which led to a decrease in construction cost risk.

## 28.11 Loans and advances to customers

### Specification loans and advances to customers 2011

*In € millions*

	Banking activities	Insurance activities	Group activities	Eliminations	Total
Mortgages	52,775	3,043	--	--	55,818
Property Finance					
- Project finance	3,493	--	--	--	3,493
- Investment finance	4,843	--	--	--	4,843
Financial leases	465	--	--	--	465
Other	3,215	--	471	(771)	2,915
<b>Total</b>	<b>64,791</b>	<b>3,043</b>	<b>471</b>	<b>(771)</b>	<b>67,534</b>

### Specification loans and advances to customers 2010

*In € millions*

	Banking activities	Insurance activities	Group activities	Eliminations	Total
Mortgages	50,767	4,610	--	--	55,377
Property Finance					
- Project finance	3,744	--	--	--	3,744
- Investment finance	7,027	--	--	--	7,027
Financial leases	607	--	--	--	607
Other	2,868	--	991	(1,497)	2,362
<b>Total</b>	<b>65,013</b>	<b>4,610</b>	<b>991</b>	<b>(1,497)</b>	<b>69,117</b>

## Loans and advances to customers

<i>In € millions</i>	Loans		Provision		Net amount	
	2011	2010	2011	2010	2011	2010
Mortgages	55,980	55,503	(162)	(128)	55,818	55,375
Property Finance						
- Project finance	4,008	4,427	(515)	(683)	3,493	3,744
- Investment finance	4,963	7,083	(120)	(56)	4,843	7,027
Financial leases	468	609	(3)	(2)	465	607
Other	3,024	2,475	(109)	(111)	2,915	2,364
<b>Total</b>	<b>68,443</b>	<b>70,097</b>	<b>(909)</b>	<b>(980)</b>	<b>67,534</b>	<b>69,117</b>

SNS REAAL has securitised a part of the mortgage loans. The remaining principal of the securitised portfolio amounts to € 20.9 billion (2010: € 20.0 billion), of which € 9.0 billion (2010: € 8.8 billion) is for own account. Further information on securitisation transactions is provided under debt certificates.

Also, € 584 million (2010: € 765 million) of mortgages was provided as collateral under a private loan.

SNS REAAL has also structured a synthetic securitisation in the form of credit guarantees, whereby the credit risk protection has been bought for a mortgage portfolio of € 345 million (2010: € 374 million).

An amount of € 18.2 billion (2010: € 18.8 billion) of the mortgage loans have been provided as collateral to third parties under the securitisation programmes Hermes, Pearl and Holland Homes, which are not for own account. The collateral transactions occurred under normal market conditions.

In addition, € 6.2 billion (2010: € 6.2 billion) of mortgages was provided as collateral to third parties upon the bond issue under the SNS Bank Covered Bond programme.

An amount of € 9.0 billion (2010: € 11.6 billion) of the property finance concerns mortgage secured loans.

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

## Financial leases

<i>In € millions</i>	Gross		Unearned interest		Net	
	2011	2010	2011	2010	2011	2010
<b>Overview maturities</b>						
- Shorter than one year	131	73	(17)	(20)	114	53
- From one to five years	281	240	(37)	(38)	244	202
- Longer than five years	122	365	(15)	(13)	107	352
<b>Total</b>	<b>534</b>	<b>678</b>	<b>(69)</b>	<b>(71)</b>	<b>465</b>	<b>607</b>



### Statement of change in loans and advances to customers 2011

*In € millions*

	Mortgages	Property finance	Financial leases	Other	Total
Balance as at 1 January	55,503	11,510	609	2,475	70,097
Reclassifications	147	(269)	--	101	(21)
Foreclosure	--	(372)	--	--	(372)
Advances	3,999	290	--	451	4,740
Redemptions	(3,512)	(2,166)	(141)	(206)	(6,025)
Change in fair value as a result of hedge accounting	(88)	--	--	--	(88)
Exchange rate differences	--	(20)	--	--	(20)
Movement in current accounts	--	--	--	187	187
Other movements	(34)	(2)	--	16	(20)
<b>Balance as at 31 December</b>	<b>55,980</b>	<b>8,971</b>	<b>468</b>	<b>3,024</b>	<b>68,443</b>

### Statement of change in loans and advances to customers 2010

*In € millions*

	Mortgages	Property finance	Financial leases	Other	Total
Balance as at 1 January	54,862	12,806	629	2,602	70,899
Reclassifications	--	(42)	--	--	(42)
Advances	3,910	952	4	341	5,207
Redemptions	(3,317)	(2,333)	(25)	(481)	(6,156)
Change in fair value as a result of hedge accounting	26	--	--	--	26
Exchange rate differences	--	124	--	--	124
Change in mortgage loans at fair value through profit or loss	44	--	--	--	44
Movement in current accounts	--	--	--	15	15
Other movements	(22)	3	1	(2)	(20)
<b>Balance as at 31 December</b>	<b>55,503</b>	<b>11,510</b>	<b>609</b>	<b>2,475</b>	<b>70,097</b>

In 2009 and 2011, SNS Retail Bank purchased part of the REAAL mortgages held for trading at fair value as then recognised in the REAAL balance sheet. As a result, management changed the intention to hold these mortgages for trading purposes and decided to hold these mortgages for the foreseeable future or until maturity. SNS REAAL used the reclassification option of IAS 39.50d, reclassifying € 680 million (2009) and € 376 million (2011) of mortgages from fair value through profit or loss to loans and receivables. As per 31 December 2011, the reclassified portfolio in 2011 has a value of € 371 million as a result of sales and redemptions. The reclassified portfolio in 2009 amounts to € 628 million (2010: € 649 million; 2009: € 674 million). The fair value adjustment of the portfolios was marginal and did not affect results. At the moment of reclassification the effective interest rate of the mortgages was 5.1% (2011) and 5.2% (2009). The expected recoverable cash flows amount to € 378 million (2011) and € 700 million (2009).

### Statement of change in provision loans and advances to customers specific 2011

*In € millions*

	Mortgages	Property finance	Financial leases	Other	Total
Balance as at 1 January	120	726	2	105	953
Reclassifications	--	(18)	--	--	(18)
Foreclosure	--	(212)	--	--	(212)
Withdrawal	(42)	(59)	--	(22)	(123)
Addition	103	343	1	37	484
Release	(27)	(149)	--	(14)	(190)
Other movements	(2)	(2)	--	--	(4)
<b>Balance as at 31 December</b>	<b>152</b>	<b>629</b>	<b>3</b>	<b>106</b>	<b>890</b>

**Statement of change in provision loans and advances to customers specific 2010**

<i>In € millions</i>	<b>Mortgages</b>	<b>Property finance</b>	<b>Financial leases</b>	<b>Other</b>	<b>Total</b>
Balance as at 1 January	96	223	2	92	413
Withdrawal	(26)	(150)	--	(15)	(191)
Addition	64	692	--	39	795
Release	(15)	(63)	--	(11)	(89)
Other movements	1	24	--	--	25
<b>Balance as at 31 December</b>	<b>120</b>	<b>726</b>	<b>2</b>	<b>105</b>	<b>953</b>

**Statement of change in provision loans and advances to customers IBNR 2011**

<i>In € millions</i>	<b>Mortgages</b>	<b>Property finance</b>	<b>Financial leases</b>	<b>Other</b>	<b>Total</b>
Balance as at 1 January	8	13	--	6	27
Addition	--	6	--	--	6
Release	(1)	(6)	--	(3)	(10)
Other movements	3	(7)	--	--	(4)
<b>Balance as at 31 December</b>	<b>10</b>	<b>6</b>	<b>--</b>	<b>3</b>	<b>19</b>

**Statement of change in provision loans and advances to customers IBNR 2010**

<i>In € millions</i>	<b>Mortgages</b>	<b>Property finance</b>	<b>Financial leases</b>	<b>Other</b>	<b>Total</b>
Balance as at 1 January	9	14	--	6	29
Addition	--	1	--	--	1
Release	(1)	(2)	--	--	(3)
<b>Balance as at 31 December</b>	<b>8</b>	<b>13</b>	<b>--</b>	<b>6</b>	<b>27</b>

Through foreclosure of a part of the property finance portfolio, SNS Property finance has acquired control over a number of international property projects. The relevant items and the related provisions are included in the tables above under 'foreclosure' and have been recognised in the balance sheet under property projects. For more information, please refer to the notes on property projects.

## 28.12 Loans and advances to banks

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

Part of the loans and advances to banks was provided as collateral. The book value of the collateral is € 1.6 billion (2010: € 1.6 billion).

## 28.13 Other assets

### Specification other assets

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Policyholders	162	76
Intermediaries	114	66
Reinsurers	3	5
<b>Amounts due from direct insurance</b>	<b>279</b>	<b>147</b>
Accrued interest	271	267
Other accrued assets	682	223
<b>Accrued assets</b>	<b>953</b>	<b>490</b>
Other taxation	6	7
Other advances	305	231
<b>Total</b>	<b>1,543</b>	<b>875</b>

The other advances include the offset of the advanced contribution of SNS Bank to the Dutch Central Bank of € 183 million (2010: € 219 million) under the deposit guarantee scheme (DGS) in relation to its share related to the bankruptcy of DSB Bank minus the recognised 2009 provision of € 38 million, and minus the recognised 2011 provision of € 2 million due to the verdict of the College van Beroep that subordinated deposits are part of the Guarantee- and Compensation systems.

## 28.14 Cash and cash equivalents

### Specification cash and cash equivalents

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Non-restricted demand deposits at Dutch Central Bank	2,294	1,471
Restricted demand deposits at Dutch Central Bank	2,000	1,500
Short-term bank balances	1,145	1,640
Cash	70	60
<b>Total</b>	<b>5,509</b>	<b>4,671</b>

Restricted demand deposits at Dutch Central Bank are not available for use in SNS REAAL's day-to-day operations.

## 28.15 Assets held for sale

### Specification assets held for sale

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Property projects	--	79
Property finance	--	42
<b>Total</b>	<b>--</b>	<b>121</b>

SNS REAAL has sold € 251 million of property finance and property projects in 2011 and has reclassified € 22 million to property projects.

## 28.16 Equity

### Specification equity

*In € millions*

	2011	2010
Equity attributable to shareholders	4,448	3,718
Equity attributable to securityholders	979	999
Minority interest	1	2
<b>Balance as at 31 December</b>	<b>5,428</b>	<b>4,719</b>

For further information on total equity, see the [Consolidated statement of changes in total equity](#).

## 28.17 Participation certificates and subordinated debt

### Specification participation certificates and subordinated debt

*In € millions*

	2011	2010
Participation certificates	298	298
Subordinated debt	1,831	2,098
<b>Balance as at 31 December</b>	<b>2,129</b>	<b>2,396</b>

### 28.17.1 Participation certificates

This item includes subordinated participation certificates issued by SNS Bank to third parties. The certificates were issued in 2002 (€ 241 million) and 2003 (€ 57 million). The certificates have an open-ended term, with SNS Bank maintaining the right to early redemption in full after 10 years, provided permission is granted by the Dutch Central Bank. Dividend in the form of a coupon rate is fixed for a period of 10 years and is equal to the CBS return on 9 to 10-year Government bonds with a surcharge (CBS: Statistics Netherlands).

### 28.17.2 Subordinated debt

#### Specification subordinated debt

*In € millions*

	2011	2010
Bonds	1,739	1,991
Private loans	74	87
Final bonus account	18	20
<b>Total</b>	<b>1,831</b>	<b>2,098</b>

#### 28.17.2.1 Bonds

The subordinated bonds from SNS Bank form part of the qualifying capital used in the solvency position of SNS Bank.

In 2011, SRLEV, the legal entity comprising most of SNS REAAL's life Insurance activities, issued two subordinated loans. It concerns an issuance of notes with a nominal value of € 400 million and 30-year loan term and an issuance of perpetual notes nominal € 86 million. These subordinated loans form, to the extent permitted by law, part of the available equity in determining the solvency position of SRLEV.

In 2011, SNS Bank conducted a transaction offering early redemption of two subordinated loans issued by SNS Bank in exchange for a new issuance of debt certificates under the Medium-Term Note programme. The decrease in outstanding volume of the 6.625% SNS Bank notes and the 6.25% SNS Bank notes is the result of this exchange offer.

## Bonds

	Coupon rate	Period	Book value	Nominal Value	Book value	Nominal value
<i>In € millions</i>			2011	2011	2010	2010
SNS Bank	5.125%	1999-2011	--	--	122	122
SNS Bank	4.238%	1999-2019	6	5	5	5
SNS Bank	5.750%	2003-2049	10	10	11	11
SNS REAAL	Floating	2005-2012	200	200	200	200
SNS Bank	5.500%	2006-2016	--	--	36	35
SNS Bank	6.750%	2006-2016	--	--	153	152
SNS Bank	Floating	2006-2016	--	--	152	152
SNS REAAL	6.258%	2007-2049	248	250	248	250
SNS Bank	6.625%	2008-2018	36	37	190	192
SNS REAAL	8.450%	2008-2018	86	75	85	75
SNS Bank	11.250%	2009-2049	347	320	317	320
SNS Bank	6.250%	2010-2020	270	262	472	500
SRLEV	9.000%	2011-2041	397	400	--	--
SRLEV	7.010%	2011-2049	86	86	--	--
<b>Total</b>			<b>1,686</b>	<b>1,645</b>	<b>1,991</b>	<b>2,014</b>
Change in fair value as a result of hedge accounting			53	--	--	--
<b>Total</b>			<b>1,739</b>	<b>1,645</b>	<b>1,991</b>	<b>2,014</b>

### 28.17.2.2 Private loans

The subordinated private loans have been concluded by SNS Bank and form part of the regulatory capital used in the solvency position of SNS Bank.

### 28.17.2.3 Final bonus account

The subordinated final bonus account commitments were entered into by SRLEV and form part of the solvency test in determining the solvency position of SRLEV. The final bonus account is largely of a long-term nature.

## 28.18 Debt certificates

### Specification debt certificates

<i>In € millions</i>	2011	2010
Medium Term Notes	15,670	17,662
Certificates of Deposit	163	564
Debt certificates issued under Hermes and Pearl Securitisation programmes	9,995	11,463
Debt certificates classified at fair value through profit or loss (Holland Homes securitisation programme)	1,601	1,771
<b>Balance as at 31 December</b>	<b>27,429</b>	<b>31,460</b>

Debt certificates refer to non-subordinated bonds and other debt certificates with a fixed or variable interest rate.

### 28.18.1 Medium Term Notes

#### Specification Medium Term Notes

<i>In € millions</i>	Coupon rate	Book value	Nominal value	Book value	Nominal value
		2011	2011	2010	2010
SNS Bank	Fixed	10,138	9,884	10,225	10,129
SNS Bank	Structured	1,038	1,017	1,247	1,239
SNS Bank	Floating	3,792	3,805	5,278	5,298
SNS Bank	Zero	457	484	667	718
SNS REAAL	Fixed	302	300	303	300
<b>Total</b>		<b>15,727</b>	<b>15,490</b>	<b>17,720</b>	<b>17,684</b>
On own book		57	59	58	58
<b>Total</b>		<b>15,670</b>	<b>15,431</b>	<b>17,662</b>	<b>17,626</b>

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. The total outstanding volume of debt certificates falling within the scope of the guarantee scheme of the Dutch state is € 5.4 billion (2010: € 5.6 billion).

### 28.18.2 Certificates of Deposit

#### Specification Certificates of Deposit

<i>In € millions</i>	Book value	Nominal value	Book value	Nominal value
	2011	2011	2010	2010
SNS Bank	163	164	564	565
<b>Total</b>	<b>163</b>	<b>164</b>	<b>564</b>	<b>565</b>

### 28.18.3 Debt certificates issued under Hermes and Pearl securitisation programmes

SNS REAAL has securitised part of the mortgage loans. With these securitisation transactions, the economic ownership of mortgage loans is transferred to separate companies. These loans are transferred at nominal value plus a deferred selling price. A positive result within the separate companies creates a positive value of the deferred selling price. In this way, SNS REAAL retains an economic interest in the companies, and has consolidated these companies in its consolidated financial statements in full.

The securitisation transactions with effect from 2001 have what is called a 'call + step-up' structure. This means that after a specific call date, the company will have the right to redeem the bonds prematurely. Additionally, at this specific date, the coupon on the bonds will be subject to a rise in interest rate (step-up). Under normal market conditions, this will create an economic incentive to redeem the bonds early. An overview of the securitisations as at 31 December is provided below:

#### Overview debt certificates issued under Hermes and Pearl securitisation programmes

	Initial principal	Start of securitisation	Book value	Book value	First call-option date	Contractual expiration
<i>In € millions</i>			2011	2010		
Hermes II	665	11-2000	--	5	n.a.	01-04-2012
Hermes V	1,118	11-2002	--	222	18-01-2011	01-10-2034
Hermes VIII	1,269	05-2004	493	538	18-11-2013	01-05-2038
Hermes IX	1,529	05-2005	878	959	18-02-2014	01-02-2039
Hermes X	1,528	09-2005	987	1,087	18-03-2015	01-09-2039
Hermes XI	1,528	02-2006	1,123	1,243	18-09-2015	01-09-2040
Hermes XII	2,241	10-2006	1,429	1,594	18-03-2016	01-12-2038
Hermes XIII	2,800	02-2007	1,878	2,044	18-08-2012	01-08-2039
Hermes XIV	2,000	09-2007	1,489	1,599	18-02-2013	01-11-2039
Hermes XV*	1,618	04-2008	1,481	1,587	18-04-2013	01-04-2045
Hermes XVI	3,000	09-2008	3,000	3,000	18-10-2013	01-10-2045
Hermes XVII*	2,844	05-2009	2,670	2,844	18-01-2013	01-07-2046
Pearl I*	1,014	09-2006	1,014	1,014	18-09-2026	01-09-2047
Pearl II*	852	05-2007	808	808	18-06-2014	01-06-2046
Pearl III*	859	02-2008	807	807	18-03-2013	01-03-2045
Pearl IV	1,000	07-2010	1,000	1,000	18-07-2015	01-07-2047
<b>Total</b>	<b>30,104</b>		<b>19,057</b>	<b>20,351</b>		
On own book			9,062	8,888		
<b>Total</b>			<b>9,995</b>	<b>11,463</b>		

\* After restructuring

SNS Bank has purchased bonds, issued by different Hermes companies, with an amortised cost of € 8.9 billion (2010: € 8.7 billion). SNS Bank has purchased subordinated bonds issued by various Pearl companies with a amortised cost of € 98 million (2010: € 98 million). In 2011 REAAL purchased bonds issued by various Hermes companies with an amortised cost of € 77 million (2010: € 76 million). Hermes XIV, XV, XVI, XVII and Pearl IV were mainly held for own account and qualify as assets eligible at the European Central Bank.

In transactions involving the securitisation of savings-linked mortgages, REAAL has a (sub)participation equal to the accrued savings. At the end of 2011, this participation amounted to € 258 million (2010: € 226 million).

#### 28.18.4 Debt certificates classified at fair value with value movements recognised through profit or loss (Holland Homes securitisation programmes)

Through DBV Finance, SNS REAAL also securitised part of its mortgages by means of the Holland Homes transactions. The companies formed under these transactions (special purpose entities) were funded by long-term notes issued by these companies. The obligations to noteholders and income from the mortgages were matched using interest rate swaps. As these derivative contracts were concluded with parties outside SNS REAAL, an accounting mismatch would have arisen after consolidation of the companies given that the derivatives are recognised at fair value through profit or loss, unlike the notes and mortgages. This mismatch is removed by recognising both the derivatives and the notes and mortgages at fair value through profit or loss.

The securitisation transactions include a call + step-up construction, to the effect that, when the amount of outstanding notes falls below 10% of the initially outstanding notes (notional), the issuer has the option of redeeming the notes.

As of 2003, a number of this securitisation transactions include not only the above call + step-up construction, but also a put + step-down construction, to the effect that the noteholder is entitled to early repayment of the note as from a pre-determined date (put). The interest rate of the coupon is increased if both SNS REAAL which, being the initiating party, is offered the notes first, and any third party does not repurchase the notes when the noteholder exercises this right. The coupon rate on the note will also be lowered after this date in case the noteholders do not avail themselves of this right. Under normal circumstances, the company and the noteholder will then be financially motivated to repay the bonds prior to maturity.

## 28.18.5 Overview Holland Homes securitisation programme

### Specification Holland Homes securitisation programme

	Initial principal	Date of securitisation	Book value	Book value	Date put-option	Contractual date of expiry
<i>In € millions</i>			<b>2011</b>	<b>2010</b>		
Holland Homes (MBS 2000-1)	350	11-2000	133	143	n,a,	24-09-2030
Holland Homes (MBS 2003-1)	435	12-2003	216	233	30-12-2013	31-12-2080
Holland Homes (MBS 2005-1)	757	11-2005	568	603	20-12-2015	31-12-2083
Holland Homes (MBS (Oranje) 2005-1)	1,601	04-2006	784	897	20-01-2018	31-12-2083
<b>Total</b>	<b>3,143</b>		<b>1,701</b>	<b>1,876</b>		
On own book			100	105		
<b>Total</b>			<b>1,601</b>	<b>1,771</b>		

The contractual non-discounted amount that will have to be paid at the end of the maturity of the bonds mentioned above amounts to € 1,662 million (2010: € 1,833 million).

## 28.19 Insurance and reinsurance contracts

### Specification insurance and reinsurance contracts by segment

	Gross		Reinsurance	
<i>In € millions</i>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
REAAL Life, for own risk	17,955	18,110	3,248	150
Zwitserleven, for own risk	6,524	5,996	2	1
<b>Life, for own risk</b>	<b>24,479</b>	<b>24,106</b>	<b>3,250</b>	<b>151</b>
REAAL Life, for account of policyholders	6,434	6,926	--	--
Zwitserleven, for account of policyholders	6,821	6,507	--	--
<b>Life, for account of policyholders</b>	<b>13,255</b>	<b>13,433</b>	<b>--</b>	<b>--</b>
Non-life	1,311	1,373	176	204
Eliminations and Reclassification to provision for employee benefits	(218)	(98)	--	--
<b>Total</b>	<b>38,827</b>	<b>38,814</b>	<b>3,426</b>	<b>355</b>



**Specification insurance and reinsurance contracts by type of contract**

<i>In € millions</i>	<i>Notes</i>	Gross		Reinsurance	
		2011	2010	2011	2010
Provision for life insurance obligations	a	24,792	24,435	3,250	151
Unamortised interest rate discounts	b	(445)	(471)	--	--
Provision for profit sharing, bonuses and discounts	c	132	142	--	--
<b>Life, for own risk</b>		<b>24,479</b>	<b>24,106</b>	<b>3,250</b>	<b>151</b>
Technical provisions for insurance on behalf of policyholders	d	13,255	13,433	--	--
<b>Life, for account of policyholders</b>		<b>13,255</b>	<b>13,433</b>	<b>--</b>	<b>--</b>
Provision for premium shortfalls and curTVt risks	e	7	7	--	--
Provision for unearned premiums	f	128	142	1	2
Provision for claims payable	g	882	898	131	138
Provision for claims incurred but not reported	h	294	326	44	64
<b>Non-life</b>		<b>1,311</b>	<b>1,373</b>	<b>176</b>	<b>204</b>
Eliminations and Reclassification to provision for employee benefits		(218)	(98)	--	--
<b>Total</b>		<b>38,827</b>	<b>38,814</b>	<b>3,426</b>	<b>355</b>

Insurance contracts are largely of a long-term nature. Part of the pension rights of the employees, especially the entitlements of (former) employees built up in previous years, are administered in-house at REAAL. These entitlements are included in the consolidated figures under the provision for employee benefits. The increase in 2011 is the result of a number of contracts for which the related investments have not been put into separate accounts, as a result of which the entitlements presented are gross.

**a. Statement of change in provision for life insurance obligations for own risk**

<i>In € millions</i>	Gross		Reinsurance	
	2011	2010	2011	2010
Balance as at 1 January	24,435	24,409	151	158
Portfolio reclassification	56	(13)	--	--
Reinsurance contracts	--	--	3,295	--
Benefits paid	(2,208)	(2,281)	(465)	(90)
Premiums received	1,506	1,606	246	161
Interest added	1,041	945	122	9
Technical result	(122)	(119)	(65)	(79)
Release of expense loading	(213)	(168)	(34)	(8)
Change in shadow accounting	296	90	--	--
Other movements	1	(34)	--	--
<b>Balance as at 31 December</b>	<b>24,792</b>	<b>24,435</b>	<b>3,250</b>	<b>151</b>

In the first quarter of 2011 a new traditional life reinsurance transaction was entered into with a large reinsurer, releasing approximately € 225 million of capital. This transaction increased both reinsurance contracts and other amounts due to customers by € 3.3 billion.

**b. Statement of change in unamortised interest rate discounts**

<i>In € millions</i>	Life own risk	
	2011	2010
Balance as at 1 January	471	500
Discounts given in the financial year	28	21
Amortisation	(51)	(58)
Other movements	(3)	8
<b>Balance as at 31 December</b>	<b>445</b>	<b>471</b>

**c. Statement of change in provision for profit sharing, bonuses and discounts**

<i>In € millions</i>	Life own risk	
	2011	2010
Balance as at 1 January	142	152
Profit sharing, bonuses and discounts granted in the financial year	(10)	(10)
<b>Balance as at 31 December</b>	<b>132</b>	<b>142</b>

**d. Statement of change in technical provisions for insurance on behalf of policyholders**

<i>In € millions</i>	2011	2010
Balance as at 1 January	13,433	12,749
Portfolio reclassification	(56)	13
Premiums received	1,342	1,313
Benefits paid	(1,100)	(1,035)
Exchange (rate) differences	(149)	663
Technical result	(62)	(105)
Release of expense loading	(176)	(206)
Other movements	23	41
<b>Balance as at 31 December</b>	<b>13,255</b>	<b>13,433</b>

**e. Statement of change in provision for premium shortfalls and current risks**

<i>In € millions</i>	Gross	
	2011	2010
Balance as at 1 January	7	5
Additions during the year	--	2
<b>Balance as at 31 December</b>	<b>7</b>	<b>7</b>

**f. Statement of change in provision for unearned premiums**

<i>In € millions</i>	Gross		Reinsurance	
	2011	2010	2011	2010
Balance as at 1 January	142	141	2	3
Additions during the year	128	142	1	2
Added to the results	(142)	(141)	(2)	(3)
<b>Balance as at 31 December</b>	<b>128</b>	<b>142</b>	<b>1</b>	<b>2</b>

Due to a [change in estimate](#), a one-off release of the provision for unearned premiums has been taken to the result in 2011 in the amount of € 16 million gross (€ 12 million net).

### g. Statement of change in provision for claims payable

<i>In € millions</i>	Gross		Reinsurance	
	2011	2010	2011	2010
Balance as at 1 January	898	886	138	137
Reported claims, current period	492	488	26	43
Reported claims, prior periods	29	26	(4)	(11)
Claims paid, current period	(270)	(269)	(18)	(18)
Claims paid, prior periods	(281)	(248)	(14)	(17)
Interest added	14	15	3	4
<b>Balance as at 31 December</b>	<b>882</b>	<b>898</b>	<b>131</b>	<b>138</b>

### h. Statement of change in provision for claims incurred but not reported

<i>In € millions</i>	Gross		Reinsurance	
	2011	2010	2011	2010
Balance as at 1 January	326	349	64	68
Additions during the year	75	71	4	1
Added to the results	(107)	(94)	(24)	(5)
<b>Balance as at 31 December</b>	<b>294</b>	<b>326</b>	<b>44</b>	<b>64</b>

## 28.20 Provision for employee benefits

### Specification provision for employee benefits

<i>In € millions</i>	2011	2010
Pension commitments	410	373
Other employee commitments	30	31
<b>Total</b>	<b>440</b>	<b>404</b>

#### 28.20.1 Pension commitments

The pension rights of the majority of the SNS REAAL employees, including the accrual of new pension rights of almost all active employees from acquired schemes, have been transferred to the defined contribution scheme of the independent Stichting Pensioenfonds SNS REAAL.

Property Finance's scheme is administrated by the ABP as a multi-employer plan.

The pension rights of employees continuing under the acquired pension schemes of AXA, Winterthur, Zwitserleven, Zürich, NHL and DBV can be designated as defined benefit schemes. SNS REAAL's contribution to these pension schemes is expected to be € 18 million in total in 2012 (2011: € 15 million).

The unrealised actuarial gains and losses are € 75 million negative (2010: € 18 million negative). The unrealised actuarial gains and losses that exceed the corridor are amortised on the basis of the expected remaining service of the employees of circa ten years.

The investments relating to the pension scheme that have been included in a separated investment account, are offset against the commitments. The non-separated investments have been recognised under the item Investments.

The separate schemes are outlined below.

### **28.20.1.1 Pension scheme Stichting Pensioenfonds SNS REAAL**

The pension scheme to which SNS REAAL employees are entitled can be designated as a defined collective contribution scheme. Under this scheme, SNS REAAL pays a fixed agreed amount to Stichting Pensioenfonds. As there is no commitment either enforceable by law or otherwise to pay additional contributions, pension benefits and related investments have no longer been included in the balance sheet since 2005. In 2009 an agreement was reached on the pension premium for a period of 5 years, effective 1 January 2010 until 31 December 2014. During this period a fixed percentage of 21.75% of gross wages is paid. In 2012, SNS REAAL's contribution to the defined contribution scheme will be circa € 70 million (2011: € 68 million).

### **28.20.1.2 Pension scheme Property Finance**

Property Finance's scheme by the ABP is a defined benefit scheme. However, the ABP arrangement does not provide a consistent and reliable basis for charging the liability, mutual fund investments and costs of the scheme to individual employers taking part. That is why this pension scheme is treated as a defined contribution scheme for reporting purposes. As participating entity, Property Finance has no contractual arrangement on the settlement of the financial consequences of a surplus or deficit in the fund. Any surplus or deficit in the scheme cannot affect the amount of future contributions. There is an annual possibility to change the premium, but any such change will be limited. Property Finance's contribution to the ABP is € 2 million round for the year 2012 (2011: € 2 million).

### **28.20.1.3 Pension schemes former AXA and Winterthur**

As of 1 January 2009, the accrual of new pension entitlements of former employees of AXA and Winterthur has been transferred to Stichting Pensioenfonds SNS REAAL.

The past pension benefits of former AXA employees have for the largest part been transferred to Stichting Pensioenfonds AXA Verzekeringen. The rights of participants who were inactive at the time of formation of the pension fund on 1 January 2001, and a small number of former but still active AXA employees were transferred to a number of insurers or remain in-house. These pension commitments and the relating separated investment account have been set of in the pension provision for an amount of € -3 million (2010: € 20 million).

With the acquisition of AXA also former pension schemes of UAP, Guardian, Equity & Law (E&L) and the pensionfund Nieuw Rotterdam were acquired. The schemes of UAP and E&L have been transferred to REAAL, without creation of a separate investment account. As from 2011 the pension obligations are therefore presented as part of the provision for pensions. The effect is a decrease in the fair value of the investments of pension schemes with € 50 million.

The pension scheme of Guardian is insured externally. After offsetting the fair value of the investments with the pension obligations, an amount of € 1 million has been added to the provision for pensions. The pension scheme of pensionfund Nieuw Rotterdam has been settled in full during 2011, and transferred to a third party. SNS REAAL bears no more risk.

The pension scheme of former Winterthur, in which besides the pension benefits built up in the past of the former employees also the accrual of pension rights of a small number of active employees born before 1 January 1950 takes place, is administered in-house. For this pension scheme, the present value of the pension obligations has been included in the provision for employee commitments, in the amount of € 84 million (2010: € 83 million). There is no separate investment account.

For both the AXA as well as the Winterthur scheme it has been agreed that indexation of pension entitlements of inactive participants will be equal to the indexation applied by the Stichting Pensioenfonds SNS REAAL. The pension entitlements of active former participants are unconditionally indexed. In the event that the coverage ratio of the scheme falls below the agreed limit of 105%, an additional contribution will be done by the employer.

In 2012, SNS REAAL's contribution to the defined benefit schemes of former AXA and Winterthur is expected to be € 5 million (2011: € 4 million).

### 28.20.1.4 Pension scheme Zwitserleven

As of 1 January 2010, the accrual of new pension entitlements of virtually all employees of Zwitserleven has been transferred to Stichting Pensioenfonds SNS REAAL. The rights of inactive participants built up in the past and active former participants remain part of the former pension scheme of Zwitserleven.

The indexation of the pension entitlements of inactive participants equals to the indexation applied by the Stichting Pensioenfonds SNS REAAL. The pension entitlements of active former participants are unconditionally indexed.

The pension scheme of Zwitserleven is administered in-house. For this pension scheme, the present value of the pension obligations has been included in the provision for employee commitments, in the amount of € 194 million (2010: € 191 million). There is no separate investment account. SNS REAAL's contribution to the defined benefit scheme Zwitserleven is expected to be € 10 million in 2012 (2011: € 9 million).

### 28.20.1.5 Other pension schemes

The accrual of new pension rights of former employees of Zürich, NHL and DBV has been transferred to Stichting Pensioenfonds SNS REAAL. The rights built up in the past of these employees are administered in-house at SNS REAAL. The rights are of limited value.

Only the scheme of NHL, administrated by another insurer, has a separate investment account that is offset with the pension commitments. All other schemes are administered in-house, without a separate investment account. In 2012, SNS REAAL's contribution to the other defined benefit schemes is expected to be € 3 million (2011: € 2 million).

#### Composition of the pension commitments

<i>In € millions</i>	2011	2010	2009	2008	2007
Present value of defined benefit obligations	747	684	612	614	406
Fair value of plan assets	262	293	285	271	253
<b>Present value of the net liabilities</b>	<b>485</b>	<b>391</b>	<b>327</b>	<b>343</b>	<b>153</b>
Unrecognised actuarial gains or losses	(75)	(18)	54	16	24
<b>Total</b>	<b>410</b>	<b>373</b>	<b>381</b>	<b>359</b>	<b>177</b>

#### Change in present value of pension obligations

<i>In € millions</i>	2011	2010
Present value as at 1 January	684	612
Increase and interest accrual	30	31
Adjustment pension plan (curtailment)	--	(15)
Benefits paid	(22)	(23)
Other movements	(25)	4
<b>Expected value as at 31 December</b>	<b>667</b>	<b>609</b>
Movement of unrealised actuarial gains or losses	80	75
<b>Present value as at 31 December</b>	<b>747</b>	<b>684</b>

Included in other movements is an amount of € 31 million in relation to the settlement of pensionfund Nieuw Rotterdam.

## Change in fair value of the plan assets

<i>In € millions</i>	2011	2010
Fair value as at 1 January	293	285
Investment income	12	13
Premiums	22	4
Benefits paid	(7)	(12)
Other movements	(81)	--
<b>Expected value as at 31 December</b>	<b>239</b>	<b>290</b>
Movement of unrealised actuarial gains or losses	23	3
<b>Fair value as at 31 December</b>	<b>262</b>	<b>293</b>

The present value of the fair value of the investments has decreased with € 33 million as a result of the settlement of pensionfund Nieuw Rotterdam. The pension schemes of UAP and E&L have been transferred to REAAL, without creation of a separate investment account. The present value of the fair value of the investments decreases with € 50 million as a result of this. Both items are presented in other movements.

## Breakdown investments

<i>In € millions</i>	2011	2010
Shares	50	30
Fixed income investments	178	195
Other	34	68
<b>Total</b>	<b>262</b>	<b>293</b>

## Experience adjustments arising on the pension commitments

<i>In € millions</i>	2011	2010	2009	2008	2007
Experience adjustments as a % of defined benefit obligation	(1%)	1%	(2%)	(1%)	(2%)
Experience adjustments as a % of investments	(2%)	(2%)	(3%)	(2%)	5%

The effect of the unrealised actuarial gains and losses on pension entitlements or investment funds, which originated as a result of adjustments in experience ratings, has been included as a percentage of the pension entitlements or investment funds at year-end in the table above.

## The main actuarial parameters

	2011	2010	2009	2008	2007
Discount rate	3.8%	4.7%	4.9%	5.1%	5.4%
Expected salary increase	1.5% - 2.2%	2.3%	2.3%	2.5%	3.0%
Expected return on plan assets	4.1% - 5.6%	3.2%-6.1%	3.8%-3.9%	5.5-5.7%	5.8%

The expected return is determined by the yield curve as a reference for the expected bond returns. For equities, a risk surcharge is added.

## 28.20.2 Other employee commitments

### Statement of change in other employee commitments

<i>In € millions</i>	2011	2010
Balance as at 1 January	31	33
Release / allocation to other employee benefits	(4)	1
Other movements	3	(3)
<b>Balance as at 31 December</b>	<b>30</b>	<b>31</b>

As a result of an adjustment in the savings conditions for personnel, an amount of € 4 million in the provision for employee benefits has been released to the result. The additional cost of the adjustment (decrease) of the discount rate to 3.8% is presented in Other movements.

## 28.21 Other provisions

### Specification other provisions

<i>In € millions</i>	Banking activities		Insurance activities		Group activities		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Restructuring provision	22	30	26	24	10	8	58	62
Other provisions	13	11	13	10	2	--	28	21
<b>Total</b>	<b>35</b>	<b>41</b>	<b>39</b>	<b>34</b>	<b>12</b>	<b>8</b>	<b>86</b>	<b>83</b>

The restructuring provision mainly relates to the finalisation of additional cost reduction programmes and the restructuring of Property Finance. It is expected that the largest part of the provision of Property Finance will be settled in the coming years.

The other provisions are mainly of a long-term nature and were made partly with a view to the risk that (legal) claims may not be settled. The timing of expected outflow of means is uncertain.

### Statement of change in other provisions

<i>In € millions</i>	Restructuring provision		Other provisions		Total	
	2011	2010	2011	2010	2011	2010
Balance as at 1 January	62	64	21	37	83	101
Additions / release	24	20	6	(7)	30	13
Withdrawal	(28)	(23)	(2)	(9)	(30)	(32)
Other movements	--	1	3	--	3	1
<b>Balance as at 31 December</b>	<b>58</b>	<b>62</b>	<b>28</b>	<b>21</b>	<b>86</b>	<b>83</b>

## 28.22 Savings

### Specification savings

<i>In € millions</i>	2011	2010
Due on demand	22,289	23,293
Other savings	8,052	4,104
<b>Total</b>	<b>30,341</b>	<b>27,397</b>

The savings item comprises balances of saving accounts, saving deposits and term deposits of retail clients. The interest payable on savings is included under other liabilities.

The bank savings accounts amounts to € 1,297 million (2010: € 703 million). The life-course savings accounts amounts to € 298 million (2010: € 257 million).

## 28.23 Other amounts due to customers

### Specification other amounts due to customers 2011

<i>In € millions</i>	Banking activities	Insurance activities	Group activities	Eliminations	Total
Non-current debt	2,229	3,941	628	(1,136)	5,662
Available on demand	6,351	--	--	(178)	6,173
Mortgage deposits	167	20	--	--	187
Savings deposits	1,468	54	--	(1,402)	120
<b>Total</b>	<b>10,215</b>	<b>4,015</b>	<b>628</b>	<b>(2,716)</b>	<b>12,142</b>

### Specification other amounts due to customers 2010

<i>In € millions</i>	Banking activities	Insurance activities	Group activities	Eliminations	Total
Non-current debt	2,308	728	146	(783)	2,399
Available on demand	6,834	--	1,111	(1,357)	6,588
Mortgage deposits	216	5	--	--	221
Savings deposits	1,124	41	--	(1,106)	59
<b>Total</b>	<b>10,482</b>	<b>774</b>	<b>1,257</b>	<b>(3,246)</b>	<b>9,267</b>

## 28.24 Amounts due to banks

### Specification amounts due to banks 2011

<i>In € millions</i>	Banking activities	Insurance activities	Group activities	Eliminations	Total
Due on demand	935	687	23	(648)	997
Deposits and certificates	3,781	2,467	50	(50)	6,248
<b>Total</b>	<b>4,716</b>	<b>3,154</b>	<b>73</b>	<b>(698)</b>	<b>7,245</b>



## Specification amounts due to banks 2010

*In € millions*

	Banking activities	Insurance activities	Group activities	Eliminations	Total
Due on demand	394	1,350	75	(1,150)	669
Deposits and certificates	2,702	3,156	201	(200)	5,859
<b>Total</b>	<b>3,096</b>	<b>4,506</b>	<b>276</b>	<b>(1,350)</b>	<b>6,528</b>

The debts to banks comprise liabilities ensuing from repo agreements and structured transactions. These liabilities are offset by investments, mainly including government bonds with the highest rating. These debts will be settled at the same time as the corresponding investments.

## 28.25 Other liabilities

### Specification other liabilities

*In € millions*

	2011	2010
Debts in relation to direct insurance	490	448
Debts to reinsurers	(47)	(86)
Other taxes	75	70
Other liabilities	1,383	1,119
Accrued interest	1,253	1,131
<b>Total</b>	<b>3,154</b>	<b>2,682</b>

## 28.26 Off balance sheet commitments

### 28.26.1 Contingent liabilities

#### Specification contingent liabilities

*In € millions*

	2011	2010
Liabilities from pledges and guarantees given	200	284
Liabilities from (ir)revocable facilities	933	1,361
Repurchase commitments	1,713	1,691

To meet customer requirements, SNS REAAL offers loan-related products such as pledges and guarantees. The underlying value of these products is not included as assets or liabilities in the balance sheet. The amounts stated above indicate the maximum potential credit risk SNS REAAL faces through these products, assuming that all counterparties are no longer able to meet their commitments and all existing securities will have no value. The guarantees relate to guarantees that do and do not replace the credit amount. Most guarantees are expected to expire without any claim being made and therefore are not expected to give rise to any future cash flows.

The irrevocable facilities consist mainly of credit facilities that are pledged to clients, but against which no claim has been made. These facilities are pledged for a set period and at a variable interest rate. Collateral has been obtained for the majority of the irrevocable credit facilities that have not been called.

Part of the collateralised loans and advances that were sold or securitised under the Holland Homes programme includes a repurchase obligation of the loans and advances on the interest review date. The determination of the maturity schedule below takes account of an early repayment risk on mortgages of 7% per annum (2010: likewise). Besides a repurchase obligation on the interest review date of the loans and advances, the Holland Homes transactions are also expected to be repurchased on the date of expiration of the put-option, which is included in the maturity calendar.

### Maturity calender repurchase commitments

<i>In € millions</i>	2011	2010
< 1 year	221	81
1 - 5 year	623	728
> 5 year	869	882
<b>Total</b>	<b>1,713</b>	<b>1,691</b>

### 28.26.2 Guarantee- and compensation systems

As of 1 January 2007, the Financial Supervision Act (Wft) came into force. A part of this relates to the deposit guarantee system scheme, the successor to the Collective Guarantee Scheme. Under the deposit guarantee scheme (DGS), account holders' deposits on current and savings accounts are guaranteed. As of 7 October 2008, the maximum guarantee is (temporarily) set at € 100,000 per account holder. Before that date, the maximum guarantee was € 38,000 per account holder.

With the enforcement of the Financial Supervision Act (Wft) the investor compensation scheme has been updated. This system provides for a maximum payout of € 20,000 per account holder.

If a credit institution is unable to pay and insufficient funds remain to repay the guaranteed amounts (in full) to the account holders of the respective institution, the Dutch Central Bank will pay out the remaining amount to the stated maximum. The total amount is then repaid to the Dutch Central Bank by the banks, including those that are part of SNS REAAL, according to an apportionment scheme.

### 28.26.3 Netherlands Terrorism Risk Reinsurance Company

In 2012, SNS REAAL will take a 14.36% (2011: 16.16%) share in the cluster life and 5.35% (2011: 5.37%) in the cluster non-life of the Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden NV (Netherlands Terrorism Reinsurance Company). In 2012 the extent of the guarantee is € 79 million (2011: € 86 million) and the obliged premium € 1 million (2011: € 2 million).

### 28.26.4 Lease commitments

#### Maturity calender future minimum payments based on irrevocable operational leases

<i>In € millions</i>	2011	2010
< 1 year	26	32
1 - 5 year	59	65
> 5 year	51	57
<b>Total</b>	<b>136</b>	<b>154</b>

### 28.26.5 Legal proceedings

SNS REAAL is involved in legal proceedings. Although it is impossible to predict the result of pending or threatening legal proceedings, on the basis of information currently available and after consulting legal advisors, the Executive Board believes that the outcome of these proceedings is unlikely to have any material adverse effects on the financial position or operating results of SNS REAAL.

In April 2010, a foundation acting for a group of execution-only clients initiated legal proceedings against SNS Bank for alleged losses suffered on investments in certain foreign investment funds (including Madoff-feeder funds). As already reported in the 2009 annual report and 2010 interim financial report, where appropriate, clients will be compensated in a suitable manner for which provisions have been taken. In the proceedings before the court SNS Bank awaits the verdict.

In 2010, three Madoff-feeder funds have initiated legal proceedings in New York against, amongst others, SNS Global Custody, the custody entity of SNS Bank, and its clients as former beneficial owners of investments in these funds. A similar proceeding has been initiated by one of these funds against SNS Global Custody in the British Virgin Islands (BVI). They claim repayment of payments made by the funds for redemptions of investments by these beneficial owners. In line with these lawsuits the trustee of Madoff started proceedings against SNS Bank and SNS Global Custody. The aforementioned proceedings, in which many financial institutions worldwide are sued in similar proceeding, are in an early stage. SNS Bank will defend itself vigorously and is currently not able to make a reliable estimate for a provision for these claims, if any.

Besides legal procedures, an investigation is currently underway into the possible irregularities in the past in relation to the property finance portfolio of Property Finance. The interim results from this investigation have been incorporated in the financial statements. It is a possibility that upon completion of the investigation, things have come to light that could have a (both positive and negative) influence on the valuation of assets and liabilities.

## 28.27 Related parties

### 28.27.1 Identity of related parties

Parties are considered to be related if one party can exert control or significant influence over the other party in deciding financial or operational matters. As a part of its ordinary operations, SNS Bank maintains various sorts of ordinary business relations with related companies and parties, particularly in the areas of insurance, banking, and asset management. Other parties related with SNS REAAL are the Dutch Ministry of Finance, subsidiaries, associated companies, joint ventures, managers in key positions and close family members of these managers.

Transactions with related parties are conducted at arm's length. The Responsible living (Verantwoord Wonen) transaction is based on market rates, with adjustments made based on agreements between SRLEV NV and SNS Bank NV. This transaction is explained below in detail. In the transactions with related parties, Best Practices provisions II.3.2, II.3.3, II.3.4, III.6.1, III.6.3 and III.6.4 of the Dutch Corporate Governance Code were complied with.

### 28.27.2 Positions and transactions between SNS REAAL NV, associated companies and joint ventures

#### Positions and transactions between SNS REAAL NV, associated companies and joint ventures

<i>In € millions</i>	Associated companies		Joint ventures	
	2011	2010	2011	2010
<b>Positions</b>				
Loans and advances	113	401	1,017	1,145
Provisions for doubtful debt	--	--	3	11
<b>Transactions</b>				
Mutation loans and advances	(288)	(87)	(128)	105
Mutation provisions for doubtful debt	--	--	(8)	4
Income	1	(3)	(1)	(6)

The main related-party transactions for this reporting period are the transfer of part the core Tier 1 capital securities held by SNS REAAL NV as a contribution of share premium in the equity of SNS Bank NV and REAAL NV. The transfer concerns the core Tier 1 securities capital of Stichting Beheer SNS REAAL NV pushed through to SNS Bank NV and REAAL NV. The transaction took place on 1 January 2011 and has no effect on the core Tier 1 securities capital of SNS REAAL NV.

In 2011 an amount of €518 million of mortgages (face value € 504 million) was sold by SNS Bank NV to SRLEV NV. They concern mortgages issued in the first half of 2011 by SNS Bank as part of the Responsible living program. In this program mortgages were sold through the distribution channels of REAAL that were temporarily financed by SNS Bank NV.

The sales price between SRLEV NV and SNS Bank NV is based on arm's length rates. Hereby, some normal cost surcharges on the one hand, like servicing costs, are excluded since they were expensed already by SRLEV NV upon issue of the mortgages. On the other hand SNS Bank NV has been compensated for the cost of hedge positions that resulted from taking this temporary position on balance.

### 28.27.3 Positions and transactions between SNS REAAL NV and Stichting Beheer SNS REAAL

#### Positions and transactions between SNS REAAL NV and Stichting Beheer SNS REAAL

<i>In € millions</i>	2011	2010
<b>Positions</b>		
Securities capital	415	435
<b>Transactions</b>		
Repurchase securities	(21)	--
Transactions with securityholders to securities	1	--

Dividend in any year consists of final dividend for the previous financial year and the interim dividend for the financial year.

If SNS REAAL NV were to incur any losses during the term of the core Tier 1 capital securities issued to the Stichting Beheer SNS REAAL, these losses will partially be borne by the Foundation. The loss absorption of Stichting Beheer SNS REAAL and the core Tier 1 capital securities are explained further in the Annual Report under paragraph [Securities Stichting Beheer en Nederlandse Staat](#) of the chapter on Corporate Governance. This information is part of the consolidated financial statements.

### 28.27.4 Positions and transactions between SNS REAAL NV and the Dutch State

#### Positions between SNS REAAL NV and the Dutch State

<i>In € millions</i>	2011	2010
Securities capital	564	564

The core Tier 1 capital securities are explained further in the Annual Report under paragraph [Securities Stichting Beheer en Nederlandse Staat](#) of the chapter on Corporate Governance. This information is part of the consolidated financial statements.

### 28.27.5 Positions and transactions with managers in key positions of SNS REAAL NV

Managers in key positions with SNS REAAL NV comprise the members of the Executive Board of SNS REAAL NV, the CIO, the HRM director and the boards of the business units (SNS Retail Bank, SNS Asset Management, REAAL and Zwitserleven), in total 24 persons (2010: 27 persons).

### Specification remuneration managers in key positions

<i>In € thousands</i>	2011	2010
Short-term employee benefits	7,996	9,097
Post-employment benefits	1,205	1,062
Other long-term benefits	16	39
Termination benefits	1,108	1,111
<b>Total</b>	<b>10,325</b>	<b>11,309</b>

### Specification loans to managers in key positions

<i>In € thousands</i>	Outstanding as at 31 December		Average interest rate		Redemptions		Advances	
	2011	2010	2011	2010	2011	2010	2011	2010
Mortgage loans	11,311	8,425	3.87%	3.97%	710	1,124	2,980	1,263

Transactions with individual members of the Executive Board and the Supervisory Board of SNS REAAL are explained in [chapter 19.7](#) (Remuneration report) of the Report of the Supervisory Board. This information is part of the consolidated financial statements.

## 28.28 Subsequent events

As of 2012 SNS REAAL changed the accounting treatment of the internal and external deferred acquisition costs (DAC). As a result the bookvalue of the DAC (€ 451 million gross), taking into account the tax effect, will be charged directly to shareholder's equity (€ 338 million net). The change in accounting treatment has a limited effect on solvability. For further details we refer to [Change in accounting principles financial statements 2012](#) in the accounting principles of the financial statements.

On 24 February 2012, the Greek government approved the terms of invitations to be made to banks and insurers to (voluntarily) participate in an exchange offer of selected Greek government bonds for a combination of newly issued financial instruments. The exchange offer applies to the government bond held by SNS Bank. It is currently not possible for SNS REAAL to reliably estimate the value of the newly issued financial instruments in the event of a successful exchange transaction, or the value of the Greek bond if Greece defaults and interest and redemption is not timely and fully paid. If the exchange transaction is successfully performed and we choose to participate, we expect an additional loss of approximately € 10 million, taking into account the currently known conditions.

## 28.29 Net interest income

### Specification net interest income banking activities

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Interest income	2,753	2,477
Interest expense	1,866	1,541
<b>Net interest income</b>	<b>887</b>	<b>936</b>

The interest income includes the proceeds from banking activities derived from lending money and related transactions, as well as related commissions and other interest-related income.

The interest expense includes costs from banking activities incurred from borrowing and related transactions, as well as other interest-related charges.

Interest income and expenses also includes the interest results from derivative positions that are established with the aim of limiting interest rate risk on hedged financial instruments.

### Specification interest income

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Mortgages	2,063	1,723
Property Finance	395	446
Other loans and advances	123	131
Loans and advances to banks	53	25
Investments	115	152
Others	4	--
<b>Total</b>	<b>2,753</b>	<b>2,477</b>

The interest income for financial assets not at fair value through profit or loss amounts to € 3,073 million (2010: € 3,023)

The recognised interest income on provisioned loans amounts to € 72 million (2010: € 47 million).

### Specification interest expenses

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Debt certificates	667	488
Participation certificates and subordinated debt	105	105
Savings	912	776
Other amounts due to customers	120	142
Amounts due to banks	62	30
<b>Total</b>	<b>1,866</b>	<b>1,541</b>

## 28.30 Net premium income

The net premium income concerns insurance premiums less reinsurance premiums.

### Specification net premium income

<i>In € millions</i>	Own account		For account of policyholders		Total	
	2011	2010	2011	2010	2011	2010
Regular premiums Life	752	738	554	626	1,306	1,364
Regular premiums Zwitterleven	299	266	521	510	820	776
<b>Total gross regular premiums Life</b>	<b>1,051</b>	<b>1,004</b>	<b>1,075</b>	<b>1,136</b>	<b>2,126</b>	<b>2,140</b>
Single premiums Life	374	456	7	14	381	470
Single premiums Zwitterleven	93	146	248	163	341	309
<b>Total gross single premiums</b>	<b>467</b>	<b>602</b>	<b>255</b>	<b>177</b>	<b>722</b>	<b>779</b>
<b>Total gross premium income</b>	<b>1,518</b>	<b>1,606</b>	<b>1,330</b>	<b>1,313</b>	<b>2,848</b>	<b>2,919</b>
Total reinsurance premiums Life	192	87	--	--	192	87
<b>Total net premium income Life</b>	<b>1,326</b>	<b>1,519</b>	<b>1,330</b>	<b>1,313</b>	<b>2,656</b>	<b>2,832</b>
Total net premium income Non-Life					794	742
<b>Total net premium income</b>					<b>3,450</b>	<b>3,574</b>

### Specification regular life premiums

<i>In € millions</i>	Own account		For account of policyholders		Total	
	2011	2010	2011	2010	2011	2010
<b>Individual</b>						
Without profit sharing	538	503	554	373	1,092	876
With profit sharing	214	235	--	400	214	635
<b>Total individual</b>	<b>752</b>	<b>738</b>	<b>554</b>	<b>773</b>	<b>1,306</b>	<b>1,511</b>
<b>Group</b>						
Without profit sharing	--	5	521	350	521	355
With profit sharing	299	261	--	13	299	274
<b>Total group</b>	<b>299</b>	<b>266</b>	<b>521</b>	<b>363</b>	<b>820</b>	<b>629</b>
<b>Total gross regular premiums</b>	<b>1,051</b>	<b>1,004</b>	<b>1,075</b>	<b>1,136</b>	<b>2,126</b>	<b>2,140</b>

### Specification single life premiums

<i>In € millions</i>	Own account		For account of policyholders		Total	
	2011	2010	2011	2010	2011	2010
<b>Individual</b>						
Without profit sharing	365	246	7	55	372	301
With profit sharing	9	208	--	--	9	208
<b>Total individual</b>	<b>374</b>	<b>454</b>	<b>7</b>	<b>55</b>	<b>381</b>	<b>509</b>
<b>Group</b>						
Without profit sharing	--	3	248	120	248	123
With profit sharing	93	145	--	2	93	147
<b>Total group</b>	<b>93</b>	<b>148</b>	<b>248</b>	<b>122</b>	<b>341</b>	<b>270</b>
<b>Total gross single premiums</b>	<b>467</b>	<b>602</b>	<b>255</b>	<b>177</b>	<b>722</b>	<b>779</b>

### Specification premium income non-life

<i>In € millions</i>	Gross		Reinsurance		Total	
	2011	2010	2011	2010	2011	2010
Fire	224	218	9	16	215	202
Accident and health	143	138	6	6	137	132
Motor vehicle	286	267	7	7	279	260
Transport	75	74	5	11	70	63
Other segments	120	112	27	27	93	85
<b>Net premium income Non-life</b>	<b>848</b>	<b>809</b>	<b>54</b>	<b>67</b>	<b>794</b>	<b>742</b>

## 28.31 Net fee and commission income

This item includes fees from services provided, insofar as not interest-related.

### Specification net fee and commission income 2011

<i>In € millions</i>	Banking activities	Insurance activities	Group activities	Eliminations	Total
<b>Fee and commission income:</b>					
Money transfer and payment charges	37	--	--	--	37
Securities activities	19	2	--	--	21
Insurance agency activities	20	18	--	(14)	24
Management fees	69	29	46	(40)	104
Other activities	(6)	41	--	(4)	31
<b>Total fee and commission income:</b>	<b>139</b>	<b>90</b>	<b>46</b>	<b>(58)</b>	<b>217</b>
Fee and commission expense	53	20	6	(21)	58
<b>Total</b>	<b>86</b>	<b>70</b>	<b>40</b>	<b>(37)</b>	<b>159</b>

### Specification net fee and commission income 2010

<i>In € millions</i>	Banking activities	Insurance activities	Group activities	Eliminations	Total
<b>Fee and commission income:</b>					
Money transfer and payment charges	38	--	--	--	38
Securities activities	21	3	--	--	24
Insurance agency activities	22	17	--	(15)	24
Management fees	58	22	46	(46)	80
Other activities	(1)	61	--	(4)	56
<b>Total fee and commission income:</b>	<b>138</b>	<b>103</b>	<b>46</b>	<b>(65)</b>	<b>222</b>
Fee and commission expense	46	33	6	(37)	48
<b>Total</b>	<b>92</b>	<b>70</b>	<b>40</b>	<b>(28)</b>	<b>174</b>



## 28.32 Share in result of associates

This item represents the share in result of associated companies. In 2011 the negative result of € 2 million (2010: € 5 million negative) over the financial year relates to the impact of the losses of associates of € 1 million (2010: € 1 million profit) and losses of joint ventures worth € 1 million (2010: € 6 million losses).

## 28.33 Investment income

### Specification investment income 2011

<i>In € millions</i>	Fair value through profit or loss		Available for sale	Loans and receivables	Investment property	Total
	Held for trading	Designated				
Banking activities	(31)	--	69	7	--	45
Insurance activities	--	23	908	488	14	1,433
Group activities	--	--	1	52	--	53
Eliminations	--	--	12	(160)	(8)	(156)
<b>Total</b>	<b>(31)</b>	<b>23</b>	<b>990</b>	<b>387</b>	<b>6</b>	<b>1,375</b>

### Specification investment income 2010

<i>In € millions</i>	Fair value through profit or loss		Available for sale	Loans and receivables	Investment property	Total
	Held for trading	Designated				
Banking activities	28	--	19	--	--	47
Insurance activities	(2)	82	969	435	14	1,498
Group activities	--	--	3	73	--	76
Eliminations	--	--	10	(165)	(9)	(164)
<b>Total</b>	<b>26</b>	<b>82</b>	<b>1,001</b>	<b>343</b>	<b>5</b>	<b>1,457</b>

### Composition of investment 2011

<i>In € millions</i>	Fair value through profit or loss		Available for sale	Loans and receivables	Investment property	Total
	Held for trading	Designated				
Interest	--	35	782	386	--	1,203
Dividend	--	--	37	--	--	37
Rental income	--	--	--	--	11	11
<b>Total interest dividend and rental income</b>	<b>--</b>	<b>35</b>	<b>819</b>	<b>386</b>	<b>11</b>	<b>1,251</b>
Realised revaluations	(31)	1	148	1	--	119
Unrealised revaluations	--	(13)	23	--	(5)	5
<b>Total revaluations</b>	<b>(31)</b>	<b>(12)</b>	<b>171</b>	<b>1</b>	<b>(5)</b>	<b>124</b>
<b>Total</b>	<b>(31)</b>	<b>23</b>	<b>990</b>	<b>387</b>	<b>6</b>	<b>1,375</b>

### Composition of investment 2010

<i>In € millions</i>	Fair value through profit or loss		Available for sale	Loans and receivables	Investment property	Total
	Held for trading	Designated				
Interest	--	157	813	342	--	1,312
Dividend	--	--	40	--	--	40
Rental income	--	--	--	--	12	12
<b>Total interest dividend and rental income</b>	<b>--</b>	<b>157</b>	<b>853</b>	<b>342</b>	<b>12</b>	<b>1,364</b>
Realised revaluations	26	(77)	149	1	--	99
Unrealised revaluations	--	2	(1)	--	(7)	(6)
<b>Total revaluations</b>	<b>26</b>	<b>(75)</b>	<b>148</b>	<b>1</b>	<b>(7)</b>	<b>93</b>
<b>Total</b>	<b>26</b>	<b>82</b>	<b>1,001</b>	<b>343</b>	<b>5</b>	<b>1,457</b>

Rental income from investment property includes both rental income and directly allocated operating expenses. The operating expenses amounted to € 7 million (2010: € 6 million).

The recognised interest income on the devaluation of investments amounts to € 2 million (2010: € 1 million).

## 28.34 Investment income for account of policyholders

### Specification investment income for account of policyholders

<i>In € millions</i>	2011	2010
Interest	85	89
Dividend	126	148
<b>Total interest and dividend</b>	<b>211</b>	<b>237</b>
Revaluations	(251)	578
<b>Total</b>	<b>(40)</b>	<b>815</b>

## 28.35 Result on financial instruments

### Specification result on financial instruments

<i>In € millions</i>	Banking activities		Insurance activities		Group activities		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Revaluations transferred from shareholders' equity	--	--	--	28	--	--	--	28
Interest income transferred from shareholders' equity	--	--	16	31	--	--	16	31
<b>Result on derivatives held for cash flow hedge accounting</b>	<b>--</b>	<b>--</b>	<b>16</b>	<b>59</b>	<b>--</b>	<b>--</b>	<b>16</b>	<b>59</b>
Fair value movements in hedging instruments	376	632	17	(2)	6	(12)	393	618
Fair value movements in hedged item attributable to hedged risks	(34)	53	4	5	(6)	9	(30)	67
<b>Fair value movements in derivatives held for fair value hedge accounting</b>	<b>342</b>	<b>685</b>	<b>21</b>	<b>3</b>	<b>--</b>	<b>(3)</b>	<b>363</b>	<b>685</b>
Fair value movements of derivatives maintained for ALM not classified for hedge accounting	7	6	143	37	--	--	150	43
Fair value movements in derivatives held for trading	(6)	(6)	--	--	--	--	(6)	(6)
Fair value movements in other derivatives	(334)	(675)	--	--	--	--	(334)	(675)
Share options	--	--	3	(3)	--	--	3	(3)
Loans sold	(37)	(30)	--	--	--	--	(37)	(30)
Repurchase debt instruments	120	--	--	--	--	--	120	--
<b>Total</b>	<b>92</b>	<b>(20)</b>	<b>183</b>	<b>96</b>	<b>--</b>	<b>(3)</b>	<b>275</b>	<b>73</b>

The ineffectiveness recognised in profit or loss that arises from cash flow hedges amounts to € 1 million (2010: nil)

Property Finance has sold loans to third parties resulting in a loss of € 31 million (2010: € 30 million) and PF SME has sold loans to third parties resulting in a loss of € 6 million (2010: nil).

In 2011, an exchange offer took place in which subordinated notes issued by SNS Bank that qualify as lower Tier 2 capital were exchanged for new notes issued by SNS Bank under the regular Medium-Term Note programme. This led to a positive transaction result of € 112 million (gross) at the Banking activities.

## 28.36 Other operating income

The other operating income amount to € -3 million. This amount is mainly caused by a loss of € 8 million on property projects. In 2010 this income mainly included a subsequent payment from AXA of € 27 million related to the acquisition of AXA NL in 2007.

## 28.37 Result assets and liabilities held for sale

All shares in Reaal Reassurantie SA in Luxembourg were sold by REAAL NV and SNS REAAL NV to Amtrust Holdings Limited on 29 December 2011 for an amount of € 54 million. The result on this transaction amounts to € 18 million.

Furthermore, the result assets and liabilities held for sale contains a loss of € 4 million due to the sale of assets of Property Finance.

## 28.38 Technical claims and benefits

Technical claims and benefits include benefits paid, surrenders, claims paid, claim handling costs and changes in insurance contracts. This item also includes profit sharing and discounts.

### Specification technical claims and benefits

*In € millions*

	2011	2010
Benefits paid and surrenders from own account	1,820	2,280
Change in technical provisions for own risk gross	27	280
Change in technical provisions for own risk reinsurance	196	7
Profit sharing and discounts	81	132
Change in shadow accounting	10	47
<b>Life insurance</b>	<b>2,134</b>	<b>2,746</b>
Claims paid for own account	524	481
Change in provision for reported claims	(30)	11
Change in provision for claims incurred but not reported	(4)	(19)
Other technical expenses	--	3
<b>Non-life insurance</b>	<b>490</b>	<b>476</b>
<b>Total</b>	<b>2,624</b>	<b>3,222</b>

Benefits paid and surrenders for own account include an amount for amortisation of VOBA of € 77 million (2010: € 89 million). Profit sharing and discounts include an amount for amortisation of interest rate discounts of € 65 million (2010: € 51 million).

As at 17 November 2010, SNS REAAL reached a final agreement with the Stichting Verliespolis on the compensation scheme. In 2010 Technical claims and benefits included €43 million), consisting of accrued interest and the building up of rights in relation to the compensation of policyholders of unit-linked investments.

In 2011 SNS REAAL increased the provision for unit-linked insurance contracts with the accretion of interest (€ 22 million). The provision has been tested for developments in 2011, and this did not result in costs in addition to the accretion of the liability.

The provision for defined contribution pension contracts amounts to € 33 million end of 2011. In 2011, this provision was increased with the accretion of interest (€ 5 million), represented in the technical claims and benefits. The provision will be used to adjust the amount of policy costs in the policy contracts to a maximum, in accordance with the advice of the Verbond van Verzekeraars. The compensation scheme is the result of insufficient transparent communication with participants in pension contracts on the costs in these insurance policies and the implications for the prognoses of the pensions.

## 28.39 Charges for account of policyholders

Charges for account of policyholders include benefits paid, surrenders and changes in insurance contracts. This item also includes profit sharing and discounts.

### Specification charges for account of policyholders

*In € millions*

	2011	2010
Benefits paid and surrenders for life insurance contracts for account of policyholders	1,100	1,035
Change in technical provisions for life insurance contracts for account of policyholders	(10)	518
<b>Total</b>	<b>1,090</b>	<b>1,553</b>

## 28.40 Acquisition costs for insurance activities

### Specification acquisition costs for insurance operations

<i>In € millions</i>	Insurance activities		Eliminations		Total	
	2011	2010	2011	2010	2011	2010
REAAL Life	89	124	(4)	(4)	85	120
Zwitserleven	26	27	--	--	26	27
REAAL Non-Life	205	192	--	--	205	192
Reinsurance	(13)	(14)	--	--	(13)	(14)
REAAL Other	(1)	(2)	--	--	(1)	(2)
<b>Total</b>	<b>306</b>	<b>327</b>	<b>(4)</b>	<b>(4)</b>	<b>302</b>	<b>323</b>

Acquisition costs include amortisation of capitalised external acquisition costs for the amount of € 74 million (2010: € 101 million).

## 28.41 Staff costs

### Specification staff costs

<i>In € millions</i>	Banking activities		Insurance activities		Group activities		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Salaries	144	164	120	123	145	149	409	436
Pension costs	25	25	37	24	26	26	88	75
Social security	17	18	16	16	16	17	49	51
Other staff costs	72	49	5	16	92	86	169	151
<b>Total</b>	<b>258</b>	<b>256</b>	<b>178</b>	<b>179</b>	<b>279</b>	<b>278</b>	<b>715</b>	<b>713</b>

Other staff costs consist largely of the costs of temporary staff, fleet, travel costs and training and education costs. The other staff costs related to lease commitments of the fleet, amount to € 11 million (2010: € 13 million).

Transactions with individual members of the Executive Board and the Supervisory Board of SNS REAAL are explained in [chapter 19.7](#) (Remuneration report) of the Report of the Supervisory Board. This information is part of the consolidated financial statements.

### Breakdown pension costs

*In € millions*

	2011	2010
Pension schemes based on defined contribution	71	70
Pension schemes based on defined benefit	17	5
<b>Total</b>	<b>88</b>	<b>75</b>

### Composition pension costs

*In € millions*

	2011	2010
Pension premiums defined contribution plans	83	84
Employee contributions	(13)	(14)
Curtailment	--	(15)
Allocation to other employee benefits	--	1
Increase of present value defined benefit plans	30	32
Expected return on investments	(12)	(13)
<b>Total</b>	<b>88</b>	<b>75</b>

### Average number of FTE's

*In numbers*

	2011	2010
Banking activities	2,426	2,639
Insurance activities	2,322	2,483
Group activities	2,254	2,179
<b>Total</b>	<b>7,002</b>	<b>7,301</b>

All staff are employed by SNS REAAL NV.

## 28.42 Other operating expenses

### Specification other operating expenses 2011

*In € millions*

	Banking activities	Insurance activities	Group activities	Eliminations	Total
Housing	39	16	(7)	(9)	39
IT systems	101	121	(161)	--	61
Marketing and public relations	31	9	3	--	43
External advisors	47	9	15	--	71
Other costs	67	31	(19)	(14)	65
<b>Total</b>	<b>285</b>	<b>186</b>	<b>(169)</b>	<b>(23)</b>	<b>279</b>

## Specification other operating expenses 2010

*In € millions*

	Banking activities	Insurance activities	Group activities	Eliminations	Total
Housing	46	20	(9)	(9)	48
IT systems	107	138	(169)	--	76
Marketing and public relations	30	14	3	--	47
External advisors	39	10	15	--	64
Other costs	63	40	(23)	(9)	71
<b>Total</b>	<b>285</b>	<b>222</b>	<b>(183)</b>	<b>(18)</b>	<b>306</b>

IT systems of the Group activities consist of allocated IT activities.

The other operating expenses include costs related to lease commitments, which amount to € 19 million (2010: € 23 million).

## 28.43 Impairment charges / (reversals)

### Specification impairment charges / (reversals) by class of asset

<i>In € millions</i>	Impairments		Reversals		Total	
	2011	2010	2011	2010	2011	2010
<b>Through profit or loss</b>						
Intangible assets	135	92	--	--	135	92
Property and equipment	7	--	--	--	7	--
Investments in associates	3	45	6	--	(3)	45
Investments	89	43	--	21	89	22
Property projects	91	117	--	--	91	117
Loans and advances to customers	496	795	200	89	296	706
Loans and advances to banks	--	14	--	--	--	14
<b>Total through profit or loss</b>	<b>821</b>	<b>1,106</b>	<b>206</b>	<b>110</b>	<b>615</b>	<b>996</b>
<b>Through equity</b>						
Property and equipment	3	--	--	--	3	--
Investments	55	4	--	16	55	(12)
<b>Total through equity</b>	<b>58</b>	<b>4</b>	<b>--</b>	<b>16</b>	<b>58</b>	<b>(12)</b>

### Specification impairment charges / (reversals) by segment

In € millions	Impairments		Reversals		Total	
	2011	2010	2011	2010	2011	2010
<b>Through profit or loss</b>						
SNS Bank	204	114	45	25	159	89
Property Finance	404	917	153	65	251	852
REAAL	43	17	8	20	35	(3)
Zwitserleven	145	32	--	--	145	32
Group activities	25	26	--	--	25	26
<b>Total through profit or loss</b>	<b>821</b>	<b>1,106</b>	<b>206</b>	<b>110</b>	<b>615</b>	<b>996</b>
<b>Through equity</b>						
SNS Bank	22	--	--	--	22	--
Property Finance	--	--	--	--	--	--
REAAL	28	4	--	16	28	(12)
Zwitserleven	8	--	--	--	8	--
Group activities	--	--	--	--	--	--
<b>Total through equity</b>	<b>58</b>	<b>4</b>	<b>--</b>	<b>16</b>	<b>58</b>	<b>(12)</b>

At SNS Bank an impairment of € 27 million relates to the Greek government bonds. In Group activities an impairment of € 19 million (2010: € 12 million) relates to the investment in Van Lanschot NV.

## 28.44 Other interest expenses

In this item interest expenses recognised in the financial year are included, which are not related to Banking activities.

### Specification other interest expenses

In € millions	Insurance activities		Group activities		Eliminations		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Bonds	28	22	39	39	--	(1)	67	60
Private loans	66	92	13	20	(64)	(92)	15	20
Interest on reinsurance deposits	121	24	--	--	--	--	121	24
Other interest and investments expenses	40	40	14	15	(13)	(13)	40	42
<b>Total</b>	<b>255</b>	<b>178</b>	<b>66</b>	<b>74</b>	<b>(77)</b>	<b>(106)</b>	<b>243</b>	<b>146</b>

The interest on the deposit reinsurer has risen to € 121 million, € 106 million was related in the first quarter of 2011 ended new traditional reinsurance transaction. Against this interest is the return on the investments held for this contract.

## 28.45 Taxation

### Specification taxation

In € millions	2011	2010
In financial year	(256)	(138)
Prior year adjustments	(3)	(3)
<b>Corporate income tax due</b>	<b>(259)</b>	<b>(141)</b>
Due to temporary differences	300	84
<b>Deferred tax</b>	<b>300</b>	<b>84</b>
<b>Total</b>	<b>41</b>	<b>(57)</b>



## Reconciliation between the statutory and effective tax rate

<i>In € millions</i>	2011	2010
Statutory income tax rate	25.0%	25.5%
Result before tax	129	(316)
Statutory corporate income tax amount	32	(81)
Effect of participation exemption	(4)	5
Due to temporary differences	--	(2)
Prior year adjustments (including tax provision release)	(3)	(3)
Permanent differences	8	27
Other, mainly non-deductible expenses	8	(3)
<b>Total</b>	<b>41</b>	<b>(57)</b>
Effective tax rate	32.0%	17.9%

## 28.46 Net result per share / core Tier 1 capital security

### Attribution net result to shares and securities

<i>In € millions</i>	2011	2010
<b>Net result</b>		
Attributable to ordinary shares	80	(239)
Attributable to core Tier 1 capital securities Stichting Beheer SNS REAAL	7	(21)
Attributable to core Tier 1 capital securities Dutch State	--	--

### Specification issued shares / securities

	Ordinary shares		B-shares: Stichting Beheer		Capital securities: Stichting Beheer		Capital securities: Dutch State	
<i>In numbers</i>	2011	2010	2011	2010	2011	2010	2011	2010
Outstanding as at 1 January	287,619,867	287,619,867	6	6	4,350,000	4,350,000	107,619,045	107,619,045
Issues in the financial year	--	--	--	--	--	--	--	--
Repurchased in the financial year	--	--	--	--	--	--	--	--
Outstanding as at 31 December	287,619,867	287,619,867	6	6	4,350,000	4,350,000	107,619,045	107,619,045

### Specification weighted average number of diluted shares / securities

	Ordinary shares		B-shares: Stichting Beheer		Capital securities: Stichting Beheer		Capital securities: Dutch State	
<i>In numbers</i>	2011	2010	2011	2010	2011	2010	2011	2010
Weighted average number of issued shares / securities as at 31 December	287,619,867	287,619,867	6	6	4,350,000	4,350,000	107,619,045	107,619,045
Effect right of conversion securities (year 2012)	107,619,045	107,619,045	--	--	--	--	--	--
Weighted average number of diluted shares / securities as at 31 December	395,238,912	395,238,912	6	6	4,350,000	4,350,000	107,619,045	107,619,045

**Specification result per share / securities**

	Ordinary shares		B-shares: Stichting Beheer		Capital securities: Stichting Beheer		Capital securities: Dutch State	
<i>In euro's</i>	2011	2010	2011	2010	2011	2010	2011	2010
Net result per weighted average number of shares / capital securities outstanding	0.28	-0.83	--	--	1.74	(4.81)	--	--
Net result per weighted average number of diluted shares / capital securities outstanding	0.20	-0.83	--	--	--	--	--	--

The securities to the Dutch State include a conversion right. This conversion right did result in dilution in the 2011 financial year.

The B-shares and core Tier 1 capital securities issued to the Dutch State and Stichting Beheer SNS REAAL did not generate any earnings per share or security in 2011, because no dividend is paid to ordinary shareholders.

Reference is made tot the paragraph [Developments in capital and solvency](#) in the chapter on Risk management and Capital structure for more information on SNS REAAL's capital.

Utrecht, 5 March 2012

**Supervisory Board**

R. Zwartendijk (Chairman)  
P.S. Overmars (Vice Chairman)  
C.M. Insinger  
R.J. van de Kraats  
J.E. Lagerweij  
J.A. Nijhuis  
J.A. Nijssen  
H.W.P.M.A. Verhagen  
L.J. Wijngaarden

**Group Executive Board**

R.R. Latenstein (Chairman)  
F.K.V. Lamp  
D.J. Okhuijsen  
W.H. Steenpoorte

## 29 Company financial statements

### 29.1 Company balance sheet

#### Company balance sheet

Before result appropriation and in € millions

	Notes	2011	2010
<b>Assets</b>			
Intangible assets		17	16
Property and equipment		21	11
Subsidiaries	1	6,200	5,444
Receivables from subsidiaries	2	655	1,378
Investments	3	48	67
Derivatives	4	43	37
Deferred tax assets		35	14
Loans and advances to banks		14	15
Corporate income tax		70	35
Other assets		19	76
Cash and cash equivalents		2	90
<b>Total assets</b>		<b>7,124</b>	<b>7,183</b>
<b>Equity and liabilities</b>			
Issued share capital		469	469
Share premium reserve		1,363	1,363
Statutory reserves associates		1,388	755
Other statutory reserves		162	116
Other reserves		979	1,275
Retained earnings		87	(260)
<b>Shareholders' equity</b>	5	<b>4,448</b>	<b>3,718</b>
Equity attributable to securityholders	5	979	999
Subordinated debt	6	604	603
<b>Capital base</b>		<b>6,031</b>	<b>5,320</b>
Debt certificates	7	302	302
Provision for employee benefits		77	41
Other provisions		10	8
Derivatives	4	2	4
Other amounts due to customers	8	522	1,141
Amounts due to banks	9	73	275
Other liabilities		107	92
<b>Total equity and liabilities</b>		<b>7,124</b>	<b>7,183</b>

The references next to the balance sheet items relate to the notes to the company financial statements starting from paragraph 30.1

## 29.2 Company income statement

### Company income statement

*In € millions*

	2011	2010
Result on subsidiaries after taxation	208	(194)
Other results after taxation	(121)	(66)
<b>Net result for the period</b>	<b>87</b>	<b>(260)</b>

## 29.3 Principles for the preparation of the company financial statements

SNS REAAL prepares the company financial statements in accordance with the statutory provisions of Book 2, Section 402 of the Dutch Civil Code. Based on this, the result on associated companies after taxation is the only item shown separately in the income statement. Use has been made of the option offered in Book 2, Section 362 (8) of the Dutch Civil Code to use the same principles for valuation and the determination of the result that are used in the consolidated financial statements for the company financial statements. Reference is made to the [Accounting principles 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 Trade Register of the Chamber of Commerce of Utrecht.

Subsidiaries are all companies and other entities in respect of which SNS REAAL has the power to govern the financial and operating policies, whether directly or indirectly, and which are controlled by SNS REAAL. The subsidiaries are accounted for using the equity method.

Changes in balance sheet values of subsidiaries due to changes in the revaluation, cash flow, fair value and profit sharing reserve of the subsidiaries are reflected in the statutory reserve associates, which forms part of shareholders' equity.

Statutory reserves that have been formed for the capitalised costs of research and development of software and capitalised internal acquisition costs 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 REAAL accounting policies, are included in the profit and loss account. The distributable reserves of subsidiaries are included in other reserves.

Cash and cash equivalents include the non-restricted advances to credit institutions.

## 30 Notes to the company financial statements

### 30.1 Subsidiaries

#### Specification subsidiaries

<i>In € millions</i>	2011	2010
SNS Bank NV	1,879	1,836
REAAL NV	4,356	3,627
Other	(35)	(19)
<b>Total</b>	<b>6,200</b>	<b>5,444</b>

#### Statement of change in subsidiaries

<i>In € millions</i>	2011	2010
Balance as at 1 January	5,444	5,646
Repurchase securities capital and share premium reserve	(404)	--
Capital contribution	454	1
Revaluations	598	(6)
Result	208	(194)
Dividend received	(102)	--
Other movements	2	(3)
<b>Balance as at 31 December</b>	<b>6,200</b>	<b>5,444</b>

### 30.2 Receivables from subsidiaries

#### Time to maturity receivables from subsidiaries

<i>In € millions</i>	2011	2010
< 3 months	63	--
3 months - 1 year	--	198
1 - 5 year	--	80
> 5 year	592	1,100
<b>Total</b>	<b>655</b>	<b>1,378</b>

### 30.3 Investments

#### Specification investments

<i>In € millions</i>	2011	2010
Investments available for sale	48	67
<b>Total</b>	<b>48</b>	<b>67</b>

### Statement of change in investments

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Balance as at 1 January	67	77
Purchases and advances	--	13
Disposals and redemptions	--	(10)
Revaluations	--	(1)
Impairments	(19)	(12)
<b>Balance as at 31 December</b>	<b>48</b>	<b>67</b>

An impairment of € 19 million (2010: € 12 million) relates to the investment in Van Lanschot NV.

## 30.4 Derivatives

### Specification derivatives

<i>In € millions</i>	Positive value		Negative value		Total	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Derivatives held for fair value hedge accounting	43	37	2	4	41	33

### Statement of change in derivatives

<i>In € millions</i>	<b>2011</b>	<b>2010</b>
Balance as at 1 January	33	12
Revaluations	8	9
Exchange rate differences	2	5
Other	(2)	7
<b>Balance as at 31 December</b>	<b>41</b>	<b>33</b>

## 30.5 Equity

### Statement of changes in equity 2011

In € millions

	Issued capital ordinary and B-shares	Share premium reserve ordinary and B-shares	Fair value reserve	Statutory reserves associates	Other statutory reserves	Other reserves	Retained earnings	Equity attributable to shareholders	Securities capital
Balance as at 1 January 2011	469	1,363	--	755	116	1,275	(260)	3,718	999
Transfer of 2010 net result	--	--	--	--	--	(239)	260	21	(21)
Transfer of distributed interim dividend 2010	--	--	--	--	--	--	--	--	--
<b>Transfers 2010</b>	--	--	--	--	--	(239)	260	21	(21)
Unrealised revaluations from cash flow hedges	--	--	--	91	--	--	--	91	--
Deferred interest income from cash flow hedges	--	--	--	(6)	--	--	--	(6)	--
Unrealised revaluations	--	--	--	815	--	--	--	815	--
Impairments	--	--	--	58	--	--	--	58	--
Realised revaluations through profit or loss	--	--	--	(123)	--	--	--	(123)	--
Suppletion negative revaluation reserves associates	--	--	--	--	46	(46)	--	--	--
Change in shadow accounting	--	--	--	(214)	--	--	--	(214)	--
Other movements	--	--	--	12	--	(11)	--	1	--
<b>Amounts charged directly to equity</b>	--	--	--	633	46	(57)	--	622	--
Net result 2011	--	--	--	--	--	--	87	87	--
<b>Total result 2011</b>	--	--	--	633	46	(57)	87	709	--
Transactions with shareholders and securityholders	--	--	--	--	--	--	--	--	1
<b>Total changes in equity 2011</b>	--	--	--	633	46	(296)	347	730	(20)
<b>Balance as at 31 December 2011</b>	<b>469</b>	<b>1,363</b>	<b>--</b>	<b>1,388</b>	<b>162</b>	<b>979</b>	<b>87</b>	<b>4,448</b>	<b>979</b>

## Statement of changes in equity 2010

In € millions

	Issued capital ordinary and B-shares	Share premium reserve ordinary and B-shares	Fair value reserve	Statutory reserves associates	Other statutory reserves	Other reserves	Retained earnings	Equity attributable to shareholders	Securities capital
Balance as at 1 January 2010	469	1,363	--	748	--	1,401	10	3,991	999
Transfer of 2009 net result	--	--	--	--	--	17	(17)	--	--
Transfer of distributed interim dividend 2009	--	--	--	--	--	(7)	7	--	--
<b>Transfers 2009</b>	--	--	--	--	--	<b>10</b>	<b>(10)</b>	--	--
Unrealised revaluations from cash flow hedges	--	--	--	25	--	--	--	25	--
Deferred interest income from cash flow hedges	--	--	--	(2)	--	--	--	(2)	--
Unrealised revaluations	--	--	--	161	--	--	--	161	--
Impairments	--	--	--	(12)	--	--	--	(12)	--
Realised revaluations through profit or loss	--	--	--	(155)	--	--	--	(155)	--
Suppletion negative revaluation reserves associates	--	--	--	--	116	(116)	--	--	--
Change in shadow accounting	--	--	--	(27)	--	--	--	(27)	--
Other movements	--	--	--	17	--	(20)	--	(3)	--
<b>Amounts charged directly to equity</b>	--	--	--	<b>7</b>	<b>116</b>	<b>(136)</b>	--	<b>(13)</b>	--
Net result 2010	--	--	--	--	--	--	(260)	(260)	--
<b>Total result 2010</b>	--	--	--	<b>7</b>	<b>116</b>	<b>(136)</b>	<b>(260)</b>	<b>(273)</b>	--
Transactions with shareholders and securityholders	--	--	--	--	--	--	--	--	--
<b>Total changes in equity 2010</b>	--	--	--	<b>7</b>	<b>116</b>	<b>(126)</b>	<b>(270)</b>	<b>(273)</b>	--
<b>Balance as at 31 December 2010</b>	<b>469</b>	<b>1,363</b>	--	<b>755</b>	<b>116</b>	<b>1,275</b>	<b>(260)</b>	<b>3,718</b>	<b>999</b>

### 30.5.1 Issued share capital

The share capital issued is fully paid and comprises ordinary shares and B-shares

The nominal value of the ordinary shares and the B-shares is € 1.63. The number of issued shares as at 31 December 2011 is 287,619,867 ordinary shares and 6 B-shares.

#### Specification issued share capital

	Number of ordinary shares		Amount of ordinary shares (in € million)		Number of B-shares		Amount of B-shares (in € millions)	
	2011	2010	2011	2010	2011	2010	2011	2010
Authorised share capital	1,044,005,143	1,044,005,143	1,702	1,702	6	6	--	--
Share capital in portfolio	756,385,276	756,385,276	1,233	1,233	--	--	--	--
<b>Issued share capital as at 31 December</b>	<b>287,619,867</b>	<b>287,619,867</b>	<b>469</b>	<b>469</b>	<b>6</b>	<b>6</b>	<b>--</b>	<b>--</b>



### Statement of change issued share capital

	Number of ordinary shares		Amount of ordinary shares (in € million)		Number of B-shares		Amount of B-shares (in € millions)	
	2011	2010	2011	2010	2011	2010	2011	2010
Issued share capital as at 1 January	287,619,867	287,619,867	469	469	6	6	--	--
Share issue	--	--	--	--	--	--	--	--
<b>Issued share capital as at 31 December</b>	<b>287,619,867</b>	<b>287,619,867</b>	<b>469</b>	<b>469</b>	<b>6</b>	<b>6</b>	<b>--</b>	<b>--</b>

### 30.5.2 Securities capital

The securities are issued to Stichting Beheer SNS REAAL and to the Dutch State.

Stichting Beheer SNS REAAL holds 4,350,000 securities as at 31 December 2011, each with a nominal value of € 95.19 (2010: € 100.00) after appropriation of the loss absorption 2010.

The Dutch State holds 107,619,045 securities as at 31 December 2011, each with a nominal value of € 1.63.

#### Specification capital securities

<i>In € millions</i>	2011	2010
Securities capital Stichting Beheer SNS REAAL	415	435
Securities capital Dutch State	564	564
<b>Total</b>	<b>979</b>	<b>999</b>

### Statement of change in capital securities

<i>In € millions</i>	Securities capital Stichting Beheer SNS REAAL		Securities capital Dutch State	
	2011	2010	2011	2010
Balance as at 1 January	435	435	564	564
Loss absorption	(21)	--	--	--
Transactions with securityholders to securities	1	--	--	--
<b>Balance as at 31 December</b>	<b>415</b>	<b>435</b>	<b>564</b>	<b>564</b>

### 30.6 Subordinated debt

#### Specification subordinated debt

<i>In € millions</i>	2011	2010
Bond variable interest rate 2005/2012	200	200
Bond 6.258% 2007/2049	249	248
Bond 8.45% 2008/2018	95	85
Private loans	60	70
<b>Total</b>	<b>604</b>	<b>603</b>

The balance of subordinated debt with a maturity of longer than five years amounts to € 374 million (2010: € 364 million). The private loans have an average interest rate of 6.6% (2010: 6.5%).

## 30.7 Debt certificates

### Specification debt certificates

<i>In € millions</i>	2011	2010
EMTN loans	302	302
<b>Total</b>	<b>302</b>	<b>302</b>

The European Medium Term Notes (EMTN) have a maturity of less than five years and an average interest rate of 4.1% (2010: 4.1%).

## 30.8 Other amounts due to customers

### Specification other amounts due to customers

<i>In € millions</i>	2011	2010
Private loans	30	30
Available on demand	492	1,111
<b>Total</b>	<b>522</b>	<b>1,141</b>

### Time to maturity other amounts due to customers

<i>In € millions</i>	2011	2010
< 3 months	--	451
3 months - 1 year	492	660
1 - 5 year	30	30
<b>Total</b>	<b>522</b>	<b>1,141</b>

The private loans have an average interest rate of 6.1% (2010: 6.1%). The loans available on demand are related to loans with subsidiaries for € 492 million (2010: € 1,060 million).

## 30.9 Amounts due to banks

This item relates to amounts owed to subsidiaries.

### Time to maturity amounts due to banks

<i>In € millions</i>	2011	2010
< 3 months	73	75
3 months - 1 year	--	200
1 - 5 year	--	--
<b>Total</b>	<b>73</b>	<b>275</b>

### 30.10 Guarantees

SNS REAAL NV has provided guarantees as referred to in Book 2, Section 403 of the Dutch Civil Code for SNS Bank NV, SNS Asset Management NV and SNS REAAL Invest NV. This guarantee is also provided by SNS REAAL NV for most of the subsidiaries of SNS Bank NV and SNS REAAL Invest NV. REAAL NV has provided such guarantees for some of its subsidiaries, with the exception of SNS Verzekeringen BV for which a 403-statement has been provided by SNS REAAL NV.

SNS REAAL NV, together with most of its subsidiaries, constitutes a single tax entity for corporate income tax and a single tax entity for 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 single tax entity.

### 30.11 Audit fees

In the financial year, the following fees of the audit firm KPMG Accountants NV and the other KPMG companies were charged to the organisation, its subsidiaries and other companies it consolidates, all this as referred to in Book 2, Section 382A of the Dutch Civil Code.

#### Notes to the audit fees

<i>In € thousands, excluding applicable VAT</i>	KPMG Accountants NV		Other KPMG Network		Total	
	2011	2010	2011	2010	2011	2010
Statutory audit of annual accounts, including the audit of the financial statements and other statutory audits of subsidiaries and other consolidated entities	2,720	2,750	--	--	2,720	2,750
Other assurance services	917	656	--	36	917	692
Tax advisory services	--	--	628	490	628	490
Other non-audit services	125	9	410	531	535	540
<b>Total</b>	<b>3,762</b>	<b>3,415</b>	<b>1,038</b>	<b>1,057</b>	<b>4,800</b>	<b>4,472</b>

Utrecht, 5 March 2012

#### Supervisory Board

R. Zwartendijk (Chairman)  
P.S. Overmars (Vice Chairman)  
C.M. Insinger  
R.J. van de Kraats  
J.E. Lagerweij  
J.A. Nijhuis  
J.A. Nijsen  
H.W.P.M.A. Verhagen  
L.J. Wijngaarden

#### Group Executive Board

R.R. Latenstein (Chairman)  
F.K.V. Lamp  
D.J. Okhuijsen  
W.H. Steenpoorte

## 31 Overview of principal subsidiaries

An overview is provided below of the main subsidiaries, categorised under Bank, Insurer and Group activities of SNS REAAL. Participation in the subsidiaries is 100%.

### Overview of principal subsidiaries Banking activities

SNS Bank NV	Utrecht
ASN Bank NV	Den Haag
ASN Groenbank NV	Den Haag
SNS Securities NV	Amsterdam
SNS Property Finance BV	Leusden
RegioBank NV	Utrecht

### Overview of principal subsidiaries Insurance activities

REAAL NV	Utrecht
SRLEV NV	Alkmaar
REAAL Schadeverzekeringen NV	Zoetermeer
Proteq Levensverzekeringen NV	Alkmaar
Proteq Schadeverzekeringen NV	Alkmaar
SNS Verzekeringen BV	Zoetermeer
RM BV	Utrecht

### Overview of principal subsidiaries Group activities

SNS REAAL Invest NV	Utrecht
SNS Asset Management NV	Utrecht

### Other capital interests

For information on the most significant other capital interests, reference is made to the notes to the consolidated balance sheet in the section on [Investments in associates](#).

The overview as referred to in Book 2, Sections 379 and 414 of the Dutch Civil Code has been filed with the Trade Register of the Chamber of Commerce of Utrecht.

## 32 Other information

### 32.1 Provision regarding profit or loss appropriation

Result 2011: € 87 million

#### 32.1.1 Provisions of the Articles of Association regarding profit or loss appropriation for ordinary shares and B-shares

The profit appropriation will be determined in accordance with article 34 of the Articles of Association of SNS REAAL NV. This article stipulates that the Executive Board may reserve as much profit as it deems necessary, subject to approval by the Supervisory Board. The remaining amount of the profit, after deduction of the dividend accruing to the B-shares, will be distributed to the holders of ordinary shares. Distributions can only be made to the extent that shareholders' equity exceeds the amount of the issued capital, augmented by the statutory reserves.

The B-shares are issued to the Stichting Beheer SNS REAAL (hereafter: the Foundation). The B-shares entitle the holder to a dividend that depends on the dividend distributed on ordinary shares. If no dividend is distributed on ordinary shares, no dividend will be distributed on the B-shares.

The Executive Board has resolved, with the approval of the Supervisory Board, to pass over the dividend for 2011 and to fully reserve the distributable profit. This means no dividend will be distributed on issued ordinary shares and B-shares.

#### 32.1.2 Provisions regarding profit or loss appropriation for core tier 1 capital securities

The distribution of a coupon to the holders of the core Tier 1 capital securities issued on 11 December 2008 (Stichting Beheer SNS REAAL and the Dutch State) is dependent on distribution of (interim) dividend to ordinary shareholders or on B-shares. If no dividend is distributed on ordinary shares, no coupon will be distributed on the core Tier 1 capital securities.

##### 32.1.2.1 Loss absorption core Tier 1 capital securities Stichting Beheer SNS REAAL (hereafter: Stichting securities)

If SNS REAAL were to incur any losses during the term of the Stichting securities, these losses will partially be borne by the Foundation. The nominal value of the Stichting securities will be reduced with this loss.

If SNS REAAL makes a profit in any subsequent year in accordance with article 34.2 of the Articles of Association of SNS REAAL NV, that profit will partly be used to increase the nominal value of the Stichting securities, up to a maximum of the initial nominal value of € 100 per Stichting security.

The part of the profit that is used as a supplement is a fraction comprising the aggregate of the nominal values of the outstanding Stichting securities prior to the application of loss absorption, divided by the sum of (a) the aggregate of the nominal values of the outstanding Stichting securities prior to the application of loss absorption, (b) the aggregate of the nominal values of the outstanding ordinary shares of SNS REAAL, increased by the corresponding share premium reserves and the share premium recovery reserves, as well as all other free reserves and reserves required by law and the Articles of Association, and (c) the aggregate of the nominal values of the outstanding B-shares, increased by the corresponding share premium reserves and share premium recovery reserves.

The profit participation of the Stichting securities in the amount of € 7 million increases the nominal value of the Stichting securities.

The core Tier 1 capital securities of the Dutch State are not subject to a loss absorption clause.

### **32.1.3 Profit appropriation**

The profit for the financial year 2011 is credited to the profit reserves of SNS REAAL NV and the nominal value of the Stichting securities.

## **32.2 Independent auditor's report**

To the General Meeting of Shareholders of SNS REAAL NV

### **Report on the financial statements**

We have audited the accompanying financial statements 2011 of SNS REAAL NV in Utrecht, as included in chapters 21 to 30 of this report. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2011, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2011, the company income statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

### ***Executive board's responsibility***

The executive board is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the executive board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, executive board is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by executive board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion with respect to the consolidated financial statements***

In our opinion, the consolidated financial statements give a true and fair view of the financial position of SNS REAAL NV as at 31 December 2011 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

### ***Opinion with respect to the company financial statements***

In our opinion, the company financial statements give a true and fair view of the financial position of SNS REAAL NV as at 31 December 2011 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

**Report on other legal and regulatory requirements**

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the executive board report, as included in chapter 1 through 20, to the extent we can assess, has been prepared in accordance with part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the executive board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 5 March 2012

**KPMG ACCOUNTANTS NV**

P.A.M. de Wit RA



### 32.3 Independent assurance report

#### To the readers of the SNS REAAL N.V. Annual Report 2011

We have been engaged by the Executive Board of SNS REAAL N.V. (hereafter: SR) to provide assurance on chapters 5, 7 and 8 as well as the information included in the GRI section (further referred to as 'the chapters and the section') as included in the Annual Report 2011. The chapters and the section, including the identification of material issues, is the responsibility of the Executive Board of SR. Our responsibility is to issue an assurance report on the chapters and the section.

#### What was included in the scope of our assurance engagement?

Our engagement was designed to provide limited assurance on whether the information in the chapters and the section is fairly presented, in all material respects, in accordance with the Global Reporting Initiative G3.1 guidelines. The cross references in the chapters and the section to other parts of the Annual Report and the information contained in these other parts are not part of the scope of our assurance engagement.

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. We do not provide assurance on the feasibility of goals, expectations and ambitions of SR.

#### Which reporting criteria did SR use?

SR applies the G3.1 reporting guidelines of the Global Reporting Initiative for reporting on information in the chapters and the section, as also disclosed in the GRI section of the Annual Report. The chapters and the section should be viewed against this disclosure.

#### Which assurance standard did we use?

We conducted our engagement in accordance with Standard 3410N 'Assurance Engagements relating to Sustainability Reports' of the Royal Netherlands Institute of Register Accountants. This Standard requires, amongst others, that the assurance team possesses the specific knowledge, skills and professional competencies needed to understand sustainability information, identify and collect the thereto related assurance-information and that they comply with the requirements of the Code of Ethics for Professional Accountants from the International Federation of Accountants to ensure their independence.

#### What did we do to reach our conclusions?

We carried out the following work:

- A media analysis and internet search to identify relevant environmental, safety and social issues for SR in the reporting period
- Interviewing Executive Board members who are responsible for the implementation of the corporate responsibility strategy as well as staff at corporate level who are responsible for the information provided in the chapters and the section;
- Reviewing the design and implementation of systems and processes for collection and processing, including aggregation of data into information in the chapters and the section;
- Reviewing internal and external documentation on a sample basis to determine whether the information in the chapters and the section is adequately supported

As part of our assurance procedures we discussed changes to the draft reports with SR, and reviewed the final version of the chapters and the section to ensure that it reflected our findings.

#### What is our conclusion?

Based on the procedures performed, as described above, we conclude that the information in the chapters and the section does not, in all material respects, appear to be unfairly stated in accordance with the Global Reporting Initiative G3.1 guidelines.

**Corresponding information not examined**

The GRI section 2011 includes corresponding information of previous years on which no assurance have been provided. Consequently, we do not provide any assurance on the corresponding information included in the GRI section 2011.

Amstelveen, 5 March 2012

**KPMG Sustainability, part of KPMG Advisory N.V.**

W.J. Bartels RA

## GRI

The GRI table reflects the questions and answers in accordance with the GRI Sustainability Reporting Guidelines.

Together with chapters 5, 7 and 8 of the Annual Report 2011, the GRI table reflects our approach on corporate responsibility. If you download the integrated annual report in PDF, you will find both parts.

### 1 Strategy and Analysis

**1.1 Statement from the most senior decisionmaker of the organisation (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy.**

See [foreword Annual Report](#).

Full answer.

**1.2 Description of key impacts, risks, and opportunities.**

SNS REAAL's Annual Report includes a [SWOT analysis, strategic challenges and objectives](#), its corporate [responsibility strategy and performance](#) in the year under review and a report on [the progress of the strategy](#) and previously set goals and ambitions for the Annual Report.

Full answer.

## 2 Organisational Profile

### 2.1 Name of the organisation

SNS REAAL NV

Full answer.

### 2.2 Primary brands, products, and/or services.

SNS REAAL offers products and services in the field of mortgages and property finance, savings and investments, and insurance and pensions. The company's main brands are: SNS Bank, ASN Bank, RegioBank, BLG, REAAL and Zwitserleven. A very small part of the activities is outsourced, in particular the processing procedures of securities in which customers invest.

Full answer.

### 2.3 Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.

SNS REAAL consists of the following business units: [SNS Bank](#), [Property Finance](#), [REAAL](#), [Zwitserleven](#), and [Group activities](#). The Management Committee (MC) of SNS REAAL has a guiding role in encouraging collaboration and result-oriented management. The MC is comprised of the Executive Board, chairmen of the management teams of SNS Bank, REAAL, Zwitserleven and Property Finance, the Chief Information Officer and the HR Director. The Group staff departments, including IT and Change, support the Group as well as the business units. The business units focus on marketing, sales and distribution. The production, pricing and mid-office activities are organised per product group and are managed by the most relevant business unit.

Full answer.

### 2.4 Location of organisation's headquarters.

Utrecht, the Netherlands.

Full answer.

### 2.5 Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.

SNS REAAL's focus is now mainly – and in the future solely so – on the Dutch market. [Property Finance](#) has outstanding loans outside the Netherlands. At the end of 2011, the outstanding loans abroad represented 3,6% (4,7% 2010) of SNS REAAL's total loan portfolio and will be phased out in the next few years.

Full answer.

### 2.6 Nature of ownership and legal form.

At year-end 2011, the Foundation held 50.00001% of the ordinary shares of SNS REAAL. As far as we know, besides the Foundation, only the following shareholder, in accordance with the Dutch Financial Supervision Act (Wft), reported a (potential) interest of 5% or more as per 31 December 2011: Massachusetts Financial Services Company an interest of 3.15% and a 5.07% voting right (including voting rights based on proxies) as at 30 November 2010.

Full answer.

### 2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).

SNS REAAL's focus is now mainly – and in the future solely so – on the Dutch market. SNS REAAL's customers are mainly private individuals and small and medium-sized enterprises. For pension products, SNS REAAL focuses in part also on larger companies.

Full answer.

## 2.8 Scale of the reporting organisation.

The number of employees at year-end 2011 was 7,422 (6,928 FTE). For more details, refer to the [key figures](#) presented in the Annual Report.

Full answer.

## 2.9 Significant changes during the reporting period regarding size, structure, or ownership.

The number of employees declined by 70 (1% in number of employees, 3% in FTEs) compared to 2010, mainly as a result of organisational change in order to slim down and a more customer-oriented approach. Full answer.

## 2.10 Awards received in the reporting period.

Awards (received in the Netherlands):

- ASN winner most customer-oriented bank and winner of Independer's customer satisfaction survey
- ASN Bank proclaimed most customer-oriented bank company according to Marketresponse (research consultancy)
- ASN Environment & Water Fund wins FD (Dutch national financial newspaper) / Morningstar Award
- REAAL was awarded the Customer-oriented Insurance Quality Mark
- Eurosif Transparency Quality Mark for Zwitserleven
- SNS REAAL in Top 10 Incompany 500 corporate image survey among employers
- Maarten Edixhoven nominated as 'Young Captain of Industry 2011'
- Zwitserleven won a Golden Shield Award (service award of the year for financials) in the category of Corporate Social Responsibility
- BLG nominated for the best mortgage product of the year for the 'Bespreekdesk' (a team of experienced acceptors that discuss complex requests)
- ASN Bank nominated for the Accenture Innovation Awards public award in the financial services sector
- SNS Bank winner of the Financial Marketing Award 2011
- REAAL Disability Insurance for entrepreneurs number 1 in MoneyView ProductManager

And also:

- High score Asset Management on UN PRI list
- ASN, RegioBank and SNS Bank score well on the Fair Bank Guide (*Eerlijke Bankwijzer*)
- REAAL and Zwitserleven top of the VBDO (Dutch Association of Investors for Sustainable Development) list of sustainable insurance companies
- The Dutch Consumers' Association selected two annual multi-trip insurance policies of Zelf.nl as 'Best Buy' in the February 2011 Consumers' Guide
- RegioBank's custom savings account is selected 'best product' in the Consumers' Association's savings account test
- The annuity accounts of REAAL Banking Services, SNS Bank and RegioBank attained the highest ranking in MoneyView survey (survey consultancy)
- BLG Mortgages offers an interest-only mortgage about which the Consumers' Association's Money guide (February/March edition) is very enthusiastic
- Volkert de Klerk, SNS Investment Funds Director, wins the prestigious Lipper Award
- SNS REAAL together with Oracle and Vodafone, reaches the final three companies competing for the Winning Workplace Award
- First place for Zwitserleven in IG&H's Interim Performance Survey Pensions

- ASN Sustainable Equity Fund product of the year according to national newspaper *De Telegraaf/Over geld (special on money)*
- Zwitserleven regains number one position as best insurer of collective life insurance contracts according to Adfiz (Advisors in Financial Security)
- MoneyView awards RegioBank and REAAL with 5 stars

Full answer.

### **3 Report Parameters**

#### **3.1 Reporting period (e.g., fiscal/calendar year) for information provided.**

1 January 2011 up to and including 31 December 2011.

Full answer.

#### **3.2 Date of most recent previous report (if any).**

Annual report 2010: 9 March 2011. Corporate Responsibility report 2010: 9 March 2011.

Full answer.

#### **3.3 Reporting cycle (annual, biennial, etc.)**

Annually.

Full answer.

#### **3.4 Contact point for questions regarding the report or its contents.**

Verantwoord.ondernemen@snsreaal.nl

Full answer.

#### **3.5 Process for defining report content.**

The mission of SNS REAAL is Simplicity in finance. In chapter 5.3 (link naar 5.3 EN) we show how we realise our mission through our strategy. The core of Corporate Responsibility is to aid our customers in enhancing their ability to manage their financial affairs. Openness, simplicity and solidarity are the basic principles in this to ensure we gain and keep the trust of our customers. That is why we have our core value CARE! We set our priorities in Corporate Responsibility by taking into account:

- The material impact of our activities on Simplicity in finance and aiding our customers in enhancing their ability to manage their financial affairs, and the consequences for the internal organisation of SNS REAAL.
- The opinion of our stakeholders. Together they make up the customers of SNS REAAL and show us in what respect we can win, help and keep customers.
- The long term interest of Corporate Responsibility for maintaining an independent, solid capital position.

The considerations for Corporate Responsibility, combined with our stakeholder dialogues (link naar 4.14 EN), lead to the identification of the following important topics (see chapter 6 of the annual report for more details in our SWOT analysis):

- Maintain a strong capital policy (chapter 7.1, 7.2 of the annual report and financial statements)
- Responsible service provision (chapter 7.3 and 8.4 of the annual report)
- Responsible organisation (chapter 8.4 of the annual report)
- Sustainable supply chain and the environment (chapter 8.4 of the annual report and chapter 5 of the GRI section)

Addressing these important topics successfully will depend on our personal leadership.

Full answer.

#### **3.6 Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).**

The quantitative and qualitative data provided apply to SNS REAAL as a whole, except when it is specifically indicated that data applies to on specific business unit or part of the organisation only.

Full answer.

### **3.7 State any specific limitations on the scope or boundary of the report.**

SNS REAAL reports on the organisation as a whole, excluding the limitations stated in 3.6.

Full answer.

### **3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.**

SNS REAAL reports on the organisation as a whole. [The Corporate Responsibility Report](#) is incorporated in the regular Annual Report. In addition to this, ASN Bank publishes its own Sustainability Report. Also refer to [www.asnbank.nl](http://www.asnbank.nl).

Full answer.

### **3.9 Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.**

SNS REAAL reports in line with the GRI G3.1 guidelines, level C+.

Full answer.

### **3.10 Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g. mergers/ acquisitions, change of base years/periods, nature of business, measurement methods).**

In 2011, SNS REAAL sharpened and restated its [corporate responsibility strategy](#). This did not lead to a reformulation of the factual material or change to the comparison base compared to the previous year under review.

Full answer.

### **3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.**

From 2011, the Corporate Responsibility Report is incorporated in SNS REAAL's regular Annual Report. Hence, there is now only one publication date for the report on all SNS REAAL's activities, including corporate responsibility.

Full answer.

### **3.12 Table identifying the location of the Standard Disclosures in the report.**

The full content index can be found in the PDF file after the front cover. On this website the content index can be found at the beginning of the GRI table.

Full answer.

### **3.13 Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organisation and the assurance provider(s).**

Group Audit (GA) itself does not provide an assurance statement for (parts of) the Corporate Responsibility Report, but does conduct an audit. For 2011 KPMG provided an assurance statement for the corporate responsibility part of the Annual Report (chapters 5, 7 and 8) and for this GRI table. KPMG also provides an assurance statement for ASN Bank's Sustainability Report.

Full answer.



## 4 Governance, Commitments, and Engagement

### 4.1 Overview governance structure

**Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.**

The Executive Board is responsible for the company strategy of SNS REAAL, including corporate responsibility (CR). The Management Committee encourages an efficient and effective execution of the strategy, including CR, and the management teams of the business units translate the company strategy, including CR, to the operational activities. See chapter [20 Corporate Governance](#).

Full answer.

### 4.2 Executive or non-executive role of the Chairman

**Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organisation's management and the reasons for this arrangement).**

The Chairman of the Executive Board is also [an executive officer](#).

Full answer.

### 4.3 Executive/independent or non-executive/non-independent role of the members

**For organisations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.**

Not applicable. SNS REAAL does not have a unitary board structure.

Not answered.

### 4.4 Recommendation and participation mechanisms

**Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.**

Shareholders that meet certain requirements may request the Executive Board and Supervisory Board to convene a (extraordinary) General Meeting of Shareholders (GMS) or request a certain item to be placed on the agenda of a GMS. Refer to [Corporate Governance](#) for the applicable conditions. Employee participation is exercised through a works council selected by employees. This works council functions under the laws of the Netherlands.

Full answer.

### 4.5 Link between compensation and performance

**Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).**

The performance indicators of the remuneration policy are derived from the long-term objectives of SNS REAAL. These indicators contribute to the realisation of SNS REAAL's strategy, including CR. For the full text of the remuneration policy of these members, refer to the [Remuneration Report](#) and refer to the chapter on [Our people](#) for an explanation.

Full answer.

#### 4.6 Conflict of interest prevention

Processes in place for the highest governance body to ensure conflicts of interest are avoided.

To fulfil its functions, the Executive Board is bound by rules which are laid down in regulations. You will find the regulations on [www.snsreaal.nl](http://www.snsreaal.nl)

Full answer.

#### 4.7 Process of expertise and qualifications determination to manage strategy

Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.

The members of the Executive Board of SNS REAAL follow [continuing education](#) under the guidelines of the Banking Code and the Insurance Code. The CVs of the members of the Executive Board give insight into their expertise. Refer to

#### 4.8 Statements of mission or principles, codes of conduct and principles and their relevance

Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.

In its Annual Report, SNS REAAL describes its [mission, core value and strategy](#) and its criteria for corporate responsibility organisation, i.e. being a good employer, being a good employee, [sustainable chain](#) and environment. SNS REAAL specifies in its report that it has a policies in place in all these areas and indicates, distinguished on type of activities where required, which standards and criteria were met in the year under review. For more extensive information on the core value CARE! also refer to the chapter [Developments in CR](#).

Full answer.

#### 4.9 Inventory procedures and performance and risk management

Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.

The Executive Board has delegated the operational management and direction of CR to the Director of CR. The Director of CR, supported by the CR Department, collaborates with the business unit directors and Group staff departments in a matrix organisation. He also keeps a close watch on the compliance with international standards, codes of conduct and principles. Risk Management, including economic, environmental and social risks, is laid down in our [risk governance](#).

Full answer.

#### 4.10 Evaluation processes own performance

Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.

The Supervisory Board has formal processes for the evaluation and assessment of the members of the Executive Board. These are laid down in the [Regulations of the Supervisory Board](#). These assessments are summarised in the [Report of the Supervisory Board](#) in the Annual Report. The results of these assessments can also, in part, be found in the [Remuneration Report](#).

Full answer.

#### **4.11 Explanation precautionary principle application**

**Explanation of whether and how the precautionary approach or principle is addressed by the organisation.**

The precautionary principle is constantly addressed by a bancassurer. Countless pros and cons are considered every day, for example when accepting new customers, extending loans, investing in projects and companies and developing (the framework) for new products. SNS REAAL applies the precautionary principle. In accordance with policy, this is laid down in:

- Our framework of standards and a Product Approval Process for [new products](#).
- [A Customer Acceptance Policy](#) .
- The credit policy of [SNS Bank](#) and [ASN Bank](#).
- [An investment policy](#) .

Full answer.

#### **4.12 Endorsed external charters and other initiatives**

**Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.**

*Charters and principles endorsed by SNS REAAL:*

- OESO guidelines for multinational corporations
- UN Global Compact Principles
- Global Reporting Initiative guidelines for sustainability reporting
- ILO Treaty
- Universal Declaration of Human Rights

*Charters and principles endorsed by the business units:*

- UN Principles for Responsible Investment (SNS Asset Management and ASN Bank)
- Carbon Disclosure Project (SNS Asset Management and ASN Bank)
- Copenhagen Communique (ASN Bank and SNS Asset Management)
- Access to Medicine Agreement (SNS Asset Management)
- Equator Principles (ASN Bank)
- EuroSIF transparency guidelines (ASN Bank; Zwitserleven; SNS Beleggingsfondsen with respect to the sustainable funds)
- PRI Collaborative Engagement Initiative (SNS Asset Management)
- Investor Statement on a Global Agreement on Climate Change (ASN Bank)
- Fair Green Deal (ASN Bank)
- Climate statement Banks (SNS Bank, ASN Bank and RegioBank)
- Biodiversity Coalition (ASN Bank)
- UN Environment Programme Finance Initiative (ASN Bank)
- Global Impact Investing Network (SNS Asset Management)

SNS Asset Management, ASN Bank and ASN Beleggingsfondsen have their own sustainability criteria fully comprising the UN Principles for Responsible Investment. ASN Bank is labouring for [responsible investment](#) in general by means of collaboration and stakeholder engagement.

Full answer.

#### **4.13 Memberships and roles in various associations and organisations**

Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation:

- Has positions in governance bodies.
- Participates in projects or committees.
- Provides substantive funding beyond routine membership dues.
- Views membership as strategic.

In addition to 4.12:

- Dutch Association of Insurers (REAAL, Proteq)
- Dutch Bankers' Association (SNS Bank)
- Holland Financial Centre (SNS REAAL)
- European Savings Banks Group (SNS Bank, associate member)
- World Savings Banks Institute (SNS Bank, associate member)
- Independent foundation co-founded by SNS REAAL '[Stay On Top of Your Spending](#)'
- VBDO (ASN Bank and SNS Asset Management)
- Solidaridad (ASN Bank)
- Oxfam (ASN Bank)
- Novib Warchild (ASN Bank)
- FNV (ASN Bank)
- *De Groene Zaak*, a platform of sustainable business trendsetters (ASN Bank)
- Duurzame waardekaart (ASN Bank), discount card for consumers on sustainable
- 10:10 (ASN Bank)

Full answer.

#### **4.14 Stakeholders engaged**

List of stakeholder groups engaged by the organisation.

SNS REAAL regularly engages with its [stakeholders](#). This engagement is exceptionally important to us and our approach to corporate responsibility.

The table below gives an overview of the various groups of stakeholders with whom we engage, the main issues we discuss and the results per stakeholder group.

## Our stakeholder engagement in 2011 SNS REAAL

Stakeholder group	Type of contact	Key topics	Results and responses
Shareholders	General Meeting of Shareholders	Responsible remuneration policy, Responsible credit policy and Integrated Annual Report (including CR)	Part of the (implementation of) CR policy SNS REAAL
Investors	Investor Day, for financial analysts and financial journalists, Roadshows twice a year, presentation for and dialogue with large investors	Annual Report, Interim report, Strategic update and Market outlook	General policy of SNS REAAL
Employees	Debating sessions and Customer satisfaction surveys	SNS REAAL's future, Flexibilisation terms of employment and Working conditions	Input for SNS REAAL policy and Improvement measures management
Central Works Council and Business Unit Works Councils	Planned meetings	Employees' interests and compliance legislation	Input for SNS REAAL policy
CR Advisory Boards	Scheduled meeting twice a year	SNS REAAL's course on CR	Approval and advice on progress professionalisation of CR
Rating Agencies: Fitch, Standard & Poor's and Moody's	Roadshows and Annual contact	Annual Report and Interim report	Credit ratings
Dutch Authority Financial Markets	Dialogue, scheduled meeting	More focus on customers' interests in customer services and business operations, Remuneration policy	Improve (transparency of) services and products and corporate culture programme of CARE!. Amendments to remuneration policy and governance structure
Dutch Central Bank (DNB)	Dialogue, scheduled meeting	Solvability and risk management	Improvements in financial stability
Fair Banking Guide	Dialogue	Sustainable investment and financing	Part of the (implementation of) CR policy of SNS REAAL
Partners in 'Stay on Top of Your Spending' Foundation	'Stay on Top of Your Spending' congress	Responsible use of money by Lower Secondary Professional Education students	Various business projects

## Our stakeholder engagement in 2011 SNS Asset Management

Stakeholder group	Type of contact	Key topics	Results and responses
Dutch Association of Investors for Sustainable Development (VBDO)	Dialogue, Seminars	Sustainable investment policy, Impact investing	Sustainable investment policy and development Impact investing

### Our stakeholder engagement in 2011 SNS Bank (including BLG and RegioBank)

Stakeholder group	Type of contact	Key topics	Results and responses
Customers	SNS Bank Customer Council	Customer service SNS Bank, Policy SNS Bank, New and existing service SNS Bank, What are the latest issues and trends in the financial industry?, Corporate Social Responsibility	Each meeting, SNS Bank's MT members give an update on what action they have taken on the advice given in previous meetings
Customers	SNS Bank community (continuous dialogue)	SNS Shop, Web security, Taking out simple products, Interest-bearing current account	Improvements to customer service
Press / House of Commons / Consultants	Dialogue	Improvement SNS Bank concept	Improvements to customer service
NGOs: Fair Banking Guide. Oxfam Novib. Environmental protection. FNV (Dutch Trade Union) International	Meeting at the initiative of SNS Bank	Exchange of knowledge objectives and activities	Insight into the objectives and activities of SNS Bank and the Fair Banking Guide in 2011
Primary school pupils	Guest presentations by colleagues in the Money Smart Week	Guest presentations on money	(Financial) knowledge primary school pupils

### Our stakeholder engagement in 2011 ASN

Stakeholder group	Type of contact	Key topics	Results and responses
Advisory Board ASN Bank	Request advice	ASN Bank policy on sustainability and service	Policy on sustainability and service
Fair Banking Guide	Dialogue	Sustainable banking policy	Part of (implementation of) ASN Bank's CR policy
Sustainable partners in ASN projects	Active support	Projects supported by ASN Bank	Part of (implementation of) ASN Bank's CR policy
Customers	Dialogue	Gauge views on sustainability, in particular on four themes	Part of (implementation of) ASN Bank's CR policy
Employees	Dialogue	Theme days on Sustainability, Internal news items on sustainability	Part of (implementation of) ASN Bank's CR policy
Consumers in the Netherlands	Dialogue	Policy on human rights, Sustainable Investment Week; Discussion via LinkedIn	Part of (implementation of) ASN Bank's CR policy
Debtors (businesses. Institutions. projects)	Dialogue, voting in General Meetings of Shareholders	Corporate Sustainability	Part of (implementation of) ASN Bank's CR policy

## Our stakeholder engagement in 2011 REAAL

Stakeholder group	Type of contact	Key topics	Results and responses
Employees	Dialogue sessions	Management-employee communication	Follow-up given to specific questions on the part of employees
Consumers in the Netherlands	Interviews	Customer service optimisation	Points of improvement for customer service, such as clarity on coverage, response times and provision of information
Customers	Online questionnaire	Customer service optimisation	Inform customers more frequently, better and more clearly, More pro-active customer contact on f.i. unit-linked policies, Status requests and applications, Products, Value statements
Distribution partners	Telephone surveys and interviews	Measure satisfaction level with insurance companies' performance	Recommendations on f.i. the product range, Primary process and service level

## Our stakeholder engagement in 2011 Zwitserleven

Stakeholder group	Type of contact	Key topics	Results and responses
Customers' employees	Online questionnaire	Customer service optimisation	Quality of the provision of information (clarity, better communication and more information, more frequent contact), Lower costs, higher yield
Customers (employers)	Combination of quantitative and qualitative survey	Customer service optimisation	Improvement of collaboration, contact and relationship management, Faster and/or improved administration, Proposals for improved communication by Management
MKB REAAL Traditional employers (former REAAL customers) whom we have been in touch with over the past year	Quantitative survey	Customer service optimisation	Organisation of payments (financial flows), Faultless policies and changes, Observe agreements
Zwitserleven intermediaries (Top 500)	Combination of qualitative and quantitative survey	Customer service optimisation	Intermediaries' evaluation of Zwitserleven: Zwitserleven remains the absolute leader in the pensions market due to a strong basic customer service
			Zwitserleven has increased distinctiveness through adjustments in product offering, integration with REAAL could present some challenges for the future
Employers (corporations and SME)	Group discussion	Putting customers' interests first	Map employers' long-term requirements, wishes and expectations to determine the Zwitserleven's focus on customer services and product development

Full answer.

#### **4.15 Basis of stakeholder engagement**

**Basis for identification and selection of stakeholders with whom to engage.**

SNS REAAL is aware of the multitude of social and corporate interests represented by the various stakeholders. First of all, we, naturally, engage with stakeholders in our financial industries domain. Being a bancassurer, we are very much part of society and, consequently, in frequent contact with the most important representatives from society and business partners from chains we are part of. For a detailed overview, refer to [the table in 4.14](#).  
Full answer.

#### **4.16 Type and frequency of stakeholder engagement**

**Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.**

Refer to [the table in 4.14](#).  
Full answer.

#### **4.17 Key issues raised and corresponding responses**

**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.**

Refer to [the table in 4.14](#).  
Full answer.



## 5 Economic Performance Indicators

### 5.1 Economic Performance

#### EC1

Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.

Refer to [key figures](#) in the Annual Report.

Full answer.

#### EC2

Financial implications and other risks and opportunities for the organisation's activities due to climate change.

Climate change is an issue that affects our society. SNS REAAL shares these concerns. We are working on measures to control and minimise our energy consumption and CO<sub>2</sub> emissions (lease policy). It is also part of our investment policy which is centered around sustainability.

Full answer.

#### EC3

Coverage of the organisation's defined benefit plan obligations.

Refer to explanation of the organisation's insurance ([pension](#)) [benefit plan](#) in the Annual Report.

Full answer.

#### EC4

Significant financial assistance received from government.

In our Annual Report, we elaborate on the status of the capital [support from the Dutch State](#) received in 2008.

Full answer.

### 5.2 Market Presence

#### EC6

Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.

SNS REAAL, with the exception of Property Finance, operates exclusively on the Dutch market. If economic and sustainability criteria allow this, SNS REAAL procures locally. However, SNS REAAL does not have a formal local procurement policy.

Not answered.

## **EC7**

**Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.**

SNS REAAL is a financial services provider that exclusively operates in the Netherlands. This topic is therefore not applicable.

Not answered.

## **5.3 Indirect Economic Impacts**

### **EC8**

**Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, inkind, or pro bono engagement.**

SNS REAAL is a financial services provider that exclusively operates in the Netherlands. This topic is therefore not applicable.

Not answered.

## 6 Environmental Performance Indicators

### Definitions

#### Scope of environmental data

Data concerning the environment refer to SNS REAAL in its entirety.

**Office waste:** The total quantity of collected waste in kilograms (generated within the office), subdivided into paper, cardboard, plastic, swill, small chemical waste and unseparated waste. Data concerning office waste are based on actual weighed quantities and on assumptions by the waste collector concerning the average weight of containers emptied.

**Industrial waste:** The total quantity of collected waste in kilograms, subdivided into office waste and waste generated on the business premises (wood, glass, white and brown goods, construction and demolition and other). Data concerning industrial waste are based on actual weighed quantities and on assumptions by the waste collector concerning the average weight of containers emptied.

**Organic catering:** Organic products are all products in company restaurants bearing an EKO certification.

**Sustainable catering:** Sustainable products are all products in company restaurants with one or more sustainability certifications expressed as a percentage of the volume purchased in that year. The sustainability certifications of products in company restaurants are: MSC, Fairtrade, organic/EKO, Rainforest Alliance, Utz Certified, *Beter Leven* (Dierenbescherming), *Vrije uitloop*/ *Scharrelkeurmerk*/ *Graskeurmerk*, *Ik kies bewust*.

**Green electricity:** Green electricity is overwhelmingly generated from natural and sustainable sources of energy such as water and wind and not from fossil fuels or nuclear power.

**Paper use:** The amount of paper, in kilograms, in the form of A4 paper, envelopes and printed materials (including bank statements and policies) bought in in the reporting year.

**Emissions of greenhouse gases:** CO<sub>2</sub> emissions due to energy used in buildings, both direct (CO<sub>2</sub> emissions from SNS REAAL offices) and indirect (CO<sub>2</sub> emissions by energy companies) and from travel by company car, commuting and business travel by private car and public transport and business flights.

**Water consumption:** The quantity of water in m<sup>3</sup> consumed in the reporting year for sanitation, drinks machines, company restaurants, cleaning, fire extinguishers and air conditioning based on meter readings. All water is supplied by Dutch water companies.

**Units applied:** GJ (gigajoules), kg (kilogram), FTE (full-time equivalent, refer also to definitions P&O), litre, % (percent), m<sup>3</sup> (cubic metre)

### 6.1 Materials

#### EN1

##### Materials used by weight or volume.

##### *Paper use*

Paper use by SNS REAAL is shown below. The Table shows overall paper use per FTE at SNS REAAL. Paper use per FTE increased by 6% in 2011, from 198 kg to 210 kg.

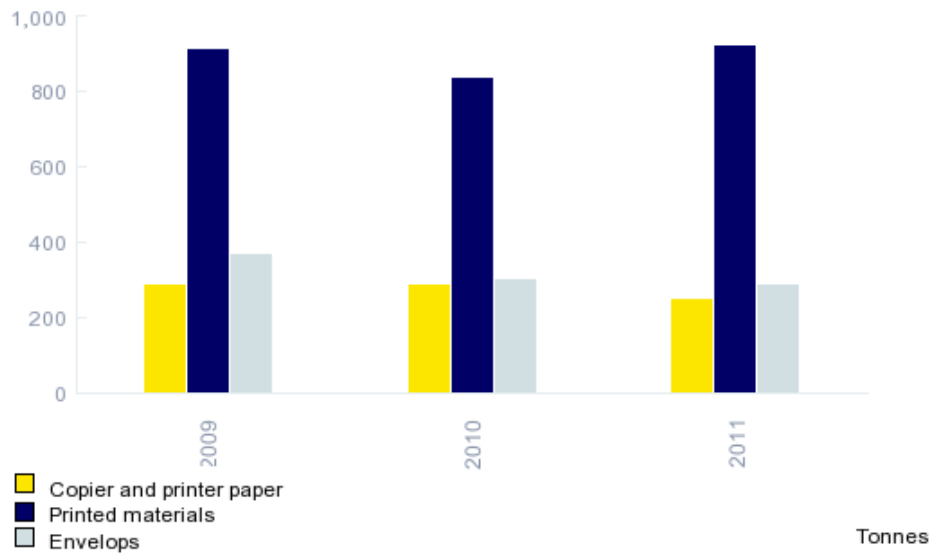
The increase in the quantity of paper used for printed materials is explained by a large commercial activity that included a one-off mailing to a significant proportion of the company's clientele. The reduction in use of A4 paper is a result of flex working (Het Nieuwe Werken) which relies as far as possible on electronic communication.

## Total paper consumption

*In kg per FTE*

	2011	2010	2009
Total paper consumption in kg per FTE	210	198	210

**Figure 1 Paper use by type**



## Organic catering

Turnover from organic catering increased by 5% in 2011 to account for 28% of catering turnover compared to 23% in 2010. As of April 2011 SNS REAAL has expanded its organic catering policy into sustainable catering. The 2011 annual report does not report on the results of the sustainable catering policy as this has not been in operation for a full reporting year.

Purchases in 2011 of Max Havelaar and EKO certified coffee and tea are not included in the percentage turnover from organic catering of 28%. In 2011 4,520 kg of fairtrade chocolate, 1,026 kg of fairtrade tea and 21,509 kg of fairtrade and organic coffee were purchased for drinks machines. These coffee purchases mean that SNS REAAL has contributed to an improvement in the livelihoods of 57\* families of coffee farmers. \*Source: Max Havelaar Foundation and our coffee supplier

## Organic catering

*In thousands*

	2011	2010	2009
Total turnover catering	1,778	3,067	3,957
Turnover organic catering	498	695	1,059
Average percentage of organic catering	28%	23%	27%

Full answer.

## EN2

Percentage of materials used that are recycled input materials.

SNS REAAL is a financial services provider. This topic is therefore not applicable.  
Not answered.

## 6.2 Energy

### EN3

Direct energy consumption by primary energy source.

For a business service provider such as SNS REAAL, a large proportion of the environmental impact arises from energy use. Energy consumption in SNS REAAL's office premises and for transport is shown below.

In 2011 energy use per FTE fell by 7% from 32 GJ to 30 GJ. This resulted from the implementation of energy management in the operation of air conditioning installations. The table shows a breakdown of total energy consumption according to energy source.

#### Energy consumption by source

*In gigajoules*

	2011	2010	2009
Conventional electricity	13,828	15,850	19,316
Green electricity	68,339	79,543	86,894
Gas consumption	10,810	45,192	40,959
Green gas	29,041	-	-
Company cars	76,783	80,652	74,766
Other	9,834	12,993	10,192
Total energy consumption in GJ per FTE	30	32	32

Full answer.

### EN4

Indirect energy consumption by primary source.

Refer to EN3.

Full answer.

## 6.3 Water

### EN8

Total water withdrawal by source.

Water consumption in m<sup>3</sup> per FTE of SNS REAAL fell from 8.82 m<sup>3</sup> to 7.83 m<sup>3</sup>.

## Water consumption

	2011	2010	2009
Total water consumption in m3	54,798	64,148	64,503
Water consumption in m3 per FTE	7.8	8.8	8.6

Full answer.

## 6.4 Biodiversity

### EN11

**Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.**

SNS REAAL is a business service provider and is not located in protected areas. This item is therefore not relevant.  
Not answered.

### EN12

**Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.**

Refer to EN11. This item is not applicable.  
Not answered.

## 6.5 Emissions, Effluents, and Waste

### EN16

**Total direct and indirect greenhouse gas emissions by weight.**

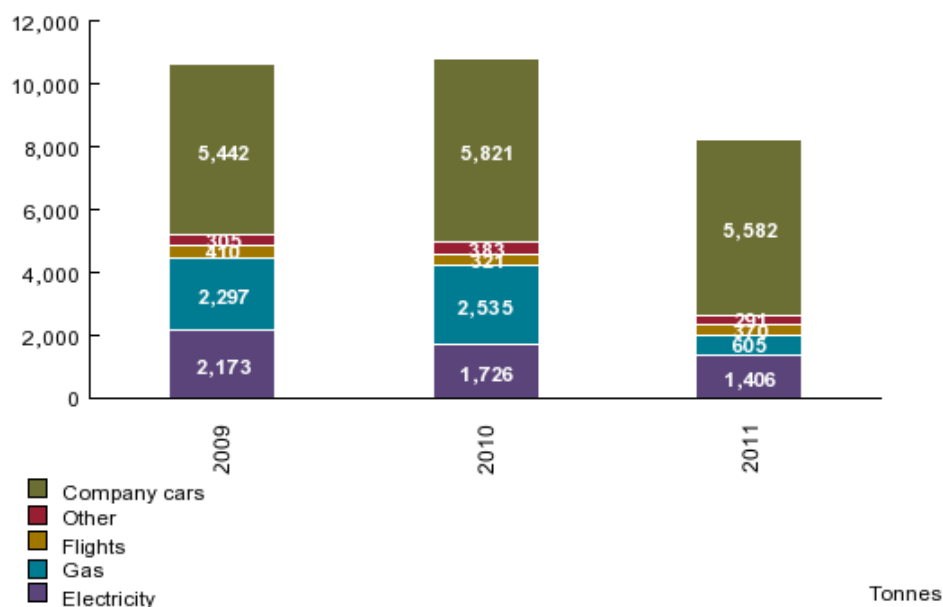
Green gas certificates have been purchased for the reporting years 2011, 2012 en 2013 covering all office premises owned by SNS REAAL, in order to reduce our CO<sub>2</sub> emissions. CO<sub>2</sub> emissions from office premises and for transport by SNS REAAL are shown in the following Figures. The table shows the total CO<sub>2</sub> emissions per FTE of SNS REAAL. This shows that in 2011 the emissions of CO<sub>2</sub> per FTE fell from 3,223 kg to 3,037 kg. This resulted from compensating for our CO<sub>2</sub> emissions from gas consumption through the purchase of green gas certificates.

In figure 2 total CO<sub>2</sub> emissions are broken down according to source. In 2011 8,254 tonnes of CO<sub>2</sub> were emitted. Company cars accounted for 67% of the total, 7% was due to gas consumption, 17% was from electricity use, 5% from flights and 4% from other fuels.

### CO<sub>2</sub> emissions by source

<i>In CO<sub>2</sub> tonnes</i>	2011	2010	2009
Electricity	1,406	1,726	2,173
Gas	605	2,535	2,297
Flights	370	321	410
Other	291	383	305
Company cars	5,582	5,821	5,442
Total CO <sub>2</sub> emissions in kg per FTE	3,037	3,313	2,789

**Figure 2 CO2 emissions by source**



Full answer.

## EN17

**Other relevant indirect greenhouse gas emissions by weight.**

SNS REAAL is a business service provider which, with the exception of Property Finance, is solely located in the Netherlands and accounts for no (significant) emissions of other greenhouse gases. This item is therefore not relevant.  
Not answered.

## EN18

**Initiatives to reduce greenhouse gas emissions and reductions achieved.**

In 2011, SNS REAAL purchased green electricity and green gas certificates to compensate for its own carbon dioxide emissions from electricity and gas consumption. Additionally, energy-conservation measures contribute to a reduction in SNS REAAL's carbon dioxide emissions. SNS REAAL also took a variety of transportation measures aimed at reducing transportation carbon dioxide emissions.

Partially answered.

## EN19

**Emissions of ozone-depleting substances by weight.**

SNS REAAL is a business service provider and accounts for no (significant) emissions of ozone-depleting substances.  
Not answered.

## EN20

### NO, SO, and other significant air emissions by type and weight.

SNS REAAL is a business service provider and accounts for no other (significant) emissions of air pollutants.  
Not answered.

## EN21

### Total water discharge by quality and destination.

Refer to EN8.  
Full answer.

## EN22

### Total weight of waste by type and disposal method.

Within SNS REAAL, waste is generated in the form of paper and cardboard, hazardous waste (such as toner and other small chemical waste), biodegradable waste, plastic, unseparated waste and other industrial waste (such as catering waste, glass and wood). The table shows the quantities of paper and cardboard, plastic, small chemical waste, biodegradable waste, unseparated waste and industrial waste.

The table also shows the total amount of waste per FTE of SNS REAAL. In 2011 there was a slight reduction in the total amount of waste generated, from 183 kg/FTE to 182 kg/FTE. A new measuring methodology for waste data was introduced on 1 April 2010 and there was a changeover to paying for each kg of waste. As a consequence of the new methodology, waste data for 2009 are not directly comparable to those for 2010 and 2011.

The quantity of paper and cardboard waste fell from 750 tonnes in 2010 to 547 tonnes in 2011. Unseparated waste fell from 464 to 327 tonnes in 2011. Industrial waste increased markedly in 2011 as a result of a major renovation of one of SNS REAAL's buildings.

The recycling of waste increased from 67% to 74% instead of the 75% target. As a result the residual waste percentage decreased to 26% instead of the 25% target.

### Waste by type

*In thousands kg*

	2011	2010	2009
Unseparated waste	327	464	667
Biodegradable waste	169	72	33
Small chemical waste	1	1	3
Industrial waste	191	39	72
Paper and cardboard waste	547	750	1,462
Plastic	40	7	1
Total waste in kg per FTE	182	183	297

Full answer.



## **EN23**

**Total number and volume of significant spills.**

SNS REAAL is a business service provider and generates no (significant) spills.  
Not answered.

## **6.6 Products and Services**

### **EN26**

**Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.**

Refer to FS1-FS16 for SNS REAAL's initiatives to incorporate environmental considerations in products and services.  
Full answer.

### **EN27**

**Percentage of products sold and their packaging materials that are reclaimed by category.**

SNS REAAL is a business services provider and does not produce any (significant volumes of) packaging. SNS REAAL does therefore not report against this indicator. Not answered.

## **6.7 Compliance**

### **EN28**

**Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.**

In 2011 no fines or sanctions of significance were incurred in relation to non-compliance with environmental laws and regulations.  
Full answer.

## **6.8 Transport**

### **EN29**

**Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.**

#### *Company cars*

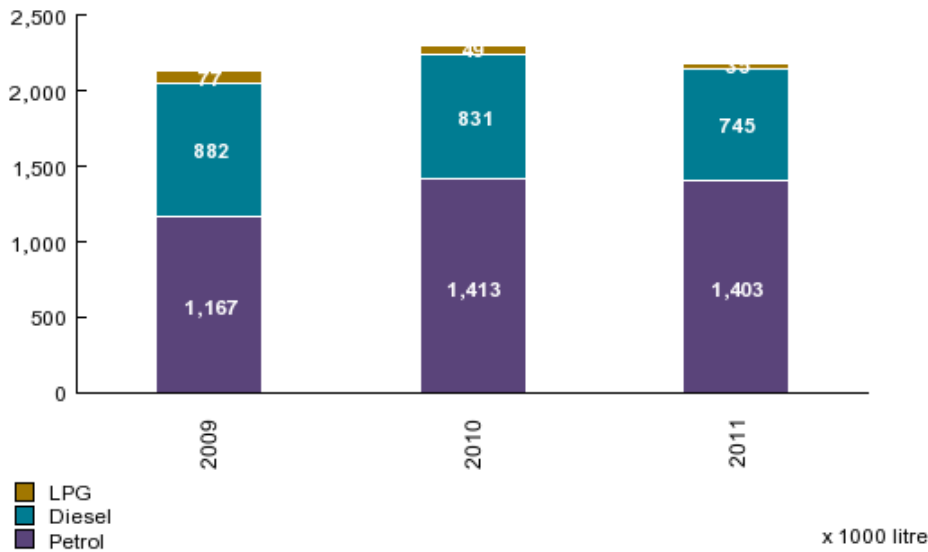
The number of litres of fuel consumed by company cars in 2011 fell by 1%, from 315 litres/FTE to 312 litres/FTE. Overall consumption of petrol in 2011 remained constant compared to 2010. Consumption of diesel fuel fell by 11% and consumption of LPG fell by 28%.

### Fuel consumption by company cars by fuel type

*In thousands litres*

	2011	2010	2009
Petrol	1,403	1,413	1,167
Diesel	745	831	882
LPG	35	49	77
Litres of fuel per FTE	312	315	282

**Figure 3 Fuel consumption by company cars**



### Flights

In 2011 the number of kilometres flown per FTE increased by 18%, from 380 km to 447 km. Essential business operations by a division of SNS REAAL led to more flights being undertaken within Europe in 2011 compared to 2010,

### Total kilometres flown

*In kilometres per FTE*

	2011	2010	2009
Total kilometres flown	447	380	462

### Distances travelled by public transport and cars for commuting and business

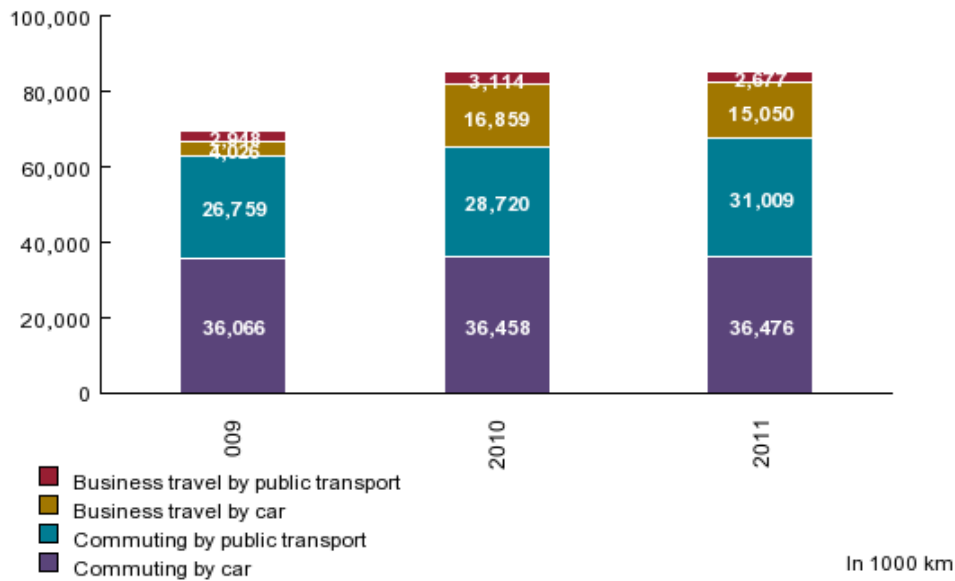
In total, there was more travel in 2011 compared to 2010. In 2011 commuting and business travel amounted to 85,212,386 km compared to 75,031,003 km in 2010. The commuting distance by public transport rose by 67% compared to 2010. Travel by car and public transport for business purposes both fell, by 11% and 14% respectively.

## Public transport and car transport for commuting or business travel

*In thousands kilometres*

	2011	2010	2009
Commuting by car	36,476	36,458	36,066
Commuting by public transport	31,009	28,720	26,759
Business travel by car	15,050	16,859	4,026
Business travel by public transport	2,677	3,114	2,948

**Figure 4 Car and public transport**



Full answer.

## 7 Social Performance indicators

### 7.1 Labor Practices and Decent Work Performance Indicators

#### Employment

##### LA1

Total workforce by employment type, employment contract, and region, broken down by gender.

#### Workforce and turnover

	2011	2010	2009
Number of employees at year end	7,422	7,492	7,981
Number of employees in FTE at year end	6,928	7,113	7,520

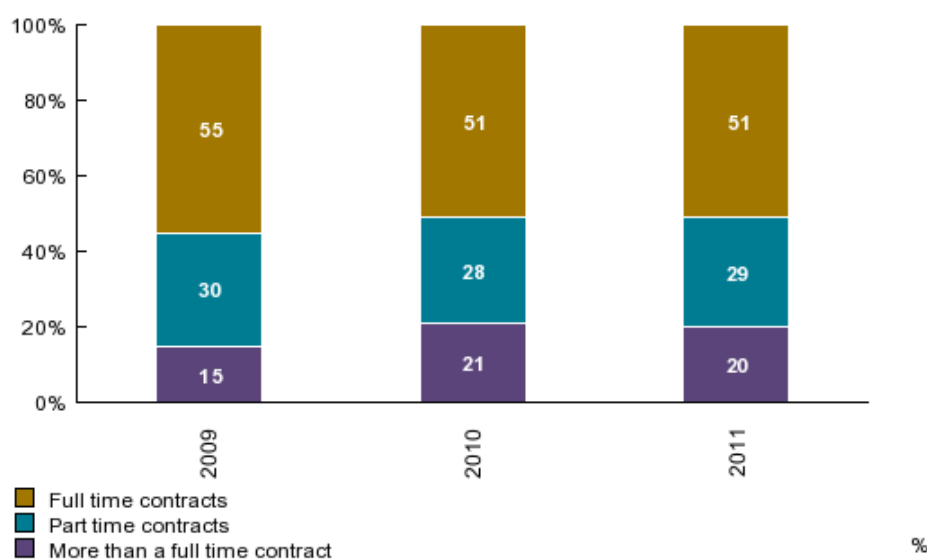
#### Temporary personnel

	2011	2010	2009
Employees on temporary contracts	652	708	917
Percentage of employees on temporary contracts	9%	10%	12%

#### Personnel by type of contract

	2011	2010	2009
Part time contracts	29%	28%	30%
Full time contracts	51%	51%	55%
More than a full time contract	20%	21%	15%

Figure 5 Personnel by type of contract



Full answer.

## LA2

Total number and rate of new employee hires and employee turnover by age group, gender, and region.

### In and outflow of employees

	2011	2010	2009
Inflow of new personnel	7%	7%	11%
Outflow of personnel	9%	11%	11%
Outflow of personnel on own initiative	40%	37%	37%
Outflow of personnel on employer's initiative or for other reasons	60%	63%	63%
Outflow of female personnel	40%	40%	44%
Outflow of male personnel	60%	60%	56%

Figure 6 In and outflow of employees

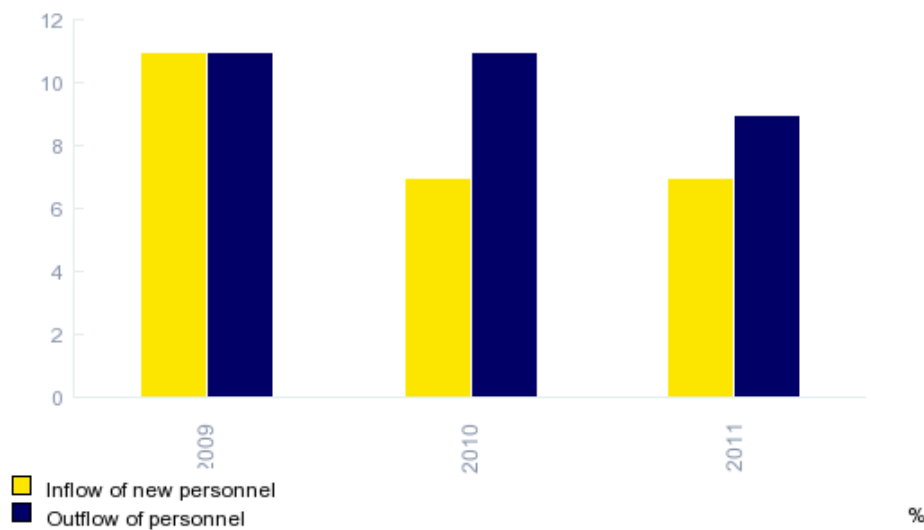
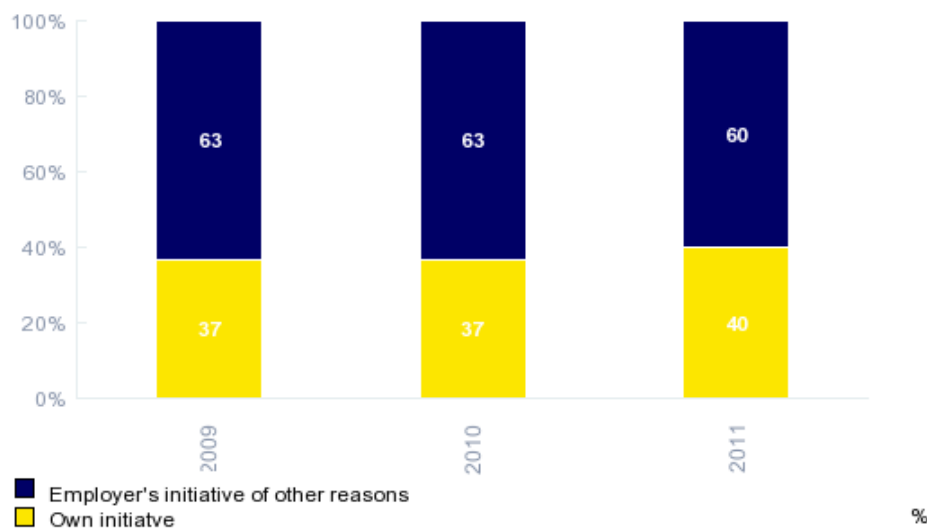
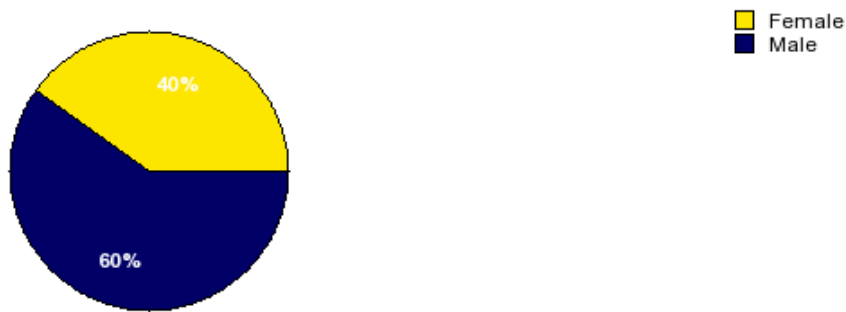


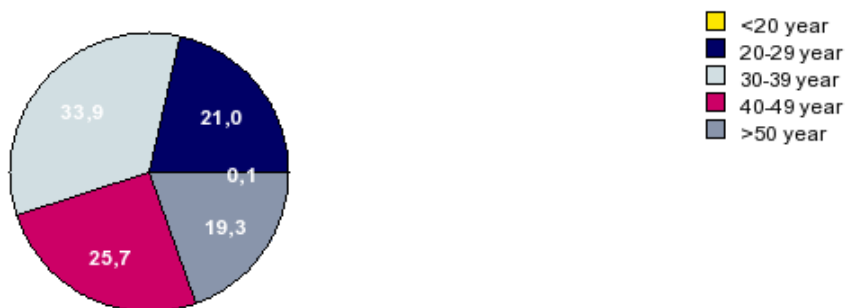
Figure 7 Outflow on initiative



**Figure 8 Outflow of female or male personnel**



**Figure 9 Outflow by age**



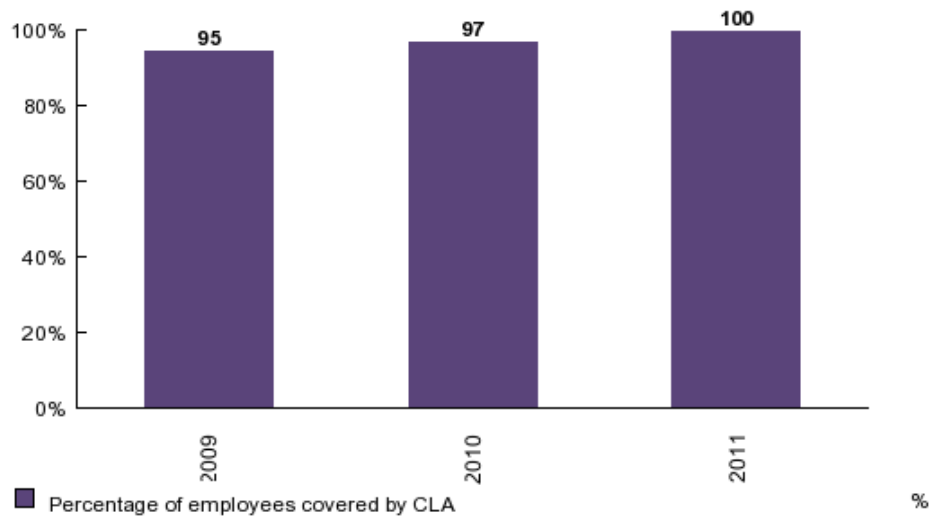
Full answer.

## Labor/Management Relations

### LA4

Percentage of employees covered by collective bargaining agreements.

**Figure 10 Employees covered by CLA**



For more information on the current Collective Labour Agreements (CLA) and main issues for the [new CLA](#) refer to the Annual Report.

Full answer.

## LA5

**Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.**

The minimum notice period at SNS REAAL is laid down in the CLA.

Full answer.

## Occupational Health and Safety

### LA6

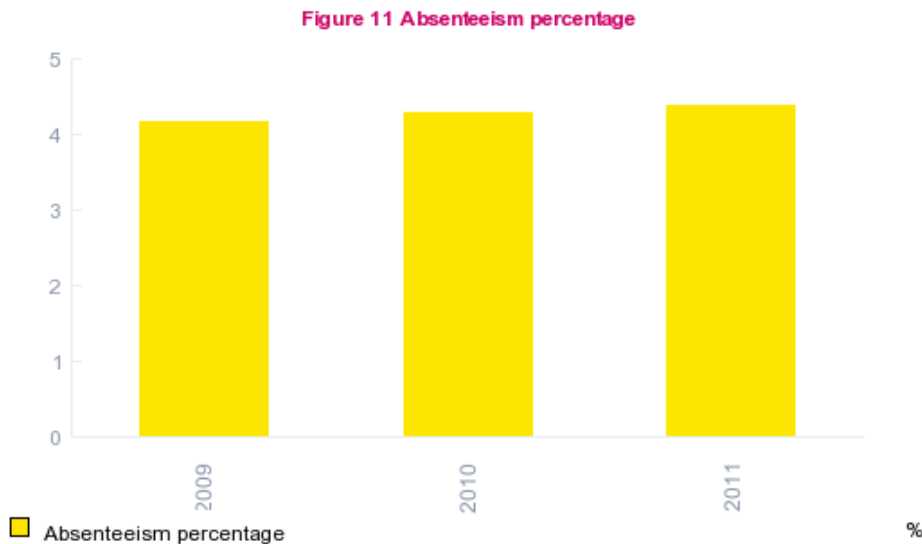
**Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs.**

100% of the FTEs are represented in formal joint employer-employee health and safety committees.

Full answer.

### LA7

**Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.**



#### *Occupational injuries*

As SNS REAAL is a financial services provider, there are almost no serious occupational injuries. Consequently, SNS REAAL does not keep a record of these rates.

#### *Work-related diseases and fatalities*

There were no work-related fatalities in 2011. A part of the absence rate is work-related.

Full answer.

## **LA8**

**Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.**

SNS REAAL's health and safety policy has various prevention programmes to prevent diseases such as Swine Flu. As SNS REAAL is a financial services provider, there is no need for other health programmes.

Full answer.

## **Training and Education**

### **LA10**

**Average hours of training per year per employee by gender, and by employee category.**

SNS REAAL does not register the number of training hours per employee per year, but does register the training costs per employee per year. The training costs per FTE rose from € 1,393 in 2010 to € 1,554 in 2011.

Partially answered.

### **LA11**

**Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.**

SNS REAAL has a comprehensive programme for [sustainable employability](#), also for older employees and [training and development](#).

Full answer.

### **LA12**

**Percentage of employees receiving regular performance and career development reviews, by gender.**

All our personnel (100% FTEs) is informed about performance and career development via the intranet and planning, performance and assessment interviews.

Full answer.

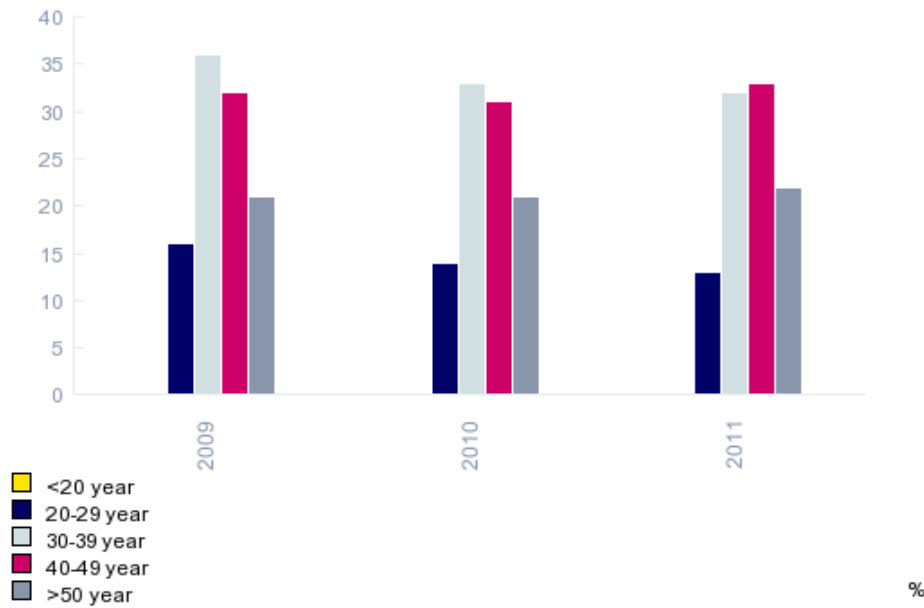
## **Diversity and Equal Opportunity**

### **LA13**

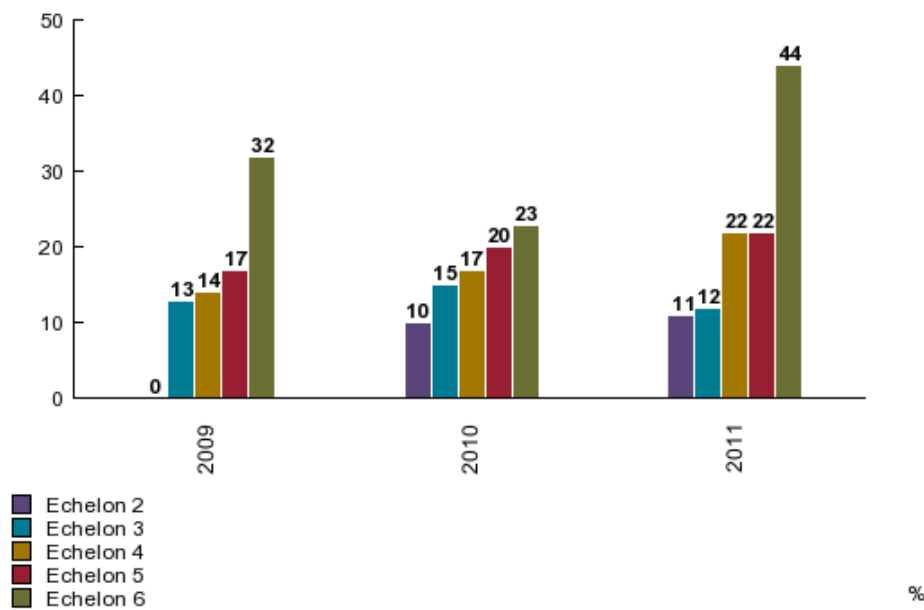
**Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.**



**Figure 12 Breakdown of employees by age**



**Figure 13 Female employees per echelon**



### Breakdown of male and female employees

*In percentage*

	2011	2010	2009
Female employees	42%	42%	42%
Male employees	58%	58%	58%

## Percentage of female employees per echelon

*In percentage of managers in total FTE or by echelon*

	2011	2010	2009
Female managers	25%	20%	26%
Women in echelon 1	0%	0%	0%
Women in echelon 2	11%	10%	0%
Women in echelon 3	12%	15%	13%
Women in echelon 4	22%	17%	14%
Women in echelon 5	22%	20%	17%
Women in echelon 6	44%	23%	32%

## Breakdown of employees by age

	2011	2010	2009
Percentage of employees under 20 years of age	0%	0%	0%
Percentage of employees aged 20-29 years	13%	14%	16%
Percentage of employees aged 30-39 years	32%	33%	36%
Percentage of employees aged 40-49 years	33%	31%	32%
Percentage of employees aged 50 years or over	22%	21%	21%

Full answer.

## LA14

**Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.**

SNS REAAL does not register this data as it has no added value for the execution of the company's policies. SNS REAAL determines employees' (basic) salaries regardless of their gender.

Full answer.

## 7.2 Human Rights

### Investment and Procurement Practices

#### HR1

**Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.**

SNS REAAL business units do not invest in funds or companies to which human rights exclusion criteria apply. For approximately 96% of the investments, SNS Asset Management, SNS REAAL's asset manager, determines the minimum human rights criteria and the other ethical criteria itself. In this respect, internal customers of SNS Asset Management can set additional ethical criteria. For the other 4%, these criteria are set by external asset managers, in which case SNS Asset Management sets the [minimum requirements](#).

Full answer.

## **HR2**

**Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken.**

Questions on human rights are included in the SNS REAAL sustainability statement, which accompanies each Request for Information that is sent to suppliers. 53% of the suppliers with a value of over € 100,000 has received this sustainability statement from SNS REAAL or has discussed sustainable business with SNS REAAL.

Full answer.

## **Non-discrimination**

### **HR4**

**Total number of incidents of discrimination and corrective actions taken.**

There were no discrimination cases in 2011.

Full answer.

## **Freedom of Association and Collective Bargaining**

### **HR5**

**Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.**

SNS Asset Management employs investment practices that clearly take human and labour rights into account through the Fundamental Investment Principles applicable to all asset classes and investments under its own management.

Full answer.

## **Child Labor**

### **HR6**

**Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.**

SNS Asset Management employs investment practices that clearly take human and labour rights into account through the Fundamental Investment Principles applicable to all asset classes and investments under its own management.

Full answer.

## **Forced and Compulsory Labor**

### **HR7**

**Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.**

SNS Asset Management employs investment practices that clearly take human and labour rights into account through the Fundamental Investment Principles applicable to all asset classes and investments under its own management.

Full answer.

## 7.3 Society

### Local Communities

#### SO<sub>1</sub>

**Percentage of operations with implemented local community engagement, impact assessments, and development programs.**

For a description of our contribution to local communities, refer to:

- [Our mission, core value and strategy](#) as described in the Annual Report.
- The activities of the independent foundation ‘[Stay on Top of Your Spending](#)’ and the [SNS REAAL Fund](#).
- Our [CARE! and volunteer programmes](#).

SNS REAAL Fund’s pledged donations in 2011 totalled € 12,429,974.

#### Grants to charitable organisations

*In € millions*

	2011	2010	2009
Grants	12	17	15

Full answer.

### Corruption

#### SO<sub>2</sub>

**Percentage and total number of business units analyzed for risks related to corruption.**

This is business sensitive information that we cannot disclose.

Not answered.

#### SO<sub>3</sub>

**Percentage of employees trained in organisation’s anti-corruption policies and procedures.**

This percentage is high, but cannot be specified in detail. There are no separate anti-corruption training courses. Anti-corruption is, however, incorporated in other training courses and procedures. Following the switch to the New World of Work, SNS REAAL drew up new Golden Rules relating to confidentiality and data security this year. This was broadly communicated to our personnel via SNS REAAL’s intranet. Moreover, every few weeks, SNS REAAL brings one of the rules via intranet to the attention of its personnel. SNS REAAL offers E-learning modules to make it easy for as many employees as possible to follow training courses that stimulate integrity and compliance with following the proper procedures.

Partially answered.

## **SO<sub>4</sub>**

### **Actions taken in response to incidents of corruption.**

We have not established any incidents of corruption among our staff in 2011.  
Full answer.

## **Public Policy**

## **SO<sub>5</sub>**

### **Public policy positions and participation in public policy development and lobbying.**

SNS REAAL operates and communicates on the basis of its mission, core value and strategy. SNS REAAL holds the view that a separate public policy is unnecessary. SNS REAAL does therefore not report against this indicator.  
Not answered.

## **Compliance**

## **SO<sub>8</sub>**

### **Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.**

See PR9.  
Full answer.

## **7.4 Product Responsibility**

### **Customer Health and Safety**

## **PR<sub>1</sub>**

### **Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.**

SNS REAAL is a business services provider. This topic is therefore not applicable. Not answered.

### **Product and Service Labeling**

## **PR<sub>3</sub>**

### **Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.**

Refer to [Financial Services Sector Supplement](#) (FS1-FS16).  
Full answer.

## PR5

### Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.

In 2011, the brands of SNS REAAL collaborated on better methods to measure and monitor customer satisfaction. An important step was the introduction of the NPS (Net Promotor Score), a method of measuring customer satisfaction, by all retail brands. Refer to the Annual Report for an explanation on this method and outcomes of our [main brand](#). Apart from using the NPS method to survey customer satisfaction, our brands use additional methods. For our main brands these are:

#### SNS Bank:

- Structural and channel-specific customer satisfaction survey of advisor-customer interactions: in-person consultations, contact via email and telephone and at the time taking out a product via the Internet.
- New customers are more satisfied than existing customers.
- The most common reasons for customers to be dissatisfied are the limited cashier function, poor contactability and the limited ATM network.

#### ASN Bank:

- Also surveys customer satisfaction of customers who have just opened a bank account.

#### RegioBank:

- Customer satisfaction survey among current account and savings customers, new customers and ex-customers.
- Very high level of satisfaction among ex-customers proves that part of the customers considers RegioBank a minor/secondary bank.
- Strong rise in satisfaction among independent advisors about RegioBank intermediaries compared to 2010.

#### REAAL:

- Focus on the requirements for the Customer-oriented Insurance Quality Mark increased customer satisfaction.
- Non-life customer satisfaction scores 7.6 (on 10-point scale) compared to a market average of 7.7.
- Customers who have recently filed a claim are more satisfied than existing and new customers.
- Customers are positive about communication and claims processing.
- Customers are slightly negative about consumer focus and communication by telephone.

#### Zwitserleven:

- Consumers are positive about the clear communication, new products and solutions and accessibility of (customer) services (customers as well as employees).
- High level of satisfaction among corporate employers, satisfactory level of satisfaction among SME employers.
- Relatively low level of satisfaction among participants in pension schemes (customers' employees) due to the little interaction with Zwitserleven.

Also refer to the [Stakeholder table in 4.14](#).

Full answer.

## **Marketing Communications**

### **PR6**

**Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.**

Integrity is the basis for the way we work at SNS REAAL because keeping our reputation as a reliable financial enterprise high is of paramount importance. It is not sufficient to say we are trustworthy, we have to live up to it. It is about behaviour. This follows from our core value CARE! which is the basis for our programme CARE! and our code of conduct "Gezond verstand gezond geweten". SNS REAAL cares for its stakeholders including its customers and intermediaries. Integrity standards have been formulated for all products that are offered to customers or business partners by or on behalf of SNS REAAL. Naturally, SNS REAAL values compliance to laws, standards and codes. We underline the importance and comply with the Banking Code and Insurance Code for our banks and insurers within SNS REAAL. We are also realising more customer focused behaviour within the programme 'Klantbelang Centraal', about which we do report the Authority Financial Markets.

Full answer.

## **Customer Privacy**

### **PR8**

**Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.** SNS REAAL did not register any substantiated complaints regarding breaches of customer privacy and losses of customer data.

Full answer.

## **Compliance**

### **PR9**

**Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.**

SNS REAAL was fined in 2011: three in connection with the Madoff Affair and one fine for violating the sanction law. The fines totalled € 65,000.

Full answer.

## 8 Financial Services Sector Supplement: performance indicators

### 8.1 Product Portfolio

#### FS1

**Policies with specific environmental and social components applied to business lines.**

SNS Asset Management is charged with the responsible management of the investment funds operated by SNS Bank, the ASN Bank and Zwitserleven as well as REAAL's and Zwitserleven's own investments. Environmental and social components form part of the minimum ethical criteria to which SNS Asset Management adheres. [Various business units can also apply additional criteria.](#)

In that respect, [SNS Asset Management](#) offers its external, institutional clients two kinds of funds: sustainable index funds based on ethical exclusion criteria and impact investment funds, for which both financial criteria and social added value are considerations.

Environmental and social components also play a role in the [client acceptance policy](#) and [SNS Bank's](#) credit policy and [ASN Bank](#).

In addition, [environmental and social components](#) play a role in the development and provision of other products to clients. Important aspects include:

- Ongoing dialogue with our clients, allowing us to continually improve upon our products and services.
- Improvement of client contact and levels of service.
- Simple, relevant products and appropriate advice.
- The development and provision of [safe products](#) through reliance on a careful process of product approval in line with the recommendations of the Banking Code and the Insurance Code.
- Appropriate advice via procedures to comply with our duty of care, providing support to intermediaries selling our products and verification of their operating permits.
- Environmental damage is among the claims for which REAAL can offer insurance cover.

Environmental and social components also play an important role in the procurement and [management of products and services](#) by our business services organisation.

Full answer.

#### FS2

**Procedures for assessing and screening environmental and social risks in business lines.**

Environmental and social risks are taken into account in our integrated risk analyses for products, investments and the procurement and management of products and services by the business services organisation, in respect of satisfying legal requirements.

Full answer.



### FS3

**Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.**

SNS REAAL operates a client [acceptance policy](#) and [SNS Bank](#) and [ASN Bank](#) operate a credit policy which includes environmental and social requirements. Business divisions report on a quarterly basis regarding important risks by means of an integrity and compliance reporting procedure.

Full answer.

### FS4

**Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.**

SNS REAAL executed a comprehensive campaign concerning the application of our core value CARE!, which constitutes the basis for conduct in respect of how we function sustainably. In addition, where required, employees undergo training in order to incorporate CR into their own professional field. For example, staff in our business services organisation that are engaged with procurement of products and services pursued a training course in sustainable procurement during 2011.

Full answer.

### FS5

**Interactions with clients/investees/business partners regarding environmental and social risks and opportunities.**

SNS REAAL's brands rely on various means for maintaining an ongoing dialogue with our clients so as to become better acquainted with their wishes and requirements and explain the features of our products and our standpoints. The annual report outlines a [number of examples](#). Many of the subjects covered comprise social or environmental elements. Refer also to the [stakeholders table](#).

Full answer.

### FS6

**Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/ large) and by sector.**

#### Managed assets ASN and SNS Asset Management

	2011
Micro companies	0%
SMEs	0%
Large companies	0%
Portfolio in Europe	94%
Portfolio in US	0%
Portfolio in Asia and emerging markets	6%
RB Credits	100%
Managed assets with added social value	100%
Managed assets screened against environmental criteria	100%

## Managed assets ASN

*In € millions*

	<b>2011</b>
RB credits	257
Managed assets with added social value	9,739
Managed assets screened against environmental criteria	50,156
Managed assets with voting rights	1

The figures for CR loans relate to project loans by ASN Bank. The loans for fiscal funds were not included, as was asset management. As ASN Bank uses the same sustainability criteria for all loans, they stand at 100% for 2011.

Full answer.

## FS7

**Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.**

All services provided by SNS Asset Management and ASN Bank have a clear added social value by virtue of their sustainable investment principles and risk management.

Full answer.

## FS8

**Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.**

Refer to FS7.

Full answer.

## 8.2 Audit

### FS9

**Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures.**

Based on risk analysis, systematic verification and advisory activities, SNS REAAL's Group Audit department focuses on issues of social relevance such as integrity, duty of care, product development and risk management. No independent environmental and social audits are conducted but, where relevant, environmental and social factors form part of an integrated audit.

Full answer.

## 8.3 Active Ownership

### FS10

Percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues.

#### Portfolio SNS Asset Management

Asset class	Internal active	Internal passive	External active	External passive
Listed equity (developed markets)	9%	3%	2%	1%
Listed equity (emerging markets)	0%	0%	0%	0%
Fixed income - sovereign and other non-corporate issuers	66%	0%	0%	0%
Fixed income - corporate issuers	17%	0%	0%	0%
Listed real estate or property	0%	0%	1%	0%
Other - Microfinance	0%	0%	1%	0%

SNS Asset Management's policy comprises standard environmentally and socially-related screenings of and communication with companies in its portfolio. The table only reflects the portfolio categories that we are actually active in.

Full answer.

### FS11

Percentage of assets subject to positive and negative environmental or social screening.

Refer to FS 10.

Full answer.

### FS12

Voting polic(ies) applied to environmental or social issues for shares over which the reporting organisation holds the right to vote shares or advises on voting.

All investments made by SNS REAAL's business units and business units' investment funds comply with ethical criteria, comprising environmental and social aspects. These criteria are applied in both excluding certain investments and in the voting policy. SNS Asset Management votes on behalf of its clients and in line with their mandate during general meetings of shareholders. The environmental and social aspects that are part of clients' voting mandate could be more extensive than the minimal criteria set by SNS Asset Management itself, such as the voting mandate of ASN Bank.

Explanations on the voting policies of [SNS Asset Management](#) and [ASN Bank](#) are available via their websites.

Full answer.

## 8.4 Community

### FS13

#### Access points in low-populated or economically disadvantaged areas by type.

SNS REAAL's retail brands operate in a national market. Many of RegioBank's independent advisors are located in relatively sparsely populated or economically deprived areas of the Netherlands. Products offered by REAAL are also available via intermediaries based in small communities. All products for which advice is not required are available nationally online.

Full answer.

### FS14

#### Initiatives to improve access to financial services for disadvantaged people.

All brands operate a policy that allows for or enhances access to financial services for those people who are in some way incapacitated by a handicap. In the case of SNS Bank, accessibility is one of its key points of differentiation within the market. The main features include:

- SNS Bank and ASN Bank websites offer a variety of means of assistance for people with a handicap, including a talking *digipas*, a pass with larger buttons and a website that reads text out loud. In 2011 SNS Bank was the only Dutch bank certified by the *Waarmerk Drempelvrij* Foundation as providing maximum accessibility.
- SNS Bank's ATMs incorporate a delay mechanism on their keyboards for clients requiring a longer response time.
- Courses on internet banking for SNS Bank's clients, partly in conjunction with KPN's SimPC service, offering modified personal computers and services for elderly and other clients who value more simplified use of computers.
- REAAL has expert, highly trained staff for medical underwriting who can provide realistic risk evaluations. No unnecessarily higher costs or exclusions are applied in respect of handicaps.

Full answer.

## 8.5 Product and Service Labelling

### FS15

#### Policies for the fair design and sale of financial products and services.

SNS REAAL operates a Group-wide product approval process, a framework of standards for products and product, market and price committees within each business unit to allow for strict risk management and decision-making for **new and existing products**.

New initiatives were introduced in 2011 to **simplify products** and make product information more comprehensible.

ASN Bank applies additional criteria to its products and services by which they are evaluated against six business principles:

- Co-operation with parties which aim to advance sustainable development, in line with the thinking of ASN Bank.
- Capital is provided only to those businesses and organisations which seek to achieve a sustainable society.
- Self-developed sustainability criteria for products and services.
- Evaluation of applications for provision of capital based on own sustainability criteria, for which the research effort needs to be compatible with the nature and extent of the activity.
- Consulting with interested parties in establishing or significantly amending sustainability criteria.
- Policy transparency and accountability concerning the pursued policy.

A number of brands, in particular REAAL, SNS Bank and Zwitserleven, work with intermediaries. Co-operation with intermediaries is based on a policy of ensuring the quality of advice they provide and to limit risks from any inaccurate advice which might be provided concerning our products. The brands pursue an active policy regarding these issues.

Refer, [for instance, to REAAL](#).

Full answer.

## **FS16**

### **Initiatives to enhance financial literacy by type of beneficiary.**

SNS REAAL's mission is Simplicity in finance. It means we aim to make our products and product information as simple as possible to comprehend so that clients require little financial knowledge to be able to understand how our products function. During 2010 and 2011 we made considerable progress with [simplifying our products](#).

SNS REAAL is a partner of the foundation [Weet wat je besteedt](#) (On Top of Your Spending) which focuses on expanding the financial self-reliance of young people between the ages of 12 and 25. In addition to providing financial support through its business divisions, SNS REAAL also offers appropriate financial expertise, project leaders and volunteers for particular activities.

All our retail brands are devoted to improving the understandability of their products. Among the most important efforts in this regard are:

- SNS Shops offer personal advice, information about products and help with online banking.
- Interactive modules available on SNS Bank en RegioBank websites that allow visitors to find the product best suited to their needs based on a question and answer format.
- Volunteers from a number of banking brands gave around 500 guest presentations about finance to primary schools during the course of 2011.
- Training in online banking, particularly for seniors.
- Introduction of the [SNS Cashbook](#) for all clients with a current account to enable them to better manage their income and expenditure.
- Simplification of the use of language to competence level B1 in product information and a large proportion of letters sent to clients regarding REAAL's insurance policies.
- Publication of an educational booklet about pensions, participation in a three-day educational course on pensions and guest presentations for primary schools entitled 'Fix your risk' arranged by Zwitserleven.

Full answer.