Annual report

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Report of the Management Board

1 Key figures

Key figures SNS Bank

In € millions	2013	2012	2011	2010	2009
Balance Sheet					
Total assets	74,537	81,341	81,272	78,918	80,251
Loans and advances to customers	53,405	61,768	64,797	65,013	67,479
Of which mortgage loans	48,458	50,841	52,920	50,888	50,878
Loans and advances to banks	6,063	1,927	1,682	1,681	2,715
Amounts due to customers	43,904	42,344	40,557	37,880	34,270
Of which savings	33,276	32,815	30,342	27,398	24,435
Amounts due to credit institutions	7,457	8,686	4,716	3,096	7,119
Debt certificates	16,439	21,990	27,361	29,523	30,739
Shareholders' equity	2,582	1,337	1,723	1,580	2,165
Capital base	2,437	1,908	2,961	3,694	3,590
Income Statement					
Net interest income	957	705	803	871	672
Other income	86	137	239	114	426
Of which net commission and management fees	50	54	86	92	99
Net result	(1,352)	(719)	38	(431)	(99)
Net result SNS Retail Bank	184	94	281	139	120
Net result Property Finance	(1,536)	(813)	(243)	(643)	(219)
Ratios					
Return on shareholders' equity (ROE)	(52.4%)	(53.8%)	2.2%	(27.3%)	(4.6%)
Efficiency ratio	50.0%	56.8%	49.9%	57.8%	57.0%
Core Tier 1 ratio	16.6%	6.1%	9.2%	8.1%	8.3%
Tier 1 ratio	16.6%	7.7%	12.2%	10.7%	10.7%
BIS ratio	16.7%	9.3%	14.4%	16.7%	13.9%
Risk weighted assets (RWA)	14,578	20,592	20,534	22,131	25,885
Number of branches SNS Bank	166	162	155	143	133
Number of agencies RegioBank	526	536	529	537	602
Number of cash dispensers	537	519	507	490	516
Number of employees (FTEs)	2,009	2,133	2,426	2,639	3,270

Core Tier 1 ratio, Tier 1 ratio and BIS ratio are calculated based on Basel II.

2 Foreword

‘Facing our new future with confidence’

With the nationalisation of SNS REAAL on 1 February 2013, SNS Bank NV underwent a year of radical change. The nationalisation had far-reaching consequences for society, shareholders and subordinated creditors. At the same time, it brought clarity for both our customers and employees. We have worked hard towards a new reality. A foundation for the future.

As a bank, it is therefore appropriate that we adopt a modest stance. Aid provided by the Dutch State, the taxpayer, enabled SNS Bank NV to devote its attention to regaining the confidence of its customers and society. This is something we will continue to build upon during 2014. For instance by consciously choosing to focus on our social utility function. To expand consumer choice, we aim to be the challenger in the current landscape of the Dutch banking sector.

As management team, we are very much aware of the impact that the events of 2013 had on our employees. The wave of media coverage at the time of and following the nationalisation has had a significant impact.

I am, therefore, proud of the positive manner in which employees of the bank rolled up their sleeves and made every effort to restore customer satisfaction. In the coming year, we will again be calling upon the flexibility and resilience of our employees.

SNS Bank NV's reported net loss for 2013 was mainly caused by Property Finance, including the required write-down after the nationalisation. The segment SNS Retail Bank posted a solid profit and its capital position improved to robust levels. The core Tier 1 ratio of SNS Bank NV improved to 16.6% compared to 6.1% at year-end 2012. Following the nationalisation and separation of Property Finance, the risk profile also decreased.

This year was dominated by dealing with the aftermath of the nationalisation on 1 February 2013. SNS REAAL worked constructively with the Ministry of Finance in drawing up a restructuring plan, which was submitted to the European Commission on 19 August 2013.

Following submission of the plan, preparatory work was undertaken during the remainder of 2013. On 19 December 2013, the European Commission granted its final approval of the Dutch state aid and for the restructuring plan. The spin-off of Property Finance became a reality on 31 December.

Over time, SNS REAAL will cease to exist in its present form and SNS Bank NV will continue as an independent bank. The restructuring plan is the basis for the future and provides clarity for our customers and employees as well as our brands (SNS Bank, ASN Bank, RegioBank and BLG Wonen).

As a result of the preparations undertaken in 2013, we can achieve significant progress in creating an independent retail bank in 2014. Part of the staff of the holding company of SNS REAAL will transfer to the bank. We anticipate that this allocation process will have been completed around the summer of 2014, with the exception of the ITC department which will follow mid 2015. In parallel with dealing with the aftermath of the nationalisation and preparing the restructuring plan, we, as a bank, also continued to build upon our core activities.

The common focus of all brands within SNS Bank NV has been on regaining the trust of our customers. In 2013, we made the conscious choice to return to the social roots of the savings banks from which we originate. As a real retail bank, we will once again focus on authentic values embedded in our company since its establishment. We intend to return to being a financial services provider that makes people aware of their financial situation with simple, clear and transparent products and services. We achieve this by consciously involving our customers in the development of these products, but also with the efforts of committed colleagues. The following motto defines the essence of our services: ‘The customer knows best what he wants or requires, selects the most appropriate product and understands what it costs and what it delivers’.

The company's core values are embedded in our Manifesto. Together with our mission of CARE!, this ensures that Corporate Responsibility is integrated into our business strategy.

We also began offering appropriate assistance to mortgage customers facing financial difficulty and began to actively look at how we might offer support to prevent this. SNS Bank, RegioBank and BLG Wonen customers can take a mortgage test online or in one of the SNS shops to better identify potential financial risks. By offering the right steps at the right time, problems can be avoided at an earlier stage.

Our principal aim is to increase people's financial resilience and independence. In 2013, we provided financial education for adults, young people and children through our foundations: *Geldinzicht*, *Weet wat je besteedt* (Stay on top of your spending) and through our participation in the guest teaching programmes *Eurowijs* and *Bank voor de klas*.

We believe that our guiding principle should always be to put our customers' interests first. To achieve this, we strive to offer our customers insight, clarity and prospects, so they can make the right financial choices, whether they be big or small. In 2013, SNS Bank NV undertook a considerable number of initiatives to serve and ensure the interests of customers. We thus offer simple, accessible and safe products and services with limited risk and we make use of customer experiences and complaints to further improve our products.

The number of customers at SNS Bank NV grew by three percent in 2013, despite the turbulent period at the time of the nationalisation. As there is no such thing as the 'average customer', we have consciously chosen to serve our customers in a way that best fits their needs. That is why, instead of one brand for all customers, we have different brands, each with its own way of working, mentality and products.

In 2013, we continued with the previously initiated simplification of our product offerings. Products and services for our brands are carefully designed to meet the specific needs of the customer. Through the youth savings product *Zilvervloot Sparen*, SNS Bank and RegioBank emphasise the importance of saving money by parents, grandparents, children and grandchildren.

ASN Bank organised a savings campaign in cooperation with the Dutch National Foundation for the Elderly. ASN Bank made a contribution to the fund for each new account holder and for each new deposit in excess of € 1,000.

We seek inter-brand cooperation for the benefit of our customers. For instance, SNS Bank sells REAAL Non-life insurances. The significant growth in the number of customers shows consumer interest. In 2013, more than 70 colleagues of SNS Bank NV and Zwitserleven collaborated to develop savings products under the Zwitserleven brand for a customer segment that had been served by SNS Bank NV on a limited basis until that time.

In the area of sustainability we were also able to achieve progress on a number of fronts during 2013. SNS Bank, RegioBank, ASN Bank and BLG Wonen drew up a vision for sustainable housing. BLG Wonen assesses the housing conditions of its customers in order to assist them in making improvements.

SNS Bank NV is a 'people's bank'. Only through the commitment and dedication of our colleagues can we create long-lasting relationships with our customers, because SNS Bank staff are the ones who have direct contact with our customers on a daily basis. We motivate each other by focusing on the importance of developing and learning new skills. As management team, we attach great importance to a good work-life balance and responsible remuneration. Only satisfied employees lead to satisfied customers.

Notwithstanding the considerable increase in workload, SNS Bank's management devoted attention to managing the various risks to which the company is exposed. The changing external environment, new laws and regulations (Basel II/III), an increased number of inquiries from regulators and regulatory requirements, the necessary focus on the business unit Property Finance, necessary investments in the data warehouse infrastructure and organisational changes within SNS Bank NV, placed pressure on the available qualitative attention for the internal control framework. Specifically with respect to the linkage between internal control at group and business unit level. The internal control framework currently consists of individual components for managing actual risks, whose overall effectiveness is then tested. In the new governance structure, the management team of the bank will give further substance to an integrated control framework.

With the publication of our annual results and this annual report, we have literally closed the books after the year of the nationalisation.

Further regaining trust of our customers is our main ambition. I would like to thank our customers for the confidence they have had in our banking services and our employees.

We have thus laid the foundation for the future of SNS Bank NV. We are starting with a clean slate. The year 2014 will be devoted to implementing the restructuring plan and expanding our core activities. We are facing our new future with confidence.

Dick Okhuijsen, Chairman

3 Profile and brands

SNS Bank NV, part of SNS REAAL NV, is a financial service provider in the field of banking. With its activities the segment SNS Retail Bank offers a balanced range of brands like SNS Bank, ASN Bank, RegioBank and BLG Wonen. All our brands focus primarily on the Dutch savings, current account, investment and mortgage market. Until 31 December 2013 SNS Bank NV also had one other segment, Property Finance.

3.1 General

3.1.1 Back to our social roots

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

As a result of the credit crisis the government was forced to intervene in companies, of which we were one. In the years that lay behind us society was focused too much on increasing prosperity and income. SNS Bank NV wants to take up its role in society and return to its social roots: a financial services provider that makes people conscious of money matters. We have an important social utility function that requires us to uphold the highest ethical standards. Keeping an eye on our moral compass allows us to create a well-functioning financial services sector that is embedded in society. Only if financial service providers, together with their stakeholders, take simplicity in finance seriously, can we contribute to restoring faith in the banking sector in the Netherlands.

SNS Bank NV has a balance sheet total of € 75 billion and approximately 2,009 employees (FTEs), making it a relevant player in the Dutch market. SNS Bank NV has its headquarters in Utrecht. SNS REAAL NV is the sole shareholder of SNS Bank NV.

3.1.2 SNS Bank NV goes its own way

With the approval of the European Commission, the Banking and Insurance activities of SNS REAAL will each steer their own course. From an organisational point of view, the split up of SNS REAAL means that the Group support to the business units will be disentagled. Until SNS Bank NV operates as a stand-alone entity, SNS REAAL will continue to provide support from the Group in the areas of management and control of financial viability, the risk profile and shared values.

3.1.3 Simplicity in finance

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

3.1.4 Customer focus

We work hard for our customers, who encompass both private individuals and business customers. By offering sound customer service and support, we build on an optimal relationship with each and every customer: accessible, transparent and fairly priced. We ultimately aim for sustainable relationships with our customers but also with society.

3.2 Our brands

There is no such thing as the average customer. Everyone has different desires, needs and preferences. We want to serve our customers in the way that best fits their needs. That is why, instead of one brand for all customers, we have opted for different brands that each serve their customers in the way that suits them best. Each brand has its own way of working, image, mentality and products, from savings and investments through to insurance. For example, customers of SNS Bank can visit one of our more than 200 shops; ASN Bank is the sustainable bank; RegioBank works with personal advisors and BLG Wonen's aim is to allow its customers carefree home ownership.

3.2.1 SNS Bank

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

3.2.2 ASN Bank

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

3.2.3 RegioBank

RegioBank is the SNS Bank N.V. regional bank format to which some 530 independent advisors are affiliated. RegioBank is the local bank without the fuss or hassle. With great personal attention, a sense of service and a full range of banking products all under one roof.
Products: mortgages, savings, current accounts, loans and investments.
www.regiobank.nl

3.2.4 BLG Wonen

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

4 Strategy and Organisation

4.1 SNS Bank NV goes its own way

The Executive Board of SNS REAAL has been instructed by the Minister of Finance to implement the restructuring plan submitted to the European Commission in August 2013, which received final approval in December 2013. The plan consists of separating the bank and insurance activities of SNS REAAL. SNS Bank NV is preparing itself for an independent future.

4.1.1 Separation of Property Finance

The restructuring plan consists for SNS Bank NV of one structural measure: the separation of Property Finance. The legal separation of Property Finance was effected on 31 December 2013. Since 31 December, this entity has been operating entirely independently of SNS Bank NV under its new name Propertize. The new entity continues to be supported by the SNS REAAL Group in certain areas on the basis of service provision agreements, such as legal affairs. Under shareholdership of the Dutch State (NLFI), Propertize will continue to phase out its finance portfolio, a process that will certainly take several years.

In organisational terms, the separation of SNS REAAL means that the support from the Group to SNS Bank NV will be phased out, including accounting, control, human resources, tax, legal and IT. Until SNS Bank NV operates as a stand-alone entity, SNS REAAL will continue to provide support from the Group in the areas of management and control of financial viability, the risk profile and shared values.

4.1.2 Good starting position for SNS Bank N.V.

The nationalisation and separation of Property Finance improved the capital position and decreased the risk profile of SNS Bank NV. This will lead to renewed access to capital markets funding. The future envisaged for SNS Bank NV is that of an independent bank for retail customers, self-employed persons and the SME market, so that the Dutch consumer banking market remains competitive, with an adequate number of players. SNS Bank NV is not prohibited by the European Commission to become a price leader in certain markets. With the approval of the European Commission, subject to the conditions set, SNS Bank NV is well positioned for further development. With the four retail brands (SNS Bank, RegioBank, ASN Bank and BLG Wonen), SNS Bank NV is close to our customers. By engaging them, SNS Bank NV will further improve their services and strengthen their market positions. In the longer term, the intention of the Dutch State is to privatise SNS Bank NV.

The approval from the European Commission commits SNS REAAL to a number of limitations, please refer to section 5.5, which will apply until the end of the restructuring period, unless otherwise determined.

4.2 Separation of Group activities SNS REAAL has begun

In the second half of 2013, a number of measures were taken to reduce the interdependency between SNS Bank NV and REAAL NV.

As a result of the separation SNS REAAL will change its corporate model. The SNS REAAL Executive Board will still bear final responsibility for the Group and for the transition the Group has to go through. Responsibility for the implementation of the separation of the Banking activities will, as far as possible, be anchored in the management teams of SNS Bank NV. This has already led to a reallocation of duties within the Executive Board of SNS REAAL in October 2013. The organisational responsibilities will be combined with responsibilities under the Articles of Association as much as possible. In the transitional phase towards the independence of SNS Bank NV, SNS REAAL will gradually change the governance structure, starting in 2014, after obtaining the approval of the Central Works Council. This will include the transfer of the Group activities of SNS REAAL, the formation of independent risk and control functions, and the preparation of the transfer of IT functions in the course of 2015.

The separation process will mean that the synergy benefits realised as a result of combining activities in the Group SNS REAAL will cease. On the other hand, the organisational structure will be simplified. The aim is that the organisational and legal separation will not adversely affect cooperation between the brands of the Banking and

Insurance activities. The usage of each other's distribution and production potential and market expertise will continue to be an important source of synergy for the Banking and Insurance activities. Only the legal frameworks within which this cooperation takes place will change.

4.3 Mission, core value and social responsibility

SNS Bank NV's mission is Simplicity in Finance. This reflects the origins of our company, which began nearly 200 years ago. Even then, transparency, simplicity and solidarity were our guiding principles. We care about the fundamentals in people's lives, such as housing, education and a buffer for unexpected expenses. With Simplicity in Finance, SNS Bank works towards this. We want to act responsibly for all stakeholders in our company. The core value CARE! stands for the responsibility SNS Bank NV wants to take for its customers, for each other, for our profits and for society.

Dutch financial institutions are subject to an extensive system of laws and regulations that safeguard the quality and security of financial products and services. Compliance is obviously required. Corporate responsibility (CR), however, goes beyond this. Based on our convictions and our sense of responsibility, and in dialogue with our stakeholders, we hope to have a positive effect on society in two ways: boost financial resilience through our products and advice and improve the environment in which people live. In policy related choices, SNS Bank NV also lets itself be guided by the potential positive social impact that it can achieve as a company.

4.3.1 Financial resilience

Most importantly, we stimulate people to become financially resilient by the quality of our service. The guiding principle in this we respect is the concept of putting customer's interest first. SNS Bank NV strives to offer our customers insight, clarity and prospects, so that they can make the right financial decisions, big or small. Key elements of this service are:

- providing simple, accessible and safe products and services with limited risk;
- ensuring that customer experiences and complaints are used for improvement;
- enabling customers to make responsible choices by providing comprehensible product information and/or appropriate advice;
- systematic testing of customer's interests and customer integrity;
- measuring and improving customer satisfaction.

In order to increase people's financial resilience and independence, SNS Bank NV strives to provide financial education to those who need it most, whether they be adults, young people or children. We do this through our foundations *Geldinzicht*, *Weet wat je besteedt*, our guest teaching programme Eurowijs and our participation in *Bank voor de klas*.

SNS Bank NV offers appropriate assistance to customers in financial difficulties, and strives to contribute to the reform of the financial sector with initiatives designed to promote well-being and the restoration of confidence. We wish to increase our transparency and social contribution, ensure stability, and to offer services that put the well-being of our customers first.

4.3.2 Sustainable living environment

SNS Bank NV endeavours to achieve a sustainable living environment by:

- promoting sustainable innovation in society, through products and marketing that contribute to sustainable living, personal well-being and energy efficiency, and by financing sustainable infrastructure, social facilities and power generation;
- responsible investment of our own funds and the funds of our customers. We only invest in companies, government bodies and institutions that respect the principles we have established with respect to the environment, the climate, social issues and corporate governance. The principles are established in the investment policy of SNS Bank NV, which are available for inspection at www.snsbank.nl;
- ensuring the responsible conduct of our business, whereby potential environmental effects are taken into account and where we positively affect our environment and the well-being of our employees.

4.4 Putting the customer's interests first

In 2013, our services were primarily focused on putting the customer's interests first. SNS Bank NV shares the methods designed to achieve and ensure this as well as the results in detail with the Dutch Authority for the Financial Markets (AFM). AFM requests us to carry out a self-assessment each year, and provides feedback on the results. This has led to many improvements each year, the most important of which can be found at www.SNSbank.nl. SNS Retail Bank took a large number of initiatives to better serve and guarantee the customers' interest.

In 2013, the AFM researched putting customer's interest first of parts in the services. The reports received concern SNS Bank and partly also our other bank brands. The AFM investigated the policy on savings, mortgages and complaints management. SNS Retail Bank significantly outperformed on most important items compared to last year. Moreover, for savings and mortgages SNS Retail Bank scored higher than the market benchmark. On the elements consumer credit and cost information of investments, that are less relevant at SNS Retail Bank, it scored as well as or slightly lower compared to the previous year. The cost information of investments scored considerably higher than the market benchmark and consumer credit slightly less. SNS Retail Bank underperformed the market benchmark on the item customer contact. In 2013 SNS Retail Bank made a substantial effort to improve its communication with customers, however it can make a further impact by renewing all of its conditions.

The self-assessments shared by the business units with the AFM state a number of points of interest as well as the numerous improvements achieved in 2013. These points of interest lead to the conclusion that the progress in putting customer's interest first, that SNS Retail Bank should wish to accomplish, is less than anticipated. SNS Retail Bank distinguished three points of interest in its analysis for 2013: dilemmas, conduct and legislation. Dilemmas arise from the choices that have to be made from limited resources. Optimising the price/quality ratio and customer satisfaction must not stand in the way of a decent profit and sound solvency, since the profitability of the business is also in the interests of customers (and others) and needs to be safeguarded in the future. Changes in behaviour cannot be achieved in one or two years. They require more time, despite the intensive encouragement that we provide. For example in the form of HR tools such as management based on personal leadership and performance assessment linked to the customer's interests. Finally, changes to legislation sometimes limit the ability of the organisation to make room for the customer's interests in all its processes that SNS Retail Bank considers necessary.

4.5 Customer satisfaction

We want to assess correctly paying attention to our customers and improvement of our performance. SNS Bank NV brands therefore use the NPS method (Net Promoter Score) to measure customer satisfaction. This measures the number of customers who are so enthusiastic about the brand that they would recommend it to friends and acquaintances. The number of customers that advise friends and acquaintances to avoid the brand is deducted from the result. The uniform NPS measurements, based on a representative sample, are carried out by an external agency twice a year.

Customer satisfaction in the financial sector as a whole has been under pressure due to the developments relating to the financial crisis. A limited number of Dutch banks had a positive NPS score out of all those surveyed in 2013, one of which was ASN Bank. It is likely that most brands have seen a reduction in their NPS score in the light of developments associated with the nationalisation. The measurements show that customers who have more recently been in contact with the brand, for example via the telephone helpdesk, are on average more satisfied than other customers. Measurements at the business units also indicate this. The brands therefore aim at intensifying customer contact, also through various types of dialogue.

Table 1: Customer satisfaction based on NPS

	2013	2012
SNS Bank	(39%)	(35%)
ASN Bank	19%	22%
RegioBank	(7%)	(7%)
BLG Wonen	(15%)	(30%)

See Chapter 8 Developments at SNS Retail Bank for details of the NPS at the brands.

5 Nationalisation and its implications

This chapter provides the outline of the nationalisation of SNS REAAL and its financial implications. Section 5.1 provides details of the events leading to the nationalisation, an outline of the nationalisation decree and the nationalisation measures for SNS REAAL as a group. The remainder of the chapter, from section 5.2, provides an outline of the effects on SNS Bank NV. The effects of the temporary and final decision of the European Commission, in section 5.5, are described for SNS REAAL as a group.

5.1 Nationalisation

In January 2013, the Dutch Central Bank (DNB) informed SNS REAAL of its conclusion that the capital position of SNS Bank NV was insufficient to cover the company's current and possible future risks. SNS Bank NV was requested to present by 31 January 2013 a final solution for its capital position that according to the judgement of DNB would provide a sufficient degree of certainty of succeeding and that would furthermore result in supplementing the capital deficit that existed according to DNB. SNS Property Finance BV (Property Finance) had been an important factor in the arising of the capital deficit. In the opinion of DNB, the proposal of SNS REAAL NV offered insufficient certainty that the identified capital deficit could be addressed in the short term. DNB subsequently informed the Ministry of Finance that it no longer considered it sound for SNS Bank NV to continue to carry out its banking operations.

On 1 February 2013, the Minister of Finance (the Minister) decreed (the Decree) by virtue of Articles 6:2 and 6:4 of the Dutch Financial Supervision Act to expropriate:

- all issued shares in the capital of SNS REAAL NV;
- all core Tier 1 capital securities issued by SNS REAAL NV to Stichting Beheer SNS REAAL (Stichting securities);
- all subordinated bonds of SNS REAAL NV and SNS Bank NV, including the participation certificates issued by SNS Bank NV;
- subordinated private debts of SNS REAAL NV and SNS Bank NV.

In the Decree the Minister set out that he had concluded that the stability of the financial system had been placed at serious and imminent risk by the situation in which SNS REAAL found itself prior to 1 February 2013.

All shares, Stichting securities and subordinated bonds were expropriated for the benefit of the Dutch State (the State). The expropriation of subordinated private debts was effected by expropriating the corresponding debts relating to liability capital components of SNS REAAL NV and SNS Bank NV for the benefit of Stichting Afwikkeling Onderhandse Schulden SNS REAAL (Private Debt Settlement Foundation SNS REAAL, ‘Stichting AOS’). In the Decree, the Minister explained that the capital components of the subordinated private debts had been expropriated in the name of a separate foundation in order to avoid these debts being transferred to the State. Through a provision under Article 6:1 of the Financial Supervision Act, SNS REAAL has been appointed as sole director of Stichting AOS. The Decree came into effect at 08.30 a.m. on 1 February 2013. At that moment, the expropriated securities and capital components were legally transferred to the State and Stichting AOS respectively.

Following the expropriation of the shares, Stichting securities, subordinated bonds and subordinated private debts, the following measures were taken in line with the Minister’s nationalisation decree in 2013:

- A paid-in share premium of € 2.2 billion by the State in SNS REAAL NV, € 1.9 billion of which was passed through as share premium to SNS Bank NV.
- The conversion of B shares of SNS REAAL NV into ordinary shares.
- The conversion of the core Tier 1 capital securities issued to the State and Stichting Beheer SNS REAAL into share premium on ordinary SNS REAAL NV shares.
- The expropriated subordinated bonds of SNS REAAL NV and SNS Bank NV were injected by the State as share premium capital into SNS REAAL NV. The subsequent contribution by SNS REAAL of the expropriated securities issued by SNS Bank into SNS Bank resulted in € 698 million (net of tax) of third-party debt being converted into SNS Bank NV's shareholders' equity.

- The expropriated subordinated private debts of SNS REAAL NV and SNS Bank NV were expropriated in the name of Stichting AOS. As a result of this measure, € 9 million was converted into capital through SNS Bank NV's profit and loss.
- A bridge loan to SNS REAAL NV of € 1.1 billion.
- The shares in Property Finance were transferred on 31 December 2013 to an asset management organisation in combination with a State guarantee on the temporary loan that is provided by SNS Bank NV to this asset management organisation. Following the transfer, the State injected € 0.5 billion in Property Finance.
  - As a result of the transfer of the activities of Property Finance to an asset management organisation and in combination with the State guarantee on the loan, SNS Bank NV released around € 4.5 billion in risk-weighted assets.
  - Property Finance was transferred at a transfer value as determined by the Minister, which resulted in a devaluation of the real estate financing portfolio of € 2.8 billion compared to the book value as at 30 June 2012.

On 19 December 2013, the European Commission (EC) approved the measures of the Minister as submitted by the Ministry of Finance in the restructuring plan on 19 August 2013. The change in capital structure is set out in section 5.2, the separation of Property Finance in section 5.3 and a more detailed explanation of the EC’s decision is provided in 5.5.

Changes to the Executive Board of SNS REAAL and Supervisory Board
Executive Board members of SNS REAAL Ronald Latenstein (CEO) and Ference Lamp (CFRO) and the chairman of the Supervisory Board, Rob Zwartendijk, resigned from their positions on 1 February 2013. They were not given a notice period nor any severance pay. The vice chairman of the Supervisory Board, Piero Overmars, temporarily acted as chairman of the Supervisory Board until he stepped down on 1 November 2013.

On 4 February 2013, the following Executive Board members of SNS REAAL were nominated and appointed by the State: Gerard van Olphen as chairman of the Executive Board and Maurice Oostendorp as CFRO and member of the Executive Board.

On 1 November 2013, Piero Overmars, Jaap Lagerweij, Robert Jan van de Kraats and Herna Verhagen resigned from the Supervisory Board of SNS REAAL NV. At the Extraordinary General Meeting of Shareholders held on 18 October 2013 it was decided to reduce the number of Supervisory Board members of SNS REAAL NV per this date to seven members. With effect from 1 November 2013, Jan Nooitgedagt, Jan van Rutte and Monika Milz were appointed as Supervisory Board members to the ensuing three remaining vacancies on the Supervisory Board. Mr Nooitgedagt was also appointed Chairman of the Supervisory Board. The new members were also appointed to the Supervisory Board of SNS Bank NV, SRLEV NV and REAAL NV. Mrs Milz was appointed in accordance with the reinforced right of recommendation of the Central Works Council.

Role NLFI in governance structure
Since 31 December 2013, Stichting administratiekantoor beheer financiële instellingen (NL Financial Investments, ‘NLFI’) holds 100% of the shares in SNS REAAL NV. NLFI is responsible for the management of the shares and the exercise of all rights associated with the shares, including voting rights, in accordance with the law and the articles of association of NLFI. Despite possessing all voting rights attached to the shares, in accordance with the law and the articles of association of NLFI all significant and fundamental decisions must first be approved by the Minister.

Based upon the law and the articles of association of NLFI, NLFI does not possess the right to dispose of nor encumber the shares; these rights can only be obtained after receipt of formal authorisation from the Minister.

The following sections set out specific legal aspects of the nationalisation, procedures and investigations.

5.1.1 Council of State

A considerable number of stakeholders lodged appeals against the Decree with the Administrative Jurisdiction Division of the Dutch Council of State. On 25 February 2013, the Council of State decided that the appeals largely do not have a legal base and therefore upheld the expropriation decree. The Council of State judged that the Minister has expropriated the securities and assets lawfully but not the corresponding liabilities or obligations of SNS REAAL NV and SNS Bank NV towards expropriated parties insofar as these obligations or liabilities are related to the (former) ownership of the securities referred to. Therefore, any such claims can still be made against SNS REAAL NV and/or SNS Bank NV respectively.

A number of stakeholders have referred the appeal procedure at the Council of State to the European Court of Human Rights (ECHR) for review.

5.1.2 Enterprise Chamber

The holders of the securities and capital components, as mentioned above, by law have a right to compensation by the State at the level of the actual value of the affected enterprise at the time of the expropriation. The level of compensation is to be established by the Enterprise Chamber of the Amsterdam Court of Appeal. The Minister’s current offer is a compensation of € 0, against which various holders have lodged an appeal at the Enterprise Chamber. On 11 July 2013, the Enterprise Chamber issued an interim ruling and appointed experts to assess the value of the expropriated securities and capital components. On 9 October 2013, the State lodged an appeal against this ruling. It did so also because this was the first time that the Intervention Act had been applied and the State attaches importance to the Supreme Court’s ruling on how certain aspects of the law should be interpreted before the assessment by experts, as recommended by the Enterprise Chamber, gets underway. At the request of the State, the Enterprise Chamber has postponed the procedure until a decision on the appeal has been made. It is not yet known when the Supreme Court will issue its ruling. In the event that the Enterprise Chamber rules that compensation is due, this compensation will be paid by the State.

5.1.3 Private debt settlement Foundation SNS REAAL

In his Decree, the Minister explained that the capital components of the subordinated private debts were expropriated for the benefit of a separate foundation, Stichting AOS, in order to avoid these debts being transferred to the State. Since Stichting AOS was not provided with any assets, either on incorporation or thereafter, it has not been able to meet its obligations assigned to it under the Decree, resulting from the private loans issued to SNS REAAL NV and SNS Bank NV at the time.

In his Decree, the Minister appointed SNS REAAL NV as director of Stichting AOS. Stichting AOS was incorporated by and for the State to arrange the legal settlement of (the expropriation of) private subordinated debt and not with the purpose to carry out activities for SNS REAAL.

On 12 November 2013, at the request of one of the lenders, the District Court for the Central Netherlands declared Stichting AOS bankrupt. The trustee in bankruptcy is considering the procedure for settling this bankruptcy as well as the roles of the State and director SNS REAAL NV.

5.1.4 Participation certificates

Among the subordinated bonds of SNS Bank NV expropriated by the State are so-called third series participation certificates (€ 57 million). Shortly after the nationalisation, the Minister requested management to conduct a fact-finding investigation to ascertain whether there had been any irregularities in the offer of and/or advice concerning these certificates in the past and, if required, to draw up a proposal for compensating those affected. Based on the investigation performed, SNS Bank NV made a proposal for compensation to the clients in question on 11 July 2013. At the time of publication of this annual report, 97% of the clients had accepted SNS Bank NV's offer. From the total provision of € 53 million, which was recognised for the payment of the compensation in the first half of 2013, the amount of € 51.3 million was paid out in the course of 2013.

5.1.5 Other legal procedures and investigations

5.1.5.1 General

Various former holders of expropriated securities and capital components have initiated legal proceedings to seek compensation for damages. At the time of drawing up the financial statements, no court proceedings had (yet) been initiated against SNS REAAL NV and/or SNS Bank NV other than those stated below. Currently, it is not possible to make an estimate of the probability that possible legal proceedings of original holders or other parties affected by the nationalisation may result in liability, or the level of the financial impact on SNS REAAL NV and/or SNS Bank NV. For this reason, at year-end 2013 no provisions have been made in respect of possible legal actions by holders concerning the expropriated securities and capital components and other affected parties. As the outcomes of possible legal proceedings cannot be predicted with certainty, it is not possible to rule out that a negative outcome may have a material negative financial impact on the capital position, results and/or cash flows of SNS REAAL NV and/or SNS Bank NV.

5.1.5.2 Frijns/Hoekstra Commission

On 5 March 2013, the Minister announced an inquiry into the actions of DNB and the Ministry of Finance and the interaction between them with regard to SNS REAAL. For that purpose, an inquiry commission was set up, chaired by Dr J.M.G. Frijns and R.J. Hoekstra, LL.M. (the Commission).

The Commission heard former Executive and (former) Supervisory Board members of SNS REAAL and inspected documents of SNS REAAL. The report was published on 23 January 2014. The conclusions and recommendations relate to the primary subjects of the inquiry, the Ministry of Finance and DNB. Following the publication of the report various parties emphasised the desirability of a further inquiry directed specifically at SNS REAAL.

5.1.5.3 Stichting Beheer SNS REAAL

Stichting Beheer SNS REAAL, the former holder of the majority of the shares in SNS REAAL NV, claims, amongst other, that it does not have sufficient information to determine its asserted value in the compensation proceedings against the State (see section 5.1.2). SNS REAAL contests this claim on substantive and procedural grounds. On 11 November 2013, the Stichting filed a petition for a provisional witness hearing at the District Court in Amsterdam. In addition to the officers of SNS REAAL, the witnesses named in the petition include officials of the State and DNB. The court session planned for 11 February 2014 following the request by Stichting Beheer SNS REAAL for a provisional witness hearing has been postponed.

5.1.5.4 Arbitral proceedings on subordination of a loan

A lender of one of the private loans included among the liabilities placed by the Decree of 1 February 2013 in Stichting AOS (see section 5.1.3) disputes the subordination of that loan and started an arbitral proceeding at the Netherlands Arbitration Institute in December 2013. Since SNS REAAL NV was the original contractual party for this expropriated loan, it is a formal party to these proceedings and will conduct the defence.

5.2 Change in the capital structure

This section discusses the impact of the nationalisation on the capital structure of SNS Bank NV.

5.2.1 Expropriation of subordinated bonds and private debts

5.2.1.1 Subordinated bonds

The State injected the expropriated subordinated bonds into SNS REAAL in the form of share premium on 1 February 2013. Thereafter, with economic effect on the same day, SNS REAAL transferred the expropriated subordinated bonds issued by SNS Bank NV in the form of share premium to SNS Bank NV. The resulting merger of debt extinguished all debt claims including all ensuing payment obligations to the State. The value of the expropriated subordinated bonds was recognised directly to equity, and is for the most part not subject to corporation taxation. The result which arose from cancelling the derivatives associated with the expropriated items was, through profit and loss, recognised in shareholders’ equity.

The definite taxable result of these measures as based on an advanced tax ruling by the Dutch Tax Authority has led to a net capital increase of € 698 million (pro forma estimate in the financial statements of 2012: € 682 million).

5.2.1.2 Subordinated private debts

Subordinated private debts were expropriated. The liability capital components of SNS REAAL NV and SNS Bank NV corresponding to these debts were also expropriated on behalf of Stichting AOS. The subsequent release in the balance sheet was, through profit and loss, recognised in shareholders' equity.

The definite taxable result of these measures as based on an advanced tax ruling by the Dutch Tax Authority has led to a net capital increase of € 9 million in 2013 (pro forma estimate in the financial statements of 2012: € 9 million).

5.2.1.3 Capital injection

In his Letter to Parliament, the Minister explained that SNS REAAL required a capital injection totalling € 2.2 billion: € 1.9 billion for SNS Bank NV and € 300 million for SNS REAAL NV. A paid-in share premium of € 2.2 billion in SNS REAAL NV was made on 11 March 2013, € 1.9 billion of which was passed by SNS REAAL NV as share premium to SNS Bank NV on the same day.

5.2.1.4 Resolution levy contribution

The Minister requested all banks to make a contribution in the form of a one-off resolution levy. Based on the most recent estimate, SNS Bank NV’s contribution is estimated to be € 76 million. This amount will fall due in 2014 and will be charged to profit or loss in that year.

5.3 Separation of Property Finance

5.3.1 Introduction

The separation of the Property Finance activities was part of the restructuring plan, which was submitted to the EC by the Ministry of Finance on 19 August 2013. The EC approved the transfer on 19 December 2013. DNB issued a Declaration of no objection for the separation of Property Finance on 24 December 2013.

On 31 December 2013, the shares of Property Finance were transferred to the State for the amount of € 1, followed by the transfer of the Property Finance shares by the State to NLFI.

On 1 January 2014, Property Finance changed its name to Propertize BV. As an independent organisation, split off from SNS REAAL, Propertize will focus on run-off of the real estate financing and property projects portfolio.

In the starting phase, SNS Bank NV will continue to fund Propertize. The credit risk on Propertize after the separation is covered by a State guarantee covering SNS Bank NV’s total exposure to Propertize of € 4.1 billion as at 31 December 2013. It is the aim of Propertize to refinance the entire funding provided by SNS Bank in the course of 2014 through issuing State guaranteed Medium Term Notes and Commercial Paper to institutional investors. In 2014 Propertize has three times successfully placed Medium Term Notes with a volume of € 2.3 billion.

5.3.2 Developments in 2013 in relation to the nationalisation

Property Finance was an important factor in the decision to nationalise SNS REAAL. The continuing losses in Property Finance's real estate and real estate finance portfolio amongst other resulted in SNS Bank NV's capital position becoming inadequate in the opinion of DNB. In the Decree it was, therefore, decided to transfer Property Finance's activities to a separate asset management organisation, isolated from SNS REAAL.

The Minister determined that Property Finance had to be transferred at a transfer value determined by the Minister, at a value which is € 2.8 billion lower than the book value of the real estate finance portfolio as at 30 June 2012. As a result of impairments recognised between 30 June 2012 and 31 December 2013, the portfolio has been written-down by a total of € 1,833 million. An impairment of € 776 million was recognised in the second half of 2012, followed by an impairment of € 1,057 million in 2013.

To enable Property Finance to also absorb the remaining expected gross write-off of € 967 million (€ 2.8 billion less the impairments of € 1,833 million already recognised), SNS REAAL increased the capital of Property Finance through a paid-in share premium of € 725 million net before transfer. This increased the capital of Property Finance to such a level that Property Finance is able to absorb expected future losses of up to € 967 million gross. The total impairments of € 1,833 million on the total assets of Property Finance, increased by the additional net capital of € 725 million, is equal to the total write-down of € 2.8 billion as determined by the Minister at the time of expropriation.

On 31 December 2013, the shares of Property Finance were transferred to the State for € 1. At the transfer SNS Bank NV therefore recognised an additional loss of € 725 million net, the amount of Property Finance's shareholders' equity.

Up until the time of separation on 31 December 2013, Property Finance was part of the fiscal unity of SNS REAAL. Based on the advanced tax ruling with the Dutch Tax Authority, it was determined that the impairments of €1,057 million over 2013 and the anticipated future losses of € 967 million can be regarded as deductible losses. All financial relationships associated with tax between Property Finance and SNS REAAL was settled at year-end 2013. The initial estimate in the pro forma figures in the 2012 financial statements was based on a tax deduction for the impairments of € 1.7 billion. Following consultation with the Dutch Tax Authority, the tax deductible amount was raised to € 2.71 billion. The final deduction corresponds with the amount of € 2.8 billion as determined by the Minister, adjusted by € 90 million for non-deductible losses. The increase in tax deductibility has led to an additional capital increase of € 252 million, compared to the previous estimate in the 2012 pro forma figures.

As a result of the regular redemptions, the settlement of the tax position (including tax credits over the entire write-off of € 2.8 billion) and paid-in share premium by SNS Bank NV, Property Finance's debt to SNS Bank NV at year-end 2013, directly preceding the transfer to the State, decreased to € 4.5 billion.

Following the transfer, the State provided a € 0.5 billion capital injection into Property Finance, € 0.4 billion of which was used to redeem the outstanding debt to SNS Bank NV. This decreased the outstanding debt from € 4.5 billion to € 4.1 billion as at 31 December 2013. To protect the capital position of SNS Bank NV, the State provided SNS Bank NV with a guarantee on the funding to Property Finance. The funding therefore has no effect on the risk-weighted assets of SNS Bank.

5.3.3 Guarantees

Following the share transfer on 31 December 2013, SNS Bank NV withdrew the 403 declaration for Property Finance on 31 December 2013 and initiated the proceedings provided for in Article 2:404 of the Dutch Civil Code to terminate the remaining guarantees. SNS Bank NV and SNS REAAL, respectively, also withdrew the 403 declarations for four subsidiaries of Property Finance on 31 December 2013, and initiated the proceedings to terminate the remaining guarantees. Some creditors have objected to the termination of the remaining guarantees.

SNS Bank NV issued separate guarantees to a number of counterparties of Property Finance in the past. Following the withdrawal of the 403 declaration and termination of the remaining commitments arising from the 403 declaration, these guarantees will remain in place. SNS Bank NV expects Property Finance to be able to meet its obligations to these counterparties as Property Finance is adequately capitalised at the time of the share transfer. SNS Bank NV, therefore, deems it unlikely that a guarantee will be invoked.

Some counterparties of Property Finance who conduct legal proceedings against Property Finance have thereby also arraigned SNS REAAL NV and / or SNS Bank NV. The legal basis of this is unclear and SNS REAAL NV and SNS Bank NV consider the likely success of these claims against SNS REAAL NV and/or SNS Bank NV to be limited. No specific agreements were made about these claims upon the transfer of Property Finance on 31 December 2013.

5.4 Overview financial impact of the nationalisation measures

The financial impact of implementing the nationalisation measures on the capital is shown below.

Table 2: Effects nationalisation measures on income statement SNS Bank

	2nd HY 2012	2013		Total
In € millions	Income statement	Equity	Income statement	Equity
Property Finance				
Impairments Property Finance	(776)	-	(1,057)	(1,833)
Transfer Property Finance	-	-	(967)	(967)
Subtotal Property Finance	**(776)**	**-**	**(2,024)**	**(2,800)**
Capital structure				
Capital injection SNS REAAL	-	1,900	-	1,900
Conversion subordinated bonds	-	630	68	698
Expropriation subordinated private debts	-	-	12	12
Participation certificates	-	57	(53)	4
Conversion accrued interest	-	19	-	19
Subtotal capital structure	**-**	**2,606**	**27**	**2,633**
Tax effect	192	(5)	466	653
Total	**(584)**	**2,601**	**(1,531)**	**486**

The amount reported in the 2nd HY 2012 is the 2012 impairment related to Property Finance after determination of the transfer value.

For information on the effect of the nationalisation measures on the core Tier 1 ratio please refer to section 23.3 Capital position.

5.5 Temporary and final decision of the European Commission

In its decision of 22 February 2013, the European Commission granted temporary approval for the capital injection of € 2.2 billion in SNS REAAL NV, € 1.9 billion of which was to be passed through to SNS Bank NV, and the bridge loan issued by the State to SNS REAAL NV in the amount of € 1.1 billion. Final approval was granted on 19 December 2013, based on the restructuring plan submitted by the Ministry of Finance on 19 August 2013.

In line with the restructuring plan submitted, the State commits to two structural measures regarding (the balance sheet of) SNS REAAL:

a Separation of the Property Finance activities b Divestment of the insurance subsidiary REAAL NV, which includes all insurance and asset management activities of SNS REAAL.

The separation of the Property Finance activities results in a substantial reduction of risk-weighted assets and is an important measure to further restore viability of SNS REAAL. It will also facilitate access to capital market funding for SNS Bank NV. The transfer of the Property Finance activities to the State took place on 31 December 2013.

SNS REAAL commits itself to the divestment of the insurance subsidiary REAAL NV, taking into account the risk that this divestment could result in a significant loss. The State and SNS REAAL commit to use the future proceeds of the divestment of REAAL NV to reduce the double leverage on the balance sheet of SNS REAAL. The holding company SNS REAAL will be wound down. The entity resulting from the restructuring will be a standalone bank focused on banking for retail and self-employed clients. In the course of time, the State is committed to privatising SNS Bank NV.

The decision of 22 February 2013 stipulated amongst other that until the final decision SNS REAAL was not permitted to carry out any acquisitions (acquisition ban) or make payments on hybrid instruments (hybrid debt call and coupon ban). In its final decision of 19 December 2013, the EC set a number of conditions and restrictions which, unless otherwise stated, will apply until the end of the restructuring period in December 2017. The principal conditions and restrictions amongst other are:

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

6 Outlook 2014

Consumer and producer confidence are increasing in the Netherlands and in the rest of the eurozone. The eurozone continues to see economic growth. In the Netherlands, however, growth will be modest because consumers, banks and the government are giving priority to the further restoration of their financial situation. Unemployment and the housing market could stabilise in 2014.

With a stronger capital position, SNS Retail Bank can focus on growth in savings and payments and regaining market share in new mortgage production. Further strengthening of the capital position is also important in view of tighter regulatory requirements and changing laws and regulations. The focus on savings continues to be important in order to keep our dependence on the capital market at an acceptable level. In addition to this, however, SNS Retail Bank wishes to create new possibilities for whole sale funding in the capital market by means of solid financial performance.

6.1 Financial markets

6.1.1 General

The global economy is gaining momentum in the wake of the United States. Continuing new job creation is leading to an acceleration in wage growth. Higher consumption can then generate increased economic activity, initiating an upward spiral. Growth of the eurozone is continuing, mainly due to good performance by the German economy. The question is whether France will be able to benefit from this, as reforms in that country are long overdue. In the peripheral euro countries, confidence, and thereby the potential for recovery, is increasing.

The current phase of the economic cycle is generally favourable for equities. The chance of downside corrections is becoming somewhat greater now that the US central bank (the Fed) is beginning to phase out its policy of purchasing bonds. This means, however, that the situation is returning to normal, and that is ultimately not a bad thing. The price/earnings ratios of many shares rose significantly in the course of 2013; in comparison to other investment categories, however, their value is still attractive. The outlook for equities is slightly better than the outlook for bonds.

6.1.2 Short-term interest rate will remain low, long-term rate could rise

A further increase in long-term interest rates is likely. The US is the leading market here. The US long-term interest rate is too low in relation to economic growth and inflation. The Fed’s ‘tapering’ of its bond purchases could cause long-term rates to rise. We expect to see German 10-year yields in a range between 1.75% and 2.25%. Based on the outlook of the ECB, the modest economic growth and the low forecast for inflation, the potential for higher yields is limited.

6.2 Impact of laws and regulations

New legislation and regulation are resulting in increasing costs in the financial sector, for the maintenance of capital, risk management, internal organisation, the resolution levy and/or taxation. Good and close supervision is a good thing, but not always effective and efficient.

The introduction of Basel III means that banks have to hold more capital in relation to their risk and the volume of their loans and investments. The requirements entail a tripling of the capital requirement over six years in comparison to 2010 and will thereby increase the costs of lending, including mortgages.

A bank tax came into effect in October 2012, which amounted to € 8 million (2012: € 8 million) for SNS Bank NV in 2013. The funding of the deposit guarantee scheme will also change. As from July 2015, banks must deposit monies in advance in a fund that will be managed by Stichting Depositogarantiefonds. The 2014 Resolution Levy Act as a result of the nationalisation of SNS REAAL, concerns a temporary and one-off bank levy of €1 billion on the deposits that were guaranteed on the basis of the Dutch deposit guarantee system and that were held by the banks on 1 February 2013. The banks are allowed to postpone payments into the deposit guarantee scheme in return for the levy. The contribution for SNS Bank NV into this levy is estimated at € 76 million, with which a contribution will be made to the costs of our own nationalisation.

6.3 SNS Retail Bank

6.3.1 The mortgage market stabilises

In December 2013, the Dutch Senate gave its approval to the Housing Agreement previously announced by the Cabinet. The agreement consists of, firstly, a gradual limiting of the tax-deductibility of mortgage interest over the long term, and secondly, a series of measures to boost the housing market in the short term and reduce the debt burden of households. We expect the number of new mortgages to increase in 2014, whereby the downward trend in house prices may come to a halt. For the overall mortgage market, we expect stability or slight growth.

The prospects are that the number of mortgage holders with payments in arrears will rise further, although the increase will not be as strong as in 2013. By means of more detailed analysis of customer data and proactive management, in 2014, we will be better positioned to consult with customers that may encounter problems with their payments at an early stage.

SNS Bank, BLG Wonen and RegioBank are focusing on rebuilding sales of new own-brand mortgages and mortgages from third parties. The margin on mortgages remains at a healthy level. With our services, we will strive to promote sustainable housing.

6.3.1.1 *Diversity in advisory fees*

A ban on commissions has applied to mortgages and other complex financial products since January 2013. Instead of this commission, the advisory body (bank, insurer, or intermediary) will receive a fee based on an agreement with the customer. Both consumers and financial institutions are still looking for the best way to deal with the new situation. Our brands want to help their customers decide whether they need advice or not, and they also intend to offer less detailed advice at a lower price. We want to avoid a situation in which customers make the wrong choices because they want to save money on advice, but we also want to avoid a situation in which customers pay for a (full) advisory service when they themselves have already collected most of the relevant information they need to make the best choice.

6.3.2 Savings virtually stable, growth in sustainable investing

The continuing economic crisis continues to make saving attractive; however, savings growth is expected to flatten further as the economy picks up. Additional mortgage repayments and continuing low interest rates, combined with a recovery of confidence in the equity markets, could put the savings market under pressure. Furthermore, some savers may have to draw down their savings as a result of continuing unemployment and lower house prices.

Growth in the market for bank savings accounts will also probably level off. As from 1 January 2014, redundancy payments to employees will be taxable immediately. The abolition of the periodic payments entitlement exemption means that new savings accounts for accrual and payment, the Golden Handshakes, will only be sold under certain conditions. Tax-free payments into annuity accrual accounts will also be limited. The effect of this measure will not be significant, since the payments of most of our customers still fall within the tax-free band. Bank savings based on advice have become less attractive for relatively small amounts since the introduction of the fixed advisory fee in 2013.

Sustainable investing continues to become more popular. The ASN investment funds, with approximately € 1.6 billion of assets under management at year-end 2013, will be able to benefit from this.

6.3.2.1 *Ban on distribution fees for investment funds providers*

Distribution fees paid by Dutch investment funds to distribution partners have been banned with effect from 2014. As prescribed, SNS Bank, RegioBank and ASN Bank charge a separate service fee with effect from 2014, but they do set their own fee level. The effect of these changes on customer behaviour is difficult to predict. SNS Bank and RegioBank offer a range of five profile funds, focusing mainly on straightforward and low-threshold investing for a broad target group. ASN Bank is still the specialist in sustainable investing, and expects to see little or no change with respect to sales through its own distribution channel. Sales of ASN investment funds through other banks could be affected by the pricing policies of the banks in question.

6.3.3 Trends: mobile, social media and online communities

Usage of mobile banking and the number of its users continue to grow, partly due to the extra functionalities that are becoming available. This is convenient for customers and instructive for the bank, as it provides information on usage times and transaction types. More and more customers are using social media or an online community to communicate with each other and with the bank on money matters. This is also a win-win situation, because the bank can obtain greater understanding of customer needs. This improves the services provided.

7 Financial outlines

7.1 Results 2013 compared to 2012

Adjusted for the impact of one-off items, net profit of SNS Retail Bank increased to € 263 million from € 130 million in 2012. The main factor behind this increase was a higher net interest income driven by lower interest expense due to declining interest rates offered on savings accounts and the redemption of term deposits.

One-off items negatively impacted SNS Retail Bank's 2013 net result of the core activities by € 79 million compared to € 36 million negative impact in 2012. In 2013, the one-off items mainly relate to derivatives securitisations of the legacy DBV mortgage portfolio of € 86 million negative, and in 2012 the majority consist of a restructuring charge.

Property Finance posted a net loss of € 1,536 million (2012: € 813 million), which included a write-off of € 2,024 million gross (€ 1,538 million net) in the first quarter of 2013, to bring the valuation of the real estate finance portfolio in line with the transfer value as determined by the Dutch State.

Taking into account the significant loss at Property Finance and negative one-off items, SNS Bank NV reported a total net loss of € 1,352 million, compared to a total net loss of € 719 million for the year 2012.

7.2 Impact of one-off items

Table 3a: Impact of one-off items on SNS Bank's net result

In € millions	**2013**	2012
Net result SNS Retail Bank	184	94
Net result Property Finance	(1,536)	(813)
Total net result for the period	**(1,352)**	**(719)**
Impact of one-off items SNS Retail Bank	(79)	(36)
Impact of one-off items Property Finance	(1538)	(47)
Total one-off items	**(1,617)**	**(83)**
Adjusted net result SNS Retail Bank	263	130
Adjusted net result Property Finance	2	(766)
Total adjusted net result	**265**	**(636)**

Table 3b: Breakdown impact of one-off items on SNS Bank's net result 2013

In € millions	**SNS Retail Bank**	**Property Finance**	**SNS Bank**
Net result 2013	**184**	**(1,536)**	**(1,352)**
Impact nationalisation:			
Direct impact of nationalisation measures	7	(1,538)	(1,531)
Other one-off items:			
Derivatives securitisations	(86)	-	(86)
Subtotal other one-off items	**(86)**	**-**	**(86)**
Total one-off items 2013	**(79)**	**(1,538)**	**(1,617)**
Adjusted net result 2013	**263**	**2**	**265**

One-off items in 2013 amounted to € 1,617 million negative, mainly consisting of the impact of nationalisation measures of € 1,531 million negative and derivatives securitisations of € 86 million negative.

7.2.1 Impact of Nationalisation

The impact of nationalisation measures amounted to € 1,531 million negative, of which € 1,538 million negative at Property Finance and € 7 million positive at SNS Retail Bank.

At Property Finance, a provision of € 2,024 million (€ 1,538 million net) was made in the first quarter of 2013 in line with the transfer value of Property Finance. The total assets of Property Finance have been separated at a considerably lower value than the book value. As part of the transfer, a write-off of € 2.8 billion was required on the total assets of Property Finance, valued as per 30 June 2012. This € 2.8 billion write-off has been determined by the Dutch State. Therefore, in addition to the € 776 million impairments and discounts in the second half of 2012, an additional write-off of € 2,024 million gross was taken.
In the first half of 2013 the impact amounted to € 1,790 million negative. The impact in the second half was € 252 million positive and related to a tax adjustment of the write-off. In the third quarter of 2013, SNS REAAL concluded a settlement agreement with the Dutch Tax Authorities relating to corporate tax refunds. This ruling clarified the principles upon which the corporate tax refunds for SNS REAAL are to be established, including the tax treatment of the nationalisation measures. In this ruling, it has been ruled that the € 2.8 billion write-off on the total assets of Property Finance is largely tax deductible (€ 2.7 billion), while the 2013 first-half figures were based on a tax deductible amount of € 1.7 billion. This resulted in a € 252 million tax gain.

The € 7 million positive impact of the nationalisation measures at SNS Retail Bank consisted of the impact of the expropriation of privately placed subordinated debt and gains from unwinding derivatives related to subordinated debt partly offset by a charge for the compensation to the holders of expropriated participation certificates. The impact in the first half of 2013 amounted to € 20 million positive, while the impact in the second half of 2013 was € 13 million negative. This related to a tax charge as it was concluded that the charge for the compensation of the holders of expropriated participation certificates is not tax deductible.

7.2.2 Other one-off items

At SNS Retail Bank, other one-off items amounted to € 86 million negative. This consisted of results of derivatives related to securitisations of the legacy DBV mortgage portfolio. The securitisations involved are not part of SNS Bank's regular securitisation programmes and are structured differently in a number of key components. These securitisations contain conditions that the expenses for early settlement of the derivatives contracts under current market circumstances lead to a negative result. In total, a provision of € 86 million net was made to reflect the potential early settlement expenses of all these securitisations.

7.3 SNS Retail Bank

SNS Retail Bank's net profit increased sharply. The main factor behind this increase was a higher net interest income driven by lower interest expenses due to the expropriation of subordinated debt, declining interest rates offered on savings accounts and the redemption of term deposits. This was partly offset by a lower gain on financial instruments due to a one-off charge related to the revaluation of derivatives related to securitisations of the legacy DBV mortgage portfolio. Furthermore an additional cost allocation from the holding company had a negative impact. Impairments on loans remained high at 39 basis points compared to 40 basis points for 2012. The 2013 loan impairments included a charge related to additional provisioning for lower recovery amounts due to the weak housing market, while 2012 included a charge related to the implementation of more stringent risk assessment models.

7.4 Property Finance

The net loss at Property Finance amounted to € 1,536 million, including a write-off of € 1,538 million net to bring the valuation of the real estate finance portfolio in line with the transfer value as determined by the Dutch State. The total assets of Property Finance have been separated at a lower value than the book value. As part of the transfer, a write-off of € 2.8 billion was required on the total assets of Property Finance as per 30 June 2012. Therefore, in addition to the € 776 million in impairments and discounts in the second half of 2012, in the first quarter of 2013 a constructive obligation of € 2.024 million gross (€ 1.790 million net) was taken to bring the valuation of the real estate finance portfolio in line with the transfer value. In the second half of 2013, an additional tax gain of € 252 million related to the write-off of Property Finance was recorded based on an advance Tax ruling with the Dutch Tax Authorities resulting in a total write-off of € 1,538 million net. In this ruling, it has been ruled that the € 2.8 billion write-off on the total assets of Property Finance is largely tax deductible (€ 2.710 million), while the figures for the first half of 2013 were based on a tax deductible amount of € 1.7 billion.

Impairments and discounts in 2013 were offset by releases from the constructive obligation related to the write-off on the total assets of Property Finance. A release of € 1,057 million compensated for loan impairments and discounts for the year 2013, while a release of € 967 million compensated for the loss on the transfer of the real estate portfolio to the Dutch State on 31 December 2013 (transfer result). The latter consisted of the difference between the transfer value and the book value of the real estate portfolio at year-end 2013, after absorbing the impairments for the year 2013.

The net result from Property Finance, including impairments and discounts and excluding the transfer result of € 967 million gross (€ 725 million net), amounted to € 811 million negative, compared to a € 766 million net loss adjusted for a goodwill impairment for 2012, mainly due to a marked increase in loan impairments and a decrease in net interest income, partly compensated for by lower operating expenses.

7.4.1 Deconsolidation of Property Finance

The nationalisation on 1 February 2013 included the decision to transfer Property Finance to a separate asset management organisation. Therefore, assets and liabilities of Property Finance were classified as held for sale in the balance sheet as at end June 2013. Following the actual transfer of Property Finance to NLFI on 31 December 2013, assets and liabilities of Property Finance are no longer consolidated at year-end 2013. In the income statement of 2013, the total result of Property Finance is classified as a net result from discontinued operations. Comparative figures in the income statement have been adjusted accordingly.

7.5 Operating expenses

Table 4: Total operating expenses SNS Bank

In € millions	**2013**	2012	Change
Total operating expenses SNS Retail Bank	522	479	9%
Total operating expenses Property Finance	77	116	(34%)
Total operating expenses SNS Bank	**599**	**595**	**1%**
Adjustments			
Restructuring charges	-	43	
SNS Retail Bank's share in savings guarantee scheme	(7)	(15)	
Provision charge for compensation participation certificates	53	-	
Total adjustments	**46**	**28**	
Total adjusted operating expenses SNS Retail Bank	**476**	**451**	**6%**
Total adjusted operating expenses Property Finance	77	110	(30%)
Total adjusted operating expenses SNS Bank	**553**	**567**	**(2%)**

Total operating expenses Property Finance are included in the result discontinued operations.

Total operating expenses increased slightly, by € 4 million, compared to 2012, mainly due to higher one-off expenses of € 46 million (2012: € 28 million). The one-off expenses consisted of a charge of € 53 million for the compensation of holders of expropriated participation certificates partly compensated for by a release of € 7 million related to adjusted calculations of SNS Retail Bank's share in the savings guarantee scheme for DSB Bank. Total adjusted operating expenses decreased by € 14 million to € 553 million (-2%), due to a decrease in the number of internal staff and considerable lower operating expenses at Property Finance. Total FTE decreased by 124 FTEs to 2,009, of which 109 due to the separation of Property Finance.

7.5.1 Additional cost allocation from SNS REAAL holding to SNS Bank NV

In the first half of 2013, an additional amount of operating expenses was structurally allocated from SNS REAAL holding to SNS Bank NV in order to reflect a more accurate stand-alone cost level. In 2013, approximately € 39 million of operating expenses have been additionally allocated to SNS Bank NV. Of the additional allocation, € 37 million related to SNS Retail Bank and € 2 million to Property Finance.

8 Developments SNS Retail Bank

8.1 Strategy SNS Retail Bank

8.1.1 SNS Retail Bank

SNS Retail Bank wants to be relevant for its customers. This will be the case as more customers who bank with us are satisfied and we can welcome more customers. We are preparing ourselves for a future as an independent bank that can develop its services in a customer-oriented and profitable way without any form of government support. In the coming years, therefore, SNS Retail Bank will strive to realise further growth in the number of customers and to strengthen its customer relations.

The brands of SNS Retail Bank, i.e. SNS Bank, ASN Bank, RegioBank and BLG Wonen, focus on banking in a personal way, with a human touch. The bank wants to achieve this with simple and accessible products, an efficient and robust organisation and a responsible, focused service in which we put the customer's interests and perception first. We are thus continuing along the same course taken by our brands and their predecessors for many years. In our Manifesto, this is expressed in four themes:

- Usefulness instead of return, so that the fundamental things in life, such as housing, education and a buffer for unexpected expenses, are safeguarded. This requires products that are designed with our customers' personal objectives, risk tolerance and possibilities in mind.
- Financial resilience, so that people can take well-informed financial decisions themselves with clear insights and information. This requires planning and calculation tools, messages and warnings on websites, cost transparency, product information in plain language, the promotion of frugality and the provision of or support for financial education.
- In a personal way, so that everyone can arrange their financial affairs in a way that meets their wishes, possibilities and objectives. We want to bring the human dimension back to financial matters. This means retaining bank branches in small villages, personal telephone contact rather than multiple choice menus, or personal advice if this is needed.
- Sustainability, so that we do the right thing, now and for future generations. For instance, promoting sustainable investment and finance, monitoring the customer's interests by means of mortgage checks, and encouraging sustainable housing.

The Manifesto is the guiding principle for the entire SNS Retail Bank organisation, for the brands as well as for the service centres, the IT departments and the central service departments.

8.1.2 Closer to the customer by deploying multiple brands

The Manifesto sets out the common values endorsed by the brands SNS Bank, ASN Bank, RegioBank and BLG Wonen. The various brands focus on specific customer groups on the basis of these values. The Netherlands is a diverse society. Approaching the market with several brands means we can be relevant to a greater number of people.

- SNS Bank is the general consumer brand for people looking to manage their financial affairs with an accessible service. SNS Bank wants to compete in the banking market for consumers and self-employed persons, with distinguishing customer propositions that break through existing conventions. The core products are payments, savings, mortgages and insurance. Customers can manage their finances through www.snsbank.nl, mobile applications, customer service, shops and financial advisers.
- ASN Bank is the brand for sustainable savings, investments and payments. ASN Bank focuses primarily on retail customers, but also counts social organisations and companies among its customers that wish to manage or invest their money in a responsible manner. Customers can manage their finances through www.ansbank.nl, mobile applications, customer service and the post.

- RegioBank is the brand for people who consider a local and personal service and a link with the local community to be important. Customers manage their affairs through independent advisers, www.regiobank.nl and mobile applications.
- BLG Wonen is the brand for people who prefer to take a wide range of advice on financing their home from their independent adviser. Customers manage their affairs through their independent adviser and www.blg.nl.

8.1.3 Strategy

We want more satisfied customers to bank with us and we want to welcome more customers. If we do so with our Manifesto as a guiding principle, growth will make us increasingly socially relevant as well. Our strategic priorities for this are:

- Multiple brands, focusing on specific customer groups. The product range, the approach to customer service and the service itself thus vary per brand.
- Low and partly variable costs due to collective central services, IT and service centres and flexible distribution, partly based on franchising and intermediary formats.
- Focus on serving retail customers and self-employed people in the Netherlands with a comprehensible and straightforward product range. The main range of SNS Retail Bank consists of payments, savings, mortgages and insurance, with the addition of financial advice. Sustainable investing and financing are the main priorities at ASN Bank. Investing is an additional activity of SNS Bank and RegioBank.

These strategic priorities form the basis for potential growth, since they contribute to the following goals:

- Increasing customer loyalty. We will achieve this by making good use of our knowledge of our existing customers, so that we can inform them regarding additional products from other categories that could meet their needs.
- Winning new customers. On average, consumers are doing business with more banks than they used to, meaning that there are opportunities for smaller brands with a strong focus.
- Appealing to new customer groups, perhaps with new propositions, making use of our common and cost-effective platform for central services, IT and service centers.
- Improving our competitive position in the mortgage market. By increasing our own production, the distribution via third parties will fall in relative terms, which will lead to a greater market share in new own-brand mortgages.
- A flexible organisation that can react quickly and intelligently to changes and innovations in the market.
- Improving our credit rating in order to gain better access to funding in the money and capital markets.

The Manifesto forms the guiding principle and standard for all existing and new activities. We are strengthening our links with social organisations in order to design our services to be customer-oriented and profitable. Strategic choices involve strategic risks. SNS Retail Bank is relatively limited in terms of both size and diversification. The low diversification of the savings and mortgages products makes SNS Retail Bank sensitive for fluctuations in net interest income. By spreading in funding, multiple brands and conservative balance management, we try to reduce our dependency. On the other hand, due to the less complex infrastructure, simple and standard products can be marketed relatively quickly. These simple and standard products meet current market demands. Cooperation with franchisees and intermediaries provides a strong distribution position and keeps costs low and variable, although this does involve additional operational risks.

8.2 Targets

SNS Retail Bank aims at:

- Increasing customer satisfaction, as expressed by an upward trend development of the Net Promoter Score (NPS) for all brands.
- A credit rating of at least A.

Table 5: Capital and liquidity

	2013	Ambition
Core Tier 1 ratio	16.6%	> 13%
Loan-to-deposit-ratio	122%	between 110% and 130%

Table 6: Market Share SNS Retail Bank

	2013	Ambition
Savings	10.1%	> 10%
Mortgages, new sales own products	1.8%	5% to 8%

8.3 Financial developments SNS Retail Bank

Table 7: SNS Retail Bank

In € millions	2013	2012	Change
Result			
Net interest income	957	705	36%
Net fee and commission income	50	54	(7%)
Investment income	38	23	65%
Result on financial instruments	(8)	52	(115%)
Other operating income	6	9	(33%)
Total income	**1,043**	**843**	**24%**
Impairment charges to loans and advances	214	224	(4%)
Other impairment charges	10	4	150%
Total operating expenses	522	479	9%
Other expenses	8	8	0%
Total expenses	**754**	**715**	**5%**
Result before tax	**289**	**128**	**126%**
Taxation	105	33	218%
Minority interests	-	1	
Net result for the period	**184**	**94**	**96%**
One-off items	(79)	(36)	(119%)
Adjusted net result for the period	**263**	**130**	**103%**
Efficiency ratio	50.0%	56.8%	
Impairment charges to loans and advances as a % of gross outstanding loans to customers	0.39%	0.40%	
Risk-weighted assets Basel II	14,578	13,081	11%
Savings	33,276	32,815	1%
Loans and advances to customers	53,405	55,163	(3%)

8.3.1 Result 2013 compared to 2012

SNS Retail Bank's net profit in 2013 increased by € 90 million to € 184 million (+96%). Net profit included a € 7 million one-off gain from the nationalisation measures, consisting of the impact of the expropriation of privately placed subordinated debt and gains from unwinding derivatives related to subordinated debt, partly offset by a € 53 million charge for compensation of holders of expropriated participation certificates. Furthermore, the 2013 net result included a one-off charge of € 86 million net, consisting of results of derivatives related to securitisations of the legacy DBV mortgage portfolio. The securitisations involved are not part of SNS Bank's regular securitisation programmes and are structured differently in a number of key components. These securitisations contain conditions that the expenses for early settlement of the derivatives contracts under current market circumstances lead to a negative result. In total, a charge of € 86 million net was taken to reflect the potential early settlement expenses of these securitisations.

The 2012 net result had included a € 9 million loss on the exchange of Greek government bonds and restructuring charges of € 27 million net. Adjusted for these one-off items, net profit of SNS Retail Bank was € 263 million compared to € 130 million for 2012. The main factor behind this increase was higher net interest income.

8.4 Income

Net interest income showed a considerable increase of € 252 million (+36%) driven by lower interest expenses due to the expropriation of subordinated debt, declining interest rates offered on savings accounts and redemption of relatively expensive term deposits.
In total, retail savings balances increased slightly from € 32.8 billion to € 33.3 billion. After a decline of € 1.3 billion in January, retail savings showed a gradual growth and SNS Retail Bank's market share in savings recovered to 10.1% (year-end 2012: 10.3%). Bank savings, included in retail savings, continued to increase from € 2.4 billion at year-end 2012 to € 3.0 billion (+25%).

Also SME savings, included in 'Other amounts due to customers', rebounded after the nationalisation to € 3.1 billion compared to € 2.9 billion at year-end 2012.

SNS Retail Bank's residential mortgage portfolio decreased to € 47.0 billion (year-end 2012: € 49.4 billion), due to redemptions in combination with limited sales of new mortgages. Redemptions were significantly higher than 2012 driven by a higher level of prepayments. SNS Retail Bank's market share in new mortgages was at 1.8% again limited (2012: 2.1%). Given SNS Retail Bank's improved financial strength after nationalisation, it aims to gradually increase its market share. The distribution share in mortgages already showed a growth in the last months of 2013.

The decrease in loans and advances to customers, in combination with a modest increase in retail funding, led to an improvement of the loan-to-deposit ratio of SNS Retail Bank from 132% at year-end 2012 to 122%.

Net fee and commission income showed a limited decrease to € 50 million compared to 2012 driven by lower fees for payments.

Investment income increased by € 15 million to € 38 million mainly due to € 12 million gains from the expropriation of privately placed subordinated debt and the absence of a loss of € 13 million gross on the exchange of Greek government bonds, partly offset by lower realised gains on fixed-income investments.

The result on financial instruments decreased by € 60 million to € 8 million negative, mainly driven by a € 115 million gross negative result related potential early settlement expenses securitised mortgage portfolios. This was partly compensated by € 68 million gains from unwinding derivatives related to expropriated subordinated debt. Buy-back results on own funding paper amounted to € 44 million compared to € 49 million in 2012, in both years benefitting from the situation on financial markets.

8.5 Expenses

Total operating expenses increased by € 43 million. Operating expenses included a charge of € 53 million for compensation of former holders of the third tranche of participation certificates, as well as a structural additional cost allocation from SNS REAAL holding of € 37 million. This was partly compensated by a release of € 7 million related to adjustments of SNS Retail Bank's share in the savings guarantee scheme for DSB Bank. In 2012 there had been a release of € 15 million related to DSB Bank and Icesave. Operating expenses in 2012 had also included a restructuring charge of € 37 million. Adjusted for these items, total operating expenses decreased by € 18 million (-4%) mainly driven by a reduction in the number of staff.

The efficiency ratio improved from 56.8% in 2012 to 50.0% driven by higher net interest income, more than absorbing the additional cost allocation from the holding.

Table 8: Breakdown impairment charges SNS Retail Bank

Net fee and commission income	2013	2012	Change
Impairment charges of retail mortgages	173	161	7%
Impairment charges of other retail loans	5	19	(74%)
Impairment charges of SME loans	36	44	(18%)
Total impairment charges to loans and advances	**214**	**224**	**(4%)**
Other impairment charges	10	4	150%
Total impairment charges	**224**	**228**	**(2%)**

Total impairment charges to loans and advances remained high and relatively stable at € 214 million. This equates to 39 basis points of gross outstanding loans compared to 40 basis points in 2012. The high level of impairment charges reflects the fragile economic situation in the Netherlands and lower recovery amounts on mortgages as a result of the pressure on housing prices.

Impairment charges of retail mortgages increased by € 12 million to € 173 million. This equates to 37 basis points of gross outstanding retail mortgages compared to 31 basis points in 2012. Impairment charges in 2013 included an additional provisioning for lower recovery amounts due to the weak housing market, while 2012 included a charge related to the implementation of more stringent risk assessment models.

Impairment charges of other retail loans decreased from € 19 million to € 5 million. Impairment charges in 2012 had included an amount of € 11 million due to the default of one major debtor.

Impairment charges of SME loans decreased to € 36 million compared to € 44 million in 2012, with both years impacted by the fragile economic situation and lower recovery amounts as a result of the pressure on prices of collateral.

8.6 Credit risk

Housing prices in 2013 were on average 6.4% lower compared to 2012 and the number of houses sold was down 6.1%. A positive note was that the number of houses sold in the second half of 2013 surpassed both the number of houses sold in the first half of 2013 and the second half of 2012. As a result housing prices stabilised in the second half of 2013 compared to the first half. However, overall the housing market was weak in 2013, resulting in lengthy recovery periods of loans in default and lower recovery amounts.

Rising unemployment and declining disposable incomes are important drivers for the development of loans more 90 days in arrears, which rose to € 1.2 billion compared to € 0.9 billion at the year-end of 2012. SNS Retail Bank proactively contacts mortgage clients with higher risk mortgages, for instance due to high Loan-to-Values (LtV), and provides information and advice to avoid consecutive missed payments, if necessary in combination with a personal budget coach.

The quality of the new mortgage inflow is, however, improving thanks to stricter standards and an increase in mortgages covered by the national Mortgage Guarantee Scheme (NHG). At SNS Retail Bank, 75% of mortgage origination in 2013 was covered by the NHG. Of the total mortgage portfolio, 21% (including the securitised part) is now covered by the NHG. At the end of December 2013, the weighted average indexed LtV of the retail mortgages stood at 89%, compared to 87% at year-end 2012.

Table 9: Loans and advances to customers SNS Retail Bank

In € millions	2013	2012	Change
Retail mortgage loans	47,316	49,558	(5%)
Retail other loans	293	346	(15%)
Provision	(342)	(252)	(36%)
Total retail loans	**47,267**	**49,652**	**(5%)**
Commercial mortgage loans	1,143	1,282	(11%)
Commercial private and other loans	2,805	2,041	37%
Provision	(111)	(103)	(8%)
Total commercial loans	**3,837**	**3,220**	**19%**
Private and cash loans to the public sector	2,301	2,291	0%
Loans and advances to customers SNS Retail Bank	**53,405**	**55,163**	**(3%)**

Table 10: Loans and advances to customers in arrears SNS Retail Bank

In € millions	December 2013		December 2012		Change
No arrears	51,420	96%	53,330	97%	(4%)
< 3 months	1,205	2%	1,247	2%	(3%)
3 - 6 months	296	1%	287	1%	3%
6 - 12 months	346	1%	265	0%	31%
> 1 year	591	1%	390	1%	52%
Subtotal arrears	**2,438**	**5%**	**2,189**	**4%**	**11%**
Provision	(453)	(1%)	(356)	(1%)	(27%)
Total	**53,405**	**100%**	**55,163**	**100%**	**(3%)**

8.7 Organisation and distribution

8.7.1 Central development and support

The total number of unique customers of the banking brands rose, from 2.7 to 2.8 million (+3%), despite the turbulent period during the nationalisation. The highest growth occurred at ASN Bank (+3.4%) and RegioBank (+4.9%). After the nationalisation of SNS REAAL and our subsequent communication, we saw a recovery in confidence because of the growth in the number of customers.

Management and employees devoted much attention to implementing the Manifesto. How do we translate these themes into a better customer service? How do we make sure that we do not stray once again from the course that SNS Retail Bank and its brands established 200 years ago? The internal dialogue with employees and managers led to numerous ideas and much enthusiasm. Sticking to one's course requires effective management and processes, an ethic of continuous improvement, and a culture based on the themes of our Manifesto. Many of the changes to the organisation were designed to achieve this. A lot has already been achieved in the past couple of years with the simplification of savings products, the systematic testing of new products to establish their usefulness to customers, and the use of customer experiences as the basis for improvements. Many new improvements followed in 2013, such as Budgethelp, a Mortgage Assistance Team, the financing of sustainability improvements to homes and more information and convenience on the websites and the mobile banking applications.

SNS Bank, ASN Bank, RegioBank and BLG Wonen have developed a collective vision with respect to sustainable housing. The Tomorrow's World (Voor de Wereld van Morgen) platform of ASN Bank has hosted focused crowdsourcing, conclusions from which were also included. There have also been discussions of this theme with NGOs and other stakeholders. The central features of our vision are quality, affordability and sustainability. With a shared vision, the brands can share each other’s expertise and contacts more effectively, and work together on the development of our housing-related services more frequently. This could involve the funding of energy-saving measures, or the offering of energy performance advice.

New functionalities were added to the mobile applications of SNS Bank, ASN Bank and RegioBank in 2013. SNS Bank was the first Dutch bank to provide an app to bypass geoblocking when abroad. Geoblocking is the automatic switching off of paying by bank card when abroad that was introduced previously in 2013 to reduce the risk of bank card fraud. The app allows the customer to switch paying by card abroad on or off. Mobile banking has really caught on to our customers. More than 200.000 SNS Retail Bank customers were using mobile banking. Users of the app have been able to give their opinions of mobile banking since December 2013. More than 5,000 customers had done so by the end of 2013. These users gave the app an average score of 8.4, and 90% of them recommended it to other customers.

Over 70 employees of SNS Retail Bank and Zwitserleven worked together on three savings products for retail customers and on the development and market launch of a related customer services facility for Zwitserleven. This introduced a series of products for a customer group that until now had hardly been served by the SNS Retail Bank brands.

8.7.1.1 Dealing responsibly with money

The products and service of our brands contribute to our customers’ ability to have a greater understanding and awareness of their financial affairs. But people also need to have the personal knowledge, motivation and encouragement to be able to handle money sensibly. SNS Retail Bank is actively promoting this in society. In 2013, SNS Bank, RegioBank and BLG Wonen collectively launched Eurowijs, a teaching package on financial affairs for children between the ages of seven to nine in primary education. The package was developed together with partners and meets the educational principles of NIBUD. After the launch at the end of 2013, more than 200 of our employees signed up to give guest lectures.

For young people aged between 12 and 25, the *Stichting Weet Wat Je Besteedt* (Stay on top of your spending Foundation, WWJB) is developing educational initiatives together with partners, and often with the young people themselves. Along with SNS REAAL, SNS Bank is participating in the initiative as the senior partner. SNS Retail Bank forms part of the foundation’s board and made one employee available on a full-time basis in November 2013. Employees of BLG Wonen and RegioBank also contribute to this initiative. In September, WWJB and SNS Retail Bank launched the simulation game MoneyMatters at a lower secondary education school. The game gives young people a taste of financial matters in real life. Four SNS employees act as the experts in the help line videos that can be consulted. See www.wwjb.nl for further information.

8.7.1.2 Safeguarding the customer’s interests

The brands of SNS Retail Bank make use of collective service centers and IT platforms. Collective standards and performance indicators for the safeguarding of the customer’s interests have also been in use since 2013. This especially applies to the new product approval process and the regular testing of products that are no longer sold, the use of simple language in product information, the testing of the quality of advisers and independent intermediaries, complaints procedures, customer satisfaction surveys, assessments of employees, and the application of other P&O tools. Customer orientation has become an even more important part of the training of advisers. The criteria for quality and knowledge of franchisees and advisers have been tightened. Each brand has its own complaints management, although the reporting and procedures are largely the same. Since 2013, all the brands have used a continuous list of top five complaints that are addressed with special vigour.

Also in 2013, the brands tested all their products using the Group-wide SNS REAAL standards to measure whether the customer’s interests were adequately prioritised according to the 'KNVB' criteria, which (in English) are: cost-efficiency, usefulness, security and comprehensibility. The test also assesses whether the brands’ marketing and product communication with customers meets all in-house and external regulations. The use of customer panels for product testing was better organised in 2013, along with more accurate recording of customer contact experiences.

The brands of SNS Retail Bank have an active policy of preventing and solving customer problems. When the Cabinet decided to permit a temporary tax-free gift of €100,000 for the repayment of mortgages, SNS Retail Bank was the first to announce that this would be without penalty for our brands. After an appeal from the Minister to follow this example, virtually all Dutch banks scrapped the penalty. This measure contributes to the avoidance of remaining mortgage debts.

Dilemma

With the introduction of a separate advice fee for complex products, many customers are investigating whether they can purchase such products without taking advice. This is possible, but things can go wrong if the customer's knowledge and understanding are not as extensive as he thinks. This poses a dilemma for the bank. We want to offer customers what they are asking for, but we also feel responsible for the consequences associated with freedom of choice by the customer. For this reason, our banking brands do not (as yet) sell life insurance and bank savings products without advice. First of all, we want to be more certain regarding the reliability of tests that indicate whether the customer is buying a product that is actually suitable for his situation.

8.7.1.3 Proactive dialogue with stakeholders

SNS Retail Bank wishes to enter into a dialogue with interest groups and other external parties regarding the best way to put the Manifesto into practice (stakeholder engagement). In 2013 we had informal consultations with (among others) Vereniging Eigen Huis regarding assistance to mortgage customers experiencing problems with payments, the NIBUD, the senior citizens' organisation Anbo regarding the retention of ATMs and bank branches in small municipalities, and the Vereniging voor Openbaar Onderwijs regarding financial education in schools.

The Manifesto was explained at the Hearing on the Future of Banking in the Dutch House of Representatives in November 2013. On behalf of SNS REAAL, Gerard van Olphen spoke in response to the Wijffels Commission report Towards a Serviceable and Stable Banking System and the Cabinet's reaction thereto.

SNS Retail Bank supports an integrated approach to the reform of the Dutch housing market. SNS Retail Bank argues that there should be a change of behaviour: first save, then borrow. Various lobby discussions took place in this context with the Consumers' Association, Vereniging Eigen Huis, Bouwend Nederland, VNO-NCW and the Insurers' Association. Our views were brought to the attention of the political parties and the Ministries of Finance and of Internal affairs.

The House of Representatives organised a Hearing on online payments traffic in May 2013 as a result of several disruptions, including DDoS attacks. An explanation of the methods used to ensure the security and availability of digital funds was given on behalf of SNS Retail Bank.

8.7.2 SNS Bank: customer dialogue improves services

The website www.snsbank.nl provides customers with various tools to help them gain a good understanding and awareness of their financial affairs, including a cash book, savings targets, interest rates change messages, automatic replenishment for negative balances, and a savings manager. There were also numerous improvements in 2013, partly thanks to the SNS Community. The mortgages page has been entirely changed. The customer's requirement is now the central feature instead of the product, with subjects such as The Mortgage Steps Plan, Your First Home, Renewing Your Mortgage and Buying A New Home. Customers can also calculate how much of their own money they need for a purchase, and they can check to see whether their current mortgage could lead to financial problems.

SNS Bank also wishes to be accessible for those with a handicap. For several years, SNS Bank has been the only bank in the Netherlands with the Drempelvrij quality mark. The Stichting Waarmerk Drempelvrij gives this quality mark to websites that can be accessed by people with a visual limitation.

The SNS Shops continue to be important for personal contact, advice and the visibility of SNS Bank. The free Budgethulp service was added as part of the service to mortgage customers in 2013. Customers are offered help and tips in the shops to increase their understanding and awareness of financial matters.

8.7.2.1 Listening better to the customer, better customer service
In August and September, SNS Bank organised sessions with customers at ten locations across the country in order to ask them what they expect from the bank and to give their own views regarding the bank's direction.

The SNS Community focuses on promoting co-creation with customers, answering questions, and providing a platform for discussion and exchange of news. Members are also actively approached to ask them to give their opinions of new initiatives. In 2013, the SNS Community was opened to all customers wishing to think about or discuss our services and current financial issues. The number of participants rose from more than 1,000 at the end of 2012 to more than 6,000 at the end of 2013. On Facebook too, we saw a sharp growth in customer interaction. The number of Facebook fans rose from 2,500 to nearly 11,000. In 2013, the community was directly linked to *Mijn SNS* (My SNS), so that customers can gain access to the Community while Internet banking with a single mouse click. In *Mijn SNS* the customer can now immediately see which topics are being discussed in the community. Hot topics were the nationalisation, the changes at SNS Fundcoach, improvements to Mijn SNS and questions on customer service. Many questions were about the regular processes, but also about transparency of products and policy, and the means of communication to customers. Why are interest rates going up or down? Why was my application rejected? SNS Bank is pleased to see the increase in customer involvement, and adjusts its communications regularly on the basis of member reactions. Mijn SNS was updated at the end of 2013, on the basis of input from the community. The cash book function was improved, target saving savings accounts were added, and annual statements and credit card statements that previously were sent only by post can now be accessed online. In December, SNS Bank and BinckBank organised a webinar on the transfer of SNS Fundcoach to BinckBank in 2014. Around 400 participants put over 335 questions during an interactive session.
The SNS Customer Panel acts as a sounding board for the management of SNS Bank. The panel consists of approximately 20 customers who meet with members of the management of SNS Bank at least four times a year. The issues discussed in 2013 included: the nationalisation, the concept of a new advertising campaign, mobile banking, the local role of SNS Bank and its franchisees, and the DDoS attacks in April, which led to situations whereby online banking was, on occasion, unavailable at various banks, including SNS Bank.

8.7.2.2 Complaints management and development
Complaints management at SNS Bank contributes to improving the organisation in three ways:

- Increasing customer satisfaction with respect to the handling of complaints and the quality of advice of the various channels;
- Increasing customer loyalty, as expressed in a positive NPS score when a customer's complaint is dealt with to his satisfaction;
- Reducing the number of complaints submitted by improving processes and increasing quality.

The management of SNS Bank took direct responsibility for the Complaints Management department in 2013 in order to emphasise the priority of complaints management. The maximum response time was reduced, from four weeks to three. During peak loads, such as during the nationalisation, the maturity of the third series of SNS Participation Certificates and the changes at SNS Fundcoach, this shorter response time was not achieved in all cases. SNS Bank informed its customers on the occasions when this response time was not feasible. Communication campaigns for shop staff were designed to resolve complaints as soon as possible after being heard, with the underlying problem being dealt with thereafter. The total number of directly received complaints fell from 14,889 to 14,751 (-0.93%). The number of appeal cases fell by 24%. The number of directly received complaints was considerably higher than usual immediately prior to and after the nationalisation, and during the changes at SNS Fundcoach.

The main improvements as a result of the analysis of complaints were:

- better explanation regarding changing a contra account and a power of attorney;
- better application and delivery process of digital cards (digipas);
- conversion of a joint account to a personal account is free of charge for the first three months;
- changes to customer mailings and other texts now include more explanation of the reasons for a rule;
- announcements are made regarding both increases and reductions to interest rates on savings;

- messages are sent to customers regarding their new monthly payment after additional mortgage repayments.

8.7.2.3 Customer satisfaction

Customer satisfaction with SNS Bank on the basis of the Net Promoter Score (NPS) fell from -35% to -39%. While satisfaction rose or was high in many areas, the nationalisation of SNS REAAL still affected the total opinion of many customers with regard to SNS Bank. SNS Bank is analysing the measurements in order to enable improvements where possible. Frequently mentioned wishes included better service, and having an SNS Shop in the neighbourhood. SNS Bank wishes to follow and record customer contacts more effectively, so that employees can manage customer expectations better, and it intends to improve the national coverage of the SNS Shops in accordance with its strategy.

8.7.3 ASN Bank: number of customers rises to 608,000

The number of ASN Bank customers rose from 588,000 to 608,000 (+3.4%) in 2013. Years of consistent sustainability policy, product policy, customer service and marketing ensure a strong brand reputation and a high level of customer satisfaction. According to a survey by the MarketResponse agency, ASN Bank was the most customer-friendly bank in the Netherlands in 2013, as it was in 2011 and 2012. In addition, ASN Bank was again a frontrunner in responsible banking according to the Fair Bank Guide.

On its website, with its ‘WAAR(de) op de kaart’ feature, ASN Bank shows in a new and accessible way where in the world it creates sustainable value, through financing, investment, sponsoring, donations, knowledge exchange and joint ventures. The effects can be seen both per region and per theme. The central themes of ASN Bank are: sustainable energy, fair trade, housing, nature, and health & wellness and actions against child labour and arms trade.

ASN Bank attaches great importance to a dialogue with its customers and other stakeholders regarding its mission and sustainability themes. The community of ASN Bank is called ‘For Tomorrow’s World’ (Voor de Wereld van Morgen), in which customers and other interested parties actively contribute to the sustainability of society. ASN Bank encourages and facilitates discussions and initiatives, and is thereby aware of the issues that interest people who are dedicated to a sustainable society. The other way around the community members become well aware of what ASN Bank stands for. At the end of 2013, the number of community members had risen to 53,000. At the General Meeting of Shareholders of the investment funds, there were separate sessions at which customers discussed issues with the management including the nationalisation of SNS REAAL and the position of ASN Bank. ASN Bank organised customer surveys and discussions at various locations around the country. In early May, ASN Bank held a meeting at its head office with a group of people who are in frequent dialogue with the bank through social media. The issues discussed included the nationalisation of SNS REAAL, the relationship between ASN Bank and SNS Retail Bank, the sustainability policy, and potential and actual new products. One of the starting points of the annual Ethical Investing Day is the dialogue with visitors.

A large customer survey was organised at 12 different locations in the Netherlands in May, June and July. The purpose was to assess the extent to which customers were satisfied with the products and the service, their level of knowledge and expectations, their opinions about sustainability, their experience of the ASN Bank brand, and their expectations for the further development of ASN Bank. The survey showed that for many customers sustainability is a broad and powerful concept, covering social issues, ethics, decency, idealism, no child labour, no weapons, optimism, responsibility for the future, environmental awareness, a focus on ‘doing something good’ (not just making a profit) and a focus on human values. Many customers believe that working towards a more sustainable society involves cooperation with reliable organisations with similar goals. Customers want to see what we are investing in and how we work with others and share our knowledge. ASN Bank can develop further in the areas of care for those in need and energy-efficient affordable housing, for instance by investing in these areas and financing projects. The emphasis could be on projects close to home, in the Netherlands. The parties that we invest in must be properly screened to establish that they run a responsible business.

In 2013 ASN Bank continued to be a co-leader in the assessments made by the Fair Bank Guide, mainly due to a high score on transparency in customer assets under management and the bank’s own investments, which are mainly funded through savings.

If ASN Bank performs well, its social partners will benefit too. The contribution to these partners, including that of the ASN Foundation, came to €2.6 million. This was 4.0% (2012: 7.4%) of the net profit. The number of complaints received by ASN Bank was relatively small in comparison to the total number of customers and compared to other brands.

8.7.3.1 *Customer satisfaction*

ASN Bank is one of the few Dutch banks to get a positive rating on customer satisfaction based on the NPS method. Its score fell slightly, from 22% at year-end 2012 to 19% at the end of 2013. The nationalisation of SNS REAAL is the most likely reason that the score has not yet returned to the higher level seen in previous years. The actions taken by ASN Bank on the basis of various customer satisfaction surveys included the following: giving more information on what ASN Bank does with customer funds and its relationship with SNS REAAL, better monitoring of website usage, and offering more response options on the website.

8.7.4 RegioBank focuses on personal contact and local facilities

At a time when other banks are leaving the villages, RegioBank's presence here is growing. In 2013, the number of customers increased from 530,000 to 556,000 (+4.9%). Growth was limited by the effects of the nationalisation of SNS REAAL, as a result of which the name recognition campaign and the marketing action were not rolled out until the end of the year. With a network of 530 independent advisers, RegioBank is the bank with the largest number of branches in municipalities with fewer than 10,000 residents. In addition to personal contact, many RegioBank customers also value the cashier function at the branches. Approximately 80% of the branches have a cashier.

RegioBank has improved its telephone customer service. Since September 2013 the employees at the head office and at the branches have had complete customer profiles available on their screens as an additional resource whenever customers get in touch. This enables them to help customers even faster and to make more appropriate product suggestions. Support for the advisers has also been improved. RegioBank had a qualitative assessment of customer experiences conducted, and used this information in September for a door-to-door folder giving '10 reasons to choose RegioBank'. The response was good, and contributed to a strong increase in the number of customers in the last quarter. RegioBank has changed the way it deals with complaints by giving priority to complaints that have the greatest effect on customer interests. The total number of directly received complaints dropped by approximately 5.9%.

RegioBank is dedicated to maintaining local facilities in smaller municipalities. It is not only a fact that villages are losing bank branches, but also a fact that the number of ATMs is also declining. Many people still prefer to pay with cash; in many cases, however, there are no longer any ATMs in their own villages. RegioBank held discussions with municipalities, mainly in contracting areas, regarding the placement of ATMs that can contribute to the viability of these locations. Contact has been continued with 40 small communities since 2013, including Niekerk (Groningen), Vogelwaarde (Zeeuws Vlaanderen) and Westerhaar (Twente).

RegioBank introduced www.voordebuurt.nl in December 2013, an online platform designed to encourage local connectivity and vitality within the local community. The platform will be a place that links practical solutions, people and organisations, with themes such as community life, senior citizens, young people and facilities.

In December 2013 RegioBank organised the first of a series of meetings on the future of community life. The meeting was attended by representatives of the Ministry of the Interior and Kingdom Relations, the National Association of Small Communities (Landelijke Vereniging van Kleine kernen), Scouting Nederland, NOC*NSF and approximately 35 local sporting and other associations. RegioBank wishes to support associations and local society in villages and small towns.

In July, RegioBank organised meetings for advisers at 12 locations around the country on the banking profession and the future of RegioBank. The dilemmas of the profession were also discussed. When can you recommend a product to a customer, and when should you not do so? When should you inform your customers? When should you make a report to the AFM? There was also an opportunity to take the bankers' oath, which up to now was taken by 115 advisers.

8.7.4.1 Customer satisfaction
Based on the NPS method, customer satisfaction for RegioBank remained stable at -7%. RegioBank is not satisfied with a negative NPS, although this score is better than that of the large banks and is surpassed only by the sustainable banks. Customers are particularly satisfied with the personal approach, the commitment and the customer care offered by the bank. Adviser satisfaction with the RegioBank formula and organisation was unchanged at 87%.

8.7.5 BLG Wonen: from mortgage sales to housing advice
From now on, BLG Wonen will focus on housing advice rather than mortgage sales. The organisation has been made more professional, in order to strengthen and expand customer relationships, in concert with our intermediaries. The website has been improved, and is has now been designed with the focus on meeting customer needs rather than on the offering of products. With Mijn BLG, customers have a personal environment with an overview of all the products and they can effect transactions and make changes as well. This means convenience for customers and less administrative work for intermediaries. Customer contact with the BLG Wonen head office increased, mainly due to the rising interest in savings products that were introduced in 2012. It is partly for this reason that BLG Wonen has set up a customer services department. Among other improvements, BLG Wonen has upgraded its quotation process so that customers now receive a quote within two business days of their application. BLG Wonen also used customer reactions to increase clarity in its quotations. At the end of 2013, BLG Wonen introduced the Woonbalans, a free app for housing-related expenses such as energy, water, Internet, telephone and maintenance for house and garden. Customers can set their own priorities, such as low cost or sustainability, for making links. Users enter their data for each housing wish, and receive tips that suit their situation.

The total number of directly received complaints rose from 379 to 765 (more than 100%). BLG Wonen has brought its complaints management in line with the other brands of SNS Retail Bank. Reporting has been improved, so that problems can be dealt with faster and more specifically. The reports also now give more information on the customer’s experience of the service provided by their intermediary. This helps BLG Wonen to develop its management and monitoring of the quality of advice.

BLG Wonen devoted much attention to coaching its intermediaries, mainly to encourage them to invest in customer relationships. The new offering from BLG Wonen, with an expansion from mortgage sales to housing advice, gives intermediaries more possibilities than they used to have. Maintaining customer relationships is especially important at this time, due to the developments in the housing market. Identifying potential or actual payment problems at an early stage can avoid escalation.

8.7.6 Customer satisfaction
BLG Wonen has started to survey customer satisfaction on a continuous basis, which has led to various improvements. From now on, customers will first be called by their adviser with respect to an interest extension proposal, the website has been improved, and wording has been simplified. The surveys also generate assessments of the advisers. An NPS score was assigned for the first time. During the year, this rose from -20% to -15%.

8.8 Developments per product group

8.8.1 Savings and payments
The total Dutch savings market, including bank savings, increased from € 323 billion to € 325 billion (+0.7%). There was a significant withdrawal of funds in the period immediately prior to the nationalisation. This was followed by a strong recovery, but a large amount of savings was used to repay mortgages at the end of the year. SNS Retail Bank’s market share of retail deposits ultimately fell slightly, from 10.3% at the end of 2012 to 10.1% at the end of 2013. Total retail savings deposits increased slightly from € 32.8 billion at year-end 2012 to € 33.3 billion at year-end 2013.

There was little change to the product range. The number of products had already been sharply reduced in previous years, and products had already been simplified. Zilvervloot Sparen, a savings account for children and young people introduced in 2012, developed positively. The number of accounts rose from 31,000 at the end of 2012 to 69,000 at the end of 2013. With Zilvervloot Sparen, SNS Bank and RegioBank want to encourage interest in saving by parents and grandparents, and children and grandchildren. ASN Bank organised a savings campaign in cooperation with the National Foundation for the Elderly. ASN Bank makes a contribution to the fund for each deposit of more than € 1,000 and for each new account. The customers of ASN Bank thus treated 13,580 senior citizens to a day out.

The Eigen Huis Sparen product of RegioBank is unique in the savings market in the Netherlands. The interest rate is higher than on other savings accounts, and funds can be withdrawn immediately. The condition is that withdrawals are used to repay a mortgage, or to pay for a house or a building plot. It encourages customers to reduce their risk by contributing more of their own money and taking a lower mortgage, which also usually has a lower rate of interest. RegioBank has launched a business account for self-employed persons, foundations and associations. The advisers have taken a workshop so that they can explain the product properly to their customers.

Bank savings at SNS Bank, RegioBank and BLG Wonen rose from € 2.4 billion to € 3.0 billion (+25%). The figures do not include bank savings for mortgage redemptions. Bank savings products are simple, transparent products with relatively low risks and low costs, which allow our customers to benefit from tax allowances to the maximum extent.

8.8.2 Mortgages

8.8.2.1 Turning point reached in sales of own mortgages

The market volume for new residential mortgages in the Netherlands fell from € 47 billion in 2012 to € 37 billion in 2013. The number of mortgage transactions fell by approximately 15% to 169,992. The average transaction amount fell by around 7%. The total mortgage portfolio of SNS Retail Bank, with a size of € 48.2 billion, declined by 4.9%.

The turning point in the decline in sales of new own mortgages appears to have been reached. The market share fell heavily in 2012 to 2.1%, as a result of a lack of available capital due to the problems at Property Finance. After price cuts and marketing campaigns in the second half of the year, the distribution share towards the end of 2013 began to show growth. Nevertheless, the market share of new own mortgages fell to 1.8% at the end of 2013. With the mortgages from its own brands and other providers, SNS Bank can make a good offer to virtually any type of customer. SNS Bank is the only Dutch bank that also offers mortgages from other banks.

8.8.2.2 Preventing problems and helping to solve problems

Payment arrears and write-offs are increasing, due to further decline of house price in combination with higher unemployment. The number of mortgages in arrears rose by 12.0%. Write-offs declined from € 98 million in 2012 to € 71 million in 2013. The write-offs are high compared to the market, because many mortgage sales were made during the peak years in the housing market. The number of forced home sales was 1,227 in 2013, compared to 990 in 2012.

SNS Retail Bank is identifying customers with potential problems more effectively, mainly on the basis of their mortgage amount, the WOZ value and their known savings. SNS Bank offers customers a mortgage test that can be taken online or in an SNS Shop. RegioBank and BLG Wonen also approached many customers to ask them to check their mortgages. Customers can get free advice and tips, either online or offline, in order to help them improve their financial situation. By taking the right steps in good time, many problems can be avoided. If there is a serious threat of payment difficulties, the Mortgage Assistance Team will, together with the customer and his financial adviser, look for creative and human solutions.

8.8.3 Investments

8.8.3.1 Introduction of separate fee for fund distribution costs

With effect from January 2014, the AFM prohibits Dutch banks from charging the commission for offering investment funds to customers via the unit price, since these costs are not very transparent to the customer. For this reason, at the end of 2013 SNS Bank started to convert all the funds it offers into new funds in which only the management fees for the fund provider are included. Instead of commissions, since January 2014, customers of SNS Bank pay a service fee of 0.5% per year of their capital invested, up to a maximum of € 200. The change to net funds also applied at ASN Bank, RegioBank and REAAL Banking Services, although the service fees vary for each brand. ASN Bank uses a lower service fee in combination with a charge per transaction.

8.8.3.2 SNS Bank: simpler offering of investment funds

The total assets under management of the SNS investment funds rose from € 5.1 billion to € 5.4 billion (+5.5%). Declining bond prices and a net outflow of investments were offset by stock price increases for equities. SNS Bank simplified its offering of investment funds with the introduction of *SNS Profiel Beleggen* (Profile Investing) and the sale of SNS Fundcoach.

SNS Profiel Beleggen is a form of online asset management designed to offer convenience and security. Customers' money is invested according to a profile established in advance by the customer and SNS Bank. The customer finds the profile that suits their situation best by completing an online questionnaire. The five profiles available range from very defensive to very aggressive. *SNS Profiel Beleggen* thus offers an accessible and simple alternative to saving, and allows customers to take slightly higher risks with some of their money in order to achieve a higher return. With its *Doelbeleggen* product, RegioBank offers its customers access to the five profile funds of SNS Bank. Personal investing at RegioBank continues to be available only to customers who already do this.

The wide variety of funds from Fundcoach is targeted at a relatively small group of investors who are prepared to devote much time and attention to the composition of an investment portfolio. This activity is no longer suitable for SNS Bank. It was therefore decided to sell Fundcoach to BinckBank at the end of 2013. Besides *SNS Profiel Beleggen*, investors can still choose *SNS Beleggingsfondsen* (Investment Funds) or *SNS Zelf Beleggen* (DIY investing) to invest in equities, bonds, options and a limited number of investment funds.

8.8.3.3 Responsible investments and responsible performance

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

- Exclusion of investments that do not meet the ESG criteria (Environment, Social, Governance) and thus do not adequately respect the principles of SNS Asset Management with respect to human rights, the environment and good governance.
- To outperform, on average, the so-called tracker funds, thus justifying the slightly higher charges for active management.

SNS Bank sets out the social and environmental aspects of its investment policy on its website and also shows the extent to which its investment funds comply with the ESG criteria. SNS Bank publishes a quarterly report on its website regarding excluded companies and active shareholdership.

Most customers with equity funds from SNS Bank were able to benefit from rising share prices. Four of the six equity funds of SNS Bank outperformed their benchmark after deduction of costs. The *SNS Euro Aandelenfonds* realised a net return of 20.6%, which was 0.80% better than the benchmark. The *SNS Opkomende Landenfonds* (Emerging Markets fund) was the only equity fund to achieve a negative return, even though its performance was slightly better than the benchmark. The returns on bonds were lower than on equities. The *SNS Mixfondsen* (Mix Funds) benefited mainly from the higher share prices, but also from their overweight in equities as a result of the tactical allocation policy. The *SNS Profielfondsen* (Profile Funds) were launched in mid-February 2013. Three of the five funds performed slightly better than their benchmarks. The two most aggressive funds slightly underperformed.

Research agency Morningstar gives investment funds star ratings using a quantitative method based on historical returns. According to this rating as well, SNS investment funds scored well, with five funds holding the maximum five stars, four with four stars, five with three stars and one with two stars at the end of 2013. The *SNS Profielfondsen* launched in 2013 will only be rated after they have had a track record of at least three years.

8.8.3.4 ASN Bank: sustainable investing continues to become more popular

Assets under management in the ASN investment funds rose from € 1,377 million to € 1,602 million (+16.3%), due to both share price increases and net inflow. The decline in the value of bonds had a limited effect. ASN Bank's criteria for sustainable investments go further than the criteria of SNS Bank, REAAL and Zwitserleven. ASN Bank has more specific investment policies for each sector and theme, for example in relation to agriculture and animal welfare. ASN Bank sets out the exclusion and inclusion criteria on its website. The bank also makes every effort to encourage responsible investment in general, in part through the Groenberaad Banken (Green Banking Platform), the Association of Investors for Sustainable Development, the United Nations Environment Programme Finance Initiative (UNEP FI) and the Carbon Disclosure Project.

People who invest according to principles of sustainability are not primarily concerned with the performance of a fund. However, for many investors, it is still an important bonus that the performances of the ASN investment funds compare favourably with those of other funds, and that the ASN funds are sometimes among the best performers. For instance, the ASN Duurzaam aandelenfonds (sustainable equity fund) was the second-best performing Dutch investment fund among globally investing funds over the last three and five years (source: Elsevier, October 2013). This fund also won a Gouden Stier award for the best Dutch investment fund in 2013.

8.8.4 Sustainable funding

ASN Bank on-balance new business finance fell from € 309 million in 2012 to € 208 million (-32.8%) in 2013. The total on-balance business finance portfolio rose from € 2,073 million to € 2,094 million at the end of 2013. ASN Bank tests projects for business loans against the sustainability criteria of human rights, climate and biodiversity. Large projects, especially for sustainable energy generation, are also tested against the international Equator Principles. In addition to the business finance, investments increased from € 3,210 million to € 3,705 million, which includes € 50 million in new green bonds from the European Investment Bank (EIB). The cash received upon the issue of the bonds is being used by the EIB to fund projects in the fields of wind and solar energy and energy efficiency, which will contribute to reducing CO2 emissions in Europe. ASN Bank also invests in affordable housing through retail mortgages. These investments are part of the renewed policy for sustainable housing developed by ASN Bank together with SNS Bank, RegioBank and BLG Wonen in 2013. The total investments in mortgages amounted to approximately € 4.5 billion at the end of 2013. According to the risk criteria used by ASN Bank, the average value of the mortgages in portfolio may amount to up to 110% of the forced sale. At the end of 2013, this percentage was 86.1%.

A further € 58.6 million in new business finance was lent through the Green Projects Fund, in which customers can invest. The first loans for the Energie Fonds Overijssel were made in 2013, in an amount of € 67.3 million.

8.8.4.1 ASN Bank invests in making homes sustainable

ASN Bank invested € 50 million in the Nationaal Energiebespaarfonds (National Energy Saving Fund) set up by the Dutch government in 2013 on the basis of the Housing Agreement and the Energy Agreement. The fund offers 7 or 10-year loans of between € 2,500 and € 25,000 to home owners to finance energy-saving measures. ASN Bank was one of the two banks that were eligible to participate. The National Energy Saving Fund has a total size of € 300 million, with the government itself contributing € 75 million. The fund is viable because when the money borrowed is repaid, it is returned to the fund. As from the beginning of 2014, private home owners can apply for a loan from the National Energy Saving Fund. The loans lead to lower energy bills and contribute to improving the environment. The interest payable is low and deductible from income tax, meaning that housing costs do not rise in the short term, and after the loan is repaid they will decline on a permanent basis.

8.8.5 Insurance

Sales of new non-life insurances by SNS Bank rose strongly once again, by approximately 54%. SNS Bank has intensified its marketing and sales via its website, the SNS Customer Service, and in particular through the SNS Shops. It is a simple matter to expand a check for banking products in one of our shops to include an insurance check. Using the Internet facility in the shop, and with the assistance of employees, customers can immediately purchase the products they have chosen. SNS Bank ran a campaign to attract more customers into our shops. A Woonwekenactie (Housing Weeks Campaign) on the website and in the shops also brought more customers into the shops. Compared to 2012, SNS Bank managed to strongly improve its retention of previously sold products. Combined with the rise in new sales, this has led, for the first time in several years, to growth of the total portfolio.

BLG Wonen introduced net home insurance policies, meaning policies whereby no commission is paid to intermediaries. The advantage for customers is that they can be sure of getting a lower rate and independent advice. The intermediaries have various arrangements for their fees. These can be in the form of a subscription, a separate fixed fee or a fee based on an hourly rate.

8.8.6 Other activities

SNS Securities, a subsidiary of SNS Bank, offers securities services for professional investors, and assists SMEs and larger companies in private and public capital markets transactions. The securities research carried out by SNS Securities focuses in particular on the Dutch small and midcap funds.

The contribution of SNS Securities to earnings remained more or less unchanged, despite a higher cost base as a result of the sale of the private banking asset management business and the investment consultancy business. These activities were sold to Bank ten Cate & Cie in September. The 26 employees concerned have entered employment with the new owner. The strong position in the corporate bond market was the main contributing factor to the result.

9 Developments Property Finance

9.1 Financial developments

Table 11a: Property Finance

In € millions	2013	2012	Change
Result			
Net result discontinued operations	(1,536)	(813)	(89%)
Net result for the period	**(1,536)**	**(813)**	**(89%)**
Risk-weighted assets Basel II	-	7,511	(100%)

Table 11b: Property Finance

In € millions	2013	2012	Change
Breakdown result discontinued operations			
Net interest income	77	98	(21%)
Result on financial instruments	(4)	(12)	67%
Other operating income	(6)	(2)	(200%)
Total income	**67**	**84**	**(20%)**
Impairment charges	1,053	941	12%
Release constructive obligation	(2,024)	-	0%
Impairment charges goodwill	-	47	(100%)
Total operating expenses	77	116	(34%)
Addition constructive obligation	2,024	-	0%
Other expenses	1	1	0%
Total expenses	**1,131**	**1,105**	**2%**
Result before taxes and transfer	(1,064)	(1,021)	(4%)
Taxation	(253)	(208)	(22%)
Net result before transfer	**(811)**	**(813)**	**0%**
Transfer result	(967)	-	0%
Taxation transfer result	(242)	-	0%
Net result for the period	**(1,536)**	**(813)**	**(89%)**
One-off items	(1,538)	(47)	(3172%)
Adjusted net result for the period	**2**	**(766)**	**100%**

9.2 Result 2013 compared to 2012

The net loss at Property Finance amounted to € 1,536 million, including a write-off of € 1,538 million net to bring the valuation of the real estate finance portfolio in line with the transfer value as determined by the Dutch State. The total assets of Property Finance had been separated at a substantially lower value than the book value. As part of the transfer, a write-off of € 2.8 billion was required on the total assets of Property Finance as per 30 June 2012. Therefore, in addition to the € 776 million impairments and discounts in the second half of 2012, in the first quarter of 2013 a constructive obligation of € 2.024 million gross (€ 1.790 million net) was taken to bring the valuation of the real estate finance portfolio in line with the transfer value. In the second half of 2013, an additional tax gain of € 252 million related to the write-off of Property Finance was recorded based on a settlement agreement with the Dutch Tax Authorities resulting in a total write-off of € 1,538 million net. In this agreement, it has been settled that the € 2.8 billion write-off on the total assets of Property Finance is largely tax deductible (€ 2,710 million).

Impairments and discounts in 2013 were offset by releases from the constructive obligation related to the write-off on the total assets of Property Finance. A release of € 1,057 million compensated for loan impairments and discounts for the year 2013, while a release of € 967 million compensated for the loss on the transfer of the real estate portfolio to the Dutch State on 31 December 2013 (transfer result). The latter consisted of the difference between the transfer value and the book value of the real estate portfolio at the end of 2013, after absorbing the impairments for the year 2013.

The net result, excluding the transfer result of € 967 million gross (€ 725 million net), fell to € 811 million negative, compared to a € 766 million net loss adjusted for a goodwill impairment for the year 2012. The fall was mainly due to a marked increase in loan impairments and a decrease in net interest income, partly compensated by lower operating expenses.

9.3 Income

Net interest income showed a strong decline of € 21 million (-21%) due to the run-off of the loan portfolio and foreclosures of loans.

The result on financial instruments of € 4 million negative was lower compared to 2012 (€ 12 million negative), mainly due to lower discounts on the sale of performing loans, reflecting the slowdown of sales of loans to third parties and limited discounts on realised transactions.

9.4 Expenses

Impairment charges increased by € 112 million (+ 12%) to € 1,053 million due to the weakening of European real estate markets, mainly in the Netherlands and Spain, and an increase in the number of loans in default. The impairment charges consisted mainly of impairments on loans (€ 859 million; 2012: € 718 million). Impairments on property projects amounted to € 158 million (2012: € 210 million). Impairments on participations amounted to € 36 million (2012 € 13 million).

Impairment charges on the Dutch portfolio increased to € 663 million compared to € 569 million in 2012. Impairment charges on the international portfolio rose to € 390 million compared to € 372 million in 2012 and were related mainly to Luxembourg, Spain and Italy.

Operating expenses decreased by € 39 million to € 77 million due to lower legal and advisory costs related to the run-off of the real estate finance portfolio, lower costs related to forensic audits and decreased personnel costs, driven by a decrease in external staff.

The transfer result reflects the loss of € 967 million gross on the transfer of the real estate portfolio to the Dutch State on 31 December 2013. This consists of the difference between the transfer value and the book value of the real estate finance portfolio at the end of 2013, after absorbing the impairments for the year 2013.

9.5 Portfolio development

Total net exposure, excluding transfer result of € 967 million gross, declined by € 1.3 billion to € 5.7 billion (-19%) compared to year-end 2012. This decline was due to impairment charges of € 1.1 billion and transactions (sales, redemptions) of € 0.5 billion. The decline was partly compensated by the impact of new consolidated entities (€ 0.3 billion). Total commitments declined by € 1.2 billion to € 6.7 billion (-15%).

10 Risk and capital management

As a result of the nationalisation of SNS REAAL, the Ministry of Finance - in close collaboration with SNS REAAL - has submitted the restructuring plan for SNS REAAL to the European Commission (EC). The EC approved this plan on 19 December 2013, after which SNS REAAL transferred the activities of Property Finance to an independent real estate management organisation with the NLFI as the shareholder with effect from 31 December 2013. In 2014, banking and insurance activities will be split and the insurance activities will be prepared for divestment. The activities of SNS REAAL holding will be phased out over time.

To prepare for the separation into an independent bank and insurance company, the process plan had already been written and a project organisation had been set up in 2013. The senior management of the Group, bank and insurer were involved in the formulation of this process plan. The plan broadly addresses the (operational) risks involved in separating the company.

As result of the nationalisation and the separation of Property Finance, the risk profile of SNS Bank NV substantially changed. The capitalisation and the risk profile improved because the risks involved in the business operations of Property Finance are no longer included in those of SNS Bank NV.

Notwithstanding the considerable increase in workload, SNS Bank's management devoted attention to managing the various risks to which the company is exposed. The changing external environment, new laws and regulations (Basel II/III), an increased number of inquiries from regulators and regulatory requirements, the necessary focus on the business unit Property Finance, necessary investments in the data warehouse infrastructure and organisational changes within SNS Bank NV, placed pressure on the available qualitative attention for the internal control framework. Specifically with respect to the linkage between internal control at group and business unit level. The internal control framework currently consists of individual components for managing actual risks, whose overall effectiveness is then tested. In the new governance structure, the management team of the bank will give further substance to an integrated control framework.

Following the separation into a bank and insurer, the financial risks of the separate entities will not be materially different from the current situation. In accordance with the request by the Minister of Finance during the nationalisation, work began in 2013 to reduce the financial interdependency of the bank and insurer. This will continue in 2014.

10.1 Risk management developments in 2013

10.1.1 Credit risk

2013 was a year of economic contraction and rising unemployment. This led to an increase in the number of defaults throughout the retail mortgage market. The volume of mortgages in default increased too. House prices continued to fall, as did the number of sales, which made it difficult to recover mortgages. Under its mission ‘customers’ interests first’ SNS Retail Bank has refined its approach to customer groups. This has improved SNS Retail Bank's ability to offer a prompt and adequate solution to customers who are in, or are facing, default.

The models were regularly updated to gain a clearer understanding of how the credit risk is developing in the various portfolios of SNS Bank. Updating the models has resulted in the provisions being increased in line with the increasing credit risks.

10.1.2 Quality of the mortgage portfolio

The credit quality of SNS Retail Bank’s mortgage portfolio deteriorated in 2013 compared with the mortgage portfolio in 2012. This was the result of the weak economic growth, rising unemployment, a difficult market for owner-occupied houses and falling house prices in the Netherlands. On the other hand, the quality of new inflow in the portfolio is improving due to stricter acceptance standards and a higher share of mortgages covered by the National Mortgage Guarantee.

10.1.3 Regulators

The pressure exerted by regulators on banks was further intensified in 2013. During this year the recovery plan for the bank, the Basel III migration plan, the regulatory stress test, the evaluation of the Risk Appetite Statement, the ICAAP and the ILAAP were completed and work began on the Asset Quality Review for the ECB. Additionally, SNS Retail Bank is on track to meet the Principles for Effective Risk Data Aggregation and Risk Reporting (PERDARR) as drawn up by the Basel Committee (see also section 10.6).

10.1.4 Risk management organisation

Further improvements were made to the risk management organisation in 2013. Roles and responsibilities were more clearly defined and separated where required. The bank is thus further defining the 'three lines of defence' risk management model. (See also section 19.2)

10.1.5 Property Finance

In 2013, Property Finance performed an in-depth portfolio analysis on the largest part of the portfolio of real estate projects and real estate financing. This analysis was intended to produce a report on the situation of the portfolio, defining new exit strategies and exit data for all relations and to perform a scenario analysis for future developments.

Due to the unfavourable developments in the Dutch and international real estate markets, it was necessary to foreclose collateral Property Finance had received. This resulted in the de facto control by Property Finance over several real estate projects, which have been recognized on the balance sheet of Property Finance.

10.2 Future developments in financial risks

- The CPB Netherlands Bureau for Economic Policy Analysis anticipates a slight economic rebound in 2014. House prices are expected to fall less sharply or even stabilise, which will result in increased house sales. Since the recovery in unemployment is lagging behind the economic upturn, SNS Retail Bank will also take a further increase in the number of defaults into account for its risk management in 2014. The initiative taken already in 2013 to provide customers with payment difficulties with faster and better assistance remains important.
- When setting the (mortgage) rates, it is important to focus on achieving the right balance between the pricing of the risks and healthy returns. Special attention will be paid to this in 2014 because, following the nationalisation and the accompanying capital injection, new production is once again possible and mortgage rates have gone down.
- SNS Bank NV was able to demonstrate in the Basel III migration plan and the regulatory stress test that it is currently robustly capitalised. The most recent projections justify the conclusion that SNS Bank NV, with its retail bank earnings model, is expected to meet all capital and liquidity ratio criteria in the years to come. The retail funding level is currently higher than in 2012, and the prospects of gaining access to the capital market were improved by the separation of Property Finance.

For more information see Chapter 20 Financial Risk Management.

10.3 Capitalisation

Following the nationalisation of SNS REAAL in February 2013 and the related capital support from the Dutch State and expropriation of the subordinated debts, the capitalisation of SNS Bank NV improved considerably in February 2013. SNS Bank NV's core Tier 1 ratio improved immediately despite a substantial impairment on the real estate portfolio of Property Finance.

The capitalisation of SNS Bank NV significantly improved in 2013. In addition to the positive operational results, this can be attributed mainly to the measures taken in the context of the nationalisation. The negative impact on the capital as result of additional impairments on the real estate portfolio was mitigated by the capital injection of the Dutch State and the expropriation of the subordinated debts. There was a capital injection of € 1.9 billion for SNS Bank NV.

During the second half of 2013, a number of measures were also put in place to reduce the interdependency between SNS Bank NV and REAAL NV. The measures are in line with the commitment to gradually eliminate the financial relationship between the bank and the insurer and were approved by De Nederlandsche Bank (DNB). The measures include a reduction of the exposure of SNS Bank NV on REAAL NV to € 250 million. The exposure of SNS Bank to REAAL NV will be allocated a high risk weighting. Also SNS REAAL NV’s credit facility at SNS Bank NV has been reduced to a maximum of € 100 million (previously € 305 million). This credit facility of SNS REAAL NV is not considered as an 'at arm’s length' facility and is fully deducted from the regulatory capital of SNS Bank NV. On 31 December 2013, this facility has not been used.

The impairment on the real estate portfolio reduced the risk-weighted assets (RWA) upon nationalisation by approximately € 2 billion and the separation of Property Finance on 31 December 2013 resulted in a further decrease of € 5.5 billion.

In the starting phase, SNS Bank NV will continue to fund Propertize. The credit risk on Propertize after the separation is covered by a State guarantee covering SNS Bank NV’s total exposure to Propertize of € 4.1 billion as at 31 December 2013 and therefore does not result in RWA. It is the aim of Propertize to refinance the entire funding provided by SNS Bank in the course of 2014 through issuing State guaranteed Medium Term Notes and Commercial Paper to institutional investors. In 2014 Propertize has three times successfully placed Medium Term Notes with a volume of € 2.3 billion.

Although the overall mortgage portfolio decreased by approximately € 2 billion, the RWA on the residential mortgages increased by € 1.4 billion. This increase is attributable to the characteristics of the models that take account of declining house prices and several securitisations transactions that were terminated. This was the case regarding Hermes 8, 14, 16 and 17, with a collective volume of nearly € 7.3 billion. The RWA effect of these calls totalled in excess of € 0.6 billion, taking into account the RWA release for the notes on own book.
Intercompany transactions also caused the RWA to increase. Although the exposure to REAAL NV has decreased, the loan of € 250 million from SNS Bank to REAAL NV has a higher risk-weighting of 500%. This has caused an increase of RWA of € 1.25 billion.

The core capital increased effectively by approximately € 1 billion in 2013, and the RWA fell by € 6.0 billion, which caused the core Tier 1 ratio to rise from 6.1% at year-end 2012 to 16.6% at year-end 2013.

10.4 Liquidity risk

In 2013, SNS Bank NV maintained a high liquidity position in connection with the tightness on the (interbank) money and capital markets and the higher liquidity requirements of (future) regulations. The liquidity position increased slightly throughout the year, from € 11.5 billion at year-end 2012 to € 11.6 billion at year-end 2013. The increased outflow of savings in January 2013, just before the nationalisation, gave cause to activate SNS Bank NV's Liquidity Contingency Plan. The relatively high liquidity buffers and the effectiveness of this plan proved to be sufficient to absorb this outflow (see section 20.6.1 Liquidity risk policy and 20.6.3 ILAAP).

The capital contribution under the nationalisation (€ 1.9 billion) contributed significantly to the recovery in consumer confidence. Following an outflow of € 1.3 billion in January, retail savings rose steadily throughout the remainder of 2013. This caused the retail savings portfolio to grow in 2013 by € 0.5 billion net. The liquidity position at year-end 2013 was

€ 11.6 billion, of which € 5.3 billion in cash. As the separated Property Finance had not yet attracted any own funding at year-end 2013, the entity is currently being funded by SNS Bank NV. The Dutch State guarantees this funding. The separation has not affected the liquidity position at year-end 2013. When Property Finance will attract independent external funding, the liquidity position will first rise. This rise will subsequently be used to repay the Long-Term Refinancing Operation loans (LTRO loans).

10.5 Non-financial risks

10.5.1 Management of non-financial risks

The social discussion on the financial sector continued unabated in 2013. For SNS Bank NV, this was particularly so in view of the nationalisation on 1 February 2013 of SNS REAAL. SNS Bank NV was also confronted with a sizeable fraud at Property Finance. In addition SNS Bank NV and its customers faced cybercrime more frequently than in the past. Ethical behaviour and integrity in business operations remain vital to restore confidence in the financial services sector. SNS Bank NV puts customers' interests first in its mission, core values and strategy. The foundation for integrity and control in business operations is and remains compliance with legislation, regulations and internal rules and the maintenance and promote integrity in business culture. SNS Bank has a code of conduct and a set of measures to guarantee integrity in the conduct of its business. Signs of breaches of integrity are always investigated.

10.5.2 Development in the management of non-financial risks

In 2013, the management of non-financial risks continued to develop in the following areas:

- In 2013 SNS Bank NV performed another integrity survey. This was performed as part of the annual financial audit to assess the quality of the soft controls. This also covered the impact of the nationalisation of SNS REAAL on how integrity is experienced among its employees. The survey showed that the climate of integrity and compliance at SNS Bank NV had continued to improve throughout the organisation as compared to the previous survey in 2011.
- In 2013 SNS Bank NV also faced threats resulting from cybercrime. SNS Bank NV consistently puts appropriate measures in place, both independently and in cooperation with the Netherlands Bankers' Association (NVB) and the Electronic Crimes Task Force (ECTF) in order to also protect the interests of its customers. SNS Bank NV closely monitors developments in cyber security.
- A start was made with rolling out a risk appetite dashboard for non-financial risks within all of the units.
- Several awareness campaigns were pursued in 2013, including a workshop on ethical and controlled business conduct, a 'train the trainer' module and an e-learning course on the code of conduct 'Common Sense, Clear Conscience'.
- The policy on ethical and controlled business conduct has been further evaluated in an annual process set up for that purpose. Additionally, new policy was formulated in the area of execution-only service and FATCA.
- SNS Bank's executive management and the Board signed the moral ethics statement in 2013, declaring they would perform their responsibilities with integrity and due professional care and that they would diligently balance the interests between all stakeholders, putting the customer's interests first.
- The measures in the context of the restructuring gave rise to additional stress on the organisation.
- The vision on operational risk management was evaluated and recalibrated. This will be followed up in 2014 and thereafter.

For more information, see Chapter 22: Non-financial risk management in the financial statements.

10.5.3 Property Finance

An investigation into possible conflicts of interest at Property Finance was started in 2012 and continued in 2013. This investigation also looked into the reports identified in the previously initiated forensic investigations. The investigation comprises two components:

a The reports related to the alleged conflict of interests and irregularities concerning invoices and expense reports of external Property Finance personnel;
b The detailed investigations to establish whether there were any misappropriations in projects and divestments of Property Finance. This involves a risk-based selection of these projects and divestments based on the available reports.

The investigation has revealed irregularities at Property Finance and has resulted in the termination of the employment of 18 external Property Finance employees, including a former director and some members of the management team. In 2013 SNS REAAL filed four reports on suspicions of criminal offences against several individuals, including offences committed by one of Property Finance's former directors.

Within the relevant statutory frameworks, codes of conduct and professional regulations, SNS REAAL is cooperating as much as possible with the law enforcement authorities that have opened investigations. The investigation into the alleged conflicts of interest, irregularities and misappropriations is being managed at SNS REAAL by Group Audit in close collaboration with Compliance, Security & Operational Risk Management. SNS REAAL has engaged a number of professional external (forensic) parties to carry out the inquiry as effective as possible.

Property Finance was financially disadvantaged due to irregularities in invoices and statements. The shares of Property Finance, now called Propertize BV, have been held by NLFI since 31 December 2013. In the event that the recoveries are successful, the proceeds will accrue to Propertize BV.
It is possible that the investigation could reveal further matters that could affect the valuation of assets and liabilities of Propertize BV.

The responsibility for the integrity investigation has been transferred due to the separation of Property Finance to Propertize BV as per 31 December 2013.

10.6 New regulation and their implementation

10.6.1 CRD IV

The Capital Requirements Directive, or CRD IV, was published by the EU on 27 June 2013 and is being introduced in phases with effect from 1 January 2014. It is a European directive for the implementation of the Basel III regulations published in 2011 aimed at reinforcing the capital and liquidity of banks and investment firms.

CRD IV contains a Directive and a Regulation. The Directive will be incorporated in Dutch legislation around 1 July 2014. As the Regulation came immediately into effect, no separate implementation process into Dutch law is required. In addition to CRD IV, the European Banking Authority (EBA) is preparing technical standards, most of which will also come immediately into effect. The ultimate impact of CRD IV will thus not become apparent until during the course of 2014. SNS Bank NV is anticipating the new capital and liquidity requirements ensuing from this or taking effect in the near future.

To prepare for the implementation of CRD IV, SNS Bank submitted a new Basel III migration plan to DNB in August 2013 in which the nationalisation measures are incorporated. The migration plan contains future projections of the various capital and liquidity ratios under Basel III. The starting point for these projections is the end of March 2013. Based on these projections, SNS REAAL meets all of the current internal and external capital and liquidity criteria under Basel III.

10.6.2 European supervision

SNS Bank NV is classed as a systemically important financial institution (SIHI). This implies that SNS Bank will be under European supervision with effect from October 2014. In the coming period, the European Central Bank will be carrying out audits at SNS Bank NV to prepare for this supervision. 2013 saw the start of the Asset Quality Review ordered by the ECB in this context.

10.6.3 PERDARR

The Basel Committee has formulated ‘Principles for Effective Risk Data Aggregation and Risk Reporting (PERDARR)’ for the correct and structured recording of information. The self-assessment on this PERDARR, made compulsory by BIS/DNB, was completed in 2013 and a follow-up programme has been formed. The purpose of this programme is to ensure that SNS Bank NV is PERDARR-compliant with effect from 1 January 2016.

10.7 Developments in the risk management organisation

On 19 December 2013, the European Commission approved the separation of SNS REAAL's Banking and Insurance activities. The Property Finance activities were separated on 31 December 2013.

In the near future the bank will continue as separate company. The current function of the Group (SNS REAAL) will be limited to a financial holding, which will eventually cease to exist. As a result of this, the Group's role in forming policy and the parameters for risk control will be reduced with effect from 2014. The emphasis will be placed on continuing to improve the quality and efficiency of the risk management organisation at the bank individually but with no less focus on customer interests and corporate responsibility.

In 2013 we continued to work on improving the risk management organisation. Changes made in 2013 will be permanently applied and, where necessary, further defined at the bank in the years to come. The main developments in 2013 were as follows:

- The risk appetite was elaborated and formalised in a risk dashboard in which the extent to which set limits are enforced can be precisely monitored. The Risk Appetite Statement, including the dashboard, was translated into individual dashboard for the bank.
- The composition and procedures of the risk committees were adapted where necessary in order to achieve balanced representation of both the business and the risk management. The quorum has also been adapted to this.

- Setting up the risk management in keeping with the 'three lines of defence' model was further defined internally. (See also section 19.2 Risk Management Organisation)
- Model risk management was further professionalised and incorporated in the policy and the normal risk management organisation.

The separation into a separate bank and insurer means that the separation of tasks and responsibilities between Group Risk Management and Business Unit Risk Management introduced in 2012 and 2013 need to be reviewed in 2014. This applies also to the functional lines for the risk function of Group Risk Management and the structure and composition of the risk committees. Furthermore the existing Risk Management Policies will be adapted to the new situation.

For more information, see section 19.2 Risk Management organisation.

11 Funding, liquidity and credit ratings

SNS Bank's liquidity position remained high in 2013, even in the period just before the nationalisation. The nationalisation led to a capital injection of € 1.9 billion. Whole sale funding was not necessary in 2013.

11.1 SNS Retail Bank funded mainly by savings

Our customers' savings play an increasingly important role in the total funding of our activities. In 2013, the savings market witnessed a slight growth of 0.7%. Following the nationalisation, the savings inflow at the SNS Retail Bank brands showed an increase, up to € 33.3 billion at year-end 2013, 1.5% more than at year-end 2012.

11.2 Whole sale funding

Whole sale funding may limit the costs and risks of funding our activities. Firstly, whole sale funding contributes to timely and adequate liquidity. In this manner we can avoid the risk that, at a late stage, we need to obtain money under unfavourable conditions. Secondly, it contributes to diversification in terms of funding instruments, types of investors and geographic areas. In this way, SNS Bank NV can opt for the most suitable instrument, depending on the varying market conditions, capital requirements and the qualifications demanded by DNB.

However, whole sale funding is only an effective alternative if our credit ratings reflect sufficient long-term confidence in our Banking activities and if the international capital and money markets function properly. Both conditions have made whole sale funding difficult in the past few years, and in 2013 in particular. In the nationalisation process, all of SNS Bank's subordinated debt was expropriated. This affected our reputation among investors. With the EC's approval of State aid and the restructuring plan, including the separation of Propertize (the former Property Finance), the path is now clear to restore this confidence. Capital growth through retained profits and prudent growth of the mortgage portfolio are essential in this respect, as these enable improved credit ratings and renewed whole sale funding.

11.3 Funding transactions in 2013

The SNS Bank NV total liquidity position, including the cash balance, remained high in 2013. The liquidity position at year-end 2013 amounted to € 11.6 billion compared to € 11.5 billion at year-end 2012. SNS Bank NV carried out two private securitisations under the names Lowlands 2 and Lowlands 3. These bonds continue to be included in the bank's balance sheet and are ECB eligible. Lowlands 2 makes it possible to reduce the amount of outstanding LTRO loans (long-term refinancing operation loans) in 2014, resulting in a substantial cost advantage. LTRO loans are an ECB facility with a low variable interest rate. Lowlands 3 replaces Hermes 16, which is a securitisation about to expire.

At the end of 2013, a government-guaranteed programme was prepared under which Propertize can issue State-guaranteed bonds. This allows Propertize to redeem a loan of approximately € 4.1 billion from SNS Bank NV in 2014. This way, the outstanding LTRO loans (€ 5.5 billion) can be further reduced in 2014, creating more capacity for selling new mortgages.

Just before the nationalisation and the accompanying improvement of the capital position, Moody's downgraded SNS Bank's rating, as a result of which the rating of the covered bonds was downgraded to A1. As long as this rating does not improve, it will not be possible to issue any new covered bonds.

The risk surcharges for the trade in SNS Bank securities dropped following the nationalisation, but these will remain relatively elevated with SNS Bank's current credit ratings. Given the upward potential of these securities, there was hardly any supply. In 2013, no benchmark bonds were issued and there were no private placements. SNS Bank has two commercial paper programmes, one European programme and one French programme, each with a maximum amount of € 4 billion. This programme was not used in 2013.

11.4 Credit ratings

In 2013, the credit ratings of many European financial institutions continued to be under pressure. The nationalisation of SNS REAAL and the corresponding expropriation of subordinated debt of SNS REAAL and SNS Bank affected the stand-alone ratings of SNS Bank, i.e. the ratings without taking into account external support. Rating agencies dramatically downgraded these ratings. S&P downgraded the SACP (stand-alone credit profile), Moody's the BFSR (Bank Financial Strength Rating) and Fitch the viability rating. Given the extensive State capital support, however, SNS Bank's long-term ratings remained stable.

In the course of 2013, SNS Bank's stand-alone ratings were raised to a limited extent on the back of the State aid received. Following the EC's final decision on the State aid in December 2013 and the separation of Property Finance, there is room for further improvement of SNS Bank's stand-alone ratings. As the State aid and other nationalisation measures are gradually incorporated in the stand-alone ratings, the difference compared with the long-term ratings becomes smaller.

Rating changes in chronological order

On 29 January 2013, S&P placed the ratings of SNS Bank on 'CreditWatch negative'. On 31 January 2013, Moody's downgraded the BFSR of SNS Bank and lowered the ratings of SNS Bank by one notch. As a result, SNS Bank was assigned a Baa3 rating.

On 4 February 2013, in response to the nationalisation on 1 February 2013, Moody's placed all ratings on a 'review for downgrade'. On 5 February 2013, also in response to the nationalisation, S&P raised the CreditWatch for SNS Bank from 'negative' to 'developing'. The SACP of SNS Bank was lowered from bb+ to ccc+, but because of the State aid, the credit rating of SNS Bank remained unchanged at BBB. Also on 5 February 2013, Fitch raised the 'rating watch negative' on SNS Bank to 'rating watch evolving'. The viability rating of SNS Bank was lowered by Fitch from bb to f, but SNS Bank's rating remained unchanged at BBB+. In Fitch's current methodology, SNS Bank's rating cannot be downgraded below BBB+ as long as the Dutch State has an AAA rating and the perception is maintained that the Dutch State supports systemically important banks.

On 29 March 2013, S&P decided to disconnect the ratings of SNS Bank and the Insurance activities of SNS REAAL.

On 21 June 2013, S&P reconfirmed SNS Bank's credit ratings at BBB. The SACP of SNS Bank was raised from ccc+ to bb- as a result of the capital support that had by then actually been received. In addition to the SACP, S&P awarded two notches of support because of the intended separation of Property Finance and a third notch of support because SNS Bank is considered a bank 'of moderate systemic importance'. Finally, a temporary fourth notch of support was granted because S&P expects access to capital markets to normalise following the EC's final decision regarding State aid. The 'developing' CreditWatch was replaced by a 'negative outlook'.

On 5 August 2013, Fitch reconfirmed SNS Bank's credit rating at BBB+ (stable outlook) and raised the viability rating from f to bb- (Rating Watch Positive).

On 12 September 2013, Moody's reconfirmed the credit ratings of SNS Bank and replaced the 'Review for further downgrade' with a 'stable outlook'. The BFSR of SNS Bank was raised from E (ca) to D- (ba3), with a 'positive outlook'.

In response to the EC's final decision on State aid and the separation of Property Finance, S&P reconfirmed the ratings of SNS Bank on 23 December 2013. Moreover, because of the intended separation of Property Finance, the two notches of support were included in the SACP, which rose to bb+ as a result. Fitch and Moody's announced that the EC's final decision would not have any direct consequences for the credit ratings.

Table 12: Credit ratings as per 31 December 2013

	S&P	Moody's	Fitch
Long-term	BBB (negative)	Baa3 (stable)	BBB+ (stable)
Short-term	A3	P-3	F2

12 Our people

SNS Bank NV is a genuine 'people company'. It is only thanks to our employees' commitment that we can build long-term relationships with our customers, as they establish and maintain customer contact. We courage our employees to continue developing and learning new skills. We want to offer them a good work-life balance and responsible remuneration. We feel job satisfaction is important. In 2013, despite sometimes challenging circumstances at the time of the nationalisation, the measured average employee satisfaction remained relatively high with an average score of 7.5, with an improvement on important indicators. We are pleased and proud about this.

12.1 Impact and consequences nationalisation for employees

For our employees, the period prior to the nationalisation of SNS REAAL was hectic and full of uncertainty. The high level of media coverage and the subsequent nationalisation left no employee unaffected. Nonetheless, in the period of the nationalisation, our employees managed to keep their focus on our customers. To enable our customer service centre and webcare team to answer all our customers' queries, many colleagues helped out and opening hours were extended.

After the nationalisation, SNS REAAL started preparations for the organisation restructuring, in line with the plan that was submitted to the European Commission, approval for which was obtained in 19 December. The separation of the Banking and Insurance activities implies that activities and positions are transferred from the Group to the Bank and Insurer. For Propertize, formerly Property Finance, too, this means that support from the Group is phased out. At the close of 2013, just under 24 employees (FTE), transferred to Propertize.

At top-level management, 'quartermasters' are planning and coordinating the further privatisation of the Banking activities. In January 2014, the requests for recommendation submitted to the Central Works Council (CWC), with an elaboration on the proposed structure of the new staff departments of the Bank. The requests for recommendation were drawn up in close collaboration with the Group staff departments and the Bank and in coordination with the works councils.

12.2 Putting the customer 's interest first

Our guiding principle in further improving our services is 'putting the interests of our customers first'. We use performance indicators to accurately manage and monitor this principle across all of their services, including product development and promotion, the sales and advisory process, customer service and follow-up care and a customer-oriented culture. In doing so, the attitude of our employees is, of course, paramount. To promote the desired attitude, our Human Resources (HR) department supports managers and employees with various resources and activities. In 2013, putting the client's interests first was more effectively incorporated in job descriptions, job advertisements, recruitment communications and employees' annual PCB. Every year, each employee has at least one result-oriented performance agreement about how the employee's performance serves the interests of the customer.

More than 350 employees entered into dialogue on their Manifesto in 28 sessions. Based on four themes, this Manifesto defines the way in which the bank wants to fulfil its public utility function for its customers and for society. The Manifesto provides direction on the future and connects the four banking brands. Employees could identify themselves with the Manifest. They were enthusiastic about it as it allows them to really mean something to the customer. Many ideas were generated in these sessions. Of these ideas, fourteen improvement ideas were selected and delegated to a member of management for implementation. In addition, departments participated in team workshops to determine how to implement to the Manifesto in practice.

12.3 Integrity: compliance with internal and external rules and regulations

Integrity is vital for a financial services provider. In our company, we therefore have a wide range of procedures to ensure all things are done fairly and correctly. A lot of attention is devoted to conduct and business values as well. Despite these efforts, incidents may occur in which procedures and rules and regulations do not work properly or are not fully complied with. In that case, we take adequate action. In 2012, following indications, we questioned the integrity of some external employees of Property Finance. Based on some indications, an internal investigation was conducted into the integrity of Property Finance. Based on the results of this investigation SNS REAAL filed three reports as offences were suspected. As a result eighteen, external temporary employees of Property Finance were forced to leave the organisation.

In the autumn of 2013, KPMG conducted (as part of the financial audit) a company-wide investigation into our integrity. Compared to previous measurements there is an overall improvement.
In recent years, SNS Bank NV has increasingly paid more attention to integrity in training programmes and procedures. Partly in response to an earlier study by KPMG, SNS BANK NV improved the incident reporting policy and made incident reporting via the intranet much easier. In addition, employees can report suspected violations of rules, such as fraud, inappropriate conduct and conflicts of interest anonymously if desired. Our Code of Conduct, called ‘Common sense, clear conscience’, gives employees tools to take responsibility ensuring a responsible organisation. The Common sense, clear conscience e-learning programme is both about the code of conduct and the responsible organisation, professional conduct, putting customer interests first and the reporting, discussing and preventing of incidents. In 2013, this e-learning programme was completed by 90% of the employees.

Moreover, news items on the intranet, presentations and workshops, based on interaction and self-analysis, contribute to employees’ integrity awareness. In the Responsible Organisation Team Workshop, employees assessed how responsible their department is on the basis of questions and statements for discussion. Does our department devote enough effort to putting the interests of our customers first? Do we comply with all the rules and regulations? Do we call one another to account regarding undesirable conduct? Each department could thus identify their own means of improvement.

Management Board of SNS Bank, Supervisory Board members and part of the top-level management signed the moral-ethical statement, which is mandatory as of 1 January 2013. The principles included in this moral-ethical statement fit seamlessly into the mission and core value of SNS Bank NV and putting the interests of the customer first. Making this statement has symbolic value, but also contributes to the awareness of our conduct in relation to our customers and can thus inspire us to further improve our services and restore confidence in the financial sector.

12.4 Personal leadership

It is our staff who put our mission, Simplicity in finance, into practice, inspired by our core value CARE! We therefore consider it important that our staff is professional, committed and motivated. We expect personal leadership from them in their own work. By this we mean that they are driven by self-motivation to provide customers with the best possible service and to contribute to SNS Bank’s overall result. Each employee is responsible for his own professionalism. This demands a modern leadership style from managers. They are to empower employees to make use of their full potential through support, feedback and discussion.

More freedom means more responsibility and more accountability with regard to personal commitment and performance. Which goals have been achieved and which have not? What went well and what can be improved? With dialogues like these, we create a culture of continuous improvement in our organisation. Over the past three years SNS Bank NV has gained positive experience with personal leadership in lean projects that aim to achieve sustainable customer value and at making the organisation more efficient.

Personal leadership is one of the core competencies every manager must possess. We also assess managers on how customer-oriented and results-driven they are and how their team development is progressing. As of 2014, these competencies are included in the annual Performance and Competency Evaluation (PCB). Every manager in our company, from department head to CEO has to include at least one of these competencies in his objectives and work on the development of these competencies. Each manager must score at least "good" for all four competencies. Managers can conduct a 360 degree feedback to examine how they perform on these competencies. In addition to this, other self-reflection tests are available. In 2013, SNS Bank NV started masterclasses with Management as the subject area. These masterclasses are given by its own (senior) managers.

12.4.1 Superpromoters

Our superpromoters are a good example of personal leadership. Superpromoters are employees who positively promote their brand to colleagues and customers. Superpromoters contribute to a customer-driven organisation by giving feedback on plans, solving customer problems and giving presentations and workshops. SNS Bank has been taking initiatives in this field for some years. The idea originates from the customer experience programme of SNS Bank. Other brands also have their superpromoters. The organisation supports superpromoters with training and coaching programmes. During the two-day In-house Superpromoter Academy, held twice in 2013, they learn what the power of enthusiasm is and how they can put it to use to help clients and colleagues. Each time, employees can qualify for a place at the Academy by convincing the Academy in a video interview why they deserve that place. Candidates who pass their final assignment, may call themselves a certified Superpromoter Consultant. Following the Academy they are offered various other training and coaching programmes to help them share their enthusiasm effectively.

12.5 Attractive and responsible employer

SNS BANK's goal is to be an attractive and responsible employer, with competitive conditions of employment, sustainable employability programmes, training and personal development opportunities, diversity and a good work-life balance. With regard to the latter, the New Way of Working (HNW) is an important instrument. HNW encourages personal leadership; we entrust employees with the responsibility of organising their own work. Employees have a clear focus on results, carry out part of their work at home and use modern media to communicate with their colleagues. Investment costs, mainly for office refurbishment and technical equipment, will be recouped by more economical and effective operations. We save considerably on office space costs and the impact on the environment is reduced.

Knowledge sharing and collaboration are becoming more and more important as developments are taking place in increasingly rapid succession. To promote efficient and effective internal communication, we added social media functions to our intranet. This allows employees to respond to news items and post updates themselves.

12.5.1 Employee satisfaction remains high

In 2013, 82% of our employees participated in SNS REAAL's group wide annual employee survey. While employee satisfaction fell slightly due to the uncertain situation in 2012, it rose again from a score of 7.3 to 7.5 in 2013. There is a need for clarity about the future, but confidence increased as a result of the nationalisation and the new course. Many employees are very pleased with the benefits of HNW, such as flexibility, working from home and finding a better work-life balance. Areas of attention in this field are the social cohesion and availability of workplaces and meeting rooms on the busiest days of the week. Employees are more positive about the development opportunities than last year. Growth opportunities remain another area for attention, as does inter-departmental collaboration. In some departments, employees experience (too) much pressure at work.

12.5.2 Safe working environment

SNS Bank NV wants to offer its employees a safe working environment, distinguished by mutual respect. We will not tolerate any inappropriate conduct such as sexual harassment, bullying, discrimination, aggression and violence, neither psychological nor physical. Anyone who faces such inappropriate behaviour can have access to confidential counselling through the health and safety advisory service, or report any such incidents to the Incident Contact Centre. One formal complaint of inappropriate behaviour was submitted to the Confidentiality Committee in 2013. Some employees made use of the company counsellors of our occupational health and safety service. These counsellors give advice on work-related or private problems that affect work. They are also trusted employee representatives for SNS Bank NV.

12.5.3 Diversity and inclusivity

Our logo, the kaleidoscope, exudes it: we want to be a colourful organisation, a reflection of society. We strive for quality and want to accommodate the talents of both men and women with different personalities, styles, ages, cultural backgrounds. In 2013, we introduced diversity guidelines for recruitment, hiring, appointments and talent development programmes to promote diversity in a more systematic way. Moreover, diversity monitoring gives us insight in details such as the representation of men and women and their ages per department and team.

12.5.4 CARE!

CARE! is the core value of SNS Bank NV. Through CARE! SNS Bank NV calls on its employees to consciously create a bond with our customers, each other, our result and society. CARE! for society, for example, is emphasised by means of educational initiatives carried out by the brands themselves. Apart from this, the CARE! Fund encourages employees to dedicate themselves to a good cause by providing financial support. There is a site on SNS Bank's intranet that matches supply and demand for volunteer work. SNS Bank's Mutual Help Fund is an example of how we apply the values of CARE! for each other. This fund supports SNS Bank NV employees who run into financial troubles due to unexpected high costs through no fault of their own.

12.6 From work to work

There were many projects to promote working in a more customer-oriented and efficient way throughout the organisation. There were some restructures too. The overall number of employees (FTEs) on SNS Bank's payroll, including natural attrition, fell by 124, from 2,133 to 2,009 (-5.8%). HR offers workshops and guidelines to support managers and employees in coping with restructures.

SNS REAAL, the holding company of SNS Bank NV, has a new social Plan for the period from 1 January 2013 to 1 August 2014. The social Plan is based on agreements with the trade unions. Employees who lose their job due to a restructure will be assisted in their search for a new job inside or outside the organisation for a period of nine months. For those who do not succeed in finding a job within SNS REAAL, there is a financial severance scheme.

12.6.1 Flexible deployment through FlexForce

An efficient, flexible and cost-efficient organisation requires flexible deployment of staff. FlexForce is the internal staffing agency of SNS Retail Bank that meets this need. FlexForce consists of a fixed pool of flexible banking professionals supplemented with temporary internal staff. At the launch on 1 January 2013, FlexForce organised Meet & Greet sessions for recruitment and information purposes. At the end of 2013, some 145 FlexForce employees were working at SNS Retail Bank in different departments and positions, including senior management positions. With this new service, professional employees can quickly be deployed on temporary assignments. KennisForce, a new knowledge-related initiative, allows FlexForce employees to broaden their professional knowledge and to work on their personal and professional development. They also learn how to settle into a new job quickly and how to obtain a follow-up assignment themselves. Every quarter, the employee with the greatest 'FlexFactor' can be nominated to receive a challenge cup achieving noteworthy performance. In October, at a seminar on flexibility, some 120 managers, HR Advisors and Works Council members discussed potential FlexForce opportunities for SNS Bank, RegioBank, BLG Wonen and ASN Bank.

12.7 Sustainable employability

Sustainable employability requires vitality and health, training and development and career planning of employees. It also requires vision and planning on the part of managers. Every year, with the help of an integrated staff planning tool, managers map the potential gap between their department's current resources and future needs. This allows them to attune their quantitative and qualitative staffing to future needs in good time, for example by planning training programmes.

12.7.1 Vitality and health

Once every three years, employees are offered a health check free of charge. This check clearly explains what an employee can do to stay healthy and to prevent health problems. The updated ‘Health Plaza’ on the intranet gives tips on the relationship between work and health, as well as information on becoming and staying healthy for employees who are (partially) unfit for work. On top of this, SNS Bank NV offers training programmes to cope with work pressure more effectively, for both individual employees and departments.

12.7.2 Training and development

SNS Bank NV has a wide range of education, training courses and workshops, including specially developed in-company training programmes. Moreover, we frequently invest in development programmes. Development is not optional, but essential in order to respond to changes in an organisation. As of 1 January 2013, the Financial Supervision Act (Wft) has tightened requirements for customer facing employees. The new competence requirements will apply as of 1 July 2014 for new advisors and as of 1 July 2015 for advisors with ‘old’ Wft certificates. Employees who do not yet meet these competence requirements, are given the opportunity to take courses and resit exams.

12.7.3 Career support

In late June, LoopbaanPlaza opened its doors in Utrecht. LoopBaanPlaza is SNS Bank’s internal mobility centre for anyone who seeks continuous professional development. During the opening event, presentations and workshops were held on development and career support. There was also an information market with booths crewed by the Business Units of SNS REAAL and training institutes where employees could 'speed date' with recruiters and have interviews with career counsellors. Enthusiasm for the workshops was so great that they were offered again in autumn and were included in the regular training schedule.

The LoopBaanPlaza regularly offers walk-in consultation services. This is an accessible way for employees to obtain information about their career, (personal) development and training programmes. They can also get job application tips and career advice from an advisor or coach. There had been a strong demand from employees for internal career counsellors who know the organisation well. LoopBaanPlaza now meets this demand.

SNS REAAL conducted an awareness campaign called ‘What is your course? Choose your direction!’ to encourage employees to think about their employability, to get in the driver’s seat and determine their own course. Employees regularly receive tips, for example, on how to deal with organisational changes on the intranet, in the staff magazine and during career events, workshops and training programmes. The new training programme ‘Choose your direction’ helps employees manage their employability, competence development and career.

The annual Performance and Competency Evaluation (PCB) acts as the compass for employability. This allows both employee and manager to jointly reflect on the employee’s current performance, employability and career opportunities in the future. As we attach great importance to continuous employee development, we will agree one one-year development objective with every employee from 2014. An employability checklist and scan help employees to get better insight into their employability and how to work on this. We also offer a personal development plan or career guidance.

12.8 Attracting and developing talent

In order to give talented candidates the opportunity to get to know us and interest them in joining SNS Bank NV, we are active on campuses. We co-operate with colleges, universities and student associations in content-related areas. SNS REAAL’s IT & Change department, for example, is Partner in Education of the Fontys Hogescholen and is thus closely involved in the development of sound IT education and the development of students. A number of our IT employees give guest lectures and workshops, advice on drawing up or updating learning courses, act as external experts in examinations and offer students the opportunity to carry out research in the organisation, as well as internships and graduation projects. We regularly organise lunch sessions in which our traineeships are the central topic. In an informal setting, talented candidates get acquainted with the organisation, our colleagues and career opportunities.

Twice a year, SNS REAAL organises an introduction day for trainees, to get acquainted with the organisation and each other. To mark the end of traineeships we organise a special day for trainees to thank them for their commitment, to learn from their experiences and to give them something to take away for their working life. SNS Bank NV finds it important to invest in the training and development of young talent. Traineeships play an important role in this.

In late 2013, three new management trainees and three financial trainees started their traineeships at SNS REAAL. Moreover a new group of employees started the Talent Development Programme. Each year a group of selected promising managers of SNS REAAL participate in the Management Development Programme (MD programme). An important part of this programme is the Interventures, adventurous learning projects in which participants work in groups both during and outside of the programme. The assignment theme is always innovative and in the interest of SNS Bank NV. In 2013, SNS Bank NV started the Specialists Development Programme especially for experienced specialists who advise senior management. Recognition of the role of specialists and enhancing their advisory powers are the key objectives.

12.8.1 Future-proof conditions of employment

SNS Bank NV aims to provide future-proof and sustainable conditions of employment, allowing us to be an appealing and distinctive employer. The first steps to achieving this goal were taken in the collective labour agreement concluded at the end of 2012. SNS Bank NV staff did not receive a collective wage increase and the personal assessment bonus was adjusted.

In connection with the nationalisation, the Management Board of SNS Bank NV considered a further reduction of the variable remuneration to be inevitable. For 2013, therefore, there was no variable remuneration (bonus) for the Management Board and senior management, who, under normal circumstances, would be entitled to such remuneration. The Management Board and senior management were not entitled to variable renumeration in 2012 either. Refer to the remuneration report in Chapter 16 Report of the Supervisory Board of SNS REAAL annual accounts for more information on the remuneration of the Management Board and senior management.

At year-end 2013, SNS REAAL (the holding company of SNS Bank NV) reached an agreement with the unions on a new collective pension agreement. The pension agreement includes the following agreements:

- The target retirement age is increased to 67 years.
- The accrual rate of the old-age pension (OP) is increased to 2.15%.
- The surviving dependants pension remains 70% of the OP, but is higher due to a higher OP accrual rate.
- The ‘Waiver of premium for disability’ is brought within the fiscal frameworks, in which the reduction of the accrual is offset by a later end date of the pension accrual.

By modifying SNS REAAL’s pension scheme, it now also fits within the fiscal framework of 2014, which was adjusted with effect from 1 January 2014. Since no agreement was reached on other CLA issues, the revised scheme is included in a separate collective pension agreement or recorded in a deed of amendment to the current collective agreement. As a collective agreement continues to be in force until a new collective agreement is reached, the terms and conditions of employment of the current collective agreement remain applicable to employees.

12.9 SNS REAAL Pension Fund

All staff of SNS Bank NV is employed by SNS REAAL NV. As of 1 January 2014, the pension fund increased the accrued pensions and retirement benefits by 1.41%. Almost as much as the price increase in 2013 (1.56%). After two years of no indexation, the pensions kept pace with price development. The coverage ratio of the pension fund SNS REAAL at the end of October (reference date for indexation decision) amounted to 117.1%. This is higher than the legally required coverage ratio. After the increase, the coverage ratio remains above 115%, in line with the pension fund’s indexation policy.

In 2013, independent Dutch pensions and investor news magazine (Nederlands Pensioen & Beleggingsnieuws (NPN)) proclaimed SNS REAAL’s pension fund ‘Pension fund of the Year’. The NPN awards are recognition for the efforts made to preserve the Dutch pension system. The pension fund scored well in all areas: management structure, clear communication and reporting to participants, and financial soundness.

In the summer of 2013, the SNS REAAL Pension Fund conducted a survey among participants and pensioners. The survey shows that many employees and pensioners are worried about their pension, while the pension fund currently has sufficient capital at its disposal to meet all of its obligations. The pension fund uses the results of the survey to improve its communication policy. Information on the content and the choices of the pension scheme in particular deserves extra attention. The same is true of the pension fund's financial position. Also, there is still much to do to improve involvement of the pension scheme's participants (especially young people). The first steps have been taken by updating the website and rewriting important letters in plain language and testing them in a participant panel.

Report of the Supervisory Board

13 Report of the Supervisory Board

Members of the Supervisory Board of SNS REAAL are also member of the Supervisory Board of SNS Bank NV. For this reason, meetings of the Supervisory Board of SNS REAAL are combined meetings, and the agenda of the Supervisory Board includes items specifically relevant to SNS Bank NV. As a result, the following sections are an extraction of the Report of the Supervisory Board of the annual accounts 2013 of SNS REAAL regarding the specific items in relation to SNS Bank NV of the meetings of the members of the Supervisory Board.

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

2013 was an exceptional year for SNS Bank NV. During the first month of 2013, SNS REAAL fully focused on finding a comprehensive solution for strengthening the capital position of SNS REAAL. The Dutch Minister of Finance finally nationalised SNS REAAL on 1 February 2013. The public outcry over this nationalisation was considerable. In the period after 1 February 2013, SNS REAAL actively worked on the implementation of all nationalisation measures. During that turbulent period, SNS REAAL was also confronted with fraud within Property Finance, which emerged following inquiries initiated in 2012. In the course of the second quarter, most nationalisation measures had been implemented. Preparations for the transfer of Property Finance got underway and Property Finance was transferred to the Dutch State on 31 December 2013. In August 2013, the Ministry of Finance’s restructuring plan for SNS REAAL was submitted to the European Commission. Partly in this context, SNS REAAL began the financial disentanglement of the holding company, bank and insurer. The European Commission published its final decision on 19 December 2013 (see Chapter 5 of this annual report).

Partly due to the financial crisis, customers, investors, legislators, regulators and other stakeholders demand more from banks with respect to the way in which financial institutions run their business. The Supervisory Board and the Management Board are constantly aware that SNS Bank NV must continue to adapt to the changing public perception of the financial sector. The financial sector has not yet regained the confidence of politicians and society. Corporate Social Responsibility in the broadest sense is still an issue and is embedded in SNS Bank NV. With its mission, core value and strategy and compliance with the Banking Code, SNS Bank NV takes its responsibility and makes a contribution to restoring trust in and improved functioning of the Dutch financial sector. Continuous awareness of and giving meaning to putting customers and customers’ interests first, still remain important. In various places in this annual report, we describe how SNS Bank NV gives substance to this responsibility.

13.1 Main topics and discussions

In continuation of 2012, the first month of 2013 revolved around supporting, advising and supervising the Executive Board of SNS REAAL in its search for a comprehensive solution. After the nationalisation, key topics discussed at Supervisory Board meetings were the restructuring plan, the consequences of the nationalisation for governance and the remuneration policy, the preparations for the financial disentanglement and also the supervision of SNS Bank NV’s regular operations. On top of that, the financial statements for the 2012 financial year required more attention from the Supervisory Board than usual.

In connection with changes to the members of both the Management Board and the Supervisory Board (which will be further discussed in the sections below), the Supervisory Board also devoted additional attention to topics such as collaboration and transfer of knowledge.

In the course of the year, the other important subjects included the capital position of SNS Bank NV, Property Finance, risk management and risk appetite, the administrative organisation (system of internal control), the solvency, good customer service, the optimisation of putting the customer and the customer’s interests first, the impact of the nationalisation on the personnel of SNS Bank NV, changing laws and regulations and the large number of projects.

13.2 Composition of the Supervisory Board

On 1 February 2013, Rob Zwartendijk stepped down as Chairman of the Supervisory Board. As Vice-Chairman, Piero Overmars temporarily fulfilled the role of Chairman until 1 November 2013. The composition of the Supervisory Board changed on 1 November 2013. On that date, Piero Overmars, Jaap Lagerweij, Robert Jan van de Kraats and Herna Verhagen stepped down as Supervisory Board members. An Extraordinary General Meeting resolved to reduce the number of Supervisory Board members to seven as from the aforementioned date. This reduction of the number of members came in response to the 2012 evaluation. The three vacancies on the Supervisory Board arising from this were filled by Jan Nooitgedagt, Jan van Rutte and Monika Milz as from 1 November 2013. Jan Nooitgedagt was also appointed Chairman of the Supervisory Board. Monika Milz was appointed at SNS REAAL NV in accordance with the reinforced right of recommendation of the SNS REAAL Central Works Council.

The new members who joined the Supervisory Board on 1 November 2013 have been acquainted with their duties through various meetings with the departing Chairman, the incumbent Supervisory Board members, the Executive Board SNS REAAL members and key employees of SNS Bank NV.

13.3 Composition of the Management Board

On 1 February 2013 Ference Lamp (CFRO of SNS REAAL and also member of the board at SNS Bank NV) stepped down from his position. On 1 October 2013 Ernst Jan Boers (member of the board at SNS Bank NV) stepped down from his position as well. On 4 February 2013, the Dutch State appointed Maurice Oostendorp as CFRO of SNS REAAL. Maurice Oostendorp also became member of the Management Board at SNS Bank on 26 April 2013. Dick Okhuijsen, member of the Management Board at SNS Bank NV as well as member of the Executive Board at SNS REAAL, was appointed as Chairman on 5 November 2013.

13.4 Meetings of the Supervisory Board

13.4.1 Main topics

In 2013, the Supervisory Board met more frequently than usual. More than twenty meetings took place in the months of January, February and March. In the period preceding SNS REAAL's nationalisation, effective on 1 February 2013, additional meetings were scheduled in connection with various scenarios regarding the strategic reorientation (focusing on both strategic restructuring and the strengthening and simplification of SNS REAAL's capital base). The subsequent months mainly revolved around identifying the effects of SNS REAAL's nationalisation. Starting in April 2013, the frequency returned to normal, even though the number of meetings was still more than usual. The Supervisory Board met twice in April, three times in May, twice in June and once per month from July to December. More detailed information on the main topics discussed can be found in the Annual Report of SNS REAAL 2013, chapter Report of the Supervisory Board.

13.4.2 Presence of the external auditor

The external auditor is present at all Audit Committee meetings and at least once a year at a meeting of the Risk Committee. In 2013 the external auditor attended several meetings of the Risk Committee. The external auditor has a standing invitation to attend meetings of the Supervisory Board. In 2013, the external auditor did not attend any plenary meetings of the Supervisory Board.

13.5 Committee meetings

Until 11 November 2013, the Supervisory Board consisted of the following four committees:

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

On 11 November 2013, the Supervisory Board resolved to merge the Nomination Committee and the Remuneration Committee into a single new committee: the Remuneration & Nomination Committee.
Every committee prepares the decision making of the Supervisory Board in respect of the duties assigned to it and reports to the Supervisory Board. More detailed information on the main topics discussed can be found in the Annual Report of SNS REAAL 2013, chapter Report of the Supervisory Board.

13.6 Closing words

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

Exceptional dedication was also demanded of SNS Bank NV's management. Despite everything, working relations with the Supervisory Board were good. For this too, the Supervisory Board wishes to express its gratitude.

Finally, the Supervisory Board wishes to express its special thanks for the unyielding commitment and great dedication that Piero Overmars, Robert-Jan van de Kraats, Herna Verhagen and Jaap Lagerweij have shown to SNS Bank NV these past months, and before that too.

Utrecht, 26 March 2014
On behalf of the Supervisory Board
Jan Nooitgedagt, Chairman

Corporate governance

14 Corporate governance

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

Because the governance framework of SNS Bank NV is an integrated part of the governance framework of SNS REAAL we refer for more detailed information on Corporate Governance, the Management Board and the Supervisory Board to SNS REAAL's Annual Report 2013.

14.1 Management Board

As of the date of publication of this Annual Report, the Management Board of SNS Bank NV comprises of the following members:

- Dick Okhuijsen (Chairman)
- Maurice Oostendorp
- Wim Henk Steenpoorte

More information on the Board members can be found in the Annual Report of SNS REAAL 2013.

14.2 The Supervisory Board

As of the date of publication of this Annual Report, the Supervisory Board of SNS Bank NV comprises the following members:

- Jan Nooitgedagt (Chairman)
- Charlotte Insinger
- Monika Milz
- Jos Nijhuis
- Jan Nijssen
- Jan van Rutte
- Ludo Wijngaarden

Monika Milz is a German national. All other members of the Supervisory Board are Dutch nationals.

The Supervisory Board has formed three committees from among its ranks. As of 31 December 2013, said committees comprised the following members:

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

The previously separate Nomination Committee and Remuneration Committee were combined to create a single Remuneration and Nomination Committee with effect from 11 November 2013.

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

14.3 Banking Code

The mission, core value and strategy of SNS Bank NV (SNS Bank) confirm the principles of the Banking Code (the Code).

14.3.1 Contributions to restoring confidence in the financial sector

The Code is aimed towards restoring confidence in the financial sector and improving the functioning of the sector. This is obviously also one of SNS Bank's objectives. SNS Bank accomplishes this by complying with this Code and its mission, core value and strategy. SNS Bank continually undertakes initiatives to restore trust in the financial sector and to improve the functioning of the sector.

14.3.2 Application code by SNS Bank

The banking activities of SNS REAAL NV (SNS REAAL) are carried out by SNS Bank. The Code is applicable to all of these banking activities and came into force on 1 January 2010. Even before that date, in 2009, SNS REAAL (at Group level) started applying the Code. From that moment on, SNS Bank aimed at applying the Code for all its activities. Because SNS REAAL operated as an integrated bank and insurance group during 2013, some of the measures taken to comply with the Banking Code are implemented at the group level.

SNS Bank complies almost fully with the Code. SNS Bank and its employees carefully monitor compliance and try to further improve it, in line with the execution of SNS REAAL's mission of 'Simplicity in finance' and core value CARE!

14.3.3 SNS Bank applies Code to all activities

Right from the start of the implementation of the Code, SNS REAAL (at Group level) applied the Code almost completely to all of its banking activities. Some examples are:

- SNS REAAL's mission of 'Simplicity in finance' starts from putting its customers and its customers' interests first in accordance with the Code.
- The remuneration policy of the Executive Board of SNS REAAL and senior management complies with both the Code and applicable laws and regulations.
- SNS REAAL's Executive Board and senior management signed the moral-ethical statement in March 2013 and also pledged the so-called Bankers' oath, pursuant to the new regulations. The principles included in this statement provide all SNS REAAL employees with an ethical framework to guide them in their conduct.
- SNS REAAL has a continuous education programme in accordance with the principles of the Code.
- The Product Approval and Review Process has been implemented in all relevant business units in accordance with the Code and audits are carried out in these business units each year.
- The risk management organisation of the entire SNS REAAL Group is compliant with the principles of the Code and evolves continually. Chapter 10 discusses relevant developments in the field of risk management.
- The internal audit function is organised at Group level (SNS REAAL), is compliant with the Code and evolves continually.

With effect from the 2013 financial year, the application of the Code will no longer be reported for at Group level (SNS REAAL), but by SNS Bank itself. With respect to the application of the Code, SNS REAAL's Annual Report refers to the Annual Report of SNS Bank.

14.3.4 Up-to-date overview application of the Code in practice

SNS Bank provides on its website an up-to-date overview of the manner in which SNS Bank and SNS REAAL and its business units respectively implement and apply the Code's recommendations.

14.3.5 Compliance with the Code

SNS Bank complies almost fully with the Code. On just a limited number of points it is not (yet) possible for SNS Bank to meet compliance requirements:

As a result of the nationalisation on 1 February 2013, Gerard van Olphen and Maurice Oostendorp joined the Executive Board of SNS REAAL. By virtue of that position, Mr Van Olphen was appointed chairman of the Supervisory Board of Propertize BV (formerly called SNS Property Finance) and Mr Oostendorp was appointed chairman of the Supervisory Board of SNS Securities NV. In the light of the nationalisation, no profiles were drawn up with regard to those appointments.

With respect to the remuneration policy, a number of employees falling within the scope of the Policy act and Regulation on Sound Remuneration policies pursuant to the Financial Supervision Act (*Besluit Beheerst Beloningsbeleid Wft 2011*) have yet to accept the policy set for them in writing. The policy has, however, been fully adopted and implemented.

At the level of the entities of SNS Bank's most important subsidiaries, further improvements to Code compliance are possible. For instance with respect to the evaluation of the supervisory boards of these entities (recommendation 2.1.10), participation of all directors in the continuous education programme (recommendation 3.1.4), maximisation of severance pay of some directors as a result of existing contractual arrangements (recommendation 6.3.2), and setting up an audit and risk committee for the supervisory boards of these entities (recommendation 2.2.1).

14.3.6 Putting customers and customer's interests first

The Code's recommendations aimed at the organisational culture, such as putting customers first and carefully considering the interests of all SNS Bank's stakeholders in question (section 3.2 of the Code) are abstractly formulated. Implementation and compliance with these recommendations can therefore - by definition – only be objectively verified to a certain extent.

SNS Bank 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 Bank. Putting customers and customers' interests first is part of SNS Bank's strategy and is embedded in the mission of 'Simplicity in finance' and core value CARE! Due care is exercised by considering the interests of all of SNS Bank's stakeholders.

Putting customers first is part of employees' performance appraisal and of the Product Approval Process for existing and new products. Business units are required to report to SNS Bank's management team how they put customers first. The implementation of these recommendations from the Code is discussed in more detail in other sections of this Annual Report.

14.3.7 Continuing education and competence Supervisory Board, Management Board and senior management

In 2013, members of the Supervisory Board, the Management Board and management teams of the various business units attended several training courses in line with the recommended topics in the Code. Together with the HR Department, the Company Secretary organises a range of in-house training courses with internal and external speakers. Some examples of topics addressed in the continuing education programme are: (i) Putting customers' interests first, (ii) complaints management, (iii) risk management, (iv) integrity, (v) managing behaviour, culture and adaptability, (vi) derivatives, (vii) Lifetime Zwitserleven and (viii) statistics. HR keeps an attendance record of the internal and external training courses.

The know how of the members of the management teams of the various business units is part of their performance appraisal.

14.4 Management statements

The members of the Management Board state the following:

14.4.1 In-control statement

The Management Board of SNS Bank NV hereby declares that it has ascertained, with a reasonable degree of assurance, that the material risks SNS Bank NV is facing have been described. This assurance is based on the risk management organisation described in Chapter 19 on Risk Management and Organisation. The effectiveness of essential control measures is reviewed at regular intervals. SNS Bank NV has established a structured process of internal In-control statements with corresponding evaluation by senior management. The following material risks have been identified for SNS Bank NV as a whole:

- SNS Bank NV is still prone to reputation risks as a result of the nationalisation of the company. The same applies to certain dossiers (Property Finance). Given the uncontrollable nature of the (social) media this is something that requires ongoing attention.
- Computer crime (cybercrime) continued to increase in 2013. This is a development that also affects SNS Bank NV and its customers. Computer crime is a phenomenon that is clearly here to stay. As such, it needs to be tackled by a broad-based and effectively coordinated collaborative effort. SNS Bank NV is actively involved in this endeavour (together with parties such as ECTF and NVB), and monitors developments closely, taking appropriate measures where necessary.
- The execution of splitting SNS REAAL into independent banking and insurance operations also has consequences for the personnel. The implementation of the necessary changes will increase their workload. SNS REAAL has chosen to adopt a rapid and meticulous approach and will remain in close contact with its personnel throughout the process.

Notwithstanding the considerable increase in workload, SNS Bank's management devoted attention to managing the various risks to which the company is exposed. The changing external environment, new laws and regulations (Basel II/III), an increased number of inquiries from regulators and regulatory requirements, the necessary focus on the business unit Property Finance, necessary investments in the data warehouse infrastructure and organisational changes within SNS Bank NV, placed pressure on the available qualitative attention for the internal control framework. Specifically with respect to the linkage between internal control at group and business unit level. The internal control framework currently consists of individual components for managing actual risks, whose overall effectiveness is then tested. In the new governance structure, the management team of the bank will give further substance to an integrated control framework.

14.4.2 Control over financial reporting

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

- The Financial Committee (SNS REAAL), which is responsible for setting policy frameworks as well as the organisation of financial and actuarial administrations and processes.
- The business units and staff departments that are responsible for the execution of tasks, and thus for an accurate and faithful recording of the transactions and the reporting thereon.
- A system of financial key controls within the financial accounting and reporting departments in order to monitor the proper operation of financial reporting management and control systems.
- The Financial Committee's (SNS REAAL) assessment of the financial reporting, partly based on the results from the key controls. The findings of the financial reporting process, together with the financial reporting, are discussed in the Audit Committee after approval by the Executive Board of SNS REAAL.
- The review of the operating effectiveness of these systems by the internal and external auditors. The external auditor reports thereon insofar as it relates to the audit of the financial statements. The findings are discussed with the Financial Committee, the Executive Board of SNS REAAL and the Audit Committee.

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

14.4.3 Transparency statement

The members of the Management Board state the following: “SNS Bank NV prepares the consolidated and company financial statements 2013 of SNS Bank NV in accordance with International Financial Reporting Standards (IFRS), as adopted within the European Union (EU) and with Title 9 Book 2 of the Dutch Civil Code and, to the best of our knowledge, they give a true and fair view of the assets, liabilities, size and composition of equity, financial position as per 31 December 2013 and the 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 Bank NV faces are described in the Annual Report.”

Utrecht, 26 March 2014

Dick Okhuijsen, Chairman
Wim Henk Steenpoorte
Maurice Oostendorp

Financial statements

15 Consolidated financial statements

15.1 Consolidated balance sheet

Consolidated balance sheet

Before result appropriation and in € millions	*Notes **	31-12-2013	31-12-2012
Assets			
Cash and cash equivalents	1	5,528	6,933
Loans and advances to banks	2	6,063	1,927
Loans and advances to customers	3	53,405	61,768
Derivatives	4	2,484	3,660
Investments	5	5,657	5,302
Property projects	6	-	416
Investments in associates	7	-	3
Property and equipment	8	52	71
Intangible assets	9	89	98
Deferred tax assets	10	507	337
Corporate income tax	11	208	117
Other assets	12	544	709
Total assets		**74,537**	**81,341**
Equity and liabilities			
Savings	13	33,276	32,815
Other amounts due to customers	14	10,628	9,529
Amounts due to customers		**43,904**	**42,344**
Amounts due to banks	15	7,457	8,686
Debt certificates	16	16,439	21,990
Derivatives	4	2,670	3,599
Deferred tax liabilities	10	174	303
Other liabilities	17	1,205	2,180
Other provisions	18	66	82
Participation certificates and subordinated debts	19	40	820
Total liabilities		**28,051**	**37,660**
Share capital		381	381
Other reserves		3,553	1,675
Retained earnings		(1,352)	(719)
Shareholders' equity	**20**	**2,582**	**1,337**
Minority interests		-	-
Total equity		**2,582**	**1,337**
Total equity and liabilities		**74,537**	**81,341**

** The references next to the balance sheet items relate to the notes to the consolidated balance sheet starting from section 24.1.*

15.2 Consolidated income statement

Consolidated income statement

in € millions	Notes*	2013	2012**
Income			
Interest income		2,230	2,465
Interest expense		1,273	1,760
Net interest income	24	**957**	**705**
Fee and commission income		99	106
Fee and commission expense		49	52
Net fee and commission income	25	**50**	**54**
Share in result of associates	26	-	-
Investment income	27	38	23
Result on financial instruments	28	(8)	52
Other operating income	29	6	8
Total income		**1,043**	**842**
Expenses			
Staff costs	30	189	231
Depreciation and amortisation of fixed assets	8 , 9	17	26
Other operating expenses	31	316	222
Impairment charges	32	224	228
Other expenses	33	8	8
Total expenses		**754**	**715**
Result before taxation		**289**	**127**
Taxation	34	105	33
Net result continued operations		**184**	**94**
Net result discontinued operations	35	(1,536)	(813)
Net result for the period		**(1,352)**	**(719)**
Attribution:			
Net result attributable to shareholder		(1,352)	(719)
Net result attributable to minority interests		-	1
Net result for the period		**(1,352)**	**(718)**

** The references next to the income statement items relate to the notes to the consolidated income statement starting from section 24.24.*

*** Some of the comparative figures have been restated for comparison purposes as a result of the decision to transfer Property Finance to NLFI. Reference is made to the notes in section 16.3.4.2 Changes in presentation for the consolidated financial statements.*

15.3 Consolidated statement of comprehensive income

Other consolidated statement of comprehensive income

in € millions	2013	2012
Items that will not be reclassified subsequently to profit or loss		
Other changes in comprehensive income	-	(1)
Total items never reclassified to profit or loss	**-**	**(1)**
Items that may be reclassified subsequently to profit or loss		
Change in cash flow hedge reserve	(20)	4
Change in fair value reserve	16	110
Total items that may be reclassified subsequently to profit or loss	**(4)**	**114**
Change in other comprehensive income (after tax)	**(4)**	**113**

Total comprehensive income

in € millions	2013	2012
Net result for the period	(1,352)	(718)
Change in other comprehensive income (after tax)	(4)	113
Total comprehensive income	**(1,356)**	**(605)**
Attribution:		
Total comprehensive income attributable to shareholder	(1,356)	(605)
Total comprehensive income to minority interests	-	1
Total comprehensive income	**(1,356)**	**(604)**

15.4 Consolidated statement of changes in equity

Consolidated statement of changes in total equity 2013

in € millions	Issued share capital	Share premium reserve	Cash flow hedge reserve	Fair value reserve	Other reserves	Retained earnings	Group equity
Balance as at 1 January 2013	381	1,186	68	(117)	538	(719)	1,337
Transfer of net result 2012	-	-	-	-	(719)	719	-
Transfers 2012	**-**	**-**	**-**	**-**	**(719)**	**719**	**-**
Unrealised revaluations	-	-	(20)	23	-	-	3
Realised revaluations through profit or loss	-	-	-	(8)	-	-	(8)
Other changes movements in group	-	-	-	-	-	-	-
Impairments	-	-	-	1	-	-	1
Amounts charged directly to total equity	**-**	**-**	**(20)**	**16**	**-**	**-**	**(4)**
Net result 2013	-	-	-	-	-	(1,352)	(1,352)
Total result 2013	**-**	**-**	**(20)**	**16**	**-**	**(1,352)**	**(1,356)**
Capital injection	-	1,900	-	-	-	-	1,900
Conversion subordinated debt	-	701	-	-	-	-	701
Transactions with shareholder	**-**	**2,601**	**-**	**-**	**-**	**-**	**2,601**
Total changes in equity 2013	**-**	**2,601**	**(20)**	**16**	**(719)**	**(633)**	**1,245**
Balance as at 31 December 2013	**381**	**3,787**	**48**	**(101)**	**(181)**	**(1,352)**	**2,582**

The issued share capital is fully paid and comprises of 840,008 ordinary shares with a nominal value of € 453.79 per share.

Consolidated statement of changes in total equity 2012

in € millions	Issued share capital	Share premium reserve	Cash flow hedge reserve	Fair value reserve	Other reserves	Retained earnings	Equity attributable to shareholders	Securities capital	Third party interests	Group equity
Balance as at 1 January 2012	381	967	64	(227)	500	38	1,723	156	-	1,879
Transfer of net result 2011	-	-	-	-	38	(38)	-	-	-	-
Transfers 2011	**-**	**-**	**-**	**-**	**38**	**(38)**	**-**	**-**	**-**	**-**
Unrealised revaluations	-	-	4	140	-	-	144	-	-	144
Realised revaluations through profit or loss	-	-	-	(30)	-	-	(30)	-	-	(30)
Other changes movements in group	-	-	-	-	-	-	-	-	(1)	(1)
Impairments	-	-	-	-	-	-	-	-	-	-
Amounts charged directly to total equity	**-**	**-**	**4**	**110**	**-**	**-**	**114**	**-**	**(1)**	**113**
Net result 2012	**-**	**-**	**-**	**-**	**-**	**(719)**	**(719)**	**-**	**1**	**(718)**
Total result 2012	**-**	**-**	**4**	**110**	**-**	**(719)**	**(605)**	**-**	**-**	**(605)**
Capital injection	-	219	-	-	-	-	219	(156)	-	63
Transactions with shareholders and securityholders	**-**	**219**	**-**	**-**	**-**	**-**	**219**	**(156)**	**-**	**63**
Total changes in equity 2012	**-**	**219**	**4**	**110**	**38**	**(757)**	**(386)**	**(156)**	**-**	**(542)**
Balance as at 31 December 2012	**381**	**1,186**	**68**	**(117)**	**538**	**(719)**	**1,337**	**-**	**-**	**1,337**

For more information on the statement of changes in equity please refer to section 16.5.12 Equity, in the Accounting principles for the consolidated financial statements. For more information on the capitalisation of SNS Bank please refer to section 10.3 Capitalisation and Chapter 23 Capital management SNS Bank NV.

15.5 Consolidated cash flow statement

Consolidated cash flow statement

in € millions	2013	2012 *
Cash flow from operating activities		
Operating profit before taxation	289	127
Net result discontinued operations	(1,536)	(813)
Adjustments for:		
Depreciation and amortisation of fixed assets	19	27
Changes in other provisions	(61)	(65)
Impairment charges / (reversals)	1,277	1,216
Unrealised results on investments through profit or loss	(106)	(148)
Retained share in the result of associates	725	-
Changes in operating assets and liabilities:		
Change in loans and advances to customers	4,556	2,343
Change in loans and advances to banks	(560)	3,725
Change in savings	461	2,473
Change in trading portfolio	143	(717)
Change in other operating activities	(2,879)	(328)
Net cash flow from operating activities	**2,328**	**7,840**
Cash flow from investment activities		
Sale of property and equipment	3	7
Sale of subsidiaries	(107)	2
Sale of investment property	23	28
Sale and redemption of investments and derivatives	2,114	2,620
Purchase of intangible fixed assets	(3)	(6)
Purchase of property and equipment	(2)	(5)
Purchase of investments in associates	-	(1)
Purchase of investment property	-	(9)
Purchase of investments and derivatives	(2,594)	(2,919)
Net cash flow from investment activities	**(566)**	**(283)**
Cash flow from finance activities		
Issue of shares and share premium	1,900	63
Issue of subordinated loans	-	47
Issues of debt certificates	-	4,685
Redemption of subordinated loans	-	(389)
Redemption of debt certificates	(5,067)	(10,158)
Net cash flow from financing activities	**(3,167)**	**(5,752)**
Cash and cash equivalents as at 1 January	6,933	5,128
Cash discontinued operations	(107)	-
Change in cash and cash equivalents	(1,298)	1,805
Cash and cash equivalents as at 31 December	**5,528**	**6,933**
Additional disclosure with regard to cash flows from operating activities		
Interest income received	2,913	2,650
Dividends received	1	4
Interest paid	2,040	1,820

** Some of the comparative figures have been restated for comparison purposes. Please refer to the notes in section 16.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.*

Consolidated cash flow statement discontinued operations

in € millions	**2013**	2012
Cash and cash equivalents as at 1 January	**203**	**476**
Cash flow from operating activities	(124)	(274)
Cash flow from investment activities	28	1
Cash discontinued operations	(107)	-
Cash and cash equivalents discontinued operations as at 31 December	**-**	**203**

16 Accounting principles for the consolidated financial statements

16.1 General information

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

SNS Bank NV is a 100% subsidiary of SNS REAAL NV. Stichting Beheer SNS REAAL had a 50.00001% interest in SNS REAAL till 1 February 2013. The shares were listed at the NYSE Euronext Amsterdam as part of the Amsterdam Midkap index. As of 1 February 2013, the Dutch State is the sole shareholder of SNS REAAL NV. Subsequently, the Dutch State transferred the shares to the Stichting administratiekantoor beheer financiële instellingen (NLFI) on 31 December 2013.

The information in the separate financial statements of SNS Bank NV differs from the segment information shown in the annual report of SNS REAAL NV as shown in the annual report of 2013. The difference is the result of intercompany transactions within SNS REAAL which are eliminated in the segment reporting of SNS Bank NV in the financial statements of 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.

16.1.1 Adoption of the financial statements

The consolidated financial statements of SNS Bank NV for the year ended on 31 December 2013 were authorised for publication by the Management Board following their approval by the Supervisory Board on 26 March 2014. The financial statements will be submitted to the General Meeting of Shareholders of SNS Bank NV (Executive Board of SNS REAAL NV) for adoption in April 2014.

Based on the articles of association of SNS REAAL NV, the adoption of the (consolidated) annual financial statements of SNS Bank NV by the Executive Board of SNS REAAL NV requires prior approval of the General Meeting of Shareholders of SNS REAAL NV (NLFI).

16.2 Nationalisation and its implications

This chapter provides the outline of the nationalisation of SNS REAAL and its financial implications. Section 16.2.1 provides details of the events leading to the nationalisation, an outline of the nationalisation decree and the nationalisation measures for SNS REAAL as a group. The remainder of the chapter, from section 16.2.2, provides an outline of the effects on SNS Bank NV. The effects of the temporary and final decision of the European Commission, in section 16.5.5, are described for SNS REAAL as a group.

16.2.1 Nationalisation

In January 2013, the Dutch Central Bank (DNB) informed SNS REAAL of its conclusion that the capital position of SNS Bank NV was insufficient to cover the company's current and possible future risks. SNS Bank NV was requested to present by 31 January 2013 a final solution for its capital position that according to the judgement of DNB would provide a sufficient degree of certainty of succeeding and that would furthermore result in supplementing the capital deficit that existed according to DNB. SNS Property Finance BV (Property Finance) had been an important factor in the arising of the capital deficit. In the opinion of DNB, the proposal of SNS REAAL NV offered insufficient certainty that the identified capital deficit could be addressed in the short term. DNB subsequently informed the Ministry of Finance that it no longer considered it sound for SNS Bank NV to continue to carry out its banking operations.

On 1 February 2013, the Minister of Finance (the Minister) decreed (the Decree) by virtue of Articles 6:2 and 6:4 of the Dutch Financial Supervision Act to expropriate:

- all issued shares in the capital of SNS REAAL NV;
- all core Tier 1 capital securities issued by SNS REAAL NV to Stichting Beheer SNS REAAL (Stichting securities);
- all subordinated bonds of SNS REAAL NV and SNS Bank NV, including the participation certificates issued by SNS Bank NV;
- subordinated private debts of SNS REAAL NV and SNS Bank NV.

In the Decree the Minister set out that he had concluded that the stability of the financial system had been placed at serious and imminent risk by the situation in which SNS REAAL found itself prior to 1 February 2013.

All shares, Stichting securities and subordinated bonds were expropriated for the benefit of the Dutch State (the State). The expropriation of subordinated private debts was effected by expropriating the corresponding debts relating to liability capital components of SNS REAAL NV and SNS Bank NV for the benefit of Stichting Afwikkeling Onderhandse Schulden SNS REAAL (Private Debt Settlement Foundation SNS REAAL, 'Stichting AOS'). In the Decree, the Minister explained that the capital components of the subordinated private debts had been expropriated in the name of a separate foundation in order to avoid these debts being transferred to the State. Through a provision under Article 6:1 of the Financial Supervision Act, SNS REAAL has been appointed as sole director of Stichting AOS. The Decree came into effect at 08.30 a.m. on 1 February 2013. At that moment, the expropriated securities and capital components were legally transferred to the State and Stichting AOS respectively.

Following the expropriation of the shares, Stichting securities, subordinated bonds and subordinated private debts, the following measures were taken in line with the Minister's nationalisation decree in 2013:

- A paid-in share premium of € 2.2 billion by the State in SNS REAAL NV, € 1.9 billion of which was passed through as share premium to SNS Bank NV.
- The conversion of B shares of SNS REAAL NV into ordinary shares.
- The conversion of the core Tier 1 capital securities issued to the State and Stichting Beheer SNS REAAL into share premium on ordinary SNS REAAL NV shares.
- The expropriated subordinated bonds of SNS REAAL NV and SNS Bank NV were injected by the State as share premium capital into SNS REAAL NV. As a result of this measure, € 698 million (net of tax) of third-party debt was converted into SNS Bank NV's shareholders' equity.
- The expropriated subordinated private debts of SNS REAAL NV and SNS Bank NV were expropriated in the name of Stichting AOS. As a result of this measure, € 9 million was incorporated into capital through SNS Bank NV's profit and loss.
- A bridge loan to SNS REAAL NV of € 1.1 billion.
- The shares in Property Finance were transferred on 31 December 2013 to an asset management organisation in combination with a State guarantee on the temporary loan that is provided by SNS Bank NV to this asset management organisation. Following the transfer, the State injected € 0.5 billion in Property Finance.
  - As a result of the transfer of the activities of Property Finance to an asset management organisation and in combination with the State guarantee on the loan, SNS Bank NV released around € 4.5 billion in risk-weighted assets.
  - Property Finance was transferred at a transfer value as determined by the Minister, which resulted in a devaluation of the real estate financing portfolio of € 2.8 billion compared to the book value as at 30 June 2012.

On 19 December 2013, the European Commission (EC) approved the measures of the Minister as submitted by the Ministry of Finance in the restructuring plan on 19 August 2013. The change in capital structure is set out in section 5.2, the separation of Property Finance in section 5.3 and a more detailed explanation of the EC's decision is provided in 5.5.

Changes to the Executive Board of SNS REAAL and Supervisory Board

Executive Board members of SNS REAAL Ronald Latenstein (CEO) and Ference Lamp (CFRO) and the chairman of the Supervisory Board, Rob Zwartendijk, resigned from their positions on 1 February 2013. They were not given a notice period nor any severance pay. The vice chairman of the Supervisory Board, Piero Overmars, temporarily acted as chairman of the Supervisory Board until he stepped down on 1 November 2013.

On 4 February 2013, the following Executive Board members of SNS REAAL were nominated and appointed by the State: Gerard van Olphen as chairman of the Executive Board and Maurice Oostendorp as CFRO and member of the Executive Board.

On 1 November 2013, Piero Overmars, Jaap Lagerweij, Robert Jan van de Kraats and Herna Verhagen resigned from the Supervisory Board of SNS REAAL NV. At the Extraordinary General Meeting of Shareholders held on 18 October 2013 it was decided to reduce the number of Supervisory Board members of SNS REAAL NV per this date to seven members. With effect from 1 November 2013, Jan Nooitgedagt, Jan van Rutte and Monika Milz were appointed as Supervisory Board members to the ensuing three remaining vacancies on the Supervisory Board. Mr Nooitgedagt was also appointed Chairman of the Supervisory Board. The new members were also appointed to the Supervisory Board of SNS Bank NV, SRLEV NV and REAAL NV. Mrs Milz was appointed in accordance with the reinforced right of recommendation of the Central Works Council.

Role NLFI in governance structure

Since 31 December 2013, Stichting administratiekantoor beheer financiële instellingen (NL Financial Investments, 'NLFI') holds 100% of the shares in SNS REAAL NV. NLFI is responsible for the management of the shares and the exercise of all rights associated with the shares, including voting rights, in accordance with the law and the articles of association of NLFI. Despite possessing all voting rights attached to the shares, in accordance with the law and the articles of association of NLFI all significant and fundamental decisions must first be approved by the Minister.

Based upon the law and the articles of association of NLFI, NLFI does not possess the right to dispose of nor encumber the shares; these rights can only be obtained after receipt of formal authorisation from the Minister.

The following sections set out specific legal aspects of the nationalisation, procedures and investigations.

16.2.1.1 Council of State

A considerable number of stakeholders lodged appeals against the Decree with the Administrative Jurisdiction Division of the Dutch Council of State. On 25 February 2013, the Council of State decided that the appeals largely do not have a legal base and therefore upheld the expropriation decree. The Council of State judged that the Minister has expropriated the securities and assets lawfully but not the corresponding liabilities or obligations of SNS REAAL NV and SNS Bank NV towards expropriated parties insofar as these obligations or liabilities are related to the (former) ownership of the securities referred to. Therefore, any such claims can still be made against SNS REAAL NV and/or SNS Bank NV respectively.

A number of stakeholders have referred the appeal procedure at the Council of State to the European Court of Human Rights (ECHR) for review.

16.2.1.2 Enterprise Chamber

The holders of the securities and capital components, as mentioned above, by law have a right to compensation by the State at the level of the actual value of the affected enterprise at the time of the expropriation. The level of compensation is to be established by the Enterprise Chamber of the Amsterdam Court of Appeal. The Minister's current offer is a compensation of € 0, against which various holders have lodged an appeal at the Enterprise Chamber. On 11 July 2013, the Enterprise Chamber issued an interim ruling and appointed experts to assess the value of the expropriated securities and capital components. On 9 October 2013, the State lodged an appeal against this ruling. It did so also because this was the first time that the Intervention Act had been applied and the State attaches importance to the Supreme Court's ruling on how certain aspects of the law should be interpreted before the assessment by experts, as recommended by the Enterprise Chamber, gets underway. At the request of the State, the Enterprise Chamber has postponed the procedure until a decision on the appeal has been made. It is not yet known when the Supreme Court will issue its ruling. In the event that the Enterprise Chamber rules that compensation is due, this compensation will be paid by the State.

16.2.1.3 Private debt settlement Foundation SNS REAAL

In his Decree, the Minister explained that the capital components of the subordinated private debts were expropriated for the benefit of a separate foundation, Stichting AOS, in order to avoid these debts being transferred to the State. Since Stichting AOS was not provided with any assets, either on incorporation or thereafter, it has not been able to meet its obligations assigned to it under the Decree, resulting from the private loans issued to SNS REAAL NV and SNS Bank NV at the time.

In his Decree, the Minister appointed SNS REAAL NV as director of Stichting AOS. Stichting AOS was incorporated by and for the State to arrange the legal settlement of (the expropriation of) private subordinated debt and not with the purpose to carry out activities for SNS REAAL.

On 12 November 2013, at the request of one of the lenders, the District Court for the Central Netherlands declared Stichting AOS bankrupt. The trustee in bankruptcy is considering the procedure for settling this bankruptcy as well as the roles of the State and director SNS REAAL NV.

16.2.1.4 Participation certificates

Among the subordinated bonds of SNS Bank NV expropriated by the State are so-called third series participation certificates (€ 57 million). Shortly after the nationalisation, the Minister requested management to conduct a fact-finding investigation to ascertain whether there had been any irregularities in the offer of and/or advice concerning these certificates in the past and, if required, to draw up a proposal for compensating those affected. Based on the investigation performed, SNS Bank NV made a proposal for compensation to the clients in question on 11 July 2013. At the time of publication of this annual report, 97% of the clients had accepted SNS Bank NV's offer. From the total provision of € 53 million, which was recognised for the payment of the compensation in the first half of 2013, the amount of € 51.3 million was paid out in the course of 2013.

16.2.1.5 Other legal procedures and investigations

General

Various former holders of expropriated securities and capital components have initiated legal proceedings to seek compensation for damages. At the time of drawing up the financial statements, no court proceedings had (yet) been initiated against SNS REAAL NV and/or SNS Bank NV other than those stated below. Currently, it is not possible to make an estimate of the probability that possible legal proceedings of original holders or other parties affected by the nationalisation may result in liability, or the level of the financial impact on SNS REAAL NV and/or SNS Bank NV. For this reason, at year-end 2013 no provisions have been made in respect of possible legal actions by holders concerning the expropriated securities and capital components and other affected parties. As the outcomes of possible legal proceedings cannot be predicted with certainty, it is not possible to rule out that a negative outcome may have a material negative financial impact on the capital position, results and/or cash flows of SNS REAAL NV and/or SNS Bank NV.

Frijns/Hoekstra Commission

On 5 March 2013, the Minister announced an inquiry into the actions of DNB and the Ministry of Finance and the interaction between them with regard to SNS REAAL. For that purpose, an inquiry commission was set up, chaired by Dr J.M.G. Frijns and R.J. Hoekstra, LL.M. (the Commission).

The Commission heard former Executive and (former) Supervisory Board members of SNS REAAL and inspected documents of SNS REAAL. The report was published on 23 January 2014. The conclusions and recommendations relate to the primary subjects of the inquiry, the Ministry of Finance and DNB. Following the publication of the report various parties emphasised the desirability of a further inquiry directed specifically at SNS REAAL.

Stichting Beheer SNS REAAL

Stichting Beheer SNS REAAL, the former holder of the majority of the shares in SNS REAAL NV, claims, amongst other, that it does not have sufficient information to determine its asserted value in the compensation proceedings against the State (see section 5.1.2). SNS REAAL contests this claim on substantive and procedural grounds. On 11 November 2013, the Stichting filed a petition for a provisional witness hearing at the District Court in Amsterdam. In addition to the officers of SNS REAAL, the witnesses named in the petition include officials of the State and DNB. The court session planned for 11 February 2014 following the request by Stichting Beheer SNS REAAL for a provisional witness hearing has been postponed.

Arbitral proceedings on subordination of a loan

A lender of one of the private loans included among the liabilities placed by the Decree of 1 February 2013 in Stichting AOS (see section 5.1.3) disputes the subordination of that loan and started an arbitral proceeding at the Netherlands Arbitration Institute in December 2013. Since SNS REAAL NV was the original contractual party for this expropriated loan, it is a formal party to these proceedings and will conduct the defence.

16.2.2 Change in the capital structure

This section discusses the impact of the nationalisation on the capital structure of SNS Bank NV.

16.2.2.1 Expropriation of subordinated bonds and private debts

Subordinated bonds

The State injected the expropriated subordinated bonds into SNS REAAL in the form of share premium on 1 February 2013. Thereafter, with economic effect on the same day, SNS REAAL transferred the expropriated subordinated bonds issued by SNS Bank NV in the form of share premium to SNS Bank NV. The resulting merger of debt extinguished all debt claims including all ensuing payment obligations to the State. The value of the expropriated subordinated bonds was recognised directly to equity, and is for the most part not subject to corporation taxation. The result which arose from cancelling the derivatives associated with the expropriated items was, through profit and loss, recognised in shareholders' equity.

The definite taxable result of these measures as based on an advanced tax ruling by the Dutch Tax Authority has led to a net capital increase of € 698 million (pro forma estimate in the financial statements of 2012: € 682 million).

Subordinated private debts

Subordinated private debts were expropriated. The liability capital components of SNS REAAL NV and SNS Bank NV corresponding to these debts were also expropriated on behalf of Stichting AOS. The subsequent release in the balance sheet was, through profit and loss, recognised in shareholders' equity.

The definite taxable result of these measures as based on an advanced tax ruling by the Dutch Tax Authority has led to a net capital increase of € 9 million in 2013 (pro forma estimate in the financial statements of 2012: € 9 million).

16.2.2.2 Capital injection

In his Letter to Parliament, the Minister explained that SNS REAAL required a capital injection totalling € 2.2 billion: € 1.9 billion for SNS Bank NV and € 300 million for SNS REAAL NV. A paid-in share premium of € 2.2 billion in SNS REAAL NV was made on 11 March 2013, € 1.9 billion of which was passed by SNS REAAL NV as share premium to SNS Bank NV on the same day.

16.2.2.3 Resolution levy contribution

The Minister requested all banks to make a contribution in the form of a one-off resolution levy. Based on the most recent estimate, SNS Bank NV's contribution is estimated to be € 76 million. This amount will fall due in 2014 and will be charged to profit or loss in that year.

16.2.3 Separation of Property Finance

16.2.3.1 Introduction

The separation of the Property Finance activities was part of the restructuring plan, which was submitted to the EC by the Ministry of Finance on 19 August 2013. The EC approved the transfer on 19 December 2013. DNB issued a Declaration of no objection for the separation of Property Finance on 24 December 2013.

On 31 December 2013, the shares of Property Finance were transferred to the State for the amount of € 1, followed by the transfer of the Property Finance shares by the State to NLFI.

On 1 January 2014, Property Finance changed its name to Propertize BV. As an independent organisation, split off from SNS REAAL, Propertize will focus on run-off of the real estate financing and property projects portfolio.

In the starting phase, SNS Bank NV will continue to fund Propertize. The credit risk on Propertize after the separation is covered by a State guarantee covering SNS Bank NV's total exposure to Propertize of € 4.1 billion as at 31 December 2013. It is the aim of Propertize to refinance the entire funding provided by SNS Bank in the course of 2014 through issuing State guaranteed Medium Term Notes and Commercial Paper to institutional investors. In 2014 Propertize has three times successfully placed Medium Term Notes with a volume of € 2.3 billion.

16.2.3.2 Developments in 2013 in relation to the nationalisation

Property Finance was an important factor in the decision to nationalise SNS REAAL. The continuing losses in Property Finance's real estate and real estate finance portfolio amongst other resulted in SNS Bank NV's capital position becoming inadequate in the opinion of DNB. In the Decree it was, therefore, decided to transfer Property Finance's activities to a separate asset management organisation, isolated from SNS REAAL.

The Minister determined that Property Finance had to be transferred at a transfer value determined by the Minister, at a value which is € 2.8 billion lower than the book value of the real estate finance portfolio as at 30 June 2012. As a result of impairments recognised between 30 June 2012 and 31 December 2013, the portfolio has been written-down by a total of € 1,833 million. An impairment of € 776 million was recognised in the second half of 2012, followed by an impairment of € 1,057 million in 2013.

To enable Property Finance to also absorb the remaining expected gross write-off of € 967 million (€ 2.8 billion less the impairments of € 1,833 million already recognised), SNS REAAL increased the capital of Property Finance through a paid-in share premium of € 725 million net before transfer. This increased the capital of Property Finance to such a level that Property Finance is able to absorb expected future losses of up to € 967 million gross. The total impairments of € 1,833 million on the total assets of Property Finance, increased by the additional net capital of € 725 million, is equal to the total write-down of € 2.8 billion as determined by the Minister at the time of expropriation.

On 31 December 2013, the shares of Property Finance were transferred to the State for € 1. At the transfer SNS Bank NV therefore recognised an additional loss of € 725 million net, the amount of Property Finance's shareholders' equity.

Up until the time of separation on 31 December 2013, Property Finance was part of the fiscal unity of SNS REAAL. Based on the advanced tax ruling with the Dutch Tax Authority, it was determined that the impairments of € 1,057 million over 2013 and the anticipated future losses of € 967 million can be regarded as deductible losses. All financial relationships associated with tax between Property Finance and SNS REAAL was settled at year-end 2013. The initial estimate in the pro forma figures in the 2012 financial statements was based on a tax deduction for the impairments of € 1.7 billion. Following consultation with the Dutch Tax Authority, the tax deductible amount was raised to € 2.71 billion. The final deduction corresponds with the amount of € 2.8 billion as determined by the Minister, adjusted by € 90 million for non-deductible losses. The increase in tax deductibility has led to an additional capital increase of € 252 million, compared to the previous estimate in the 2012 pro forma figures.

As a result of the regular redemptions, the settlement of the tax position (including tax credits over the entire write-off of € 2.8 billion) and paid-in share premium by SNS Bank NV, Property Finance's debt to SNS Bank NV at year-end 2013, directly preceding the transfer to the State, decreased to € 4.5 billion.

Following the transfer, the State provided a € 0.5 billion capital injection into Property Finance, € 0.4 billion of which was used to redeem the outstanding debt to SNS Bank NV. This decreased the outstanding debt from € 4.5 billion to € 4.1 billion as at 31 December 2013. To protect the capital position of SNS Bank NV, the State provided SNS Bank NV with a guarantee on the funding to Property Finance. The funding therefore has no effect on the risk-weighted assets of SNS Bank.

16.2.3.3 Guarantees

Following the share transfer on 31 December 2013, SNS Bank NV withdrew the 403 declaration for Property Finance on 31 December 2013 and initiated the proceedings provided for in Article 2:404 of the Dutch Civil Code to terminate the remaining guarantees. SNS Bank NV and SNS REAAL, respectively, also withdrew the 403 declarations for four subsidiaries of Property Finance on 31 December 2013, and initiated the proceedings to terminate the remaining guarantees. Some creditors have objected to the termination of the remaining guarantees.

SNS Bank NV issued separate guarantees to a number of counterparties of Property Finance in the past. Following the withdrawal of the 403 declaration and termination of the remaining commitments arising from the 403 declaration, these guarantees will remain in place. SNS Bank NV expects Property Finance to be able to meet its obligations to these counterparties as Property Finance is adequately capitalised at the time of the share transfer. SNS Bank NV, therefore, deems it unlikely that a guarantee will be invoked.

Some counterparties of Property Finance who conduct legal proceedings against Property Finance have thereby also arraigned SNS REAAL NV and / or SNS Bank NV. The legal basis of this is unclear and SNS REAAL NV and SNS Bank NV consider the likely success of these claims against SNS REAAL NV and/or SNS Bank NV to be limited. No specific agreements were made about these claims upon the transfer of Property Finance on 31 December 2013.

16.2.4 Overview financial impact of the nationalisation measures

The financial impact of implementing the nationalisation measures on the capital is shown below.

Table 2: Effects nationalisation measures on income statement SNS Bank

	2nd HY 2012	2013		Total
In € millions	Income statement	**Equity**	**Income statement**	**Equity**
Property Finance				
Impairments Property Finance	(776)	-	(1,057)	(1,833)
Transfer Property Finance	-	-	(967)	(967)
Subtotal Property Finance	**(776)**	**-**	**(2,024)**	**(2,800)**
Capital structure				
Capital injection SNS REAAL	-	1,900	-	1,900
Conversion subordinated bonds	-	630	68	698
Expropriation subordinated private debts	-	-	12	12
Participation certificates	-	57	(53)	4
Conversion accrued interest	-	19	-	19
Subtotal capital structure	**-**	**2,606**	**27**	**2,633**
Tax effect	192	(5)	466	653
Total	**(584)**	**2,601**	**(1,531)**	**486**

The amount reported in the 2nd HY 2012 is the 2012 impairment related to Property Finance after determination of the transfer value.

For information on the effect of the nationalisation measures on the core Tier 1 ratio please refer to section 23.3 Capital position.

16.2.5 Temporary and final decision of the European Commission

In its decision of 22 February 2013, the European Commission granted temporary approval for the capital injection of € 2.2 billion in SNS REAAL NV, € 1.9 billion of which was to be passed through to SNS Bank NV, and the bridge loan issued by the State to SNS REAAL NV in the amount of € 1.1 billion. Final approval was granted on 19 December 2013, based on the restructuring plan submitted by the Ministry of Finance on 19 August 2013.

In line with the restructuring plan submitted, the State commits to two structural measures regarding (the balance sheet of) SNS REAAL:

a Separation of the Property Finance activities.
b Divestment of the insurance subsidiary REAAL NV, which includes all insurance and asset management activities of SNS REAAL.

The separation of the Property Finance activities results in a substantial reduction of risk-weighted assets and is an important measure to further restore viability of SNS REAAL. It will also facilitate access to capital market funding for SNS Bank NV. The transfer of the Property Finance activities to the State took place on 31 December 2013.

SNS REAAL commits itself to the divestment of the insurance subsidiary REAAL NV, taking into account the risk that this divestment could result in a significant loss. The State and SNS REAAL commit to use the future proceeds of the divestment of REAAL NV to reduce the double leverage on the balance sheet of SNS REAAL. The holding company SNS REAAL will be wound down. The entity resulting from the restructuring will be a standalone bank focused on banking for retail and self-employed clients. In the course of time, the State is committed to privatising SNS Bank NV.

The decision of 22 February 2013 stipulated amongst other that until the final decision SNS REAAL was not permitted to carry out any acquisitions (acquisition ban) or make payments on hybrid instruments (hybrid debt call and coupon ban). In its final decision of 19 December 2013, the EC set a number of conditions and restrictions which, unless otherwise stated, will apply until the end of the restructuring period in December 2017. The principal conditions and restrictions amongst other are:

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

16.3 Basis of preparation

16.3.1 Statement of IFRS compliance

SNS Bank NV prepares the annual accounts in accordance with International Financial Reporting Standards (IFRS), as adopted within the European Union. Pursuant to the option offered under Book 2, Title 9 of the Dutch Civil Code, SNS Bank NV prepares its company financial statements (see also section 26.3 Principles for the preparation of the company financial statements for the application of section 2:402 of the Netherlands Civil Code) in accordance with the same accounting principles as those used for the consolidated financial statements.

16.3.2 Changes in published Standards and Interpretations effective in 2013

New or amended standards become effective on the date specified in the relevant IFRS, but may allow early adoption. In 2013, the following standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee respectively, became mandatory, and are adopted by the EU. Unless stated otherwise, the changes will have no material effect on the consolidated financial statements of SNS Bank NV.

- Amendment to IFRS 1 First time adoption – Government loans
- Amendment to IFRS 7 Financial Instruments Disclosures –Offsetting Financial Assets and Financial Liabilities
- IFRS 13 Fair Value Measurement
- Amendment to IAS 1 Presentation of Financial Statements - Presentation of Items of Other comprehensive Income
- Improvements to IFRS's 2011

Notes to the main changes:

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities.

Taking effect in the current financial year, this standard requires a disclosure on the possibility of offsetting financial instruments. This disclosure requires a breakdown of instruments which are offset in the balance sheet and a disclosure of instruments which are not being offset, but in which the company has the right to offset under specified conditions. For SNS Bank NV this mainly concerns derivatives and repos. The disclosure is included in tabular form in Chapter 27 of the financial statements. The changed standard only concerns the disclosures and does not influence shareholder's equity or the income statement.

IFRS 13 Fair Value Measurement.

The goal of IFRS 13 is to provide a more consistent and simple application of fair value. Taking effect in the current financial year, IFRS 13 is applicable to measurement and disclosure requirements with respect to fair value, irrespective of which asset or liability it concerns. The standard includes a changed definition of fair values as well as additional disclosure requirements. The standard has no impact on which assets and liabilities have to or may be valued at fair value. The modified definition led to the inclusion in fair value of the credit risk of counterparties as well as the 'own' credit risk in the valuation of derivatives. For the financial year 2013 this did not cause any significant changes to the measurement of fair value of derivatives, as a result of the wide use of collateral agreements and the high credit worthiness of many of the counterparties of these instruments. For the other items in financial statements the new definition of fair value does not significantly deviate from the definition of fair value used by SNS Bank NV in the past and therefore does not have any significant impact on shareholder's equity or the income statement. The additional disclosures mainly concern non-financial assets which are measured at fair value in the balance sheet and financial assets and liabilities of which a fair value is disclosed. This is included in Chapter 27 of the financial statements.

16.3.3 Interpretations of existing standards or amendments to standards, not yet effective in 2013

The following new standards, amendments to existing standards and interpretations, published prior to 1 January 2014 and effective for accounting periods beginning on or after 1 January 2014, were not early adopted by SNS Bank NV.

- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in Other Entities
- IAS 27 Separate Financial Statements (revised 2011)
- IAS 28 Investments in Associates and Joint Ventures (revised 2011)
- Amendment to IAS 32 Financial Instruments: Presentation – 'Offsetting Financial Assets and Financial Liabilities'
- Amendment to IAS 36 Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets
- Improvements to IFRSs 2012
- Improvements to IFRSs 2013
- IFRIC 21 Levies

Notes to the main changes:

IFRS 9 Financial Instruments

The first adoption date has been postponed by IASB and will not be before 1 January 2017. This new standard is subdivided into three phases. The phases Classification and Measurement and Hedge Accounting have already been published. The phase Classification and Measurement is still subject to changes based on additionally proposed changes. The phase Impairments will probably be published in 2014. The new standard will lead to a complete revision of IAS 39 Financial Instruments . The new standard has not yet been adopted by the EU. It is expected that the standard will affect the classification and measurement of financial assets and liabilities. Its full impact will not become clear until this IASB project has been completed in full, and published.

IFRS 10 'Consolidated Financial Statements', IFRS 11 'joint arrangements', IFRS 12 'Disclosure of Interest in Other Entities', IAS 27 'Consolidated and Separate Financial Statements', IAS 28 'Investment in Associates and Joint Ventures'

These IFRS standards have been approved by the EU and will replace the IFRS standards IAS 27 'Consolidated and Separate Financial Statements' with regards to consolidation rules and 'IAS 31 Joint Ventures' as of the reporting year 2014. Meanwhile, IAS 28 is changed from 'Investments in Associates' into Investment in 'Associates and Joint Ventures' and in combination with these changes IFRS 12 'Disclosure of Interest in Other Entities' will be in force.

IFRS 10 redefines the notion of 'dominant control' because of the diverging interpretation and application of this notion under IAS 27 and the interpretation under SIC12 'Consolidation – Special Purpose Entities'.

IFRS 11 determines when and in what way joint arrangements with third parties have to be included in the consolidation of the group. IFRS 11 is, contrary to former IAS 31, applicable to all joint arrangements. Under IFRS 11 only the structure of the joint arrangement determines how this is accounted for in the reporting. IFRS 11 differentiates 'joint operations' and 'joint ventures'. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement. Joint operations are consolidated proportionately and joint ventures according to the equity method, which is equal to minority interests under IAS 28.

IFRS 12 requires clear disclosure of the nature of an interest, the considerations of how to classify the interest and any possible restrictions in the exercise of the dominant control or access to the assets.

IAS 27 'Separate Financial Statements' is limited to the separate financial statements because the regulations for consolidation are included in IFRS 10.

IAS 28 is changed so that the equity method is applicable on minority interests as well as joint ventures.

Expectations are that the consolidation of SNS Bank NV as a result of getting into force of the changes in these IFRS standards will change. We expect no significant influence on the balance sheet and profit & loss account. If required, the disclosures will be adjusted.

16.3.4 Changes in principles, estimates and presentation

16.3.4.1 Changes in estimates

For the valuation of certain derivatives with collateral, in 2013 a more relevant interest rate curve is used. The interest rate curves which are used are Overnight Index Swap (OIS) curves instead of other reference rates, like Euribor or LIBOR. This change is in line with the recent developments in the financial sector related to the valuation of such instruments. The change of the applied curves did not cause any significant changes to the fair values of derivatives compared to the methodology which was used in the past by SNS Bank NV. The influence on equity and results is therefore limited.

16.3.4.2 Changes in presentation

With the enforcement on 25 February 2013 by the Council of State of the nationalisation of SNS REAAL on 1 February 2013 and the announced separation of Property Finance, all requirements have been met to classify Property Finance as held for sale as of 25 February 2013. The comparative figures in the income statement and cash flow statement are adjusted for this purpose. The change in presentation is continued until the moment of split off of the Property Finance activities as of 31 December 2013. To provide more insight in the regular financial developments, in disclosure 28.45 'The net result on discontinued operations' is specified.

16.3.5 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.

16.3.5.1 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
- 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
- derivatives
- part of the debt certificates

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

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

16.3.5.2 Functional currency and reporting currency

The consolidated financial statements have been prepared in millions of euros (€). The euro is the functional currency of SNS Bank NV. 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.

Upon initial recognition, transactions in foreign currencies are converted into euros at the official 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.

16.3.6 Main accounting principles, estimates and assumptions

16.3.6.1 Use of estimates and assumptions in the preparation of the financial statements

The preparation of the consolidated financial statements requires SNS Bank NV to make estimates and assumptions based on complex and subjective opinions and estimates. These estimates have a significant impact on the reported amounts of assets and liabilities and the contingent assets and liabilities at the balance sheet date, and the reported income and expenses for the financial year. Hereby, management judges situations on the basis of available information and financial data which could potentially alter in the future. Although the estimates are made to the best of the management's knowledge, actual results may differ from these estimates and the use of other propositions or data can lead to materially different results.

Estimates and underlying assumptions are reviewed on a regular basis. The resulting impact to accounting estimates are recognised in the period in which the estimate is revised or in the period of revision and future periods if the revision impacts both the reporting period and future periods. The main accounting principles involving the use of estimates concern the methods for determining liabilities arising from insurance contracts, determining the provisions for bad debts, determining the fair value of assets and liabilities and determining impairments.

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

16.3.6.2 Provision for bad debts

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

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

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

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

16.3.6.3 Net realisable value of property projects

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

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

16.3.6.4 Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is determined on the basis of quoted list prices where available. Such quoted list prices are primarily derived from transaction prices for listed instruments. If transaction prices are not available, market prices from independent market participants or other experts are used. SNS Bank NV applies a transfer price when determining fair value; therefore financial assets are initially recognised at their bid prices and financial liabilities at their offer prices.

In markets where activity has decreased or in inactive markets, the range of prices from different sources can be significant for a certain investment. Selecting the most appropriate price requires judgement; available market information on fair value of the instrument is taken into account.

For certain financial assets and liabilities, no market prices are available. The fair value of these financial assets and liabilities is determined using valuation techniques, which may vary from net present value calculation to valuation models that use accepted economic methodologies. Input into the models is as far as possible based on observable market information. All valuation methods used are assessed and approved in-house according to SNS Bank NV governance procedures.

16.3.6.5 Impairment charges of intangible assets and investments in financial instruments

Intangible assets

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

Goodwill

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

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

Software and other intangible assets

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

Reversal of impairments losses on intangible assets

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

Financial assets

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

Investments in debt securities

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

Investments in equity instruments

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

- decreased 25% or more below cost, or
- has been below cost for nine months or more.

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

- the price of the most recent transaction as an indication.
- current fair values of other, similar investments (in entities).
- using valuation methods that use market data as much as possible, and that are in accordance with accepted economic methods.

Reversal of impairments on debt securities and equity instruments

If the amount of 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.

16.4 Accounting principles used for consolidation

16.4.1 Subsidiaries

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

Subsidiaries are fully consolidated from the date on which control is transferred to SNS Bank NV. They are de-consolidated from the date control ceases. The financial statements of these group companies are fully consolidated, with SNS Bank NV accounting principles being applied. The interests of third parties are separately included in the consolidated balance sheet and income statement. Due to the transfer of the SNS Property Finance to the Stichting NL Financial Investments as of 31 December 2013, the assets and liabilities of Property Finance are no longer consolidated in the financial statements of SNS Bank NV.

16.4.2 Special Purpose Entities (SPEs)

SNS Bank NV has securitised mortgage receivables in SPEs. With these transactions, the economic ownership of the mortgage loans is transferred to separate entities. SNS Bank NV does not have any direct or indirect interests in these entities.

SNS Bank NV fully consolidates these SPEs in its financial statements if, on the basis of the economic reality of the relationship between SNS Bank NV and the SPE, SNS Bank NV controls the SPE, or if SNS Bank NV retains the majority of the risks and rewards.

16.4.3 Associated companies and joint ventures

Investments in associated companies (associates) are entities in which SNS Bank NV generally has between 20% and 50% of the voting power, or over which SNS Bank NV can exercise significant influence on the operational and financial policies, but in which it has no control.

Joint ventures are entities over which SNS Bank NV has joint control, which control is laid down in an agreement, and strategic decisions on the financial and operational policies are taken unanimously.

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

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

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

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

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

16.4.4 Elimination of group transactions

Intra-group transactions, intra-group balances and unrealised gains arising from intra-group transactions were eliminated in the preparation of the consolidated financial statements.

Unrealised gains on transactions between SNS Bank NV and its associates and joint ventures are eliminated to the extent of SNS Bank NV’s interest in these investments.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

16.4.5 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.

16.4.6 Accounting based on transaction date and settlement date

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

16.4.7 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.

16.4.8 Discontinued operations or assets held for sale

Assets and liabilities that are part of discontinued operations and assets held for sale, of which it is highly probable that, on balance sheet date, the discontinuation or sale is within twelve months, are recognised at the lower of the book value and fair value less expected sales costs.

Property projects of Property Finance held for sale were measured at the lower of cost or net realisable value up until the split-off from SNS Bank NV on 31 December 2013. Financial instruments and insurance contracts held for sale follow the measurement of the instrument in accordance with IAS 39 and IFRS 4 requirements, respectively.

16.4.9 Information by segment

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

- SNS Retail Bank
- Property Finance (as of 31 December 2013, these activities have been transferred to NLFI)

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

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.

In the first quarter of 2013 the entire Property Finance segment was classified as held for sale. Because of this, the assets and liabilities of Property Finance are classified as assets and liabilities held for sale and the total result of the Property Finance segment is presented in the income statement on one line as 'Results from discontinued operations'. On 31 December 2013 the Property Finance activities were split off SNS Bank NV and transferred to NLFI.

16.5 Specific balance sheet principles

16.5.1 Financial assets

16.5.1.1 *Cash and cash equivalents*

Cash and cash equivalents include the non-restricted and restricted demand deposits with the Dutch Central Bank (DNB) and advances from SNS Bank NV to credit institutions with a remaining maturity of less than one month. Restricted demand deposits that SNS Bank NV has with other credit institutions are included under loans and advances to banks. These receivables are measured at amortised cost using the effective interest method, less any impairments.

16.5.1.2 *Loans and advances to banks*

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

16.5.1.3 *Loans and advances to customers*

Mortgages and mortgage-backed property finance

These are defined as loans and advances to customers with mortgage collateral. These loans and advances are measured at amortised cost using the effective interest method. The conditions of loans and advances can change as a result of renegotiations or other reasons. If the net present value of the cash flows under the new terms and 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.

A number of securitised mortgages with mortgage collateral, mortgages to be securitised and related derivative and liabilities are measured at fair value with changes through profit or loss. This relates to the mortgages of the Holland Homes MBS securitisation programme and mortgages held for trading. 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. In addition, the probability of prepayment is also taken into account. Further details of these mortgages are provided in the notes.

Credit insurance

SNS Bank NV has concluded credit insurance for the credit risk of part of the mortgage portfolio. As a result, impairment losses of the mortgage portfolio in question can be recovered from the issuer of the credit insurance. Impairment of mortgages and the amount receivable under the credit insurance are included under 'impairment charges' 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

In 2012, SNS Bank NV entered (as lessor) into a number of financial lease agreements. These are agreements for which SNS Bank NV 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 activities. With the Property Finance activities split-off on 31 December 2013, as of year-end there is no longer a lease receivable recorded.

Provisions for customers

As far as the loans and advances with or without mortgage collateral are concerned, a provision for impairment is made if there are objective indications that SNS Bank NV will not be able to collect all the amounts due in accordance with the original contract. See also section 17.3.6.2 (Provision for bad debts).

16.5.1.4 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 through profit or loss in the balance sheet. Unrealised gains and losses resulting from fair value adjustments of these investments are recognised in other comprehensive income (shareholders' equity), taking account of deferred taxes.

When the investments are sold, the related accumulated fair value adjustments are recognised in the income statement as 'investment income'. SNS Bank NV 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 is designated as such upon initial recognition (‘designated’). Investments are only designated as valued at fair value through profit or loss if:

a this eliminates or considerably limits an inconsistency in valuation or recognition that would otherwise arise; or
b SNS Bank NV manages and assesses the investments on the basis of fair value.

The investments are recognised at fair value. Realised and unrealised gains and losses are recognised directly in the income statement under ‘investment income’.

Interest income earned on securities is recognised as interest income under ‘interest income’. Dividend received is recorded under investment income.

16.5.1.5 Derivatives

General

Derivatives are recognised at fair value upon entering into the contract. The fair value of publicly traded derivatives is based on listed bid prices for assets held or liabilities to be issued, and listed offer prices for assets to be acquired or liabilities held.

The fair value of non-publicly traded derivatives depends on the type of instrument and is based on a present value model or an option valuation model. SNS Bank NV 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 section 22.2 Hedging and hedge accounting) are accounted for in the income statement under ‘result on financial instruments’.

Embedded derivatives

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

Hedge accounting

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

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

Hedge accounting is applied for derivatives that are thus designated and are in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

A hedge relationship is considered to be effective if SNS Bank NV, at the inception of and during the term, can expect that adjustments in the fair value or cash flows of the hedged position will be almost fully offset by adjustments in the fair value or cash flows of the hedging instrument, insofar as they are attributable to the hedged risk, and the actual results remain within a bandwidth of 80% to 125% of the expected outcome.

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

Fair value hedge accounting

Derivatives designated as a hedge of the fair value of recognised assets or of a firm commitment are stated as fair value hedges. Changes in the fair value of the derivatives that are designated as a hedge are recognised directly in the income statement and reported together with corresponding fair value adjustments to the hedged item attributable to the hedged risk.

If the hedge no longer meets the conditions for hedge accounting, an adjustment in the book value of a hedged financial instrument is amortised and taken to the income statement during the expected residual term of the previously hedged financial instrument.

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 variability of the future cash flows of a recognised asset or liability or highly probable forecast transaction. Adjustments in the fair value of the effective portion of derivatives that are designated as a cash flow hedge and that meet the conditions for cash flow hedge accounting are stated in the cash flow hedge reserve as a separate component of shareholders' equity. The underlying measurement of the hedged item, which is designated as part of a cash flow hedge, does not change.

If the forecast transaction leads to the recognition 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 or terminated, or no longer meets the conditions for hedge accounting, the accumulated result that was included in the cash flow hedge reserve fully remains in the cash flow hedge reserve (OCI) until the expected transaction occurs.

If the hedged transaction is no longer expected to occur, the accumulated result reported in OCI is directly recycled to the income statement.

16.5.2 Investment properties

Investment properties, comprising retail and office properties, houses and land, are held to generate long-term rental income or capital appreciation or both. If property is held partly as investment property and partly for own use, the property is included under property and equipment, 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. Investments Properties are treated as long-term investments and measured at fair value, being the value of the property in a (partial) let state. The fair value is based on the appraisals performed every year by independent external appraisers with sufficient expertise and experience in property locations and categories. The purpose of a valuation is to determine the value for which the asset would be transferred between willing parties in a transaction at arm's length. The capitalisation method is used to determine this value. This method uses an expected starting result and the market rental value to determine the fair value of an asset. The determination of the result on property in own use is also dependent on lease incentives, discount rates and expected vacancy, but also location, quality, age and liquidity of the concerning property.

16.5.3 Property projects

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

16.5.4 Property and equipment

16.5.4.1 *Land and buildings in own use*

Property in own use mainly comprises offices (land and buildings) and is measured at fair value (revaluation model) based on yearly valuations, performed by external, independent valuators with sufficient profession expertise and experience in the specific location and categories of properties

Property in own use is valued at fair value on an unlet or (partially) let basis, depending on the situation. The purpose of a valuation is to determine the value for which the asset would be transferred between willing parties in a transaction at arm's length. The capitalisation method is used to determine this value. This method uses an expected starting result and the market rental value to determine the fair value of an asset. The determination of the result on property in own use is also dependent on lease incentives, discount rates and expected vacancy, but also location, quality, age and liquidity of the concerning property.

Increase in the fair value exceeding the cost price is added to the revaluation reserve in shareholders' equity, less deferred taxes. Positive revaluations, insofar as these result in the reversal of earlier write-downs on the same asset, are credited to the income statement. Decreases in the fair value, insofar as these result in the reversal of prior positive revaluations of the same asset, are charged to the revaluation reserve. The revaluation reserve cannot be negative. All other decreases in the fair value are accounted for in the income statement.

Buildings are depreciated over their economic life using the straight-line method, with a maximum of 50 years, taking into account the possible residual value. Land is not depreciated. Regular impairment tests are carried out on land and buildings.

Repairs and maintenance expenses are recognised under 'other operating expenses' the moment the expenses incur. Expenses incurred after the acquisition of an asset that increase or extend the future economic benefits of land and buildings in own use in relation to their original use, are capitalised and then amortised.
Upon the sale of a property, the part of the revaluation reserve related to the sold property, within equity, is transferred to 'other reserves'.

16.5.4.2 *IT equipment and other property and equipment*

All other property and equipment 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 3 to 10 years.

Regular impairment tests are performed on the other property and equipment. 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 expenses incur. Expenses incurred after the acquisition of an asset that increase or extend the future economic benefits of the other property and equipment in relation to their original use, are capitalised and then amortised.

Results on the sale of property and equipment are defined as the balance of the realisable value less transaction costs and the book value. These results are recognised as part of 'other operating income'.

16.5.5 Intangible assets

16.5.5.1 *Goodwill*

Acquisitions are accounted for according to the purchase method, with the cost of the acquisitions being allocated to the fair value of the acquired identifiable assets, liabilities and contingent liabilities. Goodwill, being the difference between the cost of the acquisition and SNS Bank NV's interest in the fair value of the acquired identifiable assets, liabilities and contingent liabilities on the acquisition date, is capitalised as an intangible asset. Any negative goodwill is recognised directly in the income statement.

Any change, in the fair value of acquired assets and liabilities at the acquisition date, determined within one year after acquisition, is recognised as an adjustment charged to goodwill in case of a preliminary valuation. Adjustments that occur after a period of one year are recognised in the income statement. Adjustments to the purchase price that are contingent on future events and insofar these are not already included in the purchase price, are included in the acquisition price at the time the adjustment is likely and can be measured reliably.

Goodwill is not amortised. Instead, an impairment test is performed annually or more frequently if there are indications of impairment (see section 17.3.6.5 Impairment of intangible assets and financial instruments).

16.5.5.2 *Software*

Costs that are directly related to the development of identifiable software products that SNS Bank NV controls, and that are likely to generate economic benefits that exceed these costs, are capitalised as intangible assets. The direct costs comprise external costs and staff costs directly attributable to software development. All the other costs associated with the development or maintenance of software are included as an expense in the period during which they are incurred.

The capitalised development costs for software are amortised on a straight-line basis over the useful life, with a maximum of five years. Every reporting date an assessment is carried out for possible impairments.

16.5.5.3 *Other intangible fixed assets*

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

16.5.6 Taxes

16.5.6.1 *Deferred tax assets*

Deferred tax assets and liabilities are recognised for tax losses carried forward and for temporary differences between the tax base of assets and liabilities and the book value. This is based on the tax rates applicable as at the balance sheet date and the tax rates that will apply in the period in which the deferred tax assets or tax liabilities are settled. Deferred taxes are measured at nominal value.

Deferred tax assets are only recognised if sufficient tax profits are expected to be realised in the near future to compensate these temporary differences. Deferred taxes are recognised for temporary differences between the book value and the value for tax purposes of investments in group companies and associates, unless SNS Bank NV can determine the time at which these temporary differences will end and if it is likely that these differences will not end in the near future.

Deferred tax assets are assessed at the balance sheet date and if it is no longer likely that the related tax income will be realised, the asset is reduced to the recoverable value.

The most significant temporary differences arise from the revaluation of property and equipment, certain financial assets and liabilities, including derivative contracts and the application of hedge accounting, provisions for pensions and other post-retirement employee plans, technical provisions, deductible losses carried forward and, as far as acquisitions are concerned, from the difference between (a) the fair value of the acquired 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 revaluations.

16.5.6.2 Deferred tax liabilities

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

16.5.6.3 Corporate income tax

16.5.7 Other assets

Other assets consist of other taxes (including VAT, payroll tax), other receivables and accrued assets. The net amount of advances and provisions in relation to the Deposit Guarantee Scheme (DGS) 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 NV from clients and the clearing house in respect of option positions.

16.5.8 Financial liabilities

16.5.8.1 Savings, other amounts due to customers and amounts due to banks

Savings consist of balances on (bank) savings accounts, savings deposits and term deposits of retail clients.

Amounts due to customers represent unsubordinated debts to non-banks, other than in the form of debt certificates. This item mainly comprises demand deposits 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.

16.5.8.2 Debt certificates
Outstanding debt certificates are measured at fair value upon initial recognition, meaning, the issue income (the fair value of the received payment) net of the transaction costs incurred. Subsequently, these are measured at amortised cost, using the effective interest method.

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

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

16.5.8.3 Derivatives
See section 17.5.1.4 (derivatives).

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

The accrued interest on subordinated debt is part of the expropriation decree. The accrued interest on subordinated bonds is credited to the shareholders' equity in 2013. The result on financial instruments in the profit and loss account includes the accrued interest on subordinated loans 2013.

16.5.10 Provisions

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

In February 2013, a constructive obligation was formed in relation to the proposed separation of Property Finance in a separate asset management organisation. The pro forma figures in the 2012 financial statements include the constructive obligation. Due to the Property Finance split off on 31 December 2013, this constructive obligation is no longer recorded.

16.5.10.2 Restructuring provision
The restructuring provision is a specific provision that consists of anticipated severance payments and other costs that are directly related to restructuring programmes. These costs are accounted for in the period in which a legally enforceable or actual obligation to make the payment arises. No provision is formed for costs or future operating losses stemming from continuing operations.

SNS Bank NV recognises severance payments if SNS Bank NV 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.

16.5.10.3 Legal provisions

SNS Bank NV 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.

16.5.11 Participation certificates and subordinated debt

16.5.11.1 Participation certificates

Participation certificates are certificates issued by SNS Bank NV to third parties. These certificates have a perpetual term, with SNS Bank NV maintaining the right to early redeem in full after 10 years. The amount of the dividend, in the form of a coupon rate, is fixed over a period of ten years and is equal to the CBS (Statistics Netherlands) return on 9-10 year Government bonds plus a spread. Participation certificates are initially measured at fair value, meaning, the issue income (the fair value of the received payment) net of transaction costs incurred. Thereafter, these are measured at amortised cost, using the effective interest method. Benefit payments on participation certificates are recorded under ‘Interest expense, of the banking activities'.

The participation certificates are presented as debt in the financial statements.

The participation certificates have been expropriated as part of the nationalisation by the Dutch State. In 2013, the participation certificates have subsequently been contributed into SNS REAAL for share premium after which these were contributed into SNS Bank NV for share premium. The participation certificates were subsequently terminated pursuant to amalgamation.

16.5.11.2 Subordinated debt

Subordinated debt includes the subordinated bonds and private loans issued by SNS Bank NV. The Dutch Central Bank recognises this debt as Tier 1 and/or Tier 2 capital for the solvency test at SNS Bank NV. This debt is initially measured at fair value, meaning, the issue income (the fair value of the received payment) net of the transaction costs incurred. Thereafter, this debt is measured at amortised cost, using the effective interest method.

The subordinated debt of SNS Bank NV has been included in the expropriation ruling of the Dutch State. In 2013, the subordinated bonds are contributed into SNS Bank NV for share premium. Subsequently these subordinated bonds were terminated pursuant to amalgamation. The titles to the subordinated private loans are expropriated in favour of Stichting AOS. The extinguishment of the subordinated private loans has been accounted for in the income statement.

16.5.12 Equity

16.5.12.1 Issued share capital and share premium reserve

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

16.5.12.2 Dividend

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

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

16.5.12.4 Cash flow hedge reserve
The cash flow hedge reserve consists of the effective part of cumulative changes to the fair value of the derivative designated in the context of the application of cash flow hedge accounting, net of taxes, provided the hedged transaction has not yet occurred; (see section 17.5.1.4 Hedge accounting).

16.5.12.5 Fair value reserve
Gains and losses as a result of changes in the fair value of assets that are classified as available for sale are recorded in the fair value reserve, net of taxes. If the particular assets are sold, settled or become due to other reasons, the assets are no longer recognised, the corresponding cumulative result will be transferred from the fair value reserve to the income statement (see section 17.5.1.5 Investments). In addition, exchange rate differences on non-monetary financial assets that are classified as available for sale are recorded in this reserve.

16.5.12.6 Other reserves
Other reserves mainly comprise SNS Bank NV's retained profits.

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

16.6 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.

SNS Bank NV make use of a number of SNS REAAL NV's corporate staff departments. The costs of the corporate staff departments are charged to the segments on the basis of the services provided, or, if more appropriate, proportionally allocated to SNS Bank NV. The costs of the Executive Board of SNS REAAL, the costs of the strategic reorientation of SNS REAAL and the resulting incidental costs are not allocated.

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

16.6.1.1 Interest income
The interest income comprises interest on monetary financial assets attributable to the period. Interest on financial assets is accounted for using the effective interest method based on the actual purchase price.

The effective interest method is based on the estimated future cash flows, taking into account the risk of early redemption of the underlying financial instruments and the direct costs and income, such as the transaction costs charged, brokerage fees and discounts or premiums. If the risk of early redemption cannot be reliably determined, SNS Bank NV calculates the cash flows over the full contractual term of the financial instruments.

Commitment fees, together with related direct costs, are deferred and recognised as an adjustment of the effective interest on a loan if it is likely that SNS Bank NV will conclude a particular loan agreement. If the commitment expires without SNS Bank NV extending the loan, the fee is recognised at the moment the commitment term expires. If it is unlikely that a particular loan agreement will be concluded, the commitment fee is recognised pro rata as a gain during the commitment term.

Interest income on monetary financial assets that have been subject to impairment and written down to the estimated recoverable value or fair value is subsequently recognised on the basis of the interest rate used to determine the recoverable value by discounting the future cash flows.

16.6.1.2 Interest expenses

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

16.6.1.3 Fee and commission income

Fee and commission income include income from securities transactions for clients, asset management and other related services offered by SNS Bank NV. 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.

16.6.1.4 Fee and commission expenses

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

16.6.1.5 Share in the result of associates

The share of SNS Bank NV in the results of the associates is here accounted for. If the book value of the associated company falls to zero, no further losses are accounted for, unless SNS Bank NV has entered into commitments or made payments on its behalf.

Where necessary, the accounting principles applied by the associated companies have been adjusted to ensure consistency with the accounting principles applied by SNS Bank NV.

16.6.1.6 Investment income

Investment income consists of interest, dividend, rental income and revaluations.

Interest

Interest income is recognised using the effective interest method.

Dividend

Dividend income is recognised in the income statement as soon as the entity’s right to payment is established. In the case of listed securities, this is the date on which these securities are quoted ex-dividend.

Rental income

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

Revaluations

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

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

16.6.1.7 Result on financial instruments

The result on derivative and other financial instruments is recognised under this item. Derivatives are measured at fair value. Gains and losses from revaluations to fair value are taken directly to the income statement under ‘result on financial instruments’. However, if derivatives are 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 full loans are accounted for under this item.

16.6.1.8 Other operating income

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

16.6.2 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.

16.6.2.1 Staff costs

These costs concern all costs that pertain to the personnel. This includes, inter alia, salaries, social security costs and pension costs. All staff is employed by SNS REAAL NV. The staff costs are charged to SNS Bank NV by SNS REAAL NV.

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

Pension benefits

SNS Bank NV has pension liabilities from a defined contribution scheme at Stichting Pensioenfonds SNS REAAL. New staff is included in this scheme. The defined contribution plan is a pension plan in which SNS Bank NV pays fixed contributions to a separate entity, the independent Stichting Pensioenfonds SNS REAAL (the pension fund).
SNS Bank NV has no legally enforceable or actual obligation to pay extra contributions if the fund has insufficient assets to make all the benefit payments.

The regular contributions are considered to be net periodic costs for the year in which they are due, and are recognised as such in the staff costs. Employee contributions are deducted from the net periodic costs.

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 obligation is based on the present value of the discounts offered after the retirement date, taking into account actuarial assumptions about mortality and interest. Furthermore, an obligation has been recognised 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.

Share-based remunerations

2012 scheme
SNS REAAL has a share based payment plan in which a number of employees of SNS Bank 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 SNS Bank NV are charged by SNS REAAL to SNS Bank NV.

2013 scheme
As a consequence of the nationalisation the shares of SNS REAAL are expropriated and no longer listed. Under the new scheme, which came into effect as of 1 January 2013, several employees of SNS Bank NV and related entities have been provided phantom shares. The change in the value of a phantom share is based on the development of SNS REAAL's result, excluding any possible incidental income and expenses. The value of the phantom share is paid out at maturity.

The value of the phantom share is recognised as cost in the period in which the services have been delivered. In the subsequent periods the change in value is recorded in the results until the date of payment.

16.6.2.2 Depreciation and amortisation of fixed assets

This item comprises all depreciation and amortisation of property and equipment and intangible assets. The specific principles for depreciation and amortisation are explained in more detail in section 16.5 Specific balance sheet principles under the applicable items.

16.6.2.3 Lease

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

16.6.2.4 *Other operating expenses*

This includes office, accommodation and other operating costs.

16.6.2.5 *Impairment charges*

This item includes downward revaluations of assets for which the book value exceeds the recoverable value. Intangible assets, property and equipment, associated companies, investments, property projects, receivables and other assets may be subject to impairment. As soon as impairment is identified, it is included in the income statement. The specific principles for impairment are explained in more detail in section 16.5 Specific balance sheet principles under the applicable items.

16.7 Contingent liabilities and commitments

Contingent liabilities are liabilities not recognised in the balance sheet because the existence is contingent on one or more uncertain events that may or may not occur in the future not wholly within the control of SNS Bank NV. 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.

16.8 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.

17 Segmentation

17.1 Information by segment

SNS Bank NV is a banking company that focuses mainly on the Dutch retail and SME markets. The product range consists of two core product groups:

- Mortgages and SME finance
- Asset management (savings and investments)

The services to private individuals and the SME clients are mostly rendered through the main brands SNS Bank, ASN Bank, RegioBank, BLG Wonen, and through several distribution channels.

In the first quarter of 2013 the entire Property Finance segment was classified as held for sale. Because of this, the assets and liabilities of Property Finance are classified as assets and liabilities held for sale and the total result of the Property Finance segment is presented in the income statement on one line as ‘Result from discontinued operations’. On 31 December 2013 the Property Finance activities were split off SNS REAAL and transferred to NLFI.

At year-end 2013, the business structure consists of one segment SNS Retail Bank. In 2013, SNS Bank NV still reports on the two segments SNS Retail Bank and Property Finance. The Management Board defines the strategy, the performance targets and authorises and monitors the budgets that have been prepared by these business units. The Management Board of the business unit determines business unit policy, in accordance with the strategy and performance targets.

SNS Bank has several joint staff departments with parent SNS REAAL. Until 31 December 2012 the costs for the group staff of SNS REAAL NV have been charged to SNS Retail Bank and Property Finance based on the services provided, is not possible, proportionally to the several group segments. The costs of the Executive Board of SNS REAAL and other specific holding costs were not charged to SNS Retail Bank and Property Finance. As of 1 January 2013, based on the shareholders required separation of staff, the costs of group staff have been completely allocated to consuming segments. The allocation takes place in two steps. Step 1 is the allocation of as much costs as possible based on the services received (common allocation). In step 2 the residual costs are proportionally allocated based on available personnel. The costs for strategic reorientation of SNS REAAL and the resulting incidental costs will not be allocated.

17.1.1 SNS Retail Bank

This segment offers banking products in the field of mortgages, asset growth and asset protection for the retail and SME markets. In addition to the label SNS Bank the segment SNS Retail Bank also comprises ASN Bank, RegioBank, BLG Wonen and SNS Securities.

17.1.2 Property Finance

On 31 December 2013, the shares of Property Finance were transferred to the Dutch State for an amount of € 1.00, upon which the Dutch State transferred the Property Finance shares to Stichting administratiekantoor beheer financiële instellingen (‘NLFI’), followed by the issue of certificates of the shares by NLFI to the Dutch State. The comparative figures in the income statement were restated accordingly. For a detailed income statement of Property Finance, reference is made to section 24.35 Result discontinued operations.

17.2 Balance sheet by segment

Balance sheet by segment 31 December 2013

in € millions	SNS Retail Bank	Property Finance	Eliminations	Total
Assets				
Cash and cash equivalents	5,528	-	-	5,528
Loans and advances to banks	6,063	-	-	6,063
Loans and advances to customers	53,405	-	-	53,405
Derivatives	2,484	-	-	2,484
Investments	5,657	-	-	5,657
Property and equipment	52	-	-	52
Intangible assets	89	-	-	89
Deferred tax assets	507	-	-	507
Corporate income tax	208	-	-	208
Other assets	544	-	-	544
Total assets	**74,537**	**-**	**-**	**74,537**
Equity and liabilities				
Savings	33,276	-	-	33,276
Other amounts due to customers	10,628	-	-	10,628
Amounts due to banks	7,457	-	-	7,457
Debt certificates	16,439	-	-	16,439
Derivatives	2,670	-	-	2,670
Deferred tax liabilities	174	-	-	174
Other liabilities	1,205	-	-	1,205
Provisions	66	-	-	66
Participation certificates and subordinated debts	40	-	-	40
Equity attributable to shareholder	2,582	-	-	2,582
Total equity and liabilities	**74,537**	**-**	**-**	**74,537**

Balance sheet by segment 31 December 2012

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

17.3 Income statement by segment

Income statement by segment 2013

in € millions	SNS Retail Bank	Property Finance	Total
Income			
Interest income	2,230	-	2,230
Interest expense	1,273	-	1,273
Net interest income	**957**	**-**	**957**
Fee and commission income	99	-	99
Fee and commission expense	49	-	49
Net fee and commission income	**50**	**-**	**50**
Share in result of associates	-	-	-
Investment income	38	-	38
Result on financial instruments	(8)	-	(8)
Other operating income	6	-	6
Total income	**1,043**	**-**	**1,043**
Expenses			
Staff costs	189	-	189
Depreciation and amortisation of fixed assets	17	-	17
Other operating expenses	316	-	316
Impairment charges	224	-	224
Other expenses	8	-	8
Total expenses	**754**	**-**	**754**
Result before taxation	**289**	**-**	**289**
Taxation	105	-	105
Net result continued operations	**184**	**-**	**184**
Net result discontinued operations	-	(1,536)	(1,536)
Net result for the period	**184**	**(1,536)**	**(1,352)**
Minority interests	-	-	-
Net result attributable to shareholder	**184**	**(1,536)**	**(1,352)**

Income statement by segment 2012

in € millions	SNS Retail Bank*	Property Finance*	Total
Income			
Interest income third parties	2,465	-	2,465
Interest expense third parties	1,760	-	1,760
Net interest income	**705**	**-**	**705**
Fee and commission income	106	-	106
Fee and commission expense	52	-	52
Net fee and commission income	**54**	**-**	**54**
Share in result of associates	-	-	-
Investment income	23	-	23
Result on financial instruments	52	-	52
Other operating income	9	-	9
Total income	**843**	**-**	**843**
Expenses			
Staff costs	231	-	231
Depreciation and amortisation of fixed assets	26	-	26
Other operating expenses	222	-	222
Impairment charges	228	-	228
Other expenses	8	-	8
Total expenses	**715**	**-**	**715**
Result before taxation	**128**	**-**	**128**
Taxation	33	-	33
Net result continued operations	**95**	**-**	**95**
Net result discontinued operations	-	(813)	(813)
Net result for the period	**95**	**(813)**	**(718)**
Minority interests	1	-	1
Net result attributable to shareholder	**94**	**(813)**	**(719)**

** Some of the comparative figures have been restated for comparison purposes as a result of the decision to transfer Property Finance to NLFI. Reference is made to the notes in section 16.3.4.2 Changes in presentation for the consolidated financial statements.*

18 Acquisitions and disposals

18.1 Separation Property Finance

In his letter to the Dutch Parliament on the nationalisation of SNS REAAL dated 1 February 2013, the Dutch Minister of Finance announced the intention to transfer Property Finance to an asset management entity. The intention was further defined in the restructuring plan for SNS REAAL. The Dutch State submitted a restructuring plan for SNS REAAL to the European Commission on 19 August 2013 to separate Property Finance before the end of the year. The European Commission approved this plan on 18 December 2013. On 31 December 2013, Property Finance was transferred to NLFI, separating Property Finance from SNS Bank NV. For more information, reference is made to section 16.2 Nationalisation and its implications.

18.2 Other disposals

On 2 September 2013, SNS Securities NV sold its private banking activities to Bank ten Cate & Cie. The book value was nil. Up to the acquisition date, the private banking activities of SNS Securities NV contributed € 0.3 million negative to the result.

On 12 November 2013, BinckBank signed a letter of intent to take over SNS Fundcoach in the first half of 2014. The sale has no material effect on the assets and the result.

19 Risk management and organisation

The risk management organisation of SNS Bank NV and its subsidiaries is integrated in the risk management organisation of SNS REAAL. The chapters on risk management, which amongst others include the risk management organisation and the framework of business control, thus covers SNS REAAL as a whole. The remaining chapters are focussed on SNS Bank NV.

19.1 Main developments risk profile

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

Capital management

In 2013, total equity at SNS Bank NV rose to € 2.6 billion, compared to € 1.3 billion at the end of 2012. The main drivers behind the increase were the capital contribution of the Dutch State (€ 2.2 billion of which € 1.9 billion was downstreamed to SNS Bank NV) and the expropriation of subordinated creditors (€ 0.7 billion), partly offset by the net loss for 2013 (- € 1,352 million).

A further explanation on capital management can be found in Chapter 23 Capital management.

Balance sheet

Compared to year-end 2012, SNS Bank's balance sheet decreased by € 6.8 billion to € 74.5 billion (-8%), mainly due by the deconsolidation of Property Finance as of 31 December 2013 of assets.

Market risk SNS Bank NV

Impairment charges to loans remain high, reflecting the continued weak housing market and economic situation. An important metric to measure interest rate risk of SNS Bank NV is duration of equity. In order to keep a low sensitivity to changes in interest rates, the duration of equity was held at low levels between 1 and 4 during 2013. At the end of the year, the duration of equity was 1.7 (year-end 2012: 3.7).

A further explanation can be found in Chapter 20 Financial risk management.

19.2 Risk management organisation

SNS Bank NV is included in the risk management organisation of SNS REAAL. The SNS REAAL Business and Risk Governance focuses on improving the quality of risk management and achieving efficiency in risk control. The risk management framework aims at further strengthening of the policy and its implementation in the business operations. For the risk management organisation of SNS REAAL during 2013 we refer to the chart below.

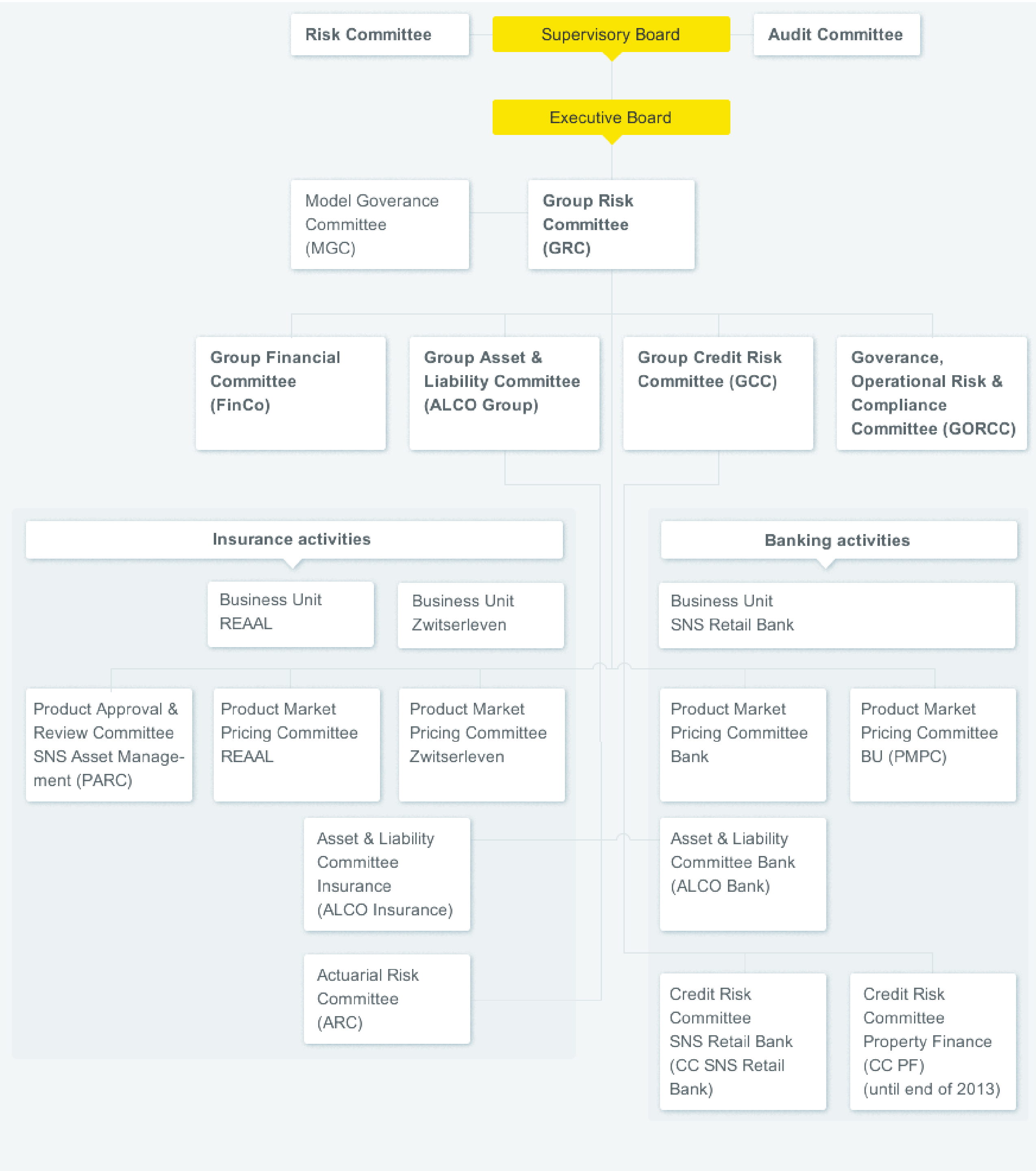
Due to the proposed separation of SNS REAAL's Banking and Insurance activities, the responsibility for the risk management policy and risk control framework will be transferred to the individual entities as from 2014. The Bank and Insurer shall be individually responsible for implementing its risk management strategy and policy, including setting the risk tolerance and implementation of the risk control framework. The Executive Board sets the risk appetite for the Holding, the Bank and the Insurer. The Bank and the Insurer are responsible for embedding the risk appetite at the business unit level.
Following the transfer of responsibilities, the CFRO shall remain seated at the Holding. At the level of the Bank and Insurer, responsibilities shall be split between the CFO and CRO within the Management Board. The CFO and CRO will report to both the CFRO of the Holding and the chairman of the Management Board of the Bank or the Insurer.

The risk management framework aims at further strengthening of the policy and its implementation in the business operations.

The risk management activities of the legal entities SNS Bank NV will be organised into the business unit SNS Bank.

As of 1 January 2013, Risk Management Property Finance is hierarchically structured under the CFO of Property Finance. The risk management organisation of SNS Property Finance BV did not change until separation. As of 31 December 2013, the Property Finance activities have been separated from SNS REAAL and SNS Bank NV. The descriptions below are based on the situation in 2013.

The Management Boards of the business unit are responsible for achieving the commercial, operational and financial objectives by choosing the best possible products, services, product/market combinations, labelling and distribution channels. The business unit operates within the frameworks established at Group level for risks including credit risk, insurance risk, integrity risk and operational risk. Asset & Liability Management is managed at Group level. The (risk) policy frameworks are established in the Group Risk Committee (GRC).



Responsibility levels in risk management

For the purpose of risk management, SNS REAAL distinguishes three responsibilities based on the ‘three lines of defence' model used as best practice in the financial sector. This distinction defines clear responsibilities and guarantees that risk management is an important subject taken up by the entire organisation:

- The **first line** has an operational role, focusing on the primary and operational process of the business activities. Within the policy framework and subject to internal procedures and risk limits, the objective of the first line is to achieve optimum risk/return ratios. Business plans are drawn up in the first line.
- The **second line** ('Risk Control') first of all has a **managing and accepting** role in respect of the transactions proposed by the first line. Risk Control supervises the correct execution of approved actions and transactions in the first line and is responsible for the risk profile against the backdrop of the risk appetite. Risk management processes occurring in correlation with other BU divisions are coordinated via the relevant Group staff departments.

  Secondly, Risk Control is responsible for **formulating the framework** and has an **oversight role**. It sets out the policy framework, but leaves execution and acceptance to the first line. The second line also assesses policy compliance on a regular basis, using risk reports and its own observations.

  Further, Risk Control sets the mandates in line with the risk appetite. It also defines basic principles and preconditions for risk models and supports central decision making bodies.

  The data, models, assumptions, techniques, etc., used are validated periodically. Model validation is a differentiation of the second line.
- The **third line** has a supervising and safeguarding role. This line supervises the proper functioning of the risk management function, conducts audits and identifies any deficiencies in risk governance, risk systems and internal controls. In addition, it evaluates if measures have been adequately carried out and have been made compliant. The third line guarantees the effectiveness of risk governance (from risk taking to risk control) to the Audit Committee and the Risk Committee, the Executive Board and the Supervisory Board.

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 the framework. 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 owners are each individually responsible for defining and execution of the risk policy for their assigned focus areas.

The risk principles used to define the risk management structure, which aim at a consistent risk management approach, are as follows:

- One shared Group-wide risk type classification.
- A pre-set risk tolerance ('Risk Appetite') for each identified risk type.
- Scenario analyses for stress situations and measures for emergency situations with regard to the key risks.
- Testing and validating the models that are used for risk management.
- Assigning risk owners to all identified risks.
- Monitoring and assessment of risks independently of commercial operations.

19.3 Risk management committees

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

19.3.1 Risk Committees at SNS REAAL Group level

Risk Committee

The Risk Committee comprises at least three members of the Supervisory Board. This committee assesses, amongst others, the profile of SNS REAAL's financial and non-financial risks, in particular whether capital allocation, investment policy and liquidity requirements on the strategic level correspond with the approved risk appetite. In addition, the Risk Committee assesses the design and operating effectiveness 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 management.

Group Risk Committee (GRC)

The Executive Board and the statutory Management Boards of the Banking and Insurance activities are represented in the GRC, enabling statutory decision making. The GRC is further advised by the executive chairman of SNS Asset Management, the CFO Group Finance, as well as the directors of Group Risk Management, Compliance, Security & Operational Risk Management and Group Audit.

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

Other Risk Committees at Group level

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

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

At Group level, SNS REAAL also has the following 'risk committees':

- **Group Asset & Liability Committee (ALCO Group)** to manage all financial risks except credit risk. ALCO Bank operates under the ALCO Group;
- **Group Counterparty & Credit Risk Committee (GCC)** to manage credit risk, including counterparty credit risk (policy) and to approve loans and revisions and to establish the provisions related to receivables, and recovered collateral. The CC SNS Retail Bank and the CC PF operate under the GCC;
- **Group Financial Committee (FinCo)** to manage the financial and actuarial administration, consolidation, processes and infrastructure, ensuing management information, internal/external financial reporting, results and returns, treasury and tax matters;
- **Model Governance Committee (MGC)** to approve internal models;
- **Governance, Operational Risk & Compliance Committee (GORCC)** to manage the non-financial risks.

19.3.2 Risk Committees at Business Unit level

Local risk committees have been set up within the business units, which operate within the policy frameworks set out by the Group committees, or which solely have an advisory role. The risk committees at business unit level (BU level) are:

- **Product Market Pricing Committee (PMPC)** for the formal approval of products. There is one PMPC for Business Unit SNS Retail Bank and, additionally, a PMPC for SNS Securities and SNS Asset Management (called PARC – Product Approval & Review Committee). The PMPCs and PARC have a direct escalation line to the GRC;
- **Asset & Liability Committee Bank (ALCO Bank)** to manage financial risks except credit risk in the balance sheet of the Banking activities;
- **Credit Risk Committee SNS Retail Bank (CC SNS Retail Bank)** to manage all forms of credit risks in the balance sheet of the Banking activities (with the exception of credit risk in relation to customers of Property Finance);

- **Credit Risk Committee Property Finance (CC PF)** to manage credit risks related to Property Finance's customers.

As of 31 December 2013, the Property Finance activities have been separated from SNS REAAL and SNS Bank NV, which means that the CC PF no longer operates within the SNS REAAL risk committee structure.

19.3.3 Decision making processes Risk management committees

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

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

In the GRC, decisions can only be taken within the statutory powers allocated to the parties present.

19.4 Risk management departments at SNS REAAL Group level

In order to promote efficiency and uniformity, the risk management departments advise on risk management and report on the risk profile. They act as shared service centers for SNS Bank NV and they are responsible for modelling, measuring, monitoring, reporting and advising on risks. They are not responsible for determining the policy, but have an advisory role in this area. Actual policy determination is the responsibility of the risk management committees authorised to that end.

This advisory role entails a supporting role in defining and implementing policy, and in monitoring the quality of risk control.

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

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

Group Risk Management (GRM)

GRM supports SNS REAAL in taking on well-considered risks and the monitoring thereof for the benefit of all stakeholders. GRM's primary task is to carry out its second-line role based on the 'three lines of defence' model used by SNS REAAL.

Within this context, GRM supports the Executive Board, the Management Boards of the business units and other stakeholders in:

- formulating and monitoring the risk profile;
- defining the framework within which the risk owners (can) operate;
- identifying changing market conditions and regulations in the field of Risk Management that are relevant to the strategy and policy;
- ensuring and controlling efficient risk management processes;
- achieving coherence in SNS REAAL's risk management organisation;
- portfolio valuation aiming at structural value creation;
- coordinating strategic projects related to the management of financial risks (including stress tests and the Basel III / CRD IV);

- building models;
- model validation (including an escalation line to the CFRO).

In addition, GRM gives direction to the areas of attention pertaining to Reinsurance and Economic Capital: advising on policy and framework development, modelling, implementation and monitoring/advising.

Compliance, Security & Operational Risk Management (CS&O)
CS&O advises the Executive Board and the Management Boards of the business units of SNS REAAL on managing non-financial risks. These are risks that are related to human behaviour and structuring of business processes. The main duties of the department are providing recommendations for ethical and controlled business operations, coordinating and promoting operational risk management, security risk management and integrity risk management, formulating policies, giving advice and providing support with regard to issues related to non-financial risks, providing training & awareness programmes, monitoring and reporting in this respect. The scope of non-financial risks is divided into seven themes: employee, client, business process, product, information, risk control, and collaboration. These themes serve as guidance for the risk analyses to be performed and provide the structure for supervision and risk reporting.

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

- identifying and advising on present (and future) legislation and regulations;
- advising on products and product documentation;
- handling (impending) legal disputes; and
- advising on cooperation agreements.

Finance Risk & Control SNS Bank
Finance Risk & Control (FR&C) SNS Bank NV is responsible for balance sheet management (Asset & Liability Management) at SNS Bank. This includes managing interest income and interest rate risk, the capital and liquidity position and the corresponding liquidity risk. This balance sheet management is conducted within the framework set by Group Risk Management.

In addition, FR&C is responsible for establishing the ex-ante theoretical rates for the commercial banking products such as savings and mortgages. These rates represent the cost price of the products, taking into account the required return on equity. FR&C is also responsible for carrying out the Internal Funds Transfer Pricing (IFTP) process.

Risk Management SNS Bank
Credit risk management is allocated among three separate and independent departments: the acceptance and regular management of mortgages is the responsibility of the Service Center Mortgages. Arrears management and special credits are the responsibility of the Service Center Special Credits. Second line risk management is the responsibility of Risk Management SNS Bank and Group Risk Management.

Effective as of 1 January 2013, the Risk Management activities of Property Finance are separated from Risk Management SNS Bank, leading to a separate Risk Management Property Finance department.

The Service Center Mortgages, Service Center Special Credits and Risk Management SNS Bank play an important role in the following tasks:

Service Center Mortgages:

- Acceptance of new issuances and conversion of residential mortgages.
- Administering and management of credit facilities and private collateral.

Service Center Special Credits:

- Management of loans in arrears and loans in default.

Risk Management SNS Bank:

- Advice on the credit risk policy.
- Independent analysis of advice on credit proposals.
- Approval of commercial items.
- Administering and management of credit facilities and collateral.
- Performing the secretarial duties for the credit committees and approval meetings.
- Quorum member of Credit Risk Committee SNS Retail Bank and Group Credit Risk Committee.
- Reporting on and identifying the risk profile of the mortgage portfolio, consumer loans, corporate and sustainable loans.
- Owner of Basel 2 credit risk models for the purposes of RWA determination, value changes and pricing.
- Advice to credit committees regarding the amount of the credit provision.

Risk Management Property Finance

As of 2013, Property Finance has its own Risk Management department. This Risk Management department has a functional line with SNS REAAL's Group Risk Management (GRM). Risk Management Property Finance's activities are aimed at managing credit risk. The functional line with GRM has been cancelled as a result of the separation of Property Finance on 31 December 2013.

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 primarily carries out its audits on behalf of the Executive Board based on a dynamic risk analysis. This risk analysis is in line with the Banking Code and the Insurance Code and has been discussed with the external auditor and the Dutch Central Bank. The audits focus on the internal risk management and control system, related processes, procedures and (the reliability of) management information.
Group Audit is also responsible for carrying out differentiated internal audit activities on behalf of the Management Board of SNS Bank and line management. These audits focus on the (permanent) effect of 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.

19.5 Risk classification

This section explains the risk classification applied at SNS Bank NV.

19.5.1 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, intra-group 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 that equity, results or continuity is threatened by movements in the level and/or volatility of market prices to which the company is exposed. Market risk is split into price risk, interest rate risk, credit spread risk and currency risk.

19.5.2 Non-financial risks

Integrity risk (compliance risk)

The risk that the company's integrity is harmed by actions (or omissions) contrary to its internal (core) values, social standards and values or behavioural laws and regulations or requirements to be observed by the company when providing its financial services or translating these into internal regulations. This may lead to regulatory measures, financial losses or damage to the company's reputation.

Crime risk

The risk that the company's integrity is harmed by employees, customers or third parties due to fraud (deceit, misappropriation of property, violation of the law, rules or company policy) or criminal activities directed against the company and/or its customers in their relationship with the Company.

Operational risk

The risk of direct or indirect losses due to inadequate or deficient internal processes and systems, from inadequate or human error, or from external events. In this sense, the operational risk is all-encompassing. It can be further broken down into IT risks, outsourcing risks, legal risks, integrity risks and other operational risks.

19.5.3 Risks of a mixed nature

Strategic risk

The risk that strategic objectives are not achieved due to lack of response or inadequate or late response to changes in the environment and the business climate.

Strategic risks of a non-financial nature are related to reputation and governance. Strategic risks of a financial nature are related to positioning/acquisitions, capitalisation, concentration of risks and internal models.

19.6 Framework for business control

Taking risks is an integral part of doing business and demands a consistent and transparent assessment of opportunities and risks, aimed at growth and 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 manage such assessments. The most important frameworks are:

- The strategy and strategic risk analyses, to direct the activities of the business units and the organisation as a whole.
- The risk appetite and the ensuing risk profile, which sets limits for taking risks in order to manage risks with respect to the capital requirements and other laws and regulations applicable to SNS REAAL.

- The management structure, including the risk committees, to streamline management focus, to allocate duties and responsibilities, and to deal with new or external impulses (e.g. through takeovers and reorganisations).
- Traineeships, talent and management development programmes, to manage the quality of staff and appointments ('the right person in the right place').
- A remuneration structure that gives substance to the mission and the realisation of SNS REAAL's (long term) strategy.
- Processes set up for the purpose of managing the predictability of performance, the prevention of unforeseen losses and the reliability of information.

The Management Boards of the business units are responsible for day-to-day operations within these frameworks and year 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 does not offer 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 assess on a semi-annual basis to what extent 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 to address such risks. The periodic in-control statements per business unit are the key input for this procedure. The outcome of this procedure contributes to the management statements that are included in the SNS Bank Annual Report (see section 14.3 Management Statements).

Framework for business control

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

In an in-control statement, the Management Boards and members of the Executive Board state, with due observance of changes to internal and external factors, whether they have identified the essential risks and corresponding control measures with a reasonable degree of certainty, what improvements have been made in the (risk) management processes, whether the established control measures operate adequately, whether the provision of information is sufficient and which aspects the relevant business unit intends to improve further. They also assert whether they expect that the risk management system will continue to work adequately.

The Executive Board discusses the in-control statements and assesses whether additional measures need to be taken in order to curtail risks. The statements are also used to prepare the management statements for the annual report (see section 14.3 Management Statements). The reports on the in-control statement are also submitted to the Audit Committee.

20 Financial risk management

20.1 Introduction

This chapter discusses the financial risks that occur with SNS Bank NV. These financial risks mainly consist of credit risk, market risk and liquidity risk. The capitalisation of SNS Bank NV is discussed in section 23.3.

Credit risk is discussed in the first five sections. Section 20.2 provides a comprehensive overview of the credit risk profile and credit risk management of the Banking activities. The credit risk management within SNS Retail Bank and Property Finance is described in section 20.3 and section 20.4, respectively.

Market risk is discussed in section 20.5, with a description of the definition and management of market risk, as well as – in separate subsections – a description of the spread risk, currency risk, sensitivity analysis for interest rate risks and shares, effective interest rate for the Banking activities and, lastly, the market risk for the trading portfolio within the Banking activities.

Liquidity risk is discussed in section 20.6, with a description of the definition and management of liquidity risk, as well as a separate description of the Internal Liquidity Adequacy Assessment Process (ILAAP).

20.2 Credit risk - overview

Credit risk is the risk that a borrower and/or counterparty does not meet his financial or other contractual obligation. The credit risk is divided in debtor risk, counterparty risk, intercompany risk and transfer risk. The credit risk management within SNS Retail Bank and Property Finance is described in section 20.3 and section 20.4, respectively.

SNS Bank NV distinguishes various categories of credit risk. The main categories are loans and advances to customers, loans and advances to banks, and investments. More than 90% of the loans and advances to customers are backed by mortgage collateral. The other non-mortgage-backed items are mainly loans and advances to banks and investments (primarily bonds). The loans and advances to banks and investments are mostly the result of the company's liquidity risk management. The investments in connection with the company's liquidity risk management have a low-credit risk.

The loan portfolio of SNS Retail Bank focuses on the Dutch market. The market for residential property was weak in 2013, just as in 2012. Despite government measures, such as the reduced property transfer tax, both the number of residential properties sold and the average price per residential property dropped. The number of transactions on the residential property market reached a record low and house prices decreased for the fifth year in a row. The decreasing house prices and the stagnating residential property market led to longer foreclosure periods and larger losses on foreclosure.

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

Credit risk

In € millions	SNS Retail Bank 2013	SNS Retail Bank 2012	Property Finance 2013	Property Finance 2012	Eliminations 2013	Eliminations 2012	Total 2013	Total 2012
Investments	5,657	5,302	-	-	-	-	5,657	5,302
Derivatives	2,484	3,660	-	-	-	-	2,484	3,660
Loans and advances to customers	53,858	55,520	-	7,822	-	-	53,858	63,342
Loans and advances to banks	6,063	9,867	-	10	-	(7,950)	6,063	1,927
Other assets, no lending operations	1,401	1,122	-	1,352	-	(399)	1,401	2,075
Cash and cash equivalents	5,528	6,909	-	203	-	(179)	5,528	6,933
Total	**74,991**	**82,380**	**-**	**9,387**	**-**	**(8,528)**	**74,991**	**83,239**
Off-balance sheet commitments								
Liabilities from pledges and guarantees given	-	20	-	115	-	-	-	135
Liabilities from irrevocable facilities	582	612	-	134	-	-	582	746
Total	**75,573**	**83,012**	**-**	**9,636**	**-**	**(8,528)**	**75,573**	**84,120**

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

Credit risk based on weighting percentages under Basel II guidelines

In € millions	Risk weighted assets 2013	Risk weighted assets 2012	Regulatory capital 2013	Regulatory capital 2012
Standardised approach				
Central Government and Central Banks	32	17	3	1
Institutions	769	1,098	62	88
Corporates	2,031	7,733	162	619
Retail	1,050	1,095	84	88
Shares	11	13	1	1
Other assets	869	1,267	70	101
Internal rating based approach				
Retail mortgages	7,723	6,319	618	506
Securitisation positions	385	1,030	31	82
Subtotal	**12,870**	**18,572**	**1,031**	**1,486**
Market risk	192	317	15	25
Operational risk	1,516	1,703	121	136
Additional transitional Capital requirements *	-	-	-	-
Total	**14,578**	**20,592**	**1,167**	**1,647**

** SNS Bank NV publishes its solvency ratios using the risk-weighted assets as calculated under Basel II CRDIII.*

As can be seen in the table above, the most important developments in comparison to last year relate to the items Corporates, Retail mortgages and Securitisation. The decline of risk-weighted assets (RWA) of corporates by € 5,702 million to € 2,031 million at year-end 2013 is mainly caused by derecognising the RWA due to the transfer of Property Finance. The increase of RWA of retail mortgages by € 1,404 million to € 7,723 million at year-end 2013 is the result of calling five securitisation programmes and a revision of the default methodology. Calling five securitisation programmes led to the reduced securitisation positions by € 645 million to € 385 million at year-end of 2013.

20.3 Credit risk SNS Retail Bank

20.3.1 Managing credit risk SNS Retail Bank

The credit risk management of SNS Retail Bank is carried out by Risk Management SNS Retail Bank. The arrears and defaults are managed by the Service Center Special Credits.

The probability of default of a borrower (PD) is a major risk indicator. With the estimate of a PD, an estimate is made of the probability that a borrower will structurally not meet its liabilities in the coming year.

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

PD risk classification SNS Retail Bank private residential portfolio

Probability of Default %	2013	2012
less than or equal to 1	74.5%	74.7%
greater than 1 and less than or equal to 4	14.4%	14.4%
greater than 4 and less than or equal to 7	4.0%	4.1%
greater than 7 and less than or equal to 10	0.0%	0.0%
greater than 10 and less than or equal to 13	0.0%	0.0%
greater than 13 and less than or equal to 17	0.0%	2.6%
greater than 17 and less than 100	4.0%	1.7%
100	3.1%	2.5%
Total	**100.0%**	**100.0%**

The credit quality of SNS Retail Bank's mortgage portfolio deteriorated in 2013 compared to the mortgage portfolio in 2012. This was the result of the weak economic growth, rising unemployment, a difficult market for residential properties and falling prices on the housing market in the Netherlands. On the other hand, the credit quality of new inflow in the portfolio is improving thanks to stricter acceptance standards and a higher share of mortgages covered by the National Mortgage Guarantee.

Service Center Special Credits SNS Retail Bank

An essential part of the credit risk policy are timely actions by the Service Center Special Credits. The Service Center Special Credits distinguishes between loans to retail customers and loans to small and medium-sized enterprises (SME). The Service Center Special Credits applies a uniform working method that is focused on identifying loans at risk.

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

A debt is handed over to the Service Center Special Credits if the client no longer meets its liabilities, or if it is unlikely that the debtor will be able to continue to meet its liabilities.

SNS Retail Bank's Service Center Special Credits aims at providing an adequate response to the changed problems with arrears given the current circumstances, foreclosures and the retention of customers with a mortgage loan.

In determining the amount of provisions, account is taken of the actual amount of defaults and the experience that credit loss may also be caused by non-default accounts (Incurred but not Reported, or IBNR). A customer is 'in default' if the period in arrears is longer than 3 months or when it is determined that further payment is unlikely.

The default rate of residential mortgages rose from 1.55% to 2.12%.

20.3.2 Loans and advances to customers

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

Loans to retail customers consisting of mortgage loans or consumer finance loans (included under 'other') are being approved by authorised officers on the basis of acceptance standards and policy rules. The acceptance standards and policy rules are determined in the Product Market Pricing Committee. In exceptional cases, a recommendation is issued to the Management Board of SNS Bank NV, which then takes the final decision. The mortgage loan acceptance procedures are handled centrally. The standards for acceptance of mortgage loans are equal for all labels of SNS Retail Bank, as this contributes to uniformity and efficiency. The acceptance score models support in these processes.

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

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

The collateral provided and a possible National Mortgage Guarantee (NHG) are important risk factors for managing the portfolio. The Loan to Value (LtV) provides the level of collateralisation by dividing the outstanding loan as a percentage of the market value of the collateral. A low percentage is considered favourable. If a loan is granted pursuant to NHG, there is additional security.

Loans and advances to customers SNS Retail Bank by security type

In € millions	2013	2012
Mortgages < 75% of foreclosure value	10,859	14,876
Mortgages > 75% of foreclosure value	5,024	4,355
Mortgages with National Mortgage Guarantee	8,189	7,368
Securitised mortgages	22,994	22,742
Residential property in the Netherlands	**47,066**	**49,341**
Residential property outside of the Netherlands	146	90
Residential property outside of the Netherlands	**146**	**90**
Mortgage-backed loans	1,246	1,409
Issued to government	2,302	2,291
Unsecured loans	2,816	2,158
Non-residential property in the Netherlands	**6,364**	**5,858**
Other collateral and unsecured loans	282	230
Non-residential property outside of the Netherlands	**282**	**230**
Loans and advances to customers	**53,858**	**55,519**
Specific provisions	(434)	(339)
IBNR provision	(19)	(17)
Provisions for bad debt	**(453)**	**(356)**
Total	**53,405**	**55,163**

SNS Retail Bank's loans and advances to customers amounted to € 53 billion at year-end 2013, of which € 47 billion relates to residential mortgages. 17% of these residential mortgages are covered by the National Mortgage Guarantee. This percentage is exclusive of the securitised mortgages with a National Mortgage Guarantee.

In the table above, the securitised mortgage loans whose bonds were issued by securitisation entities are included (including those on own book). A bank can transfer the credit risk of loans and advances to third parties by making use of securitisations. The underlying mortgage loans of securitisation notes held for own account are included in ‘Securitised mortgages’. At year-end 2013, the value of these notes, included in 'Debt certificates', amounted to € 10.6 billion (2012: € 12.0 billion).

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 settled. Some of the notes issued by the securitisation entity are E-notes, which are high-risk bonds. Stress tests have shown that the remaining credit risk for SNS Retail Bank manifests itself in the deferred purchase price and any unissued E-notes. The E-notes of the securitisation programmes presented in full in the books were not externally subscribed. The sum of the deferred purchase prices was nil as at the end of December 2013.

SNS Retail Bank is also the originator of a synthetic securitisation programmes launched in 2004 with a first call date in March 2014. In this structure, SNS Retail Bank bought credit protection through a credit default swap (CDS) with respect to a reference portfolio of approximately € 297 million of residential mortgages.

Loans and advances to customers SNS Retail Bank by industry

In € millions	**2013**	2012
Retail	47,255	49,652
Public sector	2,302	2,291
Service sector companies	299	819
Industry	153	195
Agriculture	22	29
Other commercial	3,374	2,177
Total	**53,405**	**55,163**

Loans and advances to customers SNS Retail Bank by region

In € millions	**2013**	2012
The Netherlands	52,249	53,492
EMU	1,064	1,644
United Kingdom	44	24
Denmark	2	-
Swiss	7	-
United States	9	1
Other	30	2
Total	**53,405**	**55,163**

The provision relating to loans and advances to customers is determined collectively based on the information as presented in the table below. Every month, the Special Credits Service Center proposes a provision level to SNS Retail Bank’s Credit Risk Committee and on quarterly basis to the Group Credit Risk Committee of SNS REAAL. The provisions are established in the credit committees.

Loans and advances to customers in arrears SNS Retail Bank

In € millions	2013	2012
No arrears	51,420	53,330
< 3 months	1,205	1,247
3 - 6 months	296	287
6 - 12 months	346	265
> 1 year	591	390
Provision	(453)	(356)
Total	**53,405**	**55,163**

Loans and advances to customers SNS Retail Bank

In € millions	2013	2012
Retail mortgage loans	47,316	49,558
Retail other loans	293	346
Provision	(342)	(252)
Total retail	**47,267**	**49,652**
Commercial mortgage loans	1,143	1,282
Commercial private and other loans	2,805	2,041
Provision	(111)	(103)
Total commercial	**3,837**	**3,220**
Private and cash loans to the public sector	2,301	2,291
Loans and advances to customers SNS Bank	**53,405**	**55,163**

Provisions loans and advances to customers SNS Retail Bank

In € millions	2013	2012
Book value non provisioned loans	51,420	53,330
Book value provisioned loans (gross value)	2,438	2,189
Specific provision	(434)	(339)
IBNR provision	(19)	(17)
Total book value non provisioned and provisioned loans	**53,405**	**55,163**

Loan to Value (LtV)

The EAD weighted average LtV at year-end 2013 of SNS Retail Bank's mortgage portfolio was 89.4% (2012: 87.1%). The fair value of the collateral determined at the time of mortgage application is indexed with the Land Registry Office's House Price Index. In previous years this ratio was reported as Loan to Foreclosure Value (LtFV) based on the assumption that the liquidation value is derived from the market value of the collateral. In 2013, this ratio was reported internally on the basis of the market value of the collateral. This modification is therefore also applied to the notes in this section. Comparative figures were modified as well. The House Price Index is updated quarterly by the Land Registry Office and is broken down into province. Examples of residence types are: apartments, terraced houses or end-of-terrace houses, semi-detached or detached houses. SNS Bank follows this breakdown in managing its portfolio. From December 2012 to December 2013, the national index for all types of housing declined by 5.9%. The index' development varies per region and residence type. In general, no new valuation report is requested for existing residential mortgages.

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

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

In € millions	2013		2012	
Mortgage loans	47,072	88%	49,766	90%
Other	6,333	12%	5,397	10%
Total loans and advances to customers	**53,405**	**100%**	**55,163**	**100%**
Mortgage loans and advances to customers SNS Retail Bank by LtV buckets				
NHG	12,383	26%	11,820	24%
LtV <= 75%	13,079	28%	14,653	30%
LtV >75 <=100%	9,129	19%	10,220	20%
LtV >100 <=125%	11,598	25%	12,421	25%
LtV > 125%	883	2%	652	1%
Total	**47,072**	**100%**	**49,766**	**100%**

20.3.3 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 activities in the form of deposits, as part of the ordinary cash management transactions. Cash management also includes transactions qualifying as forward exchange transactions, which are also regarded as derivative transactions. The policy is to initiate forward exchange transaction contracts and other over-the-counter derivatives contracts with parties with whom an umbrella agreement has been concluded, known as an ISDA (International Swaps and Derivatives Association) Master Agreement and Credit Support Annex. Under the Credit Support Annex, securities are exchanged on the basis of frequent comparison of the value of outstanding transactions under the ISDA Master Agreement and the balance of already transferred securities under the Credit Support Annex, above a set limit if necessary. This can lead to the redeposit or deposit of additional collateral.

The balance in loans and advances to banks relates to the financing of Property Finance for an amount of € 4,055 million. This relates to a loan converted to a new loan where the State guarantees the repayment. We refer to section 5.3 Separation of Property Finance.

Interest rate derivatives are also used by SNS Retail Bank to manage and/or limit SNS Retail Bank's interest rate risk. The maturity of these derivatives range from two to thirty years. The risk mitigation conditions that apply to such derivatives are the same as for short-term derivatives. A system of counterparty limits is in place. This system reduces the concentration risk.

20.3.4 Investments

The interest bearing investment portfolios of SNS Retail Bank have predominantly European and North American debtors. There is no debtor that represents an interest of more than 10% in the fixed-income investment portfolio with the exception of the German, the French and the Dutch State.

Overview investments SNS Retail Bank 2013

	Fair value through profit or loss			
In € millions	**Held for trading**	**Designated**	**Available for sale**	**Total**
Shares and similar investments	2	-	12	14
Fixed income investments	711	-	4,932	5,643
Total	**713**	**-**	**4,944**	**5,657**

Overview investments SNS Retail Bank 2012

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

The variances in interest bearing instruments in the portfolio 'designated' is related to Burchin which dissolved early 2013.

The table below contains the breakdown of the interest bearing investment portfolio by geographic area. The category 'other' contains European and other international institutions that cannot be allocated to a single country. In 2012, such institutions were nevertheless allocated to a country based on their ISIN code. As it was decided in 2013 to recognise these positions in 'other', the comparative figures have been adjusted accordingly.

Breakdown fixed income investment (geography)

In € millions	2013		2012	
Ireland	132	2%	121	2%
Italy	326	6%	319	6%
Subtotal GIIPS	**458**	**8%**	**440**	**8%**
Germany	1,309	23%	1,468	28%
France	770	14%	447	8%
The Netherlands	1,460	26%	1,690	32%
Austria	416	7%	303	6%
Belgium	389	7%	241	5%
Japan	428	8%	528	10%
Switzerland	103	2%	5	0%
Other	310	5%	168	3%
Total	**5,643**	**100%**	**5,290**	**100%**

Compared to 2012, the interest bearing investment portfolio increased by € 353 million. The following overview provides a breakdown of the interest bearing investment mix by sector. In particular, the government bond portfolio grew by € 295 million in 2013.

Breakdown fixed income investments (industry)

In € millions	2013		2012	
Sovereign	4,705	83%	4,410	83%
Financials	254	5%	352	7%
Corporates	266	5%	105	2%
Mortgage backed securities	188	3%	211	4%
Other	230	4%	212	4%
Total	**5,643**	**100%**	**5,290**	**100%**

The table below contains the breakdown of the interest bearing investment portfolio by maturity.

Breakdown fixed income investments (maturity)

In € millions	2013		2012	
< 3 months	536	10%	820	15%
> 3 months - < 1 year	279	5%	683	13%
> 1 year - < 3 years	343	6%	659	12%
> 3 years - < 5 years	1,031	18%	455	9%
> 5 years - < 10 years	2,535	45%	1,735	33%
> 10 years - < 15 years	112	2%	99	2%
> 15 years	807	14%	839	16%
Total	**5,643**	**100%**	**5,290**	**100%**

The following overview provides a breakdown of the interest bearing investment mix 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.

Breakdown fixed income investments (rating)

In € millions	2013		2012	
AAA	3,093	55%	2,522	48%
AA	1,830	33%	1,279	24%
A	236	4%	807	15%
BBB	466	8%	662	13%
< BBB	-	0%	-	0%
No rating	18	0%	20	0%
Total	**5,643**	**100%**	**5,290**	**100%**

The following tables provide an overview of the interest-bearing government securities and the further breakdown to GIIPS countries.

Sovereign exposure fixed-income investments (geography)

In € millions	2013		2012	
Ireland	132	3%	121	3%
Italy	326	7%	314	7%
Subtotal GIIPS	**458**	**10%**	**435**	**10%**
Germany	1,265	27%	1,437	32%
France	619	13%	393	9%
The Netherlands	1,117	24%	1,053	24%
Swiss	101	2%	-	0%
Austria	317	7%	302	7%
Belgium	376	8%	236	5%
Japan	428	9%	528	12%
Other	24	0%	26	1%
Total	**4,705**	**100%**	**4,410**	**100%**

Breakdown fixed income sovereign GIIPS (maturity)

	Fair value		Nominal	
In € millions	**2013**	2012	**2013**	2012
< 3 months	-	-	-	-
> 3 months - < 1 year	-	-	-	-
> 1 year - < 3 years	-	-	-	-
> 3 years - < 5 years	56	-	50	-
5 years - < 10 years	29	79	25	75
> 10 years - < 15 years	47	42	40	40
> 15 years	326	314	310	310
Total	**458**	**435**	**425**	**425**

20.4 Credit risk Property Finance

The activities of Property Finance are split from SNS REAAL and SNS Bank NV as of 31 December 2013. The description here below is based on the situation during 2013. We also refer to section 24.35 Result discontinued operations.

20.4.1 Credit risk management Property Finance

The management of the default items of Property Finance (and items where a potential default situation is plausible) are managed by the Restructuring and Recovery (R&R) department and the Loan Management department, respectively.

The development of the credit risk profile of Property Finance is continuously being monitored. This is performed with reports on payments in arrears and overdrafts, periodic reviews and portfolio analyses, as well as external communication. In addition, 'early warning' meetings are taking place. At these meetings, early warning signals such as payments in arrears, renewals and possible inadequate interest coverage ratios are discussed and decisions will be made on adequate follow-up on these signals.

Valuations

Valuation of the collateral is carried out at loan origination in order to determine the value of the collateral for the loans being provided. In addition, the collateral value is evaluated during periodic revision according to the DNB regulations. A valuation guideline is part of Property Finance's review policy. The collateral values of the loans in default are valued at least once a year, with a major part of the portfolio being valued externally and with a risk-based approach during the third and fourth quarters. The goal is to evaluate the valuation of loans in default at balance sheet date against the recent external appraisals. In addition, an annual valuation is performed of the collateral of non-default loans exceeding € 10 million and of project finance loans. The valuation guideline provides that smaller amounts of collateral are valued at least once every three years.

In 2013, Property Finance also conducted an in-depth analysis of the major part of the portfolio of property projects and property finance. The analysis was intended to map the current state of the portfolio, to determine new exit strategies and exit data for all customer groups, and perform a scenario analysis for future developments (under a base, bear and – in a limited number of cases – bullish scenario). The analysis was performed under supervision of the Property Finance management, in which specialists of both Risk Management Property Finance and Group Risk Management were involved.
The analysis was used in the Q4-2013 loan provision process and served as input in the autonomous Propertize's business plan.

The valuation of a property may be performed by an internal expert or by an external appraiser. Loans in default were mostly valued by means of external valuation. The valuations are as much as possible carried out in accordance with the Valuers and Accountants Platform (PTA) guidelines and the Royal Institution of Chartered Surveyors (RICS) valuation standards. The other loans are valued also by internal appraisers. These internal appraisers are certified and operate independently. Concept valuation reports are being reviewed internally before being finalised.

Defaults
Loans with an increased risk profile are declared in default if there are indications in place. 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 construction progress, the lease or sale rate, the fulfilment of agreements made and (other) internal and external signals, and finally the extent to which a loss may occur on the expected exit date. In general, loans that are declared to be in default will be transferred to the Restructuring & Recovery (R&R) department.

Provisions
Loans are being valued on the basis of the realistic (base) scenario, using forecasts and the discounting of future cash flows using the effective interest rate of the original loan, and the most recent (external) valuation report. A provision is being formed, when the projected revenues for a loan upon exit are lower than the current outstanding financing plus costs to be incurred when realising the loan.

The departments R&R, Loan provisions, Risk Management and Business Control are involved in the valuation of loans and property projects. The scenarios of loans in default for which a provision has already been taken are reassessed periodically. R&R, Loan provisions and Risk Management departments are involved in this process. The scenario analyses and the associated valuations, including the comments from Risk Management, are discussed in the Management Board meetings, discussed and adopted in the Credit Committee Property Finance, and then – above a certain acceptance limit – submitted to a special meeting of the Group Credit Committee for ratification.

Property projects
Due to the unfavourable developments on the Dutch and international real estate markets, it was necessary to realise collateral provided to Property Finance under a number of loans. As a result, Property Finance gained de facto effective control over a few property projects, which have therefore been recognised in Property Finance's balance sheet.

The property on Property Finance's balance sheet is valued at the lower of cost or net realisable value. The net realisable value is determined on the basis of the expected present value of the cash flows as estimated by Property Finance under a realistic exit scenario, analogous to the method used for determining the loan provisions. This means that, for example, estimates are being made with regard to costs (completion costs, selling costs, etc.), revenues (rents, sales proceeds) and the time required to execute the scenario. The discount rate used in 2013, to discount the cash flows, is the weighted average cost of capital (WACC).

Impairments
The impairments on Property Finance's defaulted 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 performing the valuations, the appraiser uses transactions which can be observed in the market and which are comparable, to the extent possible. It is very difficult for a large part of the portfolio to test against recent observed comparable market transactions, due to the increasing lack of liquidity in the market. This means that the assumptions and estimates made by the appraiser in the valuation of property are exposed to significant uncertainties which are greater than under normal market conditions, which results in a broader range for the valuations of property and, accordingly, the valuation of the loans of Property Finance.

20.4.2 Exposure Property Finance

Below are two tables included that provide insight into the exposure of Property Finance relating to real estate financing just before the transfer of Property Finance. As per 31 December 2013 these exposures are no longer recognised on the balance sheet of SNS REAAL. These tables and figures in the text are based on the position at the time of separation.

The total outstanding credit limits decreased by € 1.2 billion from € 7.9 billion to € 6.7 billion (-15.2%). In 2013, the net exposure was reduced by € 1.3 billion (18.6%) to € 5.7 billion.

In 2013, the reduction of net exposure and outstanding credit limits was realised by a combination of regular redemptions, sale of loans, restructuring, provisioning, and through foreclosure and the following transfer of loans to recognising property projects.

Arrears in loans and advances Property Finance (standings on date of separation)

	Outstanding		Loan to Value	
In € millions	**2013**	2012	**2013**	2012
Neither past due nor impaired	2,674	4,258	81.0%	83.0%
Past due but not impaired	371	925	96.6%	85.8%
Impaired	3,656	2,649	161.4%	169.0%
Total	**6,701**	**7,832**	**113.5%**	**100.9%**

Ageing analysis past due but not impaired loans and advances Property Finance (standings on date of separation)

	Outstanding		Loan to Value	
In € millions	**2013**	2012	**2013**	2012
< 30 days	84	334	90.2%	82.6%
30 - 60 days	23	97	87.6%	65.8%
60 - 90 days	38	49	106.0%	69.9%
> 90 days	226	445	98.2%	97.8%
Total	**371**	**925**	**96.6%**	**85.8%**

20.4.3 Impairments Property Finance

The development of the credit risk profile of Property Finance is continuously being monitored.

In 2013, Property Finance conducted an in-depth analysis of nearly the entire portfolio. The analysis was intended to get an adequate overview of the current state of the portfolio and to perform scenario analyses for possible future developments (under a base, bear and optimistic scenario). The results of the portfolio analyses were validated by an independent third party.

Impairments Property Finance

In € millions	2013	2012
The Netherlands	622	537
Other Europe	197	172
North-America	39	9
Loans and advances	**858**	**718**
The Netherlands	41	26
Other Europe	114	180
North-America	3	4
Property projects	**158**	**210**
Goodwill	-	47
Associates and joint ventures	37	13
Total	**1,053**	**988**

The total impairments for 2013 remained at a very high level. A total impairment loss of € 1,053 million was recognised, compared to a loss of € 988 million in 2012. The continuing high level of impairments can be attributed to the following causes:

- Further deterioration of the European property markets, particularly in the Netherlands and Spain, results in further increasing vacancy rates, lower rental income and increasingly lower valuations for B and C locations. Loans for B and C locations in the Netherlands constitute the major part of the portfolio.
- The ongoing difficult market conditions more and more often deprive customers of the means to use their own reserves to meet debt service obligations, which can not be covered by the property's operating cash flows.

Both of the aforementioned developments led to a further increase of the default rate in 2013. At year-end 2012, this rate was still 40%; but at year-end 2013 the default rate increased to 62% of the portfolio. The default rate of the Dutch portfolio alone rose from 36% (2012) to 56% at year-end 2013, which was also as a result of a tighter application of the default definition.

At the time the scenario analyses were prepared, it was concluded for a part of the portfolio that the opportunities that were initially being assessed as a loss-limiting/preventing measure or a potential value-creating strategy were no longer applicable, leading to an adjustment of the exit strategy. This resulted in additional impairments for these items.

In the valuation of the portfolio, for 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 current market, appraisers have difficulty for a large part of the portfolio to test against recent observed comparable market transactions. This means that the assumptions and estimates made by Property Finance in the valuation of loans are exposed to large uncertainties, which subsequently result in a broader range for the valuations.

All this is reflected in lower estimates for expected future cash flows and, in some cases, in a necessary adjustment to the exit strategy.

Moreover, it should be mentioned that the major part of the portfolio's collateral was appraised during the year in accordance with the applicable guidelines, with a major part of the portfolio in default being appraised during the third and fourth quarter.

Impairments in associates and joint ventures in 2013 are a result of impairments of five project entities.

After the nationalisation of SNS REAAL, the transfer value of the real estate portfolio of Property Finance was established. In February 2013, a provision was recognised by SNS REAAL for the difference between this established transfer value and the book value. Value changes in the real estate portfolio were charged to this provision and have no impact on the net result of SNS REAAL.

20.5 Market risk

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

20.5.1 Managing market risk

The market risk of SNS Bank NV is managed by Bank's Asset & Liability Management Committee ("ALCO Bank"). Interest rate risk is a significant component within 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. As part of managing market risk, continuous assessments whether the risk indicators fall within the pre-set limits are verified. Management within those limits takes place on the basis of risk/return considerations in conjunction with the short-term and medium-term expectations for the interest rate movements.

20.5.2 Interest rate risk

In 2013, the swap curve for all maturities rose compared to year-end 2012. At the same time, the interest rate was volatile in 2013. The interest rate risk in the bank's portfolio is measured, monitored and managed using duration of shareholders' equity, Value-at-Risk (VaR), Earnings-at-Risk (EaR) and gap analyses. When managing the interest rate risk, rather than assessing separate balance sheet items, the total of interest-bearing assets and liabilities, including interest rate derivatives, is being assessed. These derivatives are used to manage the interest rate sensitivity towards the desired level. See section 21.2 Hedging and hedge accounting for more information.

The primary indicator for interest rate risk is the equity duration. During 2013, the strategic bandwidth for the equity duration was 0 to 8. The Group ALCO sets the strategic bandwidth each year. Due to the volatility in the swap rates and the aim to limit the sensitivity to changes in interest rates, the duration was kept at a low level in 2013, between 1 and 4. At year-end 2013, the equity duration was 1.7 (year-end 2012: 3.7).

Both Value-at-Risk (VaR) and Earnings-at-Risk (EaR) are determined on the basis of scenario analyses. At a confidence level of 99%, the VaR is equal to 1% worst outcomes of changes in the economic value of shareholders' equity with a one-year horizon. The EaR measures, under seven deterministic interest rate scenarios of large interest rate shocks (both instantaneously and gradually), 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 2013, the VaR was € 163 million on average, with a maximum of € 327 million at the end of December 2013 (year-end 2012 € 175 million). In 2013 a new Economic Scenario Generator was implemented of, which produces more extreme scenarios. As a consequence, the VaR is since December 2013 substantially higher.

In 2013, the EaR was € 27 million on average, with a maximum of € 50 million in January 2013. In that month, the EaR was only high once, due to the large amount of withdrawals of savings deposits caused by the uncertainty surrounding SNS REAAL. At year-end 2013, the EaR was € 21 million (year-end 2012 € 4 million). The limit for the EaR is € 56 million. In the first quarter of 2013 the EaR methodology was modified, causing the EaR results in 2013 to rise above the level of 2012. The new EaR methodology takes into account a higher sensitivity/interest rate adjustability of the on demand savings deposits due.

In addition to managing the equity duration, VaR and EaR, we also manage the net (assets minus liabilities) position of redeeming nominal amounts per interest rate period. These amounts are presented in a 'gap profile'. The gap profile is used to determine which maturities should be used for the interest rate swaps, to manage 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 portfolio and for the interest maturity of savings and loans that are due on the daily demand.

Term to maturity gap profile 2013

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

Term to maturity gap profile 2012

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

Quotation risk

Quotation risk is the risk due to increasing interest rates between the time the quotation is made and the time the mortgage is extended. Each month a trade-off is made in ALCO Bank 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 € 19.1 million. The average quotation VaR for fixed-rate mortgages was € 2.4 million in 2013 (2012: € 1.2 million). At year-end 2013, the quotation VaR was € 3.5 million (2012: € 1.5 million). The quotation VaR remained comfortably within the limit throughout 2013.

The level of new provided mortgages was low in 2013. Gross new mortgage sales in 2013 mainly comprised fixed-rate mortgages. Due to the limited level of new mortgages, no swaps were concluded in 2013 to hedge the interest rate risk from quotations on fixed-rate mortgages.

Sensitivity test for interest rate risks and other price risk

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

Sensitivity interest rates and shares

In € millions	Fair value equity 2013	Fair value equity 2012	Result 2013	Result 2012	Shareholders' equity 2013	Shareholders' equity 2012
Interest rate + 1%	(16)	(21*)	(1)	23	(145)	(156)
Interest rate - 1%	42	27*	(5)	45	148	151
Shares +10%	1	1	-	-	1	1
Shares -10%	(1)	(1)	-	-	(1)	(1)

** In 2012 reported after adjustment for corporate tax.*

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

The sensitivity of the fair value of shareholders' equity to interest rate increases has decreased. This is in line with the duration of the shareholders' equity at year-end 2013 which is lower compared to year-end 2012. A decline in interest rates did not result in a decrease in sensitivity. This is related to the interest rate cut-off at 0%. The interest rate is higher at year-end 2013 than at year- end 2012, therefore in an interest rate decrease scenario the interest rate cut-off at 0% occurs later. The sensitivity for the interest rates decrease scenario increased slightly.

The 'Result' column shows the sensitivity of the result to interest rate fluctuations for the first 12 months in the event that interest rates immediately rise or fall by 100 basis points (parallel shift).

An interest rates rise at year-end 2013 resulted in slightly negative effect on the interest income while at year-end 2012 there was a positive effect on interest income. This variance is caused by a change in the modelling of the on demand deposits. It is assumed that when interest rates rise a major part of this increase is passed on to the customer tariff. From the interest rates decrease scenario this generated a negative effect on the interest income at year-end 2013 (positive at year-end 2012). The development of the yield curve, which was higher at year-end 2013 compared to year-end 2012 has an important role. The higher interest rate results in the interest rate decrease scenario that the interest cut-off at 0% occurs later.

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

20.5.3 Spread risk GIIPS countries

SNS Retail Bank's government bond exposure to GIIPS countries (Greece, Ireland, Italy, Portugal, Spain) remained practically unchanged in 2013. The remaining government bond exposure to Italy amounts to a nominal value of € 310 million and to Ireland with a nominal value of € 115 million. The spreads of these countries developed favourably for SNS Retail Bank in 2013.

20.5.4 Equity risk

The share price risk at SNS Bank NV is very limited. There is only a position of € 12 million in equity, which is primarily an investment of ASN Bank in sustainable funds.

20.5.5 Exchange rate risk

Exchange rate position (net exposure)

	Balance		Hedge derivatives	
In € millions	**2013**	2012	**2013**	2012
US dollar	86	(533)	(87)	508
Japanese yen	415	493	(415)	(489)
Pound Sterling	66	51	(66)	(54)
Swiss franc	3	(14)	(3)	9
Canadian dollar	107	139	(107)	(119)
Australian dollar	1	1	(1)	(1)
Hong Kong dollar	(101)	(106)	101	103
Danish krone	63	78	(63)	(63)
Other	(21)	(24)	22	21
Total	**619**	**85**	**(619)**	**(85)**

Balance is total of balance debit and credit

All currency exposures of the SNS Bank NV are measured and hedged on a daily basis, resulting in a very small net foreign currency exposure.

20.5.6 Effective interest rates

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

Effective interest rates

In percentages	**2013**	2012
Assets		
Investments available for sale (interest bearing)	1.5%	2.0%
Mortgages	4.4%	4.5%
Property finance	0.0%	3.2%
Other loans and advances to customers	2.1%	4.4%
Loans and advances to banks	0.1%	0.2%
Liabilities		
Participation certificates and subordinated debts	4.3%	7.5%
Debt certificates	2.1%	2.4%
Savings	2.5%	3.1%
Other amounts due to customers	2.3%	2.7%
Amounts due to banks	0.0%	0.0%

** As a result of the transfer of Property Finance, end 2013 the percentage of property finance is 0%.*

20.5.7 Market risk trading portfolio

The market risk of SNS Bank NV's trading portfolio is measured on a daily basis in terms of Value-at-Risk (VaR) (99% reliability) and stress testing, both with a one-day horizon. The total limit in terms of VaR for the trading portfolio amounted to € 2.1 million in 2013 (2012: € 2.3 million). The permitted limit was used to only a moderate extent in 2013. 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 periodical by all trading desks. These, too, have defined limits.

The following table provides an overview of the limits for the different trading portfolios.

Market risk trading portfolio (limit)

In € thousands	Value-at-risk (99% on daily basis) 2013	2012	Stress test 2013	2012
Limit				
Customer desk	200	200	600	600
Money market desk foreign currency	500	500	1,500	1,500
Money market desk euro	150	150	450	450
Repurchase Obligations (Repos)	300	75	900	225
Capital market desk	25	300	75	900
Credit book financials	50	200	150	600
Interest rate desk	250	250	750	750
Off-balance desk	200	200	600	600
Equity desk	150	150	450	450
Bond desk	300	300	900	900
Total	**2,125**	**2,325**	**6,375**	**6,975**

20.6 Liquidity risk

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

20.6.1 Managing liquidity risk

SNS Bank NV pays close attention to the management of its exposure to liquidity risk, which results that it has sufficient liquidity reserves at its disposal at all times to be able to meet its financial obligations at all times. Liquidity risk management has been set up in such a way that the SNS Bank NV is capable of absorbing the possible impact of banking-specific stress factors, such as stress in the money and capital markets.

Liquidity risks are managed on the basis of the net (assets minus liabilities) nominal amounts due per maturity which results in a typical liquidity gap profile. The following table represents the gap profile of SNS Bank NV at year-end 2012 and 2013 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 1 month’ column. In practice, these products are being allocated with longer maturities. For mortgages, the contractual maturity is maintained without taking into account any prepayments.

Liquidity risk Banking activities 2013

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Provision	Total
Assets							
Investments (interest bearing)	427	109	279	1,374	3,454	-	5,643
Derivatives	34	87	47	1,165	1,151	-	2,484
Loans and advances to customers	2,293	574	121	1,251	49,619	(453)	53,405
Loans and advances to banks	1,576	423	4,065	-	-	(1)	6,063
Other assets	5,527	-	-	-	1,415	-	6,942
Total assets	**9,857**	**1,193**	**4,512**	**3,790**	**55,639**	**(454)**	**74,537**
Liabilities							
Shareholders' equity	-	-	-	-	2,582	-	2,582
Participation certificates and subordinated debts	-	-	-	-	40	-	40
Debt certificates	72	2,787	8,296	3,774	1,510	-	16,439
Derivatives	21	10	125	1,526	988	-	2,670
Savings	26,923	53	397	3,109	2,795	-	33,277
Other amounts due to customers	6,390	15	1,133	307	2,783	-	10,628
Amounts due to banks	782	142	-	6,496	37	-	7,457
Other liabilities	1,444	-	-	-	-	-	1,444
Total equity and liabilities	**35,632**	**3,007**	**9,951**	**15,212**	**10,735**	**-**	**74,537**
Net liquidity gap	**(25,775)**	**(1,814)**	**(5,438)**	**(11,423)**	**44,904**	**(454)**	**-**

Liquidity risk Banking activities 2012

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Provision	Total
Assets							
Investments (interest bearing)	543	276	683	1,114	2,674	-	5,290
Derivatives	75	28	22	1,364	2,171	-	3,660
Loans and advances to customers	4,791	679	909	2,014	54,947	(1,572)	61,768
Loans and advances to banks	1,875	43	1	10	-	(2)	1,927
Other assets	8,104	28	-	148	416	-	8,696
Total assets	**15,388**	**1,054**	**1,615**	**4,650**	**60,208**	**(1,574)**	**81,341**
Liabilities							
Shareholders' equity	-	-	-	-	1,337	-	1,337
Participation certificates and subordinated debts	-	-	57	-	763	-	820
Debt certificates	176	95	793	8,705	12,221	-	21,990
Derivatives	39	43	142	838	2,537	-	3,599
Savings	27,807	1,181	184	2,672	971	-	32,815
Other amounts due to customers	5,683	115	460	425	2,846	-	9,529
Amounts due to banks	1,942	10	-	6,704	30	-	8,686
Other liabilities	2,559	-	6	-	-	-	2,565
Total equity and liabilities	**38,206**	**1,444**	**1,642**	**19,344**	**20,705**	**-**	**81,341**
Net liquidity gap	**(22,818)**	**(390)**	**(27)**	**(14,694)**	**39,503**	**(1,574)**	**-**

The balance in 'loans and advances to banks' relates to the financing of Property Finance for an amount of € 4,055 million. The previous intercompany loans were converted to third-party loans, where the Dutch State guarantees the repayment. We refer to section 5.3 Separation of Property Finance.

On 1 February 2013, SNS REAAL was nationalised. The increased outflow of savings and credit funds preceding this nationalisation triggered the execution of the Liquidity Contingency Plan of SNS Bank NV in January 2013. The relatively high liquidity buffer of SNS Bank NV, and the proper functioning of this plan, proved to be sufficient to absorb the outflow of liquidity (see also section 20.6.2 Liquidity risk policy).

After the nationalisation of SNS REAAL, the outflow of savings and credit funds ceased in January 2013 and the amount of savings started to grow again. SNS Bank NV still maintains a high liquidity position, on the one hand because the situation on the money and capital markets (interbank) has not yet returned to normal levels for SNS Bank NV, and on the other hand regulators demand higher liquidity buffers than before (as announced with the Basel III legislation).

During 2013, SNS Bank NV did not enter into any capital market transactions. Retail savings increased by € 0.5 billion (+1.4%) compared to year-end 2012.

The Loan-to-Deposit ratio of SNS Retail Bank improved from 132% to 122% as a result of the decrease in loans and advances to customers, in combination with small increase in retail funding. The Loan-to-Deposit ratio of SNS Bank NV improved from 148% at year-end 2012 to 122% due to the same factors as the separation of Property Finance.

Development liquidity position SNS Bank NV

In € millions	**December 2013**	December 2012
Cash	5,334	6,691
Liquid assets	6,294	4,818
Total liquidity position	**11,628**	**11,509**

Liquid assets consist of assets which are ECB eligible and readily available.

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

In 2013, SNS Bank NV complied with both internal and regulatory targets for liquidity risk. The internal requirements are thereby significantly stricter than the regulatory requirements. Although SNS Bank NV's funding profile has become more retail-oriented in the last couple of years (the Loan-to-Deposit ratio has declined), a significant portion of SNS Bank NV is still being financed with various wholesale financing instruments. Also in the future, SNS Bank NV will continue to have a diversified funding profile, in which the largest emphasis is on retail funding.

SNS Bank NV has a potential liquidity requirement caused by margin requirements on derivatives. This is because SNS Bank NV, in the context of credit risk mitigation, has agreed with its main counterparts to settle changes in the market value of derivatives on a periodic basis. As a result, there may be both amounts received and amounts paid. At year-end 2013, SNS Bank paid an amount of € 1.2 billion on balance. Under normal circumstances, SNS Bank NV has a broad investor base, an extensive range of financing instruments and easy access to the international capital market. As the credit rating has not yet been adjusted upwards following the nationalisation, market access is not yet back at a level which is normal for SNS Bank NV.

For more details, please refer to Chapter 11 Funding and credit ratings of the Annual Report.

20.6.2 Liquidity risk policy

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

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

The liquidity risk management of SNS Bank NV is based on the composition of its funding portfolio in a business-as-usual environment. The daily cash management activities of the central treasury are in line with the operational requirements of SNS Bank NV and take place in accordance with the regulatory guidelines in this field.

SNS Bank NV strives to diversify the funding portfolio with respect to type (retail versus wholesale), maturity, instrument, and type of investor. SNS Bank NV also has a large portfolio of highly liquid assets, such as Dutch and German government bonds.

Planning for unforeseen events is part of the annually recurring ILAAP process (see section 20.6.3 ILAAP).
SNS Bank NV has a liquidity contingency plan in place, in which the existing crisis management structure is followed.

In January 2013, following the significant outflow of liquidity preceding the nationalisation, the Liquidity Contingency Plan was executed. The frequency of information communicated to the Capital & Liquidity Team (CLT) on the outflow of savings and the development of the liquidity position was increased to multiple times a day. Also the CLT discussed on a daily basis the necessary actions to be executed and informed the Dutch Central Bank (DNB) on the developments and actions. The CLT remained operational during the first week after the nationalisation. After 1 February 2013, the outflow of savings ceased and steady growth became visible.

20.6.3 ILAAP

With the ILAAP (Internal Liquidity Adequacy Assessment Process), the Management Board of SNS Bank NV and the Executive Board of SNS REAAL determine the available amount of liquidity and assess whether it is sufficient compared to the amount of liquidity deemed necessary. The Dutch Central Bank introduced the ILAAP in 2011 and SNS Bank NV ran the ILAAP for the third time in 2013. Starting points are the balance sheet, (proposed) strategy, risk appetite and existing risks. The assessment includes the questions of how risks are dealt with and whether the liquidity cushion of SNS Bank NV in current and possibly future circumstances is sufficiently robust to absorb the liquidity risks. The ILAAP also comprises a liquidity stress test. This liquidity stress test takes into account, among other things, an extreme outflow of savings and credit funds, the lack of funding in the money and capital markets, and a decline in market value of liquid assets.

21 Financial instruments and hedge accounting

21.1 Financial instruments

21.1.1 Fair value accounting of financial assets and liabilities

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

Fair value of financial assets and liabilities 2013

In € millions	Fair value	Book value
Financial assets		
Investments		
- Fair value through profit or loss: held for trading	713	713
- Available for sale	4,944	4,944
Derivatives	2,484	2,484
Loans and advances to customers	54,829	53,405
Loans and advances to banks	6,063	6,063
Other assets	544	544
Cash and cash equivalents	5,528	5,528
Total financial assets	**75,105**	**73,681**
Financial liabilities		
Participation certificates and subordinated debts	40	40
Debt certificates	16,861	16,439
Derivatives	2,670	2,670
Savings	33,547	33,276
Other amounts due to customers	10,657	10,628
Amounts due to banks	7,472	7,457
Other liabilities	1,205	1,205
Total financial liabilities	**72,452**	**71,715**

Fair value of financial assets and liabilities 2012

In € millions	Fair value	Book value
Financial assets		
Investments		
- Fair value through profit or loss: held for trading	848	848
- Fair value through profit or loss: designated	103	103
- Available for sale	4,351	4,351
Derivatives	3,660	3,660
Loans and advances to customers	61,481	61,768
Loans and advances to banks	1,927	1,927
Other assets	709	709
Cash and cash equivalents	6,934	6,934
Total financial assets	**80,013**	**80,300**
Financial liabilities		
Participation certificates and subordinated debts	637	820
Debt certificates	22,172	21,990
Derivatives	3,599	3,599
Savings	33,222	32,815
Other amounts due to customers	9,536	9,529
Amounts due to banks	8,680	8,686
Other liabilities	2,180	2,180
Total financial liabilities	**80,026**	**79,619**

The fair values represent the amounts at which the financial instruments could have been traded between market participants in an orderly transaction. The fair value of financial assets and liabilities is based on quoted market prices, where observable. If actively quoted market prices are not available, various valuation techniques are used to measure the fair value of these instruments. Parameters used in such valuation techniques may be subjective and various assumptions are used, for instance for the discount rate and the timing and size of expected future cash flows. To the extent possible and available, the valuation techniques make use of observable inputs in relevant markets. Changes in the assumptions can significantly influence the estimated fair values. The main assumptions per 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. Accrued interest related to these instruments is recorded in other assets or other liabilities.

21.1.2 Notes to the valuation financial assets and liabilities

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

Investments

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

Derivatives

The fair values of nearly all derivatives are based on observable market information, such as market rates and foreign exchange rates. For a number of non-publicly traded derivatives the fair value depends on the type of instrument and is based on a present value model or an option valuation model.

Loans and advances to customers

Loans and advances to customers primarily concern mortgages. The market value of mortgages is determined based on a present value method. The yield curve used to determine the present value of cash flows of mortgage loans is the swap rate, increased by a risk surcharge. This risk surcharge can vary by to sub-portfolio. Fixed costs and surcharges for embedded options are not included in this spread. The value of embedded options is calculated separately. In determining the expected cash flows, any expected future early redemptions are taken into account.

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

Loans and advances to banks
Given the short-term nature of the loans that are classified as loans and advances to banks, the book value is considered to be a reasonable approximation of the fair value.

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

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

Subordinated debt
The fair value of subordinated debt was estimated on the basis of the present value of the cash flows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding subordinated debt issued by SNS Bank NV, determined by maturity and type of instrument.

Debt certificates
The fair value of debt certificates is estimated on the basis of the present value of the cash flows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by SNS Bank NV, determined by maturity and type of instrument.

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

Amounts due to banks
The fair value of amounts due to banks is estimated on the basis of the present value of the future cash flows, using the interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by SNS Bank NV, determined by maturity and type of instrument. The carrying amount of any amount that is due up to one month is considered to be a reasonable approximation of the fair value.

Other liabilities
The book value of the other liabilities is considered to be a reasonable approximation of its fair value.

21.1.3 Hierarchy in determining the fair value of financial instruments

A major part of the financial instruments is included in the balance sheet at fair value. In addition, the fair value of the other financial instruments is disclosed. 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 solely based on observable market data).
The fair value hierarchy classification is not disclosed for financial assets and liabilities that are not measured at fair value where the book value is a reasonable approximation of the fair value. The comparative figures in the table hierarchy of financial instruments 2012 only contain the level classification of financial assets and liabilities measured at fair value.

Hierarchy financial instruments 2013

	Book value	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at fair value					
Investments fair value through profit or loss: held for trading	713	548	165	-	713
Investments fair value through profit or loss: designated	-	-	-	-	-
Investments available for sale	4,944	4,284	649	11	4,944
Derivatives	2,484	-	2,484	-	2,484
Loans and advances to customers*	2,223	-	2,223	-	2,223
Financial assets not measured at fair value					
Loans and advances to customers*	51,181	-	52,605	-	52,605
Investments loans and advances	-	-	-	-	-
Loans and advances to banks	6,063	-	-	-	-
Other assets	544	-	-	-	-
Cash and cash equivalents	5,528	-	-	-	-
Financial liabilities measured at fair value					
Derivatives	2,670	-	2,428	242	2,670
Debt certificates*	1,220	-	1,220	-	1,220
Financial liabilities not measured at fair value					
Participation certificates and subordinated debts	40	-	-	-	-
Debt certificates*	15,219	-	-	15,641	15,641
Savings	33,276	-	28,850	4,697	33,547
Other amounts due to customers	10,628	-	10,657	-	10,657
Amounts due to banks	7,457	-	7,472	-	7,472
Other liabilities	1,205	-	-	-	-

** A part of the Loans and advances to customers and Debt certificates is measured at fair value and the rest at amortised cost*

More detailed explanation of the level classification

For financial instruments measured at fair value on the balance sheet or for which the fair value is disclosed, this fair value is classified into a level. This level depends on the parameters used to determine fair value and provides further insight into the valuation. The levels are explained below:

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

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

Level 2 – Fair value based on observable market data

The category includes financial instruments for which no quoted prices are available but whose fair value is determined using models where the parameters include available market information. These instruments mostly contain privately negotiated derivatives. This category also includes investments whose prices have been issued by brokers, of which also is observed that there are inactive markets.
In that case, the available prices are largely supported and validated using market information, including market rates

and actual risk surcharges related to different credit ratings and sector classification.

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.

The level 3 valuations of shares is based on quotes from non-liquid markets. The derivatives in level 3 are connected to some mortgage securitisations and are partly dependent on the valuation of the underlying mortgage portfolios and movements in risk spreads.

Hierarchy financial instruments 2012

	Book value	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at fair value					
Investments fair value through profit or loss: held for trading	848	534	300	14	848
Investments fair value through profit or loss: designated	103	63	40	-	103
Investments available for sale	4,351	3,827	524	-	4,351
Derivatives	3,660	-	3,660	-	3,660
Loans and advances to customers*	2,256	-	2,256	-	2,256
Financial liabilities measured at fair value					
Derivatives	3,599	-	3,599	-	3,599
Debt certificates*	1,577	-	1,577	-	1,577

** A part of the Loans and advances to customers and Debt certificates is measured at fair value and the rest at amortised cost*

The following table shows the movement in financial instruments measured at fair value and that are categorised within level 3.

Change in level 3 financial instruments

In € millions	Derivatives	Fair value through profit and loss: held for trading	Available for sale	Total
Balance as at 1 January	-	14	-	14
Transfers into level 3	242	-	11	253
Realised gains or losses recognised in profit or loss	-	-	-	-
Sale	-	(14)	-	(14)
Balance as at 31 December	**242**	**-**	**11**	**253**
Total gains and losses included in profit or loss	-	-	-	-

Unrealised gains and losses on financial instruments are recognised in profit or loss

Breakdown level 3 financial instruments

In € millions	2013	2012
Bonds issued by financial institutions	-	14
Shares	11	-
Derivatives	242	-

The fair value of financial instruments categorised within level 3 is partly based on inputs which are not observable in the market. The fair values of the equity instruments classified within level 3 are determined by calculating scenarios with the use of best estimates of the data which are not observable in the market. The main non-observable 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

In € millions	Based on published stock prices in an active market (Level 1) 2013	2012	Based on observable market data (Level 2) 2013	2012	Not based on observable market data (Level 3) 2013	2012	Total 2013	Total 2012
Shares	-	-	-	-	1	-	1	-
Total	**-**	**-**	**-**	**-**	**1**	**-**	**1**	**-**

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

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

The table below shows the reclassification between the levels of the financial assets and liabilities measured at fair value.

Transfers between categories 2013

In € millions	to Level 1	to Level 2	to Level 3	Total
From:				
Based on published stock prices in an active market (Level 1)	-	-	-	-
Based on observable market data (Level 2)	-	-	253	253
Not based on observable market data (Level 3)	-	-	-	-

Reclassifications between levels 1, 2 and 3

The process to determine the categorisation within the fair value hierarchy has been further refined in 2013. This refinement resulted in the following reclassifications between the levels. In the new methodology is not only assessed whether the financial instrument is listed, but also the specific terms of the instrument, the source of the published quotes and / or the liquidity of the market is taken into account. This has mainly resulted in a shift of investments from level 2 to level 1. More specifically, this has led to the following shifts between levels.

Transfers between level 2 and 3

At the end of 2013 an amount of € 253 million has been transferred from level 2 to level 3. This includes € 11 million investments available for sale and € 242 million of interest derivatives.

21.1.4 Offsetting of financial assets and liabilities SNS Bank NV

The table below presents the financial assets and liabilities that are subject to offsetting. In addition, it includes the related amounts not set off but that do serve to curtail the credit risk.

Financial assets and liabilities SNS Bank 2013

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

Financial assets and liabilities SNS Bank 2012

				Related amounts not set off in the balance sheet value			
In € millions	Gross recognised balance sheet value	Offsetting balance sheet value	Net balance sheet value	Financial instruments	Cash collateral	Other financial collateral	Net value
Financial assets							
Derivatives	3,660	-	3,660	1,658	1,018	-	984
Loans and advances to banks	1,927		1,927			27	1,900
Total financial assets	**5,587**	**-**	**5,587**	**1,658**	**1,018**	**27**	**2,884**
Financial liabilities							
Derivatives	3,599	-	3,599	1,659	990	117	833
Other amounts due to customers	10,604	1,075	9,529	-	-	-	9,529
Amounts due to banks	8,686	-	8,686	-	-	417	8,269
Total financial liabilities	**22,889**	**1,075**	**21,814**	**1,659**	**990**	**534**	**18,631**

21.1.5 Liquidity maturity calendar for financial liabilities

The table below shows the undiscounted cash flows ensuing from the most important financial liabilities, other than derivatives, broken down by contractual maturity date.

Liquidity calendar financial liabilities 2013

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Participation certificates and subordinated debts	-	-	-	(2)	(78)	(80)
Debt certificates	(82)	(2,937)	(1,938)	(4,342)	(9,154)	(18,453)
Savings	(26,978)	(93)	(567)	(3,339)	(2,826)	(33,803)
Other amounts due to customers	(6,568)	(32)	(2,074)	(800)	(4,801)	(14,275)
Amounts due to banks	(786)	(143)	(8)	(6,637)	(33)	(7,607)
Total	**(34,414)**	**(3,205)**	**(4,587)**	**(15,120)**	**(16,892)**	**(74,218)**

Liquidity calendar financial liabilities 2012

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

The table below shows the undiscounted cash flows ensuing from all derivative financial liabilities, broken down according to maturity date.

Liquidity calendar derivatives 2013

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Interest rate derivatives	(58)	(85)	(1,099)	(1,528)	(461)	(3,231)
Currency contracts	(19)	(45)	(750)	(76)	-	(890)
Total	**(77)**	**(130)**	**(1,849)**	**(1,604)**	**(461)**	**(4,121)**

Liquidity calendar derivatives 2012

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

For further explanation with regard to the management of the liquidity risk of SNS Bank NV, we refer to section 20.6 Liquidity risk.

21.2 Hedging and hedge accounting

The hedging strategies of SNS Bank NV are mostly aimed at managing the interest rate risk. Under IFRS, derivatives are measured at fair value in the balance sheet and any changes in the fair value are accounted for in the income statement. In the event that changes in fair value of hedged risks are not recognised through the income statement, an accounting mismatch occurs, causing volatility in the results. In these cases, hedge accounting is applied to the extent possible to mitigate the accounting mismatch and volatility.

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

Derivatives for hedging purposes 2013

	Nominal amounts				Fair value	
In € millions	**< 1 year**	**1 - 5 years**	**> 5 years**	**Total**	**Positive**	**Negative**
Interest rate contracts						
- Swaps and FRAs	13,320	77,844	30,194	121,358	2,243	(2,492)
- Options	1,585	4,500	1,265	7,350	49	-
Currency contracts						
- Swaps	777	168	45	990	33	(35)
Total	**15,682**	**82,512**	**31,504**	**129,698**	**2,325**	**(2,527)**

Derivatives for hedging purposes 2012

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

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

21.2.1 Hedging

SNS Bank NV uses derivatives for the following objectives:

- To hedge the basic risk;
- To manage the duration of the shareholders' equity. The policy is that this duration ranges between 0 and 8;
- To hedge specific embedded options in the mortgages. This relates to mortgages of which the interest rate is capped or where movements in interest rates are not completely passed on to customers;
- To convert fixed-rate funding into floating-rate funding;
- To hedge the risks related to hybrid savings products;
- To hedge the quotation risk when offering mortgages when these is substantial and the new business of fixed-rate mortgages is substantial;
- To hedge foreign exchange risks by converting non-euro funding into euro funding; and
- To hedge risks associated with the investment portfolios.

21.2.2 Hedge accounting

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

Fair value hedges

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

The portfolio hedged consists of 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 designated as being hedged is the risk of change in fair value of the portfolio attributable to movements in market interest rates.

Hedging embedded derivatives in mortgages (macro hedge)

The mortgage portfolio contains mortgages with interest rate derivatives embedded in the mortgage. These ‘embedded options’ are hedged by purchasing mirrored interest rate derivatives in the market. The two where accounting is applied hedge are the Rentedemperhypotheek and the Plafondhypotheek mortgages. The hedge covers the interest rate risk that occurs as a result of writing the embedded interest rate option to the customer.

Hedging the interest rate risk on funding (micro hedge)

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

Hedging the interest rate risk on investments (macro hedge)

Interest rate risk on fixed-income investments (government bonds) is hedged by swapping the coupon to a floating rate using interest swaps and by selling interest rate futures. The country or credit spread is not hedged. The hedges provide protection for the accumulated revaluation reserve of the relevant fixed-income investments.

Cash flow hedges

Hedging the quotation risk of mortgages

The mortgage quotation risk is hedged using swaptions and forward starting swaps. The risk being hedged 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 termination of the hedge relationship the value accrued in the hedge is amortised to the result over the remaining term to maturity of the funding. The accrued value in shareholders’ equity was € 5.6 million negative (gross) as at 31 December 2013.

Hedging floating interest rate cash flows

The risk of variability in the floating interest rate cash flows on the liquidity position, floating interest rate mortgages, property finance loans and funding are hedged by entering into interest rate swaps and basis swaps. The 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 2013 was € 70.2 million positive (gross).

22 Non-financial risk management

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

22.1 Management of non-financial risk

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

- A clear governance structure, including a transparent assignment of duties and responsibilities and escalation procedures, reinforced with a clear risk management structure. For this purpose SNS REAAL implemented the 'three lines of defence' model, where line management is primarily responsible for identifying and managing risks and taking decisions in that area. Along with several other Group staff departments, CS&O has an important oversight function in the second line of defence and shall escalate issues when necessary. The third line of defence is formed by Group Audit, which, independently evaluates the design and operating effectiveness of the entire control and governance framework.
- The Group policy formulated by CS&O, including the operational risk framework, where ethical business conduct concerning non-financial risks is embedded. If desired, CS&O provides recommendations on the implementation of the policy within the business units and monitors compliance.
- The training & awareness programme to increase the awareness of integrity and non-financial risk management amongst managers and staff. This programme includes information meetings, e-learnings, presentations and 'train the trainer' workshops.
- Staff departments provide advice on the development, evaluation and endorsement of products independently from the line business.
- The central reporting center where staff can report various kinds of incidents, such as fraud, undesirable behaviour and information security breaches. This aims to have risks reported in time to prevent or reduce the impact of any consequential damage and to take adequate measures to prevent similar incidents. Employees can also report incidents to the reporting center anonymously (whistleblower procedure).
- Signs of fraud are always investigated. Fraud investigations are risk based, supported by external specialists if necessary. See also section 22.2.
- The monitoring programme executed annually by CS&O in consultation with Group Audit. Resources are annually allocated to the relevant subjects pursuant to a risk-based analysis.
- The quarterly report on non-financial risks. This quarterly report provides the Management Boards, the Executive Board and the Risk Committee within the Supervisory Board with an overview of the high-risk issues and the main developments in non-financial risks. It includes the central embedding of customer interests, progress in the follow-up of action points, the implementation of new/amended laws and regulations, and an analysis of developments in incidents. This report also shows the extent to which SNS Bank acts in accordance with its risk appetite.
- The periodically in-control statements from the Management Boards of the business units and the Executive Board members. In this statement, they report on the main risks and corresponding control measures, improvements made compared to the previous period and the improvement measures that are still in progress. The in-control statement highlights the most substantial risks.

22.2 Property Finance

The investigation initiated in 2012 into suspicions of potential conflicts of interest at Property Finance continued in 2013. This investigation also looks into the signs identified in earlier forensic investigations.

The investigation consists of two components:

- signs of alleged conflicts of interest and irregularities in respect of invoices and expense claims submitted by external Property Finance staff;
- an in-depth investigation to verify whether any funds were misappropriated in projects and divestments of Property Finance. It involves a risk-based selection of these projects and divestments using the signs available.

The investigation has found that irregularities occurred at Property Finance, resulting in the termination of the employment of 18 external employees hired by Property Finance, including a former director and a couple of members of the management team of Property Finance. In 2013, SNS REAAL filed four reports of suspicion of criminal offences against several persons, including offences committed by one of the former directors of Property Finance.

SNS REAAL optimally cooperates with the criminal authorities, which have also set up an investigation, within the applicable statutory frameworks and applicable rules of professional conduct. Group Audit, in close collaboration with Compliance & Security, coordinates the investigation into supposed conflicts of interest, irregularities and misappropriation of funds at SNS REAAL. In this context, SNS REAAL has engaged a number of professional external (forensic) parties to conduct the investigation with the utmost effectiveness.

Property Finance made losses due to the irregularities related to invoices and reimbursements. Since the shares of Property Finance, now known as Propertize BV, are held by NLFI since 31December 2013, any amount recovered from successful legal actions that have been undertaken would be in favour of Propertize BV. It is possible that in the course of the investigation matters arise that could affect the valuation of assets and liabilities of Propertize BV.

Propertize is responsible for the investigation into the integrity issues since the separation of Property Finance on 31 December 2013.

22.3 Capital requirement operational risk

SNS Bank NV applies the standardised approach to calculate the capital buffer for operational risk. The adequacy of the banking capital for operational risk is assessed every year on the basis of ICAAP.

23 Capital management SNS Bank NV

Capital provides a buffer for the risks involved in the activities of SNS Bank NV. The main activity of SNS Bank NV is providing loans. For the risks resulting from this, there is a certain amount of capital required. To ensure continuity and protect stakeholders, market participants and supervisors set requirements for sufficient capital. SNS Bank also has internal standards that must be met.

23.1 Framework and planning of capital management

In addition to the long-term planning in the Capitalisation and Funding Plan, each month a 12-month rolling forecast of capitalisation developments is made for the Banking activities, which is discussed at ALCO Bank. Based on this forecast additional measures may be taken if necessary.

The quantitative assessment of the capital position comprises a comparison of the capital available to the internal standards pursuant to the current regulatory framework as well as the economic capital. In addition, the forecasted capital ratios in the event of stress are compared to the applicable internal standards. 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 the Internal Capital Adequacy Assessment Process (ICAAP), the required amount of capital is determined by the Management Board of SNS Bank NV and the Executive Board of SNS REAAL. The balance sheet, (intended) strategy, risk appetite and existing risks form the basis for the ILAAP. Through the ILAAP it is assessed how risks are dealt with and if SNS Bank NV has adequate capital to absorb the risks under current and potential future circumstances. 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.

For further details on SNS Bank NV's capital adequacy, see section 23.4.

23.2 Objectives and framework of standards SNS Bank NV

To calculate its capital ratios, SNS Bank NV applies the Basel II regulatory framework. This includes the following types of risk: credit risk, market risk of trading book and operational risk. The Internal Rating Based method is employed to quantify the credit risk for residential mortgages.

SNS Bank NV has an internal target core Tier 1 ratio of 13%.

23.3 Capital position

Capitalisation

In € millions	December 2013	December 2012
core Tier 1 ratio	16.6%	6.1%
Tier 1 ratio	16.6%	7.7%
BIS ratio	16.7%	9.3%
BIS ratio (Basel 1 80% floor)	14.2%	9.6%
core Tier 1 capital	2,415	1,253
Tier 1 capital	2,415	1,584
BIS capital	2,437	1,908
Risk weighted assets	14,578	20,592

Core Tier 1 ratio, Tier 1 ratio and BIS ratio are calculated based on Basel II.

Change in core Tier 1 ratio

core Tier 1 ratio as at 1 January	6.1%
Nationalisation measures	
Net impact write-off Property Finance	(7.4%)
Capital injection	9.2%
Expropriation of subordinated debt	3.4%
Change in RWA due to separation of Property Finance	6.7%
Effect nationalisation measures	**11.9%**
Other developments	
Result SNS Retail Bank	1.0%
Change in RWA SNS Retail Bank	(0.3%)
Credit facility to SNS REAAL	(0.5%)
Loan to REAAL	(1.6%)
Effect other developments	**(1.4%)**
core Tier 1 ratio as at 31 December	**16.6%**

For further detail on the nationalisation measures, please refer to section 16.2 Nationalisation and its implications.

Nationalisation measures had an important impact on the core Tier 1 ratio of SNS Bank NV in 2013. At the end of 2013, the core Tier 1 ratio had improved to 16.6%, compared to 6.1% at year-end 2012.

Core Tier 1 capital increased from € 1.3 billion at the end of 2012 to € 2.4 billion. This increase was due to the capital contribution of the Dutch State of € 1.9 billion and the expropriation of subordinated debt (€ 0.7 billion), partly offset by the 2013 net loss of SNS Bank NV of € 1.4 billion and by the deduction of the € 100 million credit facility of SNS REAAL Holding from the core Tier 1 capital.

Risk-weighted assets declined by € 6.0 billion to € 14.6 billion, mainly due to the release of risk-weighted assets of Property Finance, due to the transfer in combination with a guarantee on the funding. This was partly offset by an increase of risk-weighted assets by € 1.25 billion due to the loan to REAAL NV of € 250 million, which has a risk weight of 500%.

Due to the expropriation of subordinated debt, the Tier 1 ratio and the BIS ratio are almost equal to the core Tier 1 ratio. At the end of 2013, the only remaining subordinated loan of SNS Bank NV was an internal lower Tier 2 loan obtained from SNS REAAL NV.

The fully phased in Basel III core Tier 1 ratio of SNS Bank NV amounted to 12.9%. In this ratio the entire deferred tax asset (DTA) related to the loss carried forward as at the end of 2013 of € 354 million and the entire negative fair value reserve of SNS Bank NV of € 101 million are deducted from the core Tier 1 capital. Under Basel III these items will be gradually deducted from Tier 1 capital in the period from 1 January 2014 to 1 January 2018. Furthermore, Basel III risk-weighted assets of € 14.8 billion include a Credit Valuation Adjustment (CVA) capital charge for the risk that the mark-to-market value of derivatives may deteriorate due to a change in counterparty creditworthiness.

In the previous, the possible impact of the mixed financial holding on the capital ratios is not included. Nevertheless, SNS Bank NV is expected to comply with legal requirements.

23.4 Capital adequacy

SNS Bank NV periodically assesses its capital adequacy, amongst others by conducting the Internal Capital Adequacy Assessment Process (ICAAP).
In the ICAAP, the available own funds are compared to the capital requirements imposed by the regulatory authority (Regulatory Capital), the capital requirements based on internal calculations (economic capital) and on the basis of stress testing (see section 23.5).

The results of the stress tests are annually compared with the regulatory capital and economic capital required. The economic capital is calculated and reported to ALCO Bank on a quarterly basis. Sensitivity analyses are performed and forecasts of capital development are made on a monthly basis.

The robustness of the capitalisation is tried by performing stress tests. SNS Bank NV participated in the Dutch Central Bank's stress test in 2013. In addition, SNS Bank performed an internal stress test as part of the 2013 ICAAP.

23.5 Stress testing

DNB stress test on Banking activities

SNS Bank NV participated in the Dutch Central Bank's (macro) stress test in the third quarter of 2013.

This firm-wide stress test is based on a 2.5-year horizon, for which the Dutch Central Bank has prepared a base case scenario and a stress scenario. The stress scenario takes into account a further deterioration of the economy and financial markets. For instance, this stress scenario includes a considerable value decrease of residential property (over 25%) and commercial property (40%) and rising unemployment rates (increase of 3%) over the 2.5-year horizon.

Based on the outcome of the stress test, it was concluded that SNS Bank NV is still sufficiently capitalised also in an extremely negative economic scenario.

EBA stress test on Banking activities

In 2013, the European Banking Authority (EBA) did not request SNS Bank to perform a stress test on its Banking activities. SNS Bank NV has now learned that the ECB (in collaboration with the EBA) will request a stress test on the Banking activities in 2014, part of the Single Supervisory Mechanism.

ICAAP stress test on Banking activities

In the third quarter of 2013, SNS REAAL conducted an internal stress test on its Banking activities within the context of its Internal Capital Adequacy Assessment Process (ICAAP). For this stress test a thorough analysis of the relevant risks was performed. SNS REAAL constructed its own specific economic scenarios for this stress test. The results of the ICAAP show that SNS Bank NV remains above internal standards in the event of a stress scenario, as determined in the Risk Appetite Statement (RAS).

The ICAAP is assessed by the Dutch Central Bank in its Supervisory Review and Evaluation Process (SREP). In this SREP, the Dutch Central Bank discusses the results of the ICAAP with SNS Bank NV.

23.6 Economic capital

SNS Bank uses economic capital for the management of the bank and the business units with the aim to create value in the long term. Therefore, the economic capital must first be calculated as accurate as possible, without incorporating a margin of conservatism in the estimate of the economic capital formula components and the economic capital calculations themselves. In assessing capital adequacy, SNS Bank NV takes into account any uncertainties in the economic capital models. These uncertainties are translated into separate surcharges and added to the unadjusted economic capital.

A one-year horizon with a confidence level of 99.96% is used in determining the economic capital. This confidence level is calibrated to the default probability of a company with an AA rating. SNS Bank NV deliberately chooses this higher confidence level over the level related to the rating ambition in order to be more confident that it will achieve the single A rating. In the economic capital calculation, diversification effects between risk categories are taken into account. These diversification effects occur because not all risks manifest themselves simultaneously.
The economic capital for the Banking activities is calculated on a quarterly basis. When these figures have been analysed, the conclusions are discussed in the various allocation committees and with the Supervisory Board. The economic capital figures are also shared with the Dutch Central Bank. The economic capital is furthermore used in the ICAAP and in the specification and assessment of the risk appetite.

24 Notes to the consolidated financial statements

24.1 Cash and cash equivalents

Specification cash and cash equivalents

in € millions	2013	2012
Non-restricted demand deposits at Dutch Central Bank	3,354	5,902
Restricted demand deposits at Dutch Central Bank	1,000	-
Short-term bank balances	1,090	951
Cash	84	80
Total	**5,528**	**6,933**

Restricted demand deposits at Dutch Central Bank are not available for use in SNS Bank NV's day-to-day operations and have a remaining maturity of less than one month.

24.2 Loans and advances to banks

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

The loans and advances to banks relates to Propertize BV for an amount of € 4,055 million. See section 16.2.3 Separation of Property Finance.

Part of the loans and advances to banks was provided as collateral to third parties. The book value of the collateral is € 1.1 billion (2012: € 1.7 billion).

24.3 Loans and advances to customers

Due to the transfer of Property Finance there are no property finances and financial leases on the balance sheet of SNS Bank at year-end 2013. See also section 18.1 Separation Property Finance and section 24.35 Result discontinued operations.

Loans and advances to customers

	Loans		Provision		Net amount	
in € millions	2013	2012	2013	2012	2013	2012
Mortgages	48,458	50,841	(305)	(214)	48,153	50,627
Property finance						
- Project finance	-	3,219	-	(920)	-	2,299
- Investment finance	-	4,179	-	(247)	-	3,932
Financial leases	-	316	-	(5)	-	311
Other	5,400	4,786	(148)	(187)	5,252	4,599
Total	**53,858**	**63,341**	**(453)**	**(1,573)**	**53,405**	**61,768**

In category 'Other' an amount of € 2.8 billion (2012: € 2.0 billion) represents commercial loans and advances.

SNS Bank NV has securitised a part of the mortgage loans. The remaining principal of the securitised portfolio amounts to € 23.0 billion (2012: € 22.7 billion), of which € 10.6 billion (2012: € 11.9 billion) is for own account. Further information on securitisation transactions is provided under debt certificates. SNS Bank NV has also structured a synthetic securitisation in the form of credit guarantees, whereby the credit risk protection has been bought for a mortgage portfolio of € 297 million (2012: € 319 million). Also, € 143 million (2012: € 308 million) of mortgages was provided as collateral under a private loan.

An amount of € 18.7 billion (2012: € 17.3 billion) of the mortgage loans have been provided as collateral to third parties under the securitisation programmes Hermes, Pearl and Holland Homes, whereof obligations are sold to third parties.

The collateral transactions occurred under normal market conditions.
In addition, € 6.1 billion (2012: € 6.1 billion) of mortgages was provided as collateral to third parties upon the bond issue under the SNS Bank Covered Bond programme.

Financial leases

	Gross		Unearned interest		Net	
in € millions	**2013**	2012	**2013**	2012	**2013**	2012
Overview maturities						
- Shorter than one year	-	87	-	(12)	-	75
- From one to five years	-	177	-	(24)	-	153
- Longer than five years	-	95	-	(12)	-	83
Total	**-**	**359**	**-**	**(48)**	**-**	**311**

The tables below show the statement of change of the various categories within the loans and advances to customers. This also represents the statement of changes in loans and advances of Property Finance until reclassification to held for sale (end of February 2013). Further details regarding the statement of changes in loans and advances since classification as held for sale until the separation are included in the last table of this section.

Statement of changes in loans and advances to customers 2013

in € millions	Mortgages	Property finance	Financial leases	Other	Total
Balance as at 1 January	50,841	7,398	316	4,786	63,341
Foreclosure	-	-	-	-	-
Reclassifications	-	-	-	-	-
Advances	1,428	14	-	882	2,324
Redemptions	(3,674)	(76)	(3)	(207)	(3,960)
Disposals	121	-	-	-	121
Change in fair value as a result of hedge accounting	(313)	-	-	-	(313)
Exchange rate differences	-	(6)	-	-	(6)
Change in mortgage loans at fair value through profit or loss	59	-	-	-	59
Movement in current accounts	-	-	-	51	51
Other movements	(4)	-	-	(2)	(6)
Transfer assets held for sale	-	(7,330)	(313)	(110)	(7,753)
Balance as at 31 December	**48,458**	**-**	**-**	**5,400**	**53,858**

The movement in current accounts of € 51 million (2012: € 1,176 million) relates to short-term exposures.

Statement of changes in provision loans and advances to customers specific 2013

in € millions	Mortgages	Property finance	Financial leases	Other	Total
Balance as at 1 January	199	1,164	5	185	1,553
Reclassifications	-	(1)	1	-	-
Foreclosure	-	-	-	-	-
Withdrawal	(72)	(10)	-	(34)	(116)
Addition	191	58	-	62	311
Release	(25)	2	-	(25)	(48)
Other movements	-	16	(1)	-	15
Transfer assets held for sale	-	(1,229)	(5)	(47)	(1,281)
Balance as at 31 December	**293**	**-**	**-**	**141**	**434**

Statement of changes in provision loans and advances to customers IBNR 2013

In € millions	Mortgages	Property finance	Financial leases	Other	Total
Balance as at 1 January	15	3	-	2	20
Addition	7	-	-	6	13
Reclassifications	-	-	-	-	-
Withdrawal	(9)	-	-	(1)	(10)
Release	(1)	(3)	-	-	(4)
Transfer assets held for sale	-	-	-	-	-
Balance as at 31 December	**12**	**-**	**-**	**7**	**19**

In 2013 a new model was introduced for determining the provision for bad debt (PHIRM). This resulted in an extra addition to the provision of € 45 million in 2013.

Statement of changes in loans and advances to customers 2012

in € millions	Mortgages	Property finance	Financial leases	Other	Total
Balance as at 1 January	52,920	8,971	468	3,308	65,667
Foreclosure	-	(150)	-	-	(150)
Reclassifications	(3)	(49)	-	64	12
Advances	1,260	83	-	434	1,777
Redemptions	(3,276)	(1,456)	(152)	(196)	(5,080)
Disposals	-	-	-	-	-
Change in fair value as a result of hedge accounting	(86)	-	-	-	(86)
Exchange rate differences	-	(1)	-	-	(1)
Change in mortgage loans at fair value through profit or loss	28	-	-	-	28
Movement in current accounts	-	-	-	1,176	1,176
Other movements	(2)	-	-	-	(2)
Balance as at 31 December	**50,841**	**7,398**	**316**	**4,786**	**63,341**

Statement of changes in provision loans and advances to customers specific 2012

in € millions	Mortgages	Property finance	Financial leases	Other	Total
Balance as at 1 January	114	629	3	105	851
Reclassifications	34	(52)	2	44	28
Foreclosure	-	(33)	-	-	(33)
Withdrawal	(95)	(128)	-	(29)	(252)
Addition	169	796	-	78	1,043
Release	(23)	(72)	-	(12)	(107)
Other movements	-	24	-	(1)	23
Balance as at 31 December	**199**	**1,164**	**5**	**185**	**1,553**

Statement of changes in provision loans and advances to customers IBNR 2012

In € millions	Mortgages	Property finance	Financial leases	Other	Total
Balance as at 1 January	10	6	-	3	19
Addition	14	-	-	1	15
Reclassifications	(3)	6	-	-	3
Withdrawal	(6)	-	-	(1)	(7)
Release	-	(9)	-	(1)	(10)
Balance as at 31 December	**15**	**3**	**-**	**2**	**20**

In 2009 and 2011, SNS Retail Bank purchased part of the REAAL NV mortgages held for trading at fair value as then recognised in the REAAL NV balance sheet. As a result, management changed the intention to hold these mortgages for trading purposes and decided to hold these mortgages for the foreseeable future or until maturity. SNS Bank NV used the reclassification option of IAS 39.50d, reclassifying € 680 million (2009) and € 376 million (2011) of mortgages from fair value through the income statement to loans and receivables. As per 31 December 2013, the reclassified portfolio in 2011 has a value of € 354 million (2012: € 363 million; 2011: € 371 million) as a result of sales and redemptions. The reclassified portfolio in 2009 amounts to € 576 million as at 31 December 2013 (2012: € 604 million; 2011: € 628 million; 2010: € 649 million; 2009: € 674 million). The fair value change of the portfolios was marginal and would not have affected 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).

The table below shows the movements of the loans and advances to customers of Property Finance after classification as held for sale (beginning of March 2013) until the separation (31 December 2013).

Statement of changes in loans and advances after reclassification held for sale

In € millions	Property finance	Financial leases	Other	Provision	Total
Balance as at 1 January	-	-	-	-	-
Transfer assets held for sale	7,330	313	110	(1,281)	6,472
Reclassifications	6	-	(6)	-	-
Foreclosure	(383)	-	-	185	(198)
Advances	73	-	-	-	73
Redemptions	(689)	(35)	(16)	-	(740)
Exchange rate differences	(10)	-	-	-	(10)
Addition	-	-	-	(927)	(927)
Withdrawal	-	-	-	120	120
Release	-	-	-	126	126
Other movements	(2)	1	-	(9)	(10)
Separation Property Finance	(6,325)	(279)	(88)	1,786	(4,906)
Balance as at 31 December	**-**	**-**	**-**	**-**	**-**

24.4 Derivatives

Specification derivatives

	Positive value		Negative value		Balance	
in € millions	**2013**	2012	**2013**	2012	**2013**	2012
Derivatives held for cash flow hedge accounting	88	130	4	14	84	116
Derivatives held for fair value hedge accounting	1,725	2,544	1,792	2,592	(67)	(48)
Derivatives held for asset and liability management that do not qualify for hedge accounting	512	728	730	769	(218)	(41)
Derivatives held for trading	159	258	144	224	15	34
Total	**2,484**	**3,660**	**2,670**	**3,599**	**(186)**	**61**

Most derivatives are held to hedge against undesired markets risks. This is explained in Risk management's section 21.2 'Hedging and hedge accounting'.

Statement of changes in derivatives

in € millions	**2013**	2012
Balance as at 1 January	61	(252)
Disposals	(97)	43
Revaluations	(107)	275
Exchange rate differences	(43)	(5)
Balance as at 31 December	**(186)**	**61**

24.5 Investments

Investments: overview

in € millions	**2013**	2012
Fair value through profit or loss (held for trading)	713	848
Fair value through profit or loss (designated)	-	103
Available for sale	4,944	4,351
Total	**5,657**	**5,302**

Fair value through profit or loss: listing

	Held for trading				Designated					
	Equity and similar investments		Fixed income investments		Equity and similar investments		Fixed income		Total	
in € millions	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Listed	2	1	711	847	-	-	-	103	713	951
Unlisted	-	-	-	-	-	-	-	-	-	-
Total	**2**	**1**	**711**	**847**	**-**	**-**	**-**	**103**	**713**	**951**

Part of the investments is pledged in liabilities to banks (repo's) and subordinated debt (bonds). The book value of assets as collateral at 31 December 2013 for SNS Bank NV amounts to € 882 million (2012: € 1.1 billion).

The book value of the investments that have been pledged by the European System of Central Banks (ESCB) is € 12.5 billion (2012: € 12.7 billion). A part of this collateral is held for the three-year loan of the ESCB (LTRO).

Fair value through profit or loss: statement of change

	Held for trading:				Designated					
	Equity and similar investments		Fixed income investments		Equity and similar investments		Fixed income		Total	
in € millions	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Balance as at 1 January	1	7	847	123	-	-	103	98	951	228
Reclassifications	-	-	-	11	-	-	-	-	-	11
Purchases and advances	-	-	-	-	-	-	-	-	-	-
Disposals and redemptions	-	-	-	-	-	-	(103)	-	(103)	-
Revaluations	-	-	13	39	-	-	-	-	13	39
Exchange rate differences	-	-	-	(47)	-	-	-	-	-	(47)
Change in investments held for trading*	1	(6)	(144)	717	-	-	-	6	(143)	717
Other	-	-	(5)	4	-	-	-	(1)	(5)	3
Balance as at 31 December	**2**	**1**	**711**	**847**	**-**	**-**	**-**	**103**	**713**	**951**

** Purchases and disposals in the trading portfolio are reported as net amount under the line item "change in investments held for trading".*

As a consequence of the volatile financial markets SNS Retail bank decided in October 2008 to reclassify part of the investments worth € 590 million in the category fair value through profit or loss held for trading purposes into the category available for sale. The reclassification was effected as from 1 July 2008. As from 31 December 2013 this portfolio decreased to € 4 million (2012: € 27 million; 2011: € 52 million; 2010: € 220 million; 2009: € 341 million; 2008: € 562 million) as a result of disposals and revaluations. The positive change in fair value over the year 2013 amounts to € 0.5 million (2012: € 2 million; 2011: € 1 million; 2010: € 3 million; 2009: € 5 million; 2008: € 23 million negative) and has been added to the fair value reserve. In case reclassification had not taken place, the change in fair value would have been recognised in the income statement.

Available for sale: listing

	Equity and similar investments		Fixed income investments		Total	
in € millions	**2013**	2012	**2013**	2012	**2013**	2012
Listed	1	-	4,932	4,340	4,933	4,340
Unlisted	11	11	-	-	11	11
Total	**12**	**11**	**4,932**	**4,340**	**4,944**	**4,351**

Available for sale: statement of change

	Equity and similar investments		Fixed income investments		Total	
in € millions	**2013**	2012	**2013**	2012	**2013**	2012
Balance as at 1 January	11	11	4,340	3,867	4,351	3,878
Purchases and advances	1	1	2,593	2,918	2,594	2,919
Disposals and redemptions	-	(1)	(1,914)	(2,662)	(1,914)	(2,663)
Revaluations	1	-	(82)	232	(81)	232
Impairments	(1)	-	-	(1)	(1)	(1)
Amortisation	-	-	(15)	(16)	(15)	(16)
Other	-	-	10	2	10	2
Balance as at 31 December	**12**	**11**	**4,932**	**4,340**	**4,944**	**4,351**

Available for sale: valuation

	Equity and similar investments		Fixed income investments		Total	
In € millions	**2013**	2012	**2013**	2012	**2013**	2012
(Amortised) cost price	11	10	4,826	4,152	4,837	4,162
Unrealised gains in value	1	1	106	188	107	189
	12	**11**	**4,932**	**4,340**	**4,944**	**4,351**

24.6 Property projects

Specification property projects

In € millions	**2013**	2012
Property projects	-	736
Cumulative impairments	-	(320)
Total	**-**	**416**

Due to the transfer of Property Finance there are no property projects on the balance sheet of SNS Bank NV at year-end 2013. See also section 18.1 Separation Property Finance and section 24.35 Result discontinued operations.

Statement of changes in property projects

In € millions	2013	2012
Balance as at 1 January	416	512
Foreclosure	-	128
Additions	-	9
Disposals	-	(27)
Impairments	-	(211)
Exchange rate differences	-	(1)
Transfer assets held for sale	(414)	-
Other changes	(2)	6
Balance as at 31 December	**-**	**416**

Statement of changes in property projects after reclassification held for sale

In € millions	2013
Balance as at 1 January	-
Transfer assets held for sale	414
Foreclosure	573
Disposals and redemptions	(23)
Exchange rate differences	(4)
Impairments	(158)
Other movements	7
Transfer Property Finance	(809)
Balance as at 31 December	**-**

The bulk of the portfolio was valued by independent appraisers. Due to the uncertainty in the market, valuation ranges are wide. The impairment of the property projects is based on the best estimates of management.

24.7 Investments in associates

Investments in associates include associates and joint ventures. The book value of investments in associates as at 31 December 2013 is less than € 1 million.

Statement of change in associates and joint ventures

in € millions	2013	2012
Balance as at 1 January	3	17
Purchases and expansions	-	1
Disposals and divestments	-	(2)
Impairments	-	(13)
Other movements	(1)	-
Transfer assets held for sale	(2)	-
Balance as at 31 December	**-**	**3**

At the end of February 2013, the investments in associates of Property Finance were classified as assets held for sale for an amount of € 2 million. This amount equals the transfer value of the investments in associates on 31 December 2013.

Overview most significant investments in associates in 2012

in € millions	Country	Interest	Share in equity	Share in result	Assets	Liabilities	Income
Überseequartier project BV	DE	45%	-	-	66	74	6
Prospect Village LP	US	30%	-	-	41	31	-
The Park at Brushy Creek Ltd	US	12%	1	-	22	16	(1)
Koppelenweg I BV	NL	0%	1	-	35	33	-
Other	Divers	20-50%	-	-	112	92	-
Total			**2**	**-**	**276**	**246**	**5**

In 2012 the associates in Überseequartier Project BV, Prospect Village LP, The Park at Brushy Creek Ltd and Koppelenweg I BV, related to associates of Property Finance.

No loans were granted to associates (2012: € 63 million). The associates have no investment commitments at year-end 2013 (2012: nil).

24.8 Property and equipment

Specification property and equipment

in € millions	2013	2012
Land and buildings in own use	30	40
IT equipment	-	1
Other assets	22	30
Total	**52**	**71**

Statement of changes in property and equipment 2013

in € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	64	5	47	116
Accumulated revaluations	(12)	-	-	(12)
Accumulated amortisation and impairments	(22)	(5)	(25)	(52)
Balance as at 31 December	**30**	**-**	**22**	**52**
Balance as at 1 January	40	1	30	71
Reclassifications	(1)	-	1	-
Investments	-	-	2	2
Divestments	(3)	-	-	(3)
Depreciation	-	(1)	(6)	(7)
Impairments	(6)	-	(3)	(9)
Transfer assets held for sale	-	-	(2)	(2)
Other	-	-	-	-
Balance as at 31 December	**30**	**-**	**22**	**52**

At year-end 2013 an amount of € 1 million (2012: € 3 million) regarding new office buildings is under construction.

At the end of February 2013, the property and equipment of Property Finance were classified as assets held for sale for an amount of € 2 million. This amount equals the transfer value of the property and equipment on 31 December 2013.

Statement of changes in property and equipment 2012

in € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	68	19	55	142
Accumulated revaluations	(7)	-	-	(7)
Accumulated amortisation and impairments	(21)	(18)	(25)	(64)
Balance as at 31 December	**40**	**1**	**30**	**71**
Balance as at 1 January	55	7	28	90
Reclassifications	(4)	-	4	-
Investments	-	-	5	5
Divestments	(7)	-	-	(7)
Depreciation	(1)	(6)	(6)	(13)
Impairments	(3)	-	-	(3)
Other	-	-	(1)	(1)
Balance as at 31 December	**40**	**1**	**30**	**71**

24.8.1 Valuation of land and buildings in own use

Due to the economic circumstances the land and buildings in own use with a fair value greater than € 1 million are valued by an external surveyor every year as of 2009. The other land and buildings in own use are valued once every three years.

Valuation of land and buildings in own use

in € millions	**Assessed**	**Book value**	**Appraised value as % of total book value**
2013	19	30	63%
2012	28	40	70%
2011	39	55	71%
2010	48	73	66%

24.8.2 Hierarchy in determining the fair value of property and equipment

The table below categorises the property and equipment 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 property and equipment 2013

In € millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Land and buildings in own use	-	30	-	-

24.9 Intangible assets

Specification intangible assets

in € millions	2013	2012
Goodwill	67	67
Software	11	16
Other intangible assets	11	15
Total	**89**	**98**

At year-end 2013, internally developed and capitalised software amounts to € 11 million (2012: € 16 million).

Statement of changes in intangible assets 2013

in € millions	Goodwill	Software	Other intangible assets	Total
Accumulated acquisition costs	69	36	34	139
Accumulated amortisation and impairments	(2)	(25)	(23)	(50)
Balance as at 31 December	**67**	**11**	**11**	**89**
Balance as at 1 January	67	16	15	98
Capitalised costs	-	2	-	2
Purchases	-	1	-	1
Depreciation capitalised costs	-	(8)	-	(8)
Depreciation purchases	-	-	(4)	(4)
Balance as at 31 December	**67**	**11**	**11**	**89**

Statement of changes in intangible assets 2012

in € millions	Goodwill	Software	Other intangible assets	Total
Accumulated acquisition costs	239	45	34	318
Accumulated amortisation and impairments	(172)	(29)	(19)	(220)
Balance as at 31 December	**67**	**16**	**15**	**98**
Balance as at 1 January	114	21	18	153
Capitalised costs	-	4	-	4
Purchases	-	2	-	2
Depreciation capitalised costs	-	(11)	-	(11)
Depreciation purchases	-	-	(3)	(3)
Impairments	(47)	-	-	(47)
Balance as at 31 December	**67**	**16**	**15**	**98**

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

24.9.1 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 unit (including goodwill) is compared to the calculated recoverable amount. The recoverable amount of a cash flow generating unit is determined by value-in-use calculations. The value-in-use calculations will be prepared with the help of an independent external consultancy agency.

Goodwill cash generating units

in € millions	2013	2012
SNS Retail Bank	67	67

The goodwill concerns RegioBank. The goodwill impairment test on the cash generating unit SNS Retail Bank does not lead to an impairment.

24.9.2 Principles value-in-use calculations

Specification principles value-in-use calculations

	SNS Retail Bank
Long-term benefits after budget period per year	2.5%
Cost of equity	11.0%
Available solvency	16.5%
Pre-tax discount rate 2013	15.0%
Pre-tax discount rate 2012	13.7%

The key assumptions used in the goodwill impairment test 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 prepared by an independent external consultancy firm. Assumptions are made in the models with regard to:

- Interest income and return on (re)investments.
- Long-term net interest income on property finance loan portfolio.
- (Credit) provisions and risk-weighted assets.
- (Operating) expenses (including charged group expenses).
- Available and required solvency.
- Discount rate.

The value-in-use calculations are prepared on the basis of operational plans for the period 2014-2016. The assumptions are based on expected future market developments and past experiences, and on the long term characteristics of the markets in which the cash generating unit SNS Bank NV operates. In addition to the charged group expenses that are already included in the operational plans, the goodwill impairment test 2013 also takes into account other, not directly allocated corporate company costs (see section 17.6 Specific income statement accounting principles).

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.

24.10 Deferred tax assets and liabilities

Specification deferred tax assets and liabilities

in € millions	2013	2012
- Deferred tax assets	507	337
- Deferred tax liabilities	(174)	(303)
Total	**333**	**34**

Origin of deferred tax assets and tax liabilities 2013

in € millions	1 January	Change through profit or loss	Change through equity	Other movements	31 December
Intangible assets	2	(1)	-	-	1
Property and equipment	1	1	-	-	2
Investments	(25)	30	(5)	-	-
Derivatives	221	(99)	7	-	129
Loans and advances to customers	(277)	99	-	-	(178)
Provisions	17	2	-	-	19
Tax-deductible losses	89	265	-	-	354
Other	6	-	-	-	6
Total	**34**	**297**	**2**	**-**	**333**

Origin of deferred tax assets and tax liabilities 2012

in € millions	1 January	Change through profit or loss	Change through equity	Other movements	31 December
Intangible assets	4	(2)	-	-	2
Property and equipment	(2)	3	-	-	1
Investments	24	(12)	(37)	-	(25)
Derivatives	73	149	(1)	-	221
Loans and advances to customers	(301)	24	-	-	(277)
Debt certificates	108	(108)	-	-	-
Provisions	10	8	-	(1)	17
Tax-deductible losses	1	88	-	-	89
Other	5	-	-	1	6
Total	**(78)**	**150**	**(38)**	**-**	**34**

Specification tax-effect changes shareholders' equity

In € millions	2013	2012
Change in cash flow hedge reserve	(7)	1
Change in fair value reserve	5	37
Total	**(2)**	**38**

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

Tax-deductible losses

in € millions	2013	2012
Total tax-deductible losses	1,418	355
Deferred tax assets calculated on tax-deductible losses	354	89
Average tax rate	25.0%	25.0%

Deferred tax assets as at year-end 2013 include an amount of € 354 million relating to tax losses carried forward (year-end 2012: € 89 million). This tax loss stems from the write-off on the Property Finance real estate finance portfolio. From a fiscal point of view, these losses pertain to the parent company of the fiscal unity, SNS REAAL NV. This deferred tax asset is fully recognised by the entity SNS Bank, where the associated loss was recorded in the income statement. Within the fiscal unity SNS REAAL, the deferred tax asset can be offset against future fiscal gains the coming nine years. As long as both the Banking and Insurance activities are part of the fiscal unity, the taxable income of both subsidiaries contribute to offsetting the tax loss. In the event of a possible quick sale of the insurer, the profitability of SNS Bank is sufficient to offset the tax loss.

In 2013, the deferred tax assets of Property Finance are classified as assets held for sale for the amount of € 9 million. The deferred tax liabilities of Property Finance are classified as liabilities held for sale for the amount of € 7 million (see section 24.35 Result discontinued operations).

In the third quarter of 2013, the fiscal unity SNS REAAL NV concluded a settlement agreement with the Dutch Tax Authorities relating to corporate tax returns. This agreement clarified the principles upon which the corporate tax returns for SNS REAAL NV are to be prepared, including the fiscal treatment of the nationalisation measures.

24.11 Corporate income tax

This relates to advances and amounts due concerning corporate income tax. The corporate income tax item also includes dividends withholding tax, which is settled through the corporate income tax return.

The corporation tax payable and receivable for the years up to and including 2010 is irrevocably determined. The amount of corporation tax recorded by the various subsidiaries pertaining to these years, has not yet been settled with the head of the fiscal unity. The same applies to the corporation tax payable or receivable for the years 2011 through 2013.

24.12 Other assets

Specification other assets

in € millions	2013	2012
Accrued interest	208	233
Other accrued assets	253	257
Accrued assets	**461**	**490**
Other advances	83	219
Total	**544**	**709**

The other accrued assets include the advanced contribution of SNS Bank to the Dutch Central Bank of € 148 million (2012: € 175 million) under the Deposit Guarantee Scheme (DGS) in relation to its share related to the bankruptcy of DSB Bank. The advanced contribution is reduced by a provision of € 20 million (2012: € 27 million) for the estimated deficit of SNS Bank after foreclosure of the assets.

24.13 Savings

Specification savings

in € millions	2013	2012
Due on demand	26,687	24,881
Other savings	6,589	7,934
Total	**33,276**	**32,815**

Savings 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 amount to € 3,041 million (2012: € 2,393 million). The life-course savings accounts amount to € 216 million (2012: € 331 million).

24.14 Other amounts due to customers

Specification other amounts due to customers

in € millions	2013	2012
Non-current debt	2,390	2,186
Available on demand	6,353	5,745
Mortgage deposits	61	91
Savings deposits	1,824	1,507
Total	**10,628**	**9,529**

24.15 Amounts due to banks

Specification amounts due to banks

In € millions	2013	2012
Due on demand	576	1,096
Deposits and certificates	5,582	5,921
Private loans	1,295	1,656
Other amounts due to banks	4	13
Total	**7,457**	**8,686**

Deposits and certificates comprise liabilities ensuing from repo agreements amounting to € 83 million (2012: € 417 million).

Also, amounts due to banks comprise structured transactions. These liabilities are offset by investments, mainly including government bonds with the highest rating. These debts will be settled at the same time as the corresponding investments.

In addition, the amounts due to banks comprise of two three-year loans of the ESCB (LTRO) amounting to € 4.0 billion (2012: € 4.0 billion) and € 1.5 billion (2012: € 1.5 billion), respectively.

24.16 Debt certificates

Specification debt certificates

in € millions	2013	2012
Medium Term Notes	9,672	11,354
Certificates of Deposit	-	162
Debt certificates issued under Hermes and Pearl Securitisation programmes	5,547	8,897
Debt certificates classified at fair value through profit or loss (Holland Homes securitisation programme)	1,220	1,577
Balance as at 31 December	**16,439**	**21,990**

Debt certificates refer to non-subordinated bonds and other debt certificates with a fixed or variable interest rate.

24.16.1 Medium Term Notes

Specification Medium Term Notes

	Coupon rate	Book value	Nominal value	Book value	Nominal value
In €		2013	2013	2012	2012
SNS Bank NV	Fixed	7,248	7,080	8,118	7,748
SNS Bank NV	Structured	598	581	900	825
SNS Bank NV	Floating	1,791	1,789	2,185	2,188
SNS Bank NV	Zero	35	44	151	165
Total		**9,672**	**9,494**	**11,354**	**10,926**

The Medium Term Notes have a maturity of less than five years and comprise both private loans and public loans that are issued under the SNS Bank NV EMTN programme. The total outstanding volume of debt certificates falling within the scope of the guarantee scheme of the Dutch State is € 2.7 billion (2012: € 2.8 billion).

24.16.2 Debt certificates issued under Hermes, Pearl and Lowlands securitisation programmes

SNS Retail Bank has securitised part of the mortgage loans. With these securitisation transactions, the economic ownership of mortgage loans is transferred to separate companies. These loans are transferred at nominal value plus a deferred selling price. A positive result within the separate companies creates a positive value of the deferred selling price. In this way, SNS Retail Bank retains an economic interest in the companies, and has consolidated these companies in its consolidated financial statements in full.

The securitisation transactions with effect from 2001 have a so called ‘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. All notes issued under the securitisation programmes with a call date in 2013 have been called. An overview of the securitisations as at 31 December is provided below:

Overview debt certificates issued under Hermes, Pearl and Lowlands securitisation programmes

	Initial principal	Start of securitisation	Book value	Book value	First call-option date	Contractual expiration
in € millions			**2013**	2012		
Holland Mortgage Backed Series (Hermes) VIII BV	1,269	05-2004	-	461	18-11-2013	01-05-2038
Holland Mortgage Backed Series (Hermes) IX BV	1,529	05-2005	756	818	18-02-2014	01-02-2039
Holland Mortgage Backed Series (Hermes) X BV	1,528	09-2005	849	920	18-03-2015	01-09-2039
Holland Mortgage Backed Series (Hermes) XI BV	1,528	02-2006	971	1,047	18-09-2015	01-09-2040
Holland Mortgage Backed Series (Hermes) XII BV	2,241	10-2006	1,212	1,295	18-03-2016	01-12-2038
Holland Mortgage Backed Series (Hermes) XIV BV	2,000	09-2007	-	1,385	18-02-2013	01-11-2039
Holland Mortgage Backed Series (Hermes) XV BV*	1,618	04-2008	1,286	1,384	18-04-2015	01-04-2042
Holland Mortgage Backed Series (Hermes) XVI BV	3,000	09-2008	-	3,000	18-10-2013	01-10-2045
Holland Mortgage Backed Series (Hermes) XVII BV*	2,844	05-2009	-	2,513	18-01-2013	01-07-2046
Holland Mortgage Backed Series (Hermes) XVIII BV	960	10-2012	886	933	18-09-2017	01-09-2044
PEARL Mortgage Backed Securities 1 BV*	1,014	09-2006	1,014	1,014	18-09-2026	01-09-2047
PEARL Mortgage Backed Securities 2 BV*	852	05-2007	687	747	18-06-2014	01-06-2046
PEARL Mortgage Backed Securities 3 BV*	859	02-2008	-	807	18-03-2013	01-03-2045
PEARL Mortgage Backed Securities 4 BV	1,000	07-2010	985	1,000	18-07-2015	01-07-2047
Lowlands Mortgage Backed Securities 1 BV	3,793	01-2012	3,198	3,449	18-02-2017	18-01-2044
Lowlands Mortgage Backed Securities 2 BV	1,917	07-2013	1,787	-	18-07-2018	18-10-2042
Lowlands Mortgage Backed Securities 3 BV	2,613	12-2013	2,525	-	18-12-2018	18-09-2045
Total	**30,565**		**16,156**	**20,773**		
On own book			10,609	11,876		
Total			**5,547**	**8,897**		

** After restructuring*

In 2013 SNS Retail Bank has purchased bonds, issued by the securitisation programmes, with an amortised cost of € 10.6 billion (2012: € 11.8 billion). SNS Bank NV has purchased subordinated bonds issued by various Pearl companies with an amortised cost of € 91 million (2012: € 98 million).

Hermes XV and XVIII, Pearl IV and the Lowlands securitisations are mainly held for own account and qualify as assets eligible at the European Central Bank.

24.16.3 Debt certificates classified at fair value with value movements recognised through profit or loss (Holland Homes securitisation programmes)

SNS Retail Bank has, besides its regular securitisation programmes, securitised part of its mortgages through the Holland Homes transactions. Companies (special purpose entities) established in these transactions are financed through the issuance of long-term bonds. The obligations to bondholders and the income from the mortgages are matched using interest rate swaps.

Since these derivative contracts were concluded with parties outside SNS Retail Bank , after consolidation of the companies an accounting mismatch would arise since derivatives are measured at fair value through profit and loss. This mismatch is partially reduced by measuring the bonds and mortgages at fair value through profit or loss. When a maturity difference arises from early redemption of the bonds a mismatch can occur. This is taken into account in the valuation of the derivatives.

The securitisation transactions involve a so-called clean-up call structure. This means that when the amount of outstanding notes is less than 10% of the initial outstanding notes (notional) the issuer has the option to redeem the notes.

Besides the above mentioned clean-up call these securitisation transactions also have a put plus step-down structure.

This means that the bondholder is entitled to, from a predetermined date (put), call for early redemption of the bonds. The interest rate of the coupon is increased if both SNS Retail Bank which, being the initiating party, is offered the notes first, and any third party does not repurchases the notes when the noteholder exercises this right. The coupon rate on the note will also be lowered after this date in case the noteholders do not avail themselves of this right. Under normal circumstances, the company and the noteholder will then be financially motivated to repay the bonds prior to maturity.

Overview Holland Homes securitisation programme

Specification Holland Homes securitisation programme

	Initial principal	Date of securitisation	Book value	Book value	Date put-option	Contractual date of expiry
in € millions			**2013**	2012		
Holland Homes MBS 2000-1 BV	350	11-2000	110	125	n.a.	24-09-2030
Holland Homes MBS 2003-1 BV	435	12-2003	-	194	30-12-2013	31-12-2080
Holland Homes MBS 2005-1 BV	757	11-2005	513	539	20-12-2015	31-12-2083
Holland Homes Oranje MBS BV	1,601	04-2006	597	719	20-01-2018	31-12-2083
Total	**3,143**		**1,220**	**1,577**		
On own book			-	-		
Total			**1,220**	**1,577**		

In 2013, one of the Holland Homes programmes has been settled due to honouring the early termination clause in December 2013. See section 24.28 Result on financial instruments.

The contractual non-discounted amount that will have to be paid at the end of the maturity of the bonds mentioned above amounts to € 1.258 million (2012: € 1,542 million).

24.17 Other liabilities

Specification other liabilities

in € millions	**2013**	2012
Other taxes	1	3
Other liabilities	245	1,018
Accrued interest	959	1,159
Total	**1,205**	**2,180**

24.18 Other provisions

Specification other provisions

	Total	
in € millions	**2013**	2012
Restructuring provision	26	52
Other provisions	40	30
Total	**66**	**82**

The restructuring provision mainly relates to cost reduction programmes. It is expected that the largest part of the reorganisations 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.

With regard to a claim from Stichting Claim SNS/Bos & Partners, a provision of € 20 million (2012: € 20 million) is included at year-end 2013. For more information please refer to section 24.21.4.2 Claims and legal cases.

Among the subordinated bonds of SNS Bank expropriated by the State are so-called third series participation certificates (€ 57 million). See also section 16.5.11.1 Participation certificates and section 24.19.1 Participation certificates.

As part of the nationalisation measures the transfer value of the real estate finance portfolio of Property Finance, as per 30 June 2012, was determined by the Dutch State. Due to the transfer of Property Finance to NLFI on 31 December 2013, the total amount of the constructive obligation, which was recognised, has been released. See also section 18.1 Separation Property Finance.

Statement of change in other provisions

	Restructuring provision		Other provisions		Total	
in € millions	**2013**	2012	**2013**	2012	**2013**	2012
Balance as at 1 January	52	22	30	13	82	35
Additions / release	5	44	64	18	69	62
Withdrawal	(17)	(12)	(54)	-	(71)	(12)
Transfer assets held for sale	(14)	-	-	-	(14)	-
Other movements	-	(2)	-	(1)	-	(3)
Balance as at 31 December	**26**	**52**	**40**	**30**	**66**	**82**

At the end of February 2013, the restructuring provision of Property Finance was classified as liability held for sale for the amount of € 9 million. Due to an addition and release for the total amount of € 5 million, the transfer value of the restructuring provision of Property Finance is € 14 million at 31 December 2013. See for more information about the transfer of Property Finance section 18.1 Separation Property Finance and section 24.35 Result discontinued operations.

24.19 Participation certificates and subordinated debts

Specification participation certificates and subordinated debt

in € millions	**2013**	2012
Participation certificates	-	56
Subordinated debt	40	764
Balance as at 31 December	**40**	**820**

24.19.1 Participation certificates

With the nationalisation in February 2013, the participation certificates are expropriated in favour of the Dutch State. The participation certificates are added as a share premium to the shareholders' equity of SNS Bank NV by the Dutch State. For more information, see section 16.2.2.1 Expropriation of subordinated bonds and private debts.

Shortly after the nationalisation, the Minister requested management to conduct fact-finding investigation to ascertain whether there have been any irregularities in the offer of and/or advice concerning these certificates in the past and, if required, to draw up a proposal for compensating those affected. For more information refer to section 16.2.1.4 section certificates and section 24.18 Other provisions.

24.19.2 Subordinated debts

Specification subordinated debt

in € millions	2013	2012
Bonds	-	712
Private loans	40	52
Total	**40**	**764**

24.19.2.1 Subordinated bonds

With the nationalisation on 1 February 2013 the subordinated bonds of SNS Bank NV were expropriated in favour of the Dutch State. SNS REAAL transferred the expropriated subordinated bonds issued by SNS Bank NV in the form of share premium to SNS Bank NV. See for more information section 16.2.2.1 Expropriation subordinated bonds and private debts.

Before nationalisation, the subordinated bonds of SNS Bank NV were part of the qualifying capital and formed part of the capital position of SNS Bank NV.

For a part of the expropriated bonds fair value hedge accounting was used. This hedge relationship was discontinued in February 2013. The market value adjustment of € 69 million on the expropriated subordinated bonds was credited to the result.

Subordinated bonds

	Coupon rate	Period	Book value	Nominal Value	Book value	Nominal value
in € millions			2013	2013	2012	2012
Expropriated in 2013:						
SNS Bank NV	4.238%	1999-2019	-	-	5	5
SNS Bank NV	5.750%	2003-2049	-	-	11	11
SNS Bank NV	6.625%	2008-2018	-	-	36	37
SNS Bank NV	11.250%	2009-2049	-	-	318	320
SNS Bank NV	6.250%	2010-2020	-	-	260	262
Change in fair value as a result of hedge accounting			-	-	82	-
Total			**-**	**-**	**712**	**635**

24.19.2.2 Subordinated private loans

The subordinated private loans have been concluded by SNS Bank NV and form part of the regulatory capital used in determining the solvency position of SNS Bank NV.

The balance of the subordinated private debts of SNS Bank at the time of the nationalisation amounted to € 12 million, with an average interest rate of 6.8%. At year-end the amount of € 40 million concerns loans of SNS REAAL NV.

With the nationalisation in February 2013, the passive capital components corresponding with the subordinated private debts were expropriated for the benefit of the Stichting Afwikkeling Onderhandse Schulden SNS REAAL (Private Debt Settlement Foundation SNS REAAL, Stichting AOS). Since SNS REAAL and SNS Bank are no longer a party, seen from their perspective, the debts are cancelled, and the book value is credited to the result of reporting year 2013. See for more information section 16.2.2.1 Expropriation of subordinated bonds and private debts.

24.20 Equity

Specification equity

in € millions	2013	2012
Equity attributable to shareholder	2,582	1,337
Balance as at 31 December	**2,582**	**1,337**

For further information on total equity, see section 15.4 'Consolidated statement of changes in equity'.

24.21 Off balance sheet commitments

24.21.1 Contingent liabilities

Specification contingent liabilities

In € millions	2013	2012
Liabilities from pledges and guarantees given	-	135
Liabilities from irrevocable facilities	582	746
Repurchase commitments	1,266	1,585
Total	**1,848**	**2,466**

The table above does not include guarantees issued separately to a number of counterparties of Property Finance by SNS Bank in the past. Some remain in force after withdrawing the 403 Declaration. See for more information about the withdrawal section 16.2.3.3 Commitments. At year-end 2013, SNS Bank has guarantees for Alberta Ltd. and Euryhypo AG.

With respect to Alberta Ltd., SNS Bank has a funding obligation in the amount of CAD 4 million, of which CAD 2.5 million (€ 1.7 million) is currently remaining. Moreover, there is a buy-back obligation of the 33% stake through a put/call option for USD 1. SNS Bank NV did not receive a fee for issuing the guarantee.

Property Finance is part of the Überseequartier Project BV (ÜSQ) joint venture. The joint venture has the obligation towards lender Eurohypo AG (Eurohypo) to develop various phases of the Überseequartier in Hamburg. The lenders are the ÜSQ companies. They are responsible for paying the funds. Property Finance guarantees the development of these phases as well as the payment of funds in the event the ÜSQ companies are unable to fulfil their obligations. The total estimated exposure for Property Finance has been set at € 45.3 million. SNS Bank guarantees only Property Finance’s fulfilment of the obligations and not that of other parties in the joint venture.

SNS Bank expects Property Finance to meet its obligations towards these counterparties because Property Finance is sufficiently capitalised at the time of the transfer of shares. SNS Bank, therefore, considers the probability of the guarantee being invoked to be limited.

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 fixed term and at a variable interest rate. Collateral has been obtained for the majority of the irrevocable credit facilities.

Part of the collateralised loans and advances that were sold or securitised under the Holland Homes programme includes a repurchase obligation of the loans and advances on the interest review date. The determination of the maturity schedule below takes account of an early repayment risk on mortgages of 5% per annum (2012: 5%). Besides a repurchase obligation on the interest refixing date of the loans and advances, the Holland Homes transactions are also expected to be repurchased on the date of expiration of the put-option, which is included in the maturity calendar.

Maturity calendar repurchase commitments

In € millions	2013	2013
< 1 year	141	194
1 - 5 years	407	491
> 5 years	718	900
Total	**1,266**	**1,585**

For more information about the other contingent liabilities with related parties of SNS Bank please refer to section 24.22.2 Positions and transactions between SNS Bank NV, SNS REAAL NV, sister companies and other related companies.

24.21.2 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 pay out of € 20,000 per account holder.

If a credit institution is unable to pay and insufficient funds remain to repay the guaranteed amounts (in full) to the account holders of the respective institution, the Dutch Central Bank will pay out the remaining amount to the stated maximum. The total amount is then repaid to the Dutch Central Bank by the banks, including those that are part of SNS Bank NV, according to an apportionment scheme.

24.21.3 Irrevocable future payments

The future minimum operating lease commitments relate to leased premises.

Maturity calendar future minimum payments based on irrevocable operational leases

In € millions	2013	2012
< 1 year	6	7
1 - 5 year	7	10
> 5 year	-	-
Total	**13**	**17**

The future operating lease commitments are recognised under the item Other operating expenses at the moment the expenses are incurred. The most important contracts have renewal options. There are no options to acquire property and no imposed restrictions under the lease agreements.

The Dutch Minister of Finance has imposed a one-off resolution levy on all Dutch banks. Based on the most recent estimate, SNS Bank's share is estimated at € 76 million. This amount is payable in 2014 and will be charged to the result in that year.

24.21.4 Legal proceedings

24.21.4.1 Nationalisation

For information about legal consequences of the nationalisation, procedures and investigations see section 16.2 Nationalisation and its implications.

24.21.4.2 Claims and legal cases

SNS Bank NV is involved in legal proceedings. Although it is impossible to predict the result of pending or threatening legal proceedings, on the basis of information currently available and after consulting legal advisors, the Management Board believes that the outcome of these proceedings is unlikely to have any material adverse effects on the financial position or operating results of SNS Bank NV.

Madoff

In April 2010, a foundation acting for a group of execution-only clients initiated legal proceedings against SNS Bank for alleged losses suffered on investments in certain foreign investment funds (including Madoff feeder funds). As already reported in the 2010 and 2011 annual report, where appropriate, clients will be compensated by SNS Bank in a suitable manner for which provisions have been taken. In January 2013, in the proceedings before the court, the court reached a verdict. It is judged that SNS Bank made mistakes and therefore did not meet its legal agreements. SNS Bank appealed to the court.

In 2010, three Madoff-feeder funds have initiated legal proceedings in New York against, amongst others, SNS Global Custody, the custody entity of SNS Bank, 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. Two times a verdict is given on the BVI in favour of SNS Bank, but against which appeal is lodged. SNS Bank will defend itself strongly but, for the moment, can not give a reliable estimation of possible provisions resulting from these claims.

Stichting Claim SNS / Bos & Partners

At the end of January 2013, SNS Bank NV was held liable with regard to the claim by Stichting Claim SNS/Bos & Partners regarding the investment in foreign investment funds not registered with the AFM, for execution-only customers. Meanwhile, a compensation proposal has been agreed upon with 70% of the customers. For the purpose of a claim by Stichting Claim SNS/Bos & Partners, a provision of € 20 million is included at year-end 2013 (2012: € 20 million).

24.22 Related parties

24.22.1 Identify of related parties

Parties are considered to be related if one party can exert control or significant influence over the other party in deciding financial or operational matters. As a part of its ordinary operations, SNS Bank NV maintains various sorts of ordinary business relations with related companies and parties. Related parties with SNS Bank NV are parent SNS REAAL NV, sister companies, subsidiaries, associated companies, joint ventures, Stichting administratiekantoor beheer financiële instellingen (NLFI), the Dutch State and managers in key positions and close family members of these managers. Transactions with the related parties are in the areas of normal banking, taxation and other administrative relationships.

Transactions with related parties are conducted 'at arm’s length', except where otherwise mentioned. In the transactions with related parties, Best Practices provisions II.3.2, II.3.3, II.3.4, III.6.1, III.6.3 and III.6.4 of the Dutch Corporate Governance Code were complied with.

SNS Bank has several joint staff departments with parent SNS REAAL. In 2013 group-level costs are structurally allocated to the bank activities. For further detail reference is made to section 17.1 Information by segment.

24.22.2 Positions and transactions between SNS Bank NV, SNS REAAL NV, sister companies and other related companies

Positions and transactions between SNS Bank NV, SNS REAAL NV, associated companies and joint ventures

	SNS REAAL NV		Sister companies		Associated companies		Joint ventures	
in € millions	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Positions								
Loans and advances	202	260	1,116	436	-	63	-	819
Provisions for doubtful debt	-	-	-	-	-	-	-	-
Subordinated debt	40	40	-	-	-	-	-	-
Other liabilities	197	221	3,147	2,624	-	-	-	-
Transactions								
Mutation loans and advances	(58)	41	680	(604)	(63)	(50)	(819)	(198)
Mutation provisions for doubtful debt	-	-	-	-	-	-	-	(3)
Mutation Subordinated debt	-	(100)	-	-	-	-	-	-
Mutation Other liabilities	(24)	20	523	(203)	-	-	-	-
Income	1	5	8	13	-	-	-	-
Expense recognised during the period in respect of bad or doubtful debt due	-	-	-	-	-	-	-	-
Other expenses	193	155	93	83	-	-	-	-

Single tax entity

SNS Bank NV is a direct and 100% subsidiary of SNS REAAL NV. Together with other group companies, they constitute a single tax entity for corporate income tax and VAT purposes. All companies within this single tax entity are jointly and severally liable for corporate income tax debts and VAT debts stemming from the relevant tax entities.

The corporation tax payable and receivable for the years up to and including 2010 is irrevocably determined. The amount of corporation tax recorded by the various subsidiaries pertaining to these years, has not yet been settled with the head of the fiscal unity. The same applies to the corporation tax payable or receivable for the years 2011 through 2013.

Nationalisation

The key transactions between SNS Bank NV and parent SNS REAAL NV in this reporting period pertain to the contribution of € 1,9 billion by SNS REAAL NV as paid-in share premium in the shareholders' equity of SNS Bank NV. For more information please refer to section 16.2 Nationalisation and its implications.

Following the transfer of Property Finance there are no positions between SNS Bank and associated companies and joint ventures at year end 2013. For more information on the separation of Property Finance, see section 16.2.3 Separation of Property Finance.

For more information about the transactions between SNS Bank NV, the Dutch State and NLFI please refer to section 16.2 Nationalisation and its implications.

Funding related intragroup transactions and positions

SNS Bank NV has granted a credit facility to its parent SNS REAAL NV. In 2013 this facility was reduced to a maximum of € 100 million (previously € 305 million). As at 31 December 2013 this facility was not used. The term is for two years with an extension option of one year. There is an obligation to repay at the time of sale of (parts of) the insurer. The interest rate of the loan is the 1 month EURIBOR plus 300 basis points. SNS REAAL NV will never establish any right of pledge, right of mortgage or any other right of security on any of its assets as security. Furthermore, SNS REAAL NV, will establish as security, immediately upon request, a right of pledge in favour of SNS Bank NV on its shares in the share capital of REAAL NV. This credit facility of SNS REAAL NV is not considered as an 'at arm's length' facility and is fully deducted from the capital of SNS Bank NV.

In the second half of 2013, a number of measures has been taken aimed at reducing the interdependency between SNS Bank and REAAL NV. The measures are in line with the commitment to phase out the financial interdependence between the bank and the insurer and have been agreed upon by the Dutch Central Bank. They include a loan of SNS Bank to REAAL NV to € 250 million to replace the current account balance between these entities. The loan of € 250 million of SNS Bank NV has a maturity of two years and a one year extension option with the obligation for repayment in the event of divestment of (parts of) the insurer. The interest on the loan is floating, with a floor of 2.516% per annum. REAAL NV has provided as collateral the shares in SRLEV NV, REAAL Schadeverzekeringen NV and Proteq Levensverzekeringen NV to SNS Bank NV. REAAL NV needs to repay early when REAAL NV is no longer a subsidiary of SNS REAAL NV or if SRLEV NV, REAAL Schadeverzekeringen NV or Proteq Levensverzekeringen NV ceases to be a subsidiary of REAAL NV. The loan has a risk weight of 500%.

Mortgage related intragroup transactions and positions

SRLEV and SNS Bank have sold so called “spaarhypotheken” (savings mortgages) to their customers. A savings mortgage is a financial product which combines an insurance policy issued by SRLEV with a mortgage issued by SNS Bank. The proceeds from the insurance policy will ultimately be used to redeem the mortgages.

The savings parts of these insurance premiums received by SRLEV from the policyholders are in the name and at the risk of SRLEV deposited by SRLEV at SNS Bank against interest rates equal to the interest rates on the mortgages linked to these insurance policies.

SRLEV and SNS Bank entered into a cession/retrocession transaction. In this transaction SRLEV purchased and got transferred and will continue to purchase and to get transferred from SNS Bank a portion of the legal ownership of each savings mortgage equal to the amounts of the savings parts SRLEV deposited at SNS Bank including the interest added to it by SNS Bank. The amounts deposited at SNS Bank including the accrued interest thereon are equal to the purchase price of the legal ownership of the mortgages and these amounts are used to settle SRLEV’s relating payment obligation. To the extent that these amount increase due to new (monthly) saving parts deposited by SRLEV at SNS Bank and due to the interest added to it, that amount will be paid by SRLEV to SNS Bank and SNS Bank sells additional portions of legal ownership of saving mortgages and transfers ownership thereof to SRLEV. To the extent these amounts decrease, for example in case of the expiration of an insurance policy, SNS Bank repurchases and gets transferred the legal ownership of the mortgage at a predetermined purchase price equal to the amount of the decrease of the savings parts deposited including the interest added to it. The abovementioned cession/retrocession agreement does not apply to mortgages that are securitised. In addition to the aforementioned, SNS Bank is not allowed to enter into (securitisation) transactions with savings mortgages linked to an insurance policy of SRLEV’s without SRLEV’s prior permission.

Because the sale price of the legal ownership corresponds to the repurchase price and the cession/retrocession agreement explicitly stipulates that the credit risk on the savings mortgages remains with SNS Bank, no transfer of economic ownerships takes place. Therefore the mortgages remain recognised on SNS Bank’s balance sheet. As of 31 December 2013, the legal ownership of € 1,586 million was transferred to SRLEV.

With respect to amounts deposited by SRLEV at SNS Bank relating to mortgages that are securitised by SNS Bank (31 December 2013: EUR 811 million; 31 December 2012: EUR 407 million), SRLEV received a loan from SNS Bank that was used by SRLEV to acquire sub participations in the securitised mortgages from the special purpose companies involved in the securitisation.

As at 31 December 2013 ASN Bank NV provided funding of € 4.5 billion via a mortgage backed loan to Woonhuishypotheken BV, a fully consolidated subsidiary of SNS Bank NV, which holds residential mortgages originated by SNS Bank NV and Regiobank NV (2012: ASN Bank NV provided bilateral funding via mortgage backed loans, totalling € 4.5 billion, to SNS Bank NV and Regiobank NV).

Other key transactions and positions between SNS Bank and sister companies

- At the end of 2013 the investments of REAAL in fixed income securities issued by SNS Bank NV amounted to € 27 million (2012: € 34 million).

- At the end of 2013 the investments of SRLEV in bonds issued by various Hermes securitisation entities consolidated by SNS Bank NV amounted to an amortised cost of € 22 million (2012: € 88 million).
- At the end of 2013 the investments of SRLEV in bonds issued by various Holland Homes securitisation entities consolidated by SNS Bank amounted to an amortised cost of € 54 million (2012: € 94 million).

24.22.3 Transactions and positions with managers in key positions of SNS Bank

Managers in key positions comprise three members of the Executive Board of SNS REAAL NV (2012: 3 members) and the board of the business unit SNS Retail Bank, acting as such in 2013. In total there were 9 persons in key positions (2012: 8 persons).

The table below provides an overview of the total remuneration of managers in key positions.

Specification remuneration managers in key positions

	Statutory		Other		Total	
in € thousands	**2013**	2012	**2013**	2012	**2013**	2012
Fixed annual income* **	1,850	1,813	1,090	1,471	2,940	3,284
Pension contribution	282	308	158	171	440	479
Long-term remuneration	-	1	-	95	-	96
Termination benefits	250	-	-	-	250	-
Total	**2,382**	**2,122**	**1,248**	**1,737**	**3,630**	**3,859**

** The benefit of the private use of a business car in the 2012 accounts has not yet been included as a component of remuneration. For that reason the amount of the 2012 fixed annual income component is € 70k higher than in the 2012 financial statements*

*** In contrast to the 2012 financial statements the valuation of disability and life insurance for both 2013 and 2012 is based on the grossed-up benefit for the employee, and not the premium paid by the employer. For that reason the 2012 fixed annual income component € 81k higher than in the 2012 financial statements.*

Fixed annual income (IFRS: "Short-term employee benefits") means the fixed salary (including holiday allowance, 13th month’s bonus, contribution to health insurance and social security) and the variable remuneration. No variable remuneration is paid to senior management for 2013. SNS Bank took out three insurance policies for the members of senior management: WIA insurance, disability insurance and mortality risk insurance. The corresponding premiums are paid for by SNS Bank. These premiums are also part of the fixed annual income.

In accordance with the Tax Plan 2014 and based on the Budget Agreement 2013 Tax Measures Implementation Act (‘Wet uitwerking fiscale maatregelen Begrotingsakkoord 2013’), SNS Bank pays a one-off ‘crisis tax levy’ of 16% in 2013 on the salaries of its employees in 2013, but only if the salary (per employee) exceeded € 150,000.
The crisis tax levy is also part of the fixed annual income. In 2013, the salary of 8 persons of senior management (2012: 8 persons) exceeded € 150,000. The total crisis tax levy of senior management in 2013 amounted to € 246,000 (2012: € 264,000).

‘Pension contribution’ (IFRS: ‘Post-employment benefits’), means the pension contribution paid for by the employer, after deduction of the contribution paid by the employee.

‘Long-term remuneration’(IFRS: ‘Other long-term employee benefits’), means the remuneration that has been awarded but has not yet been paid out.

‘Termination benefits’ (IFRS: ‘Severance and redundancy pay’), means the pay under termination of the employment contract, including any compensation to which the employee is entitled in connection with the employment termination without performing work.

Loans

The table below provides an overview of the loans granted to members of the senior management that were outstanding on 31 December 2013. These loans were mortgage loans provided in the course of ordinary business and under conditions that also apply to other members of staff.

Specification loans to managers in key positions

	Outstanding as at 31 December		Average interest rate *		Redemptions	
in € thousands	**2013**	2012	**2013**	2012	**2013**	2012
Mortgage loans	2,440	3,792	3.51%	3.67%	103	86

** The average interest rate is the interest paid as a percentage of the average outstanding mortgage loan balances*

The change in outstanding positions per 31 December 2013 and 2012 is due to repayments in 2013 and changes in executive management positions.

Transactions with individual members of the Executive Board and the Supervisory Board of SNS REAAL NV are explained in section 16.6 Remuneration report of the Report of the Supervisory Board of the Annual Report of SNS REAAL NV.

24.23 Subsequent events

SNS Bank NV concluded that no subsequent events have occurred that would require recognition or disclosure in the consolidated financial statements.

24.24 Net interest income

Specification net interest income

in € millions	2013	2012
Interest income	2,230	2,465
Interest expense	1,273	1,760
Net interest income	**957**	**705**

The interest income includes the proceeds derived from lending money and related transactions, as well as related commissions and other interest-related income.

The interest expense includes costs incurred from borrowing and related transactions, as well as other interest-related charges.
Interest income and expenses also include the interest results from derivative positions that are established with the aim of limiting interest rate risk on hedged financial instruments.

Specification interest income

in € millions	2013	2012
Mortgages	1,962	2,092
Other loans and advances	104	111
Loans and advances to banks	137	209
Investments	27	53
Total	**2,230**	**2,465**

The interest income for financial assets not at fair value through profit or loss amounts to € 2,354 million (2012: € 2,396 million).

Specification interest expenses

in € millions	2013	2012
Debt certificates	214	394
Participation certificates and subordinated debt	11	73
Savings	802	1,003
Other amounts due to customers	175	192
Amounts due to banks	71	98
Total	**1,273**	**1,760**

24.25 Net fee and commission income

This item includes fees from services provided, insofar as not interest-related.

Specification net fee and commission income

in € millions	2013	2012
Fee and commission income:		
Money transfer and payment charges	33	37
Securities activities	7	12
Insurance agency activities	18	21
Management fees	36	31
Other activities	5	5
Total fee and commission income:	**99**	**106**
Fee and commission expense	41	42
Commission franchise and advise	8	10
Total	**50**	**54**

24.26 Share in result of associates

This item represents the share in result of associated companies. In 2013 this result was nil (2012: nil).

24.27 Investment income

Specification investment income

in € millions	2013	2012
Fair value through profit or loss	140	(31)
Available for sale	(94)	55
Loans and receivables	(8)	(1)
Total	**38**	**23**

Composition of investment income 2013

	Fair value through profit or loss				
in € millions	**Held for trading**	**Designated**	**Available for sale**	**Loans and receivables**	**Total**
Dividend	-	-	1	-	1
Interest	-	-	-	(2)	(2)
Realised revaluations	-	78	10	(6)	82
Unrealised revaluations	-	62	(105)	-	(43)
Total	**-**	**140**	**(94)**	**(8)**	**38**

Composition of investment income 2012

	Fair value through profit or loss				
in € millions	Held for trading	Designated	Available for sale	Loans and receivables	Total
Dividend	-	-	4	-	4
Interest	-	-	-	(1)	(1)
Realised revaluations	-	(55)	40	-	(15)
Unrealised revaluations	-	24	11	-	35
Total	**-**	**(31)**	**55**	**(1)**	**23**

Included in the investment income is a net loss due to foreign exchange rate movements of € 2 million (2012: € nil).

24.28 Result on financial instruments

Specification result on financial instruments

in € millions	2013	2012
Fair value movements in hedging instruments	288	250
Fair value movements in hedged item attributable to hedged risks	(308)	(263)
Fair value movements in derivatives held for fair value hedge accounting	**(20)**	**(13)**
Fair value movements of derivatives maintained for ALM not classified for hedge accounting	(1)	66
Fair value movements in derivatives held for trading	1	(1)
Loans sold	-	-
Expropriation Private Loans	12	-
Total	**(8)**	**52**

Under the result on financial instruments a gain of € 69 million is recognised in connection with the reduction of derivatives linked to the expropriated subordinated debt and total release of € 12 million by expropriation of Private Loans.

An amount of € 117 million is included, relating to a result on derivatives that are part of some securitisation transactions. These are transactions outside the regular securitisation programme of SNS Bank which are differently structured. The relevant securitisation transactions contain provisions that in the case of early termination of the transaction, might result in a termination payment being due. This settlement has an effect on the income statement under certain market conditions. One of these securitisations reached the early redemption date in December 2013. Management has decided, based on current market conditions, to honour the put option of the bondholders for early redemption. The amount of future settlement costs in the ongoing securitisation transactions is subject to a number of uncertainties. It was agreed that the valuation of the outstanding contracts takes comparable market conditions as well as honouring the put option also for these transactions by SNS Bank into account. See section 25.16.3 Debt certificates classified at fair value with value movements recognised through profit or loss (Holland Homes securitisation programmes).

24.29 Other operating income

The total other operating income in 2013 amounted to € 6 million (2012: € 8 million).

Gains of € 3 million on the sale of the private banking activities of SNS Securities are recognised under other operating income.

24.30 Staff costs

All staff is employed by SNS REAAL NV. The staff costs are charged to SNS Bank NV by SNS REAAL NV.

Specification staff costs

in € millions	2013	2012
Salaries	111	113
Pension costs	21	22
Social security	17	18
Share based payments	-	1
Other staff costs	40	77
Total	**189**	**231**

Other staff costs consist largely of the costs of temporary staff, fleet, travel costs and training and education costs. The lease commitments of the fleet amount to € 4 million (2012: € 4 million) and hiring staff € 19 million (2012: € 16 million).

Remuneration of individual members of the Executive Board and the Supervisory Board is explained in section 16.6

Remuneration report of the Report of the Supervisory Board. This information is part of the consolidated financial statements of SNS REAAL NV.

Number of FTE's

In numbers	2013	2012
Number of FTE's	2,009	2,133

Share plan

Shares granted

	Shares (in numbers)		Weighted average grant date fair value per share (in €)	
	2013	2012	2013	2012
Total	-	**846,241**	-	**1.74**
of which conditionally	-	469,482	-	1.74

Statement of changes conditionally granted shares

	Shares (in numbers)	
	2013	2012
As at 1 January	483,566	-
Conditionally granted	-	469,482
Expropriated	(483,566)	-
As at 31 December	-	**469,482**
Market value grant date (in euros)	-	798,119
Market value as at 31 December 2012 (in euros)	-	**483,566**

In 2011 SNS REAAL started the adjustment of the remuneration policy of the 'Regeling Beheerst Beloningsbeleid' of DNB. This regulation requires that a part of the variable remuneration takes place in shares.

In 2013, no shares were granted to the Management Board members and other senior management members. A number of 846,241 shares were granted to managers and other employees. This concerns the remuneration in shares of 2011. With the nationalisation in February 2013, these shares are expropriated in favour of the Dutch State.

Under the new share plan, effective as of 1 January 2013, the variable remuneration of employees of SNS REAAL and its group entities is granted partly in phantom shares. The value development of these shares is based on the development of the result of SNS REAAL, if necessary corrected for one-off items. The value of the phantom shares is cash settled at the end of the maturity.

Based on the 'Wet uitwerking fiscale maatregelen Begrotingsakkoord 2013', in 2013 SNS Bank paid a one-off crisis tax levy of 16% on the salaries from current employment that it paid its employees in 2012, to the extent that a salary was more than € 150,000. In 2013 for SNS Bank, this levy amounted to € 1.5 million in 2012. The crisis tax levy is extended for one year and amounts to € 1.1 million.

24.31 Other operating expenses

Specification other operating expenses

in € millions	2013	2012
Housing	31	32
IT systems	90	95
Marketing and public relations	28	28
External advisors	9	8
Other costs	158	59
Total	**316**	**222**

Other operating expenses rose in 2013 through additions to provisions for compensation of the holders of the expropriated participation certificates in the amount of € 53 million (2012: nil) and for the recovery of savings mortgages of € 11 million (2012: nil).

In 2013, expenses incurred at Group level (SNS REAAL NV) will be allocated to group segments including SNS Bank NV. For more information, see section 17.1 Information by segment.

The other operating expenses include costs related to lease commitments, which amount to € 1 million (2012: € 2 million).

24.32 Impairment charges / (reversals)

Specification impairment charges / (reversals) by class of asset

	Impairments		Reversals		Total	
in € millions	2013	2012	2013	2012	2013	2012
Through profit or loss						
Loans and advances to customers*	264	259	50	35	214	224
Investments	1	1	-	-	1	1
Property and equipment	9	3	-	-	9	3
Total through profit or loss	**274**	**263**	**50**	**35**	**224**	**228**
Through equity						
Investments	1	-	-	-	1	-
Total through equity	**1**	**-**	**-**	**-**	**1**	**-**

** Contrary to 2012, the impairments and reversals in 2013 are not presented in net amounts.*

24.33 Other expenses

The other expenses contain a charge of € 8 million (2012: € 8 million) due to the banking taxation that is charged to banking institutions operating in the Netherlands since 2012.

24.34 Taxation

Specification taxation

in € millions	2013	2012
In financial year	394	(43)
Prior year adjustments	8	18
Corporate income tax due	**402**	**(25)**
Due to temporary differences	(297)	(150)
Deferred tax	**(297)**	**(150)**
Total	**105**	**(175)**

Reconciliation between the statutory and effective tax rate

in € millions	2013	2012
Statutory income tax rate	25.0%	25.0%
Result before tax	289	(893)
Statutory corporate income tax amount	**72**	**(223)**
Effect of participation exemption	25	16
Prior year adjustments (including tax provision release)	8	18
Permanent differences	-	12
Other	-	2
Total	**105**	**(175)**
Effective tax rate	36.5%	19.6%

24.35 Result discontinued operations

On 31 December 2013, the shares of Property Finance were transferred to the Dutch State for an amount of € 1.00, upon which the Dutch State transferred the Property Finance shares to Stichting administratiekantoor beheer financiële instellingen (NLFI), followed by the issue of certificates of the shares by NLFI to the Dutch State. The comparative figures in the income statement were restated accordingly. The table below presents a detailed income statement of Property Finance. For more information on the separation of Property Finance, see section 16.2.3.

Result from Discontinued Operations Property Finance

In € millions	**2013**	2012
Income		
Interest income	216	287
Interest expense	139	189
Net interest income	**77**	**98**
Result on financial instruments	(4)	(12)
Other operating income	(6)	(2)
Total income	**67**	**84**
Expenses		
Staff costs	31	43
Other operating expenses	46	73
Impairment charges	1,053	988
Other expenses	1	1
Total expenses	**1,131**	**1,105**
Result before tax and separation	**(1,064)**	**(1,021)**
Taxation transfer to NLFI	(253)	(208)
Net result before separation	**(811)**	**(813)**
Result separation	(967)	-
Result before taxation	**(1,778)**	**(813)**
Taxation separation	(242)	-
Net result for the period	**(1,536)**	**(813)**

Result separation Property Finance

In € millions

Transfer value Property Finance*	-
Assets	
Property and equipment	2
Investments in associates	2
Deferred tax assets	9
Property projects	809
Loans and advances to customers	4,906
Loans and advances to banks	10
Other assets	113
Cash and cash equivalents	107
Total assets	**5,958**
Liabilities	
Other provisions	14
Deferred tax liabilities	7
Amounts due to banks	360
Amounts due to SNS Bank	4,455
Corporate income tax	8
Other liabilities	147
Total equity and liabilities	**4,991**
Gross assets transferred	**(967)**
Deferred tax liabilities	242
Net assets transferred	**(725)**
Result transfer Property Finance	**(725)**

** On 31 December 2013, the shares of Property Finance were transferred to the State for the amount of € 1, followed by the transfer of the Property Finance shares by the State to NLFI.*

Utrecht, 26 March 2014

Supervisory Board
J.J. Nooitgedagt (chairman)
J.C.M. van Rutte
C.M. Insinger
M.R. Milz
J.A. Nijhuis
J.A. Nijssen
L.J. Wijngaarden

Management Board
D.J. Okhuijsen (Chairman)
M.B.G.M. Oostendorp
W.H. Steenpoorte

25 Company financial statements

25.1 Company balance sheet

Company balance sheet

Before result appropriation and in € millions	*Notes*	31-12-2013	31-12-2012
Assets			
Cash and cash equivalents		4,683	6,141
Loans and advances to banks	1	6,063	1,503
Loans and advances to customers	2	31,341	34,135
Derivatives		2,484	3,709
Investments	3	1,778	1,833
Subsidiaries	4	580	272
Receivables from subsidiaries	5	5,777	13,251
Property and equipment	6	34	49
Intangible assets	7	78	83
Deferred tax assets		502	327
Corporate income tax		207	113
Other assets		395	663
Total assets		**53,922**	**62,079**
Equity and liabilities			
Savings		14,330	14,748
Other amounts due to customers		7,647	7,199
Amounts due to customers	8	**21,977**	**21,947**
Amounts due to banks	9	7,451	8,498
Debt certificates		9,722	11,520
Derivatives		1,947	2,841
Deferred tax liabilities		177	273
Other liabilities	10	9,962	14,772
Other provisions	11	64	70
Participation certificates and subordinated debts		40	821
Total liabilities			
Share capital		381	381
Share premium reserves		3,787	1,186
Revaluation reserves		-	6
Cash flow hedge reserves		48	68
Fair value reserve		(118)	(215)
Statutory reserves associates		25	88
Other statutory reserves		-	-
Other reserves		(189)	542
Retained earnings		(1,352)	(719)
Total equity	12	**2,582**	**1,337**
Total equity and liabilities		**53,922**	**62,079**

** The references next to the balance sheet items relate to the notes to the company financial statements starting from section 26.1.*

25.2 Company income statement

Company income statement

in € millions	2013	2012
Result on subsidiaries after taxation	(280)	130
Other results after taxation	(1,072)	(849)
Net result	**(1,352)**	**(719)**

The loss of the subsidiary Property Finance amounted to € 1,536 million in 2013 (2012: € 765 million loss). This loss is recognised in the company income statement for the amount of € 811 million as result on subsidiaries after taxation. Within other results after taxation a loss on the transfer of the subsidiary to NLFI is included of EUR 725 million.

25.3 Principles for the preparation of the company financial statements

SNS Bank NV prepares the company financial statements in accordance with the statutory provisions of Book 2, Section 402 of the Dutch Civil Code. Based on this, the result on subsidiaries after taxation is the only item shown separately in the income statement. Use has been made of the option offered in Book 2, Section 362 (8) of the Dutch Civil Code to use the same principles for valuation and the determination of the result that are used in the consolidated financial statements for the company financial statements. Reference is made to Chapter 18 (Accounting principles for the consolidated financial statements).

For additional information on items not explained further in the notes to the company balance sheet, reference is made to Chapter 24 (Notes to the consolidated financial statements).

The overview as referred to in Book 2, Sections 379 and 414 of the Dutch Civil Code has been filed with the Trade Register of the Chamber of Commerce of Utrecht.

Subsidiaries are all companies and other entities in respect of which SNS Bank NV has the power to govern the financial and operating policies, whether directly or indirectly, and which are controlled by SNS Bank NV. The subsidiaries are accounted for using the equity method.

Changes in balance sheet values of subsidiaries due to changes in the revaluation, cash flow and fair value reserve of the subsidiaries are reflected in the statutory reserve associates, which forms part of shareholders' equity.

Statutory reserves that have been formed for the capitalised costs of research and development of software of the subsidiaries are also presented in the statutory reserve associates.

Changes in balance sheet values due to the results of these subsidiaries, accounted for in accordance with SNS Bank NV accounting policies, are included in the income statement. The distributable reserves of subsidiaries are included in other reserves.

Receivables from and amounts due to subsidiaries are intercompany balances, and are valued at amortised cost.

Cash and cash equivalents include the non-restricted and restricted demand deposits with the Dutch Central Bank and advances to credit institutions with a remaining maturity of less than one month.

26 Notes to the company financial statements

26.1 Loans and advances to banks

Specification loans and advances to banks

in € millions	2013	2012
Breakdown by remaining maturity:		
Payable on demand	1,575	1,460
Not payable on demand:		
> 1 month < 3 months	423	43
> 3 months < 1 year	4,065	-
> 1 year < 5 years	-	-
> 5 years	-	-
Total	**6,063**	**1,503**

26.2 Loans and advances to customers

Specification loans and advances to customers

in € millions	2013	2012
Breakdown by remaining maturity:		
Payable on demand	2,181	2,067
Not payable on demand:		
> 1 month < 3 months	527	13
> 3 months < 1 year	25	66
> 1 year < 5 years	414	354
> 5 years	28,194	31,635
Total	**31,341**	**34,135**

Loans and advances to customers include loans and advances included in Hermes, Pearl and Lowlands, which bonds were not placed with third parties of € 9.3 billion (2012: € 10.2 billion). These bonds are included in the bucket > 5 years.

26.3 Investments

Specification investments

in € millions	2013	2012
Fair value through profit or loss trade	540	692
Available for sale	1,238	1,141
Total	**1,778**	**1,833**

Statement of changes in investments

	Fair value through profit or loss		Available for sale		Total	
in € millions	**2013**	2012	**2013**	2012	**2013**	2012
Balance as at 1 January	692	43	1,141	1,103	1,833	1,146
Purchases and advances	1,160	3,626	658	1,010	1,818	4,636
Disposals and redemptions	(1,311)	(2,959)	(576)	(1,082)	(1,887)	(4,041)
Depreciation of premiums and discounts		-	(5)	(4)	(5)	(4)
Revaluations	4	-	19	120	23	120
Change in investments through profit and loss	-	14	1	(6)	1	8
Exchange rate fluctuations	-	(47)	-	-	-	(47)
Other	(5)	15	-	-	(5)	15
Balance as at 31 December	**540**	**692**	**1,238**	**1,141**	**1,778**	**1,833**

26.4 Subsidiaries

Statement of changes in subsidiaries

in € millions	**2013**	2012
Balance as at 1 January	272	102
Capital contribution	1,961	-
Disposals and terminations	(1,127)	(6)
Revaluations	(83)	138
Result	(280)	130
Dividend received	(163)	(92)
Balance as at 31 December	**580**	**272**

The Capital contribution pertains to the the contribution of paid in share capital to SNS Property Finance by SNS Bank, through a debt for equity swap. Please refer to 16.2.3.2 Developments in 2013 in relation to the nationalisation for further details.

The amount of € -1,127 million of Disposals and terminations includes the loss on the transfer of SNS Property finance to NLFI of € 725 million. It furthermore includes the reclassification of the net asset value (€ 402 million) of SNS Property Finance as of 31 December 2012 from Receivables from subsidiaries to Subsidiaries. As of 31 December 2012 the negative net asset value of SNS PF was recorded as a provision on the receivables from SNS PF.

26.5 Receivables from subsidiaries

Specification receivables from subsidiaries

in € millions	**2013**	2012
Cash and cash equivalents	1,319	1,192
Loans and advances to banks	220	8,608
Loans and advances to customers	3,715	2,895
Other assets	523	556
Total	**5,777**	**13,251**

Due to the transfer of Property Finance there was a decrease in loans and advances to banks in 2013. For more information on the separation of Property Finance, see section 16.2.3 Separation of Property Finance.

Part of the loans and advances to customers of € 1.4 billion (2012: € 1.3 billion) is related to concern Hermes and Pearl bonds repurchased by SNS Bank NV.

26.6 Property and equipment

Specification property and equipment

in € millions	2013	2012
Land and buildings in own use	15	24
IT equipment	-	1
Other tangible fixed assets	19	24
Total	**34**	**49**

Statement of change in property and equipment 2013

in € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	38	4	42	84
Accumulated revaluations	(3)	-	-	(3)
Accumulated amortisation and impairments	(20)	(4)	(23)	(47)
Balance as at 31 December	**15**	**-**	**19**	**34**
Balance as at 1 January	24	1	24	49
Reclassifications	(1)	-	1	-
Revaluations	1	-	-	1
Investments	-	-	2	2
Divestments	(4)	-	-	(4)
Decommissioning	-	-	-	-
Depreciation	-	(1)	(4)	(5)
Impairments	(5)	-	(4)	(9)
Balance as at 31 December	**15**	**-**	**19**	**34**

Statement of change in property and equipment 2012

in € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	41	18	47	106
Accumulated revaluations	1	-	-	1
Accumulated amortisation and impairments	(18)	(17)	(23)	(58)
Balance as at 31 December	**24**	**1**	**24**	**49**
Balance as at 1 January	37	7	23	67
Reclassifications	(3)	-	3	-
Revaluations	1	-	-	1
Investments	-	-	4	4
Divestments	(7)	-	-	(7)
Decommissioning	(1)	(1)	(1)	(3)
Depreciation	-	(5)	(5)	(10)
Impairments	(3)	-	-	(3)
Balance as at 31 December	**24**	**1**	**24**	**49**

26.7 Intangible assets

Specification intangible assets

in € millions	2013	2012
Goodwill	67	67
Software	11	16
Total	**78**	**83**

Statement of change in intangible assets

	Goodwill		Software		Total	
in € millions	2013	2012	2013	2012	2013	2012
Accumulated acquisition costs	69	239	36	45	105	284
Accumulated amortisation and impairments	(2)	(172)	(25)	(29)	(27)	(201)
Balance as at 31 December	**67**	**67**	**11**	**16**	**78**	**83**
Balance as at 1 January	67	114	16	21	83	135
Investments	-	-	3	7	3	7
Divestments	-	-	-	(1)	-	(1)
Amortisation	-	-	(8)	(11)	(8)	(11)
Impairments	-	(47)	-	-	-	(47)
Balance as at 31 December	**67**	**67**	**11**	**16**	**78**	**83**

26.8 Amounts due to customers

Specification amounts due to customers

in € millions	2013	2012
Savings	14,330	14,748
Other amounts due to customers	7,647	7,199
Total	**21,977**	**21,947**

Time to maturity amounts due to customers

in € millions	2013	2012
Breakdown by remaining maturity:		
Payable on demand	16,251	17,397
Not payable on demand:		
> 1 month < 3 months	46	750
> 3 months < 1 year	426	129
> 1 year < 5 years	1,897	1,831
> 5 years	3,357	1,840
Total	**21,977**	**21,947**

26.9 Amounts due to banks

Time to maturity amounts due to banks

in € millions	2013	2012
Breakdown by remaining maturity:		
Payable on demand	698	1,516
Not payable on demand:		
> 1 month < 3 months	142	11
> 3 months < 1 year	80	1
> 1 year < 5 years	6,495	6,941
> 5 years	36	29
Total	**7,451**	**8,498**

26.10 Other liabilities

Specification other liabilities

In € millions	2013	2012
Debts to subsidiaries	8,934	12,976
Other	1,028	1,796
Total	**9,962**	**14,772**

Specification debts to subsidiaries

In € millions	2013	2012
Amounts due to banks	2,629	6,965
Other liabilities	6,305	6,011
Total	**8,934**	**12,976**

26.11 Other provisions

Specification other provisions

in € millions	2013	2012
Restructuring provision	26	42
Other provisions	38	28
Total	**64**	**70**

26.12 Equity

Statement of changes in equity 2013

in € millions	Issued capital	Share premium reserve	Revaluation reserve	Cash flow hedge reserve	Fair value reserve	Statutory reserves associates	Other statutory reserves	Other reserves	Retained earnings	Total Equity
Balance as at 1 January 2013	381	1,186	6	68	(215)	88	-	542	(719)	1,337
Transfer of 2012 net result	-	-	-	-	-	-	-	(719)	719	-
Transfers 2012	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(719)**	**719**	**-**
Unrealised revaluations	-	-	-	(20)	96	(73)	-	-	-	3
Realised revaluations through profit or loss	-	-	-	-	-	(8)	-	-	-	(8)
Suppletion negative revaluation reserves associates	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	(6)	-	-	18	-	(12)	-	-
Impairments	-	-	-	-	1	-	-	-	-	1
Capital injection	-	1,900	-	-	-	-	-	-	-	1,900
Transactions with shareholder	-	701	-	-	-	-	-	-	-	701
Amounts charged directly to equity	**-**	**2,601**	**(6)**	**(20)**	**97**	**(63)**	**-**	**(12)**	**-**	**2,597**
Net result 2013	-	-	-	-	-	-	-	-	(1,352)	(1,352)
Total result 2013	**-**	**2,601**	**(6)**	**(20)**	**97**	**(63)**	**-**	**(12)**	**(1,352)**	**1,245**
Total changes in equity 2013	**-**	**2,601**	**(6)**	**(20)**	**97**	**(63)**	**-**	**(731)**	**(633)**	**1,245**
Balance as at 31 December 2013	**381**	**3,787**	**-**	**48**	**(118)**	**25**	**-**	**(189)**	**(1,352)**	**2,582**

Statement of changes in equity 2012

in € millions	Issued capital	Share premium reserve	Revaluation reserve	Cash flow hedge reserve	Fair value reserve	Statutory reserves associates	Other statutory reserves	Other reserves	Retained earnings	Equity attributable to shareholders	Securities capital	Group equity
Balance as at 1 January 2012	381	967	6	64	(189)	(50)	50	456	38	1,723	156	1,879
Transfer of 2011 net result	-	-	-	-	-	-	-	38	(38)	-		-
Transfers 2011	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**38**	**(38)**	**-**	**-**	**-**
Unrealised revaluations	-	-	-	4	56	84	-	-	-	144	-	144
Realised revaluations through profit or loss	-	-	-	-	1	(29)	-	-	-	(28)	-	(28)
Suppletion negative revaluation reserves associates	-	-	-	-	-	-	(50)	50	-	-	-	-
Other changes	-	-	-	-	(83)	83	-	(2)	-	(2)	-	(2)
Impairments	-	-	-	-	-	-	-	-	-	-	-	-
Capital injection	-	219	-	-	-	-	-	-	-	219	(156)	63
Amounts charged directly to equity	**-**	**219**	**-**	**4**	**(26)**	**138**	**(50)**	**48**	**-**	**333**	**(156)**	**177**
Net result 2012	-	-	-	-	-	-	-	-	(719)	(719)	-	(719)
Total result 2012	**-**	**219**	**-**	**4**	**(26)**	**138**	**(50)**	**48**	**(719)**	**(386)**	**(156)**	**(542)**
Total changes in equity 2012	**-**	**219**	**-**	**4**	**(26)**	**138**	**(50)**	**86**	**(757)**	**(386)**	**(156)**	**(542)**
Balance as at 31 December 2012	**381**	**1,186**	**6**	**68**	**(215)**	**88**	**-**	**542**	**(719)**	**1,337**	**-**	**1,337**

26.12.1 Issued shares

The issued share capital is fully paid and comprises ordinary shares.

The nominal value of the ordinary shares is € 453.79. The number of issued shares as at 31 December 2013 is 840,008 ordinary shares.

Specification issued shares / securities

	Shares		State-like'	
in numbers	**2013**	2012	**2013**	2012
Outstanding as at 1 January	840,008	840,008	-	29,714,286
Issues in the financial year	-	-	-	-
Contribution as share premium	-	-	(29,714,286)	(29,714,286)
Outstanding as at 31 December	840,008	840,008	(29,714,286)	-

In 2012 the State-like securities were contributed as share premium to the shares of SNS Bank. End of 2012 there were no remaining securities.

26.13 Off balance sheet commitments

SNS Bank NV has provided guarantees as referred to in Book 2, section 403 of the Dutch Civil Code for SNS Securities NV, ASN Bank NV, RegioBank NV and Pettelaar Effectenbewaarbedrijf NV. SNS REAAL NV has provided guarantees as meant in Book 2, section 403 of the Dutch Civil Code for SNS Bank NV and several other subsidiaries of SNS Bank NV.

Following the share transfer on 31 December 2013, SNS Bank NV withdrew the 403 declaration for Property Finance on 31 December 2013 and initiated the proceedings provided for in Article 2:404 of the Dutch Civil Code to terminate the remaining guarantees. SNS Bank NV and SNS REAAL, respectively, also withdrew the 403 declarations for four subsidiaries of Property Finance on 31 December 2013, and initiated the proceedings to terminate the remaining guarantees. Some creditors have objected to the termination of the remaning guarantees.

SNS Bank NV issued separate guarantees to a number of counterparties of Property Finance in the past. Following the withdrawal of the 403 declaration and termination of the remaining commitments arising from the 403 declaration, these guarantees will remain in place. SNS Bank NV expects Property Finance to be able to meet its obligations to these counterparties as Property Finance is adequately capitalised at the time of the share transfer. SNS Bank NV, therefore, deems it unlikely that a guarantee will be invoked.

For more information about the other contingent liabilities please refer to section 24.21 Off balance sheet commitments of the consolidated financial statements.

26.14 Related parties

Positions and transactions between SNS Bank NV and subsidiaries

In € millions	**2013**	2012
Positions		
Loans and advances	5,777	13,251
Liabilities	8,934	12,975
Transactions		
Mutation loans and advances	(7,474)	(1,147)
Mutation liabilities	(4,041)	2,415
Income	202	269
Other expenses	419	394

Due to the transfer of Property Finance there was a decrease in positions and transactions between SNS Bank and group companies in 2013. For more information on the separation of Property Finance, see section 16.2.3 Separation of Property Finance.

For more information about the related parties please refer to section 24.22 Related parties of the consolidated financial statements.

26.15 Audit fees

Based on Book 2, Section 382A (3) of the Dutch Civil Code, reference is made to the Financial Statements 2013 of SNS REAAL NV for an overview of the fees charged by the audit firm KPMG Accountants NV and the other KPMG companies in the financial year.

Utrecht, 26 March 2014

Supervisory Board
J.J. Nooitgedagt (Chairman)
J.C.M. van Rutte
C.M. Insinger
M.R. Milz
J.A. Nijhuis
J.A. Nijssen
L.J. Wijngaarden
Management Board
D.J. Okhuijsen (Chairman)
M.B.G.M. Oostendorp
W.H. Steenpoorte

27 Overview of principal subsidiaries

An overview is provided below of the main subsidiaries of SNS Bank NV. Participation in the subsidiaries is 100%.

Overview of principal subsidiaries SNS Bank NV

ASN Bank NV	The Hague
SNS Securities NV	Amsterdam
RegioBank NV	Utrecht

Other capital interests

For information on the most significant other capital interests, reference is made to the notes to the consolidated balance sheet in Chapter 25.8 (Investments in associates).

The overview as referred to in Book 2, Sections 379 and 414 of the Dutch Civil Code has been filed with the Trade Register of the Chamber of Commerce of Utrecht.

28 Other information

28.1 Provision regarding profit or loss appropriation

28.1.1 Provisions of the Articles of Association regarding profit or loss appropriation for shares

Article 33

a The net result shall be at the free disposal of the General Meeting of Shareholders.

b The company may only make distributions to shareholders and the other persons entitled to the distributable profits to the extent that its equity exceeds the total amount of its issued share capital and the reserves which are to be maintained pursuant to the law.

c Distribution of profits shall take place following the adoption of the financial statements from which it appears that such distribution is allowed.

Article 34

a Dividends shall be due and payable fourteen days after having been declared, unless upon the proposal of the general management, the General Meeting of Shareholders determines another date thereof.

b Dividends that have not been collected within five years after they became due and payable shall revert to the company.

c If the General Meeting of Shareholders so determines on the proposal of the general management, an interim dividend will be distributed, including an interim dividend from reserves, but only with due observance of what is provided in section 2:105, subsection 4, Civil Code.

d A loss may only be applied against reserves maintained pursuant to the law to the extent permitted by law.

28.1.2 Profit or loss appropriation

The loss for the financial year 2013 is debited to the other reserves.

28.2 Independent auditor's report

To: The Shareholder of SNS Bank N.V.

Report on the financial statements

We have audited the accompanying financial statements 2013 of SNS Bank N.V., Utrecht, as included in chapters 15 to 27 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 2013, 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 2013, the company income statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

The Management Board's responsibility

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Report of the Management Board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Management Board is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of SNS Bank N.V. as at 31 December 2013 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of SNS Bank N.V. as at 31 December 2013 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the Report of the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the Report of the Management Board, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 26 March 2014
KPMG Accountants N.V.

P.A.M. de Wit RA

PILLAR III

29 Pillar III

This is SNS Bank NV’s report on capital adequacy and risk management in accordance with the legal disclosure requirements in EU’s Capital Requirements Directive (CRD) as based upon the Basel II framework. The report, together with the risk section in the Financial Statements of SNS Bank NV, presents the capital position and how the size and composition of the capital base is related to the risks as measured in Risk Weighted Assets (RWA). If the information required for Pillar III already is reported in the risk section in the Financial Statements, a cross reference is made. Other, additional information is presented in this Pillar III section. The information contained in this section has not been audited by SNS REAAL NV’s external auditors.

The Basel II framework is based on three pillars:

- Pillar I defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. This capital demand has to be covered by regulatory own funds.
- Pillar II addresses the bank’s internal processes for assessing overall capital adequacy in relation to risks (ICAAP). Pillar II also introduces the Supervisory Review and Evaluation Process (SREP), which assesses the internal capital adequacy of credit institutions.
- Pillar III focuses on minimum disclosure requirements, covering the key pieces of information required to assess the capital adequacy of a credit institution.

Primary purpose of the third pillar of Basel II is to promote greater market discipline by enhancing transparency in information disclosure. It means that more information concerning risks, risk management practices and capital adequacy should be published. The Pillar III report is incorporated as a section in the Annual Report SNS Bank NV. This allows the reader to form a comprehensive opinion on SNS Bank NV's financial and risk management position as a whole.

This section has been developed with the ambition to meet the increased need for transparency in the financial market. The comprehensive Pillar III disclosure for SNS Bank NV is made annually. Periodic information is published bi-annually, included in the half year press release of SNS REAAL NV. The key data on capital adequacy is also presented in the annual report of SNS REAAL NV.

29.1 Risk management SNS Bank

The nationalisation of SNS REAAL on 1 February 2013 has led to a strengthening of the solvency of SNS Bank. At the end of 2013, the core Tier 1 ratio had improved to 16.6%, compared to 6.1% at year-end 2012. Risk weighted asset (RWA) declined with € 6 billion to € 14.6 billion, mainly due to release of RWA by the separation of Property Finance end 2013.

SNS Retail Bank’s commercial activities, such as offering accessible banking products, involve relatively low risk, while the exposure to higher risk activities, such as proprietary trading, complex products or foreign currencies, is limited. The mainly Dutch clients are concentrated within the retail.

During 2013, SNS Retail Bank did not enter into capital market transactions. In total, retail savings balances increased slightly from € 32.8 billion to € 33.3 billion. After a decline of € 1.3 billion in January, retail savings showed a gradual growth. The loan-to-deposit ratio of the Banking activities declined from 148% at year-end 2012 to 122%, partly caused by the separation of Property Finance.

For more information on the risk management of SNS Bank NV with respect to the risk management organisation, the risk committees and the risk management departments, please refer to the Chapter 10 on Risk and Capital management in the annual report, and Chapter 19 on Risk management and -organisation.

29.2 Scope of Basel II applications

The starting point for determining the scope of application of the Basel II approaches is the International Financial Reporting Standards (IFRS) consolidation scope of SNS Bank NV. As a general principle, all the legal entities entering into the IFRS consolidation scope of SNS Bank NV are also within the scope of application of the Basel approaches. For further information on the consolidation principles we refer to the chapter on Accounting principles used for the consolidation, section 16.4.
The following tables show the IFRS consolidation scope of only major subsidiaries that are currently active.

Investments in subsidiaries

Major subsidiaries

Subsidiary	Voting power	Domicile
ASN Bank NV*	100%	The Hague
SNS Securities NV*	100%	Amsterdam
RegioBank NV*	100%	Utrecht

** Banking licence but exempt from solo supervision*

29.3 Regulatory capital requirements

29.3.1 General

This chapter describes the regulatory capital requirements of SNS Bank. The risk types included are based on pillar I in the CRD and contain credit, market and operational risk.

In the table below, which is also disclosed in section 20.2 of the chapter on Risk management and organisation, an overview of the capital requirements and the RWA as of 31 December 2013 divided by the different risk types is presented. The RWA for credit risk comprises 88,3% (2012: 90,2%) of the capital requirements in SNS Bank. Operational risk accounts for 10,4% (2012: 8,3%) of the capital requirements and market risk comprises 1,3% (2012: 1,5%) of the capital requirements. The table also includes information about the approach used for calculation of the capital requirements. Out of the total capital requirements for credit risk, 63,0% (2012: 39,6%) have been calculated with the internal rating based approach (IRB) and 37% (2012: 60,4%) with the standardised approach. The relative increase of exposure covered by IRB models has caused the increase of the capital requirements for credit risk, 63% (2012: 39.6%). The decrease of the figures of Corporate is caused by the separation of SNS Property Finance in 2013.

Capital requirements and risk weighted assets

in € millions	Basel II RWA 2013	Basel II RWA 2012	Capital requirement 2013	Capital requirement 2012
Credit risk				
Standardised exposure classes:				
- Central governments and central banks	32	17	3	1
- Institutions	769	1,098	62	88
- Corporate	2,031	7,733	162	619
- Retail	1,050	1,095	84	88
- Equity	11	13	1	1
IRB exposure classes:				
- Retail	7,723	6,319	618	506
- Securitisation	385	1,030	31	82
Other	869	1,267	70	101
	12,870	**18,572**	**1,031**	**1,486**
Market risk				
- Standardised	192	317	15	25
Operational risk				
- Standardised	1,516	1,703	121	136
Other and transitional Capital requirements				
Other and transitional Capital requirements	-	-	-	-
Total	**14,578**	**20,592**	**1,167**	**1,647**

29.3.2 Capital requirements for credit risk

SNS Bank NV received approval by DNB to use the IRB advanced approach for the retail mortgage portfolio and the securitisation portfolio. SNS Bank NV aims to gradually implement the IRB advanced approach for one additional portfolio i.e. the SME retail portfolio. The standardised approach is and will be used for portfolios for which SNS Bank NV has approval of DNB, or according to legislation to be exempted from IRB. DNB approved the use of the standardised approach for the portfolios Central governments and central banks, Institutions and Equity because the credit risk for these portfolios is limited.

In both the IRB advanced approach and the standardised approach, regulatory capital requirements for credit risk are calculated using the following formula:

Capital requirement = RWA x 8%, where RWA = risk weight x EAD

In the table below the exposure, exposure at default (EAD), average risk weight, RWA and capital requirement are presented by exposure class. In this report the IRB exposure class as approved by DNB is used. For the remaining portfolios the exposure classes of the standardised approach are used.

The exposure value of an on-balance sheet exposure in the IRB advanced approach is measured gross of value adjustments such as provisioning.

The exposure at default (EAD) for the on-balance sheet items is 100% of the outstanding amount. The EAD for derivatives contracts is the market value. Off-balance sheet exposures are converted into EAD using credit conversion factors (CCF).

The risk weight for IRB exposures is calculated as RWA divided by EAD. For exposures in the standardised approach, the risk weight provided by regulation is applied.

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

Capital requirement for credit risk 2013

in € millions	EAD	Average risk weight	RWA	Capital requirement
Standardised exposure classes				
Central governments and central banks	17,330	0%	32	3
Institutions	1,753	44%	769	62
Corporate	1,107	183%	2,031	162
Retail	1,505	70%	1,050	84
Equity	11	100%	11	1
Total standardised approach	**21,706**	**18%**	**3,893**	**312**
IRB exposure classes				
Retail	38,148	20%	7,723	618
Securitisation	1,638	24%	385	31
Total IRB approach	**39,786**	**20%**	**8,108**	**649**
Other	1,826	48%	869	70
Total	**63,318**		**12,870**	**1,031**

The loan to REAAL NV of € 250 million which is included in Corporate has a risk weight of 500%.

The EAD amount of Corporate decreases with 6,801 from 7,908 to 1,107 in 2013. This is mainly the cause of the separation of SNS Property Finance. The increase of average risk weight of Securitisation from 14% to 24% is attributable to several securitisations that were called. This was the case regarding Hermes 8, 14, 16 and 17. We hold relatively higher risk weighted notes as of 31 December 2013 compared to 31 December 2012.

Capital requirement for credit risk 2012

in € millions	EAD	Average risk weight	RWA	Capital requirement
Standardised exposure classes				
Central governments and central banks	13,687	0%	17	1
Institutions	2,453	45%	1,098	88
Corporate	7,908	98%	7,733	619
Retail	1,562	70%	1,095	88
Equity	13	100%	13	1
Total standardised approach	**25,623**	**39%**	**9,956**	**797**
IRB exposure classes				
Retail	32,429	19%	6,319	506
Securitisation	7,212	14%	1,030	82
Total IRB approach	**39,641**	**26%**	**7,349**	**588**
Other	1,820	70%	1,267	101
Total	**67,084**		**18,572**	**1,486**

29.3.3 Capital requirements for market risk

SNS Bank NV uses the standardised approach in the CRD to calculate capital requirements for the trading book. The model covers interest rate risk and equity risk and is based on fixed risk weights.

29.3.4 Capital requirements for operational risk

The capital requirements for operational risk are calculated by SNS Bank NV according to the standardised approach, in which all of the institutions activities are divided into eight standardised business lines: corporate finance, trading & sales, retail banking, commercial banking, payment & settlement, agency services, asset management and retail brokerage.

The total capital requirement for operational risk is calculated as the sum of the capital requirements for each of the business lines. The total capital charge is calculated as the three-year average of the simple summation of the regulatory capital charges across each of the business lines in each year. The capital requirement for each business line is the beta coefficient multiplied by gross income. The beta coefficients differ between business lines and are stated in applicable regulation.

29.4 Credit risk

29.4.1 General

In this chapter, the credit risk and its components are described with respect to:

- Exposure classes used in the calculations of RWA and the explanation of the capital requirements.
- Information about exposures from several aspects, split by exposure classes, geography and industry.
- Approaches and methods used in the RWA calculations are presented including information about credit risk mitigation and SNS Retail Bank's internal rating system.
- Information about credit risk management, impaired loans and loan losses is either disclosed or referred to.

29.4.2 Exposure classes

SNS Retail Bank has a credit portfolio, which can be divided into Governments, Credit institutions, Equity, Retail and Corporate portfolios. As of 1 January 2008, SNS Bank has obtained approval from DNB, to use the IRB advanced approach for the calculation of regulatory capital for its retail mortgage portfolio and the securitisation portfolio.
SNS Retail Bank uses the Standardised Approach for the calculation of regulatory capital for its other portfolios and for the retail portfolio excluding retail mortgage portfolio and the securitisation portfolio.

SNS Retail Bank envisages to implement the SNS Retail SME portfolio (loan size smaller than € 1 million) within a few years on the basis of the IRB advanced approach.

29.4.2.1 *Standardised exposure classes*

Central government and Central Banks

Exposures to central governments and central banks are subject to national discretion, treated with low risk if the counterparty is within European Economic Area (EEA) member states.

Institutions

Exposures to credit institutions and multilateral development banks are classified as exposures to institutions.

(Treated as) Corporates

The exposures of more than € 1 million to SME secured by mortgages on residential or commercial real estate are classified as corporate exposures, also the sustainable loan book of ASN Bank is treated as standardised exposure

(Treated as) Retail

The exposures to private individuals other than mortgages are included in the retail exposure class and include consumer loans, revolving consumer loans and credit limits on the account. Also exposures up to € 1 million in the SME segment that are secured by mortgages on residential or commercial real estate are classified as retail exposures.

Equity
The exposure to equity comprises the investments in connection with the company's own liquidity management and held for trading.

Other
The exposure to other non-credit obligations relates to tangible fixed assets, accruals and other assets.

29.4.2.2 Internal rating based approach

Retail secured by real estate
Exposures to private individuals that are secured by mortgages on residential real estate (home mortgage loan) are classified as retail exposures. SNS Bank's residential mortgage portfolio comprises 88% (2012: 89%) of the bank's total credit portfolio.

Securitisation positions
The securitised mortgages comprise only securitised mortgages of which the notes issued by the SPV have not been sold to investors. External ratings and the seniority of the position are relevant characteristics.

29.4.3 Information about exposures

SNS Retail Bank recognises various categories of credit risk. The main categories are loans and advances to customers, loans and advances to banks, and investments. More than 90% of the loans and advances to customers are backed by mortgage collateral.

Approximately 89% (2012: 90%) of all loans and advances to customers concern private residential property financing. Private residential property financings are provided throughout the Netherlands. The south and east of the Netherlands comprise a relatively large portion of the portfolio.

The majority of the loan portfolio comprises loans secured by mortgages. The other loans, which are not secured by mortgages, are mainly exposures to banks and investments (mainly bonds). The investments are part of the company's own liquidity management. The interest-bearing investments per 31 December can be classified according to the rating as follows:

Fixed income investments SNS Retail Bank by rating

in € millions	2013	2012
AAA	3,093	2,522
AA	1,830	1,279
A	236	807
BBB	466	662
Below BBB	-	-
Non-rated	18	20
Total	**5,643**	**5,290**

29.4.3.1 Information about exposure type by exposure class

In the following table the exposures are split by exposure classes and exposure types as of 31 December 2013 and 2012. The table is split between exposure classes subject to the IRB advanced approach (retail mortgages and securitisation) and exposure classes subject to the standardised approach. The main part of the exposure is within the exposure classes Retail and Corporate. The credit facilities that are not used are included in Off-balance sheet items. The column Derivatives includes the counterparty credit risk on derivatives.

Exposure classes split by exposure type 2013

in € millions	On-balance sheets items	Off-balance sheet items	Derivatives	**Total exposure**
Standardised exposure classes				
Central governments and central banks	10,948	-	-	10,948
Institutions	6,518	829	1,295	8,642
Corporate	3,274	619	189	4,082
Retail	1,568	669	-	2,237
Equity	11	-	-	11
Total standardised approach	**22,319**	**2,117**	**1,484**	**25,920**
IRB exposure classes				
Retail	37,751	397	-	38,148
Securitisation	6,921	224	-	7,145
Total IRB approach	**44,672**	**621**	**-**	**45,293**
Other	1,826	-	-	1,826
Total exposure	**68,817**	**2,738**	**1,484**	**73,039**

Exposure classes split by exposure type 2012

in € millions	On-balance sheets items	Off-balance sheet items	Derivatives	**Total exposure**
Standardised exposure classes				
Central governments and central banks	12,118	-	-	12,118
Institutions	2,296	-	1,932	4,228
Corporate	10,342	2,311	181	12,834
Retail	1,634	1,053	-	2,687
Equity	13	-	-	13
Total standardised approach	**26,403**	**3,364**	**2,113**	**31,880**
IRB exposure classes				
Retail	31,963	466	-	32,429
Securitisation	14,985	411	-	15,396
Total IRB approach	**46,948**	**877**	**-**	**47,825**
Other	1,820	-	-	1,820
Total exposure	**75,171**	**4,241**	**2,113**	**81,525**

The decrease of the figures of Corporate is attributable to the separation of SNS Property Finance in 2013. In the following table the exposures are presented as an average during the previous time period.

Exposure classes split by exposure type, average exposure 2013

in € millions	On-balance sheets items	Off-balance sheet items	Derivatives	**Total exposure**
Standardised exposure classes				
Central governments and central banks	10,918	-	-	10,918
Institutions	3,599	208	1,466	5,273
Corporate	8,056	1,645	152	9,853
Retail	1,597	807	-	2,404
Equity	13	-	-	13
Total standardised approach	**24,183**	**2,660**	**1,618**	**28,461**
IRB exposure classes				
Retail	35,671	444	-	36,115
Securitisation	10,110	285	-	10,395
Total IRB approach	**45,781**	**729**	**-**	**46,510**
Other	1,733	-	-	1,733
Total exposure	**71,697**	**3,389**	**1,618**	**76,704**

Exposure classes split by exposure type, average exposure 2012

in € millions	On-balance sheets items	Off-balance sheet items	Derivatives	**Total exposure**
Standardised exposure classes				
Central governments and central banks	11,980	2	-	11,982
Institutions	2,158	-	2,048	4,206
Corporate	10,552	2,301	161	13,014
Retail	1,655	1,123	-	2,778
Equity	23	-	-	23
Total standardised approach	**26,368**	**3,426**	**2,209**	**32,003**
IRB exposure classes				
Retail	31,738	462	-	32,200
Securitisation	15,926	441	-	16,367
Total IRB approach	**47,664**	**903**	**-**	**48,567**
Other	1,977	-	-	1,977
Total exposure	**76,009**	**4,329**	**2,209**	**82,547**

The decrease of the Securitisation exposure is attributable to several securitisations that were called. This was the case regarding Hermes 8, 14, 16 and 17.

29.4.3.2 Information about exposure type by geography (per exposure class)

In the table below the on-balance exposures are split by main geographical areas and exposure classes based on where the credit risk is referable. The main market for SNS Retail Bank is The Netherlands.

On-balance exposure split by geography and exposure classes 2013

in € millions	Central government and central banks	Institutions	Corporate	Other retail and Equity	IRB Retail	Securitisation	Other	**Total exposure**
The Netherlands	7,591	4,216	2,295	1,561	37,751	6,921	1,826	62,161
EMU	3,250	1,109	955	15	-	-	-	5,329
Outside EMU	107	1,193	24	3	-	-	-	1,327
Total exposure	**10,948**	**6,518**	**3,274**	**1,579**	**37,751**	**6,921**	**1,826**	**68,817**

On-balance exposure split by geography and exposure classes 2012

in € millions	Central government and central banks	Institutions	Corporate	Other retail and Equity	IRB Retail	Securitisation	Other	**Total exposure**
The Netherlands	8,282	308	8,080	1,647	31,963	14,985	1,417	66,682
EMU	3,836	598	1,820	-	-	-	302	6,556
Outside EMU	-	1,390	442	-	-	-	101	1,933
Total exposure	**12,118**	**2,296**	**10,342**	**1,647**	**31,963**	**14,985**	**1,820**	**75,171**

The decrease of the figures of Corporate is attributable to the separation of SNS Property Finance in 2013.

29.4.3.3 *Information about exposure by industry*

In the following table the on-balance exposures are split by SNS Retail Bank's important industry groups for the exposure classes. The exposures in the IRB Retail relate to Private clients. The main exposures in the corporate portfolio relate to Construction and property, and Service sector companies. The largest industry groups, private clients, public sector and construction and property comprise 88,9% (2012: 95,8%) of the total exposure in the portfolio. The decrease of the figures of Corporate is attributable to the separation of SNS Property Finance in 2013.

On-balance exposure split by industry and exposure classes 2013

in € millions	Central government and central banks	Institutions	Corporate	Other retail and Equity	IRB Retail	Securitisation	Other	**Total exposure**
Construction and property	-	-	345	-	-	-	-	345
Public sector	10,948	-	-	-	-	-	-	10,948
Agriculture, horticulture, forestry and fishery	-	-	22	-	-	-	-	22
Industry	-	-	27	-	-	-	-	27
Service sector companies	-	-	480	-	-	-	-	480
Financial institutions	-	6,518	-	-	-	-	-	6,518
Other commercial	-	-	601	-	-	-	-	601
Private clients/SME	-	-	1,799	1,579	37,751	6,921	1,826	49,876
Total exposure	**10,948**	**6,518**	**3,274**	**1,579**	**37,751**	**6,921**	**1,826**	**68,817**

On-balance exposure split by industry and exposure classes 2012

in € millions	Central government and central banks	Institutions	Corporate	Other retail and Equity	IRB Retail	Securitisation	Other	**Total exposure**
Construction and property	-	-	7,726	3	-	-	416	8,145
Public sector	12,118	-	-	-	-	-	-	12,118
Agriculture, horticulture, forestry and fishery	-	-	19	-	-	-	-	19
Industry	-	-	125	-	-	-	-	125
Service sector companies	-	-	526	-	-	-	-	526
Financial institutions	-	2,296	-	10	-	-	-	2,306
Other commercial	-	-	391	-	-	-	-	391
Private clients/SME	-	-	1,555	1,634	31,963	14,985	1,404	51,541
Total exposure	**12,118**	**2,296**	**10,342**	**1,647**	**31,963**	**14,985**	**1,820**	**75,171**

29.4.3.4 Information about exposure by maturity

In the following table the on-balance exposure is divided by maturity, which is defined as the contractual maturity. The on-balance exposure is divided by the exposure classes.

On-balance exposure by maturity 2013

in € millions	< 1 month	> 1 month < 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	**Total exposure**
Standardised exposure classes						
Central governments and central banks	5,646	85	309	1,392	3,516	10,948
Institutions	1,705	527	4,061	114	111	6,518
Corporate	87	512	7	429	2,239	3,274
Retail	432	1	2	62	1,071	1,568
Equity	11	-	-	-	-	11
Total standardised approach	**7,881**	**1,125**	**4,379**	**1,997**	**6,937**	**22,319**
IRB exposure classes						
Retail	335	6	33	310	37,067	37,751
Securitisation	-	-	-	-	6,921	6,921
Total IRB approach	**335**	**6**	**33**	**310**	**43,988**	**44,672**
Other	1,826	-	-	-	-	1,826
Total exposure	**10,042**	**1,131**	**4,412**	**2,307**	**50,925**	**68,817**

On-balance exposure by maturity 2012

in € millions	< 1 month	> 1 month < 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total exposure
Standardised exposure classes						
Central governments and central banks	7,181	106	543	1,191	3,097	12,118
Institutions	1,935	74	111	144	32	2,296
Corporate	1,840	620	949	1,811	5,122	10,342
Retail	456	1	3	32	1,142	1,634
Equity	10	-	-	-	3	13
Total standardised approach	**11,422**	**801**	**1,606**	**3,178**	**9,396**	**26,403**
IRB exposure classes						
Retail	351	13	42	238	31,319	31,963
Securitisation	-	-	-	-	14,985	14,985
Total IRB approach	**351**	**13**	**42**	**238**	**46,304**	**46,948**
Other	1,820	-	-	-	-	1,820
Total exposure	**13,593**	**814**	**1,648**	**3,416**	**55,700**	**75,171**

29.4.3.5 *Information about equity investments*

In the exposure class Equity, SNS Retail Bank's equity holdings outside the trading book are included. The exposure of SNS Retail Bank's equity holdings outside the trading book are shown in groups of SNS Retail Bank (see table below).

Book value equals fair value for all the equities shown in the table. The evidence of published price quotations in an active market is the best evidence of fair value and when they exist they are used to measure financial assets and financial liabilities. SNS Retail Bank predominantly uses published quotations to establish fair value for shares.

Exposure of equity outside trading book 2013

in € millions	Book value	Fair value	Fair value of listed shares	Quoted share value	Unrealised gains/loss	Realised gains/losses period YTD	Capital requirement
Associates	-	-	-	-	-	-	-
Joint ventures	-	-	-	-	-	-	-
Investments available for sale	11	11	-	-	-	(2)	1
Total	**11**	**11**	**-**	**-**	**-**	**(2)**	**1**

Exposure of equity outside trading book 2012

in € millions	Book value	Fair value	Fair value of listed shares	Quoted share value	Unrealised gains/loss	Realised gains/losses period YTD	Capital requirement
Associates	2	2	-	-	-	-	
Joint ventures	1	1	-	-	-	(1)	
Investments available for sale	11	11	-	-	-	-	1
Total	**14**	**14**	**-**	**-**	**-**	**(1)**	**1**

29.4.4 Calculation of RWA

29.4.4.1 General

The RWA calculations in SNS Retail Bank differ between exposure classes. SNS Retail Bank has received approval to calculate the credit risk by using the IRB advanced approach for the retail mortgage portfolios. For the other asset classes the standardised approach is used in 2013. Of these other asset classes our SME Retail portfolio is included in our roll out plan for portfolios to advance to the IRB advanced approach. The following section describes the principles for calculating RWA with the standardised approach and the IRB advanced approach respectively.

29.4.4.2 Calculation of RWA with the standardised approach

The standardised approach measures credit risk pursuant to fixed risk weight. The application of risk weight in standardised approach is given by a set of fixed rules and is mainly based on the exposure class to which the exposure is assigned. In calculating RWA with the standardised approach external ratings coming from eligible rating agencies are in some cases a necessary input to calculate the fixed risk weight.

In tables below the exposure per risk weight with the associated RWA and capital requirement is presented. An exposure with, for example, a risk weight of 100% will not always lead to a similar RWA, due to guarantees and the use of a credit conversion factor for off balance exposure. Further information about credit conversion factors is included in section 29.7 Disclosure of off-balance items.

The effect of credit risk mitigation is minor.

Exposure classes split by exposure per risk weight 2013

	Risk Weight								
in € millions	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**500%**	**Total**
Standardised approach									
Central Government and Central Banks	10,790	158	-	-	-	-	-	-	10,948
Institutions	-	-	7,233	1,409	-	-	-	-	8,642
Corporates	100	732	-	113	-	2,887	-	250	4,082
Retail	-	-	223	-	1,983	29	2	-	2,237
Equity	-	-	-	-	-	11	-	-	11
Total Standardised	**10,890**	**890**	**7,456**	**1,522**	**1,983**	**2,927**	**2**	**250**	**25,920**

The exposure in the 500% class is a loan to REAAL NV of € 250 million.

Exposure classes split by exposure per risk weight 2012

	Risk Weight								
in € millions	0%	20%	35%	50%	75%	100%	150%	500%	**Total**
Standardised approach									
Central Government and Central Banks	12,031	87	-	-	-	-	-	-	12,118
Institutions	9	2,188	-	2,031	-	-	-	-	4,228
Corporates	-	525	803	81	-	10,582	843	-	12,834
Retail	-	-	219	-	2,434	30	4	-	2,687
Equity	-	-	-	-	-	13	-	-	13
Total Standardised	**12,040**	**2,800**	**1,022**	**2,112**	**2,434**	**10,625**	**847**	**-**	**31,880**

Exposure classes split by risk weighted assets and capital requirements per risk weight 2013

	Risk Weight								
in € millions	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**500%**	**Total**
Standardised approach									
Central Government and Central Banks									
Risk weighted assets	-	32	-	-	-	-	-	-	32
Capital requirements	-	3	-	-	-	-	-	-	3
Institutions									
Risk weighted assets	-	72	-	697	-	-	-	-	769
Capital requirements	-	6	-	56	-	-	-	-	62
Corporates									
Risk weighted assets	-	-	-	56	-	724	-	1,251	2,031
Capital requirements	-	-	-	5	-	58	-	99	162
Retail									
Risk weighted assets	-	-	73	-	961	14	2	-	1,050
Capital requirements	-	-	6	-	77	1	-	-	84
Equity									
Risk weighted assets	-	-	-	-	-	11	-	-	11
Capital requirements	-	-	-	-	-	1	-	-	1
Total risk weighted assets	**-**	**104**	**73**	**753**	**961**	**749**	**2**	**1,251**	**3,893**
Total capital requirements	**-**	**9**	**6**	**61**	**77**	**60**	**-**	**99**	**312**

Exposure classes split by risk weighted assets and capital requirements per risk weight 2012

	Risk Weight								
in € millions	0%	20%	35%	50%	75%	100%	150%	500%	Total
Standardised approach									
Central Government and Central Banks									
Risk weighted assets	-	17	-	-	-	-	-	-	17
Capital requirements	-	1	-	-	-	-	-	-	1
Institutions									
Risk weighted assets	-	83	-	1,015	-	-	-	-	1,098
Capital requirements	-	7	-	81	-	-	-	-	88
Corporates									
Risk weighted assets	-	1	278	33	-	6,248	1,173	-	7,733
Capital requirements	-	-	22	3	-	500	94	-	619
Retail									
Risk weighted assets	-	-	72	-	1,004	14	5	-	1,095
Capital requirements	-	-	6	-	81	1	-	-	88
Equity									
Risk weighted assets	-	-	-	-	-	13	-	-	13
Capital requirements	-	-	-	-	-	1	-	-	1
Total risk weighted assets	**-**	**101**	**350**	**1,048**	**1,004**	**6,275**	**1,178**	**-**	**9,956**
Total capital requirements	**-**	**8**	**28**	**84**	**81**	**502**	**94**	**-**	**797**

SNS Retail Bank uses for exposures to Central government and Central banks, Institutions and Corporates eligible external ratings from Standard & Poor's, Moody's and Fitch Ratings. The external rating is converted to the credit quality step (the mapping is defined by DNB), which corresponds to a fixed risk weight.

Exposure to central governments and central banks, 31 December 2013

in € millions	Credit quality step	Risk weight	EAD	Basel II RWA
AAA to AA-	1	0%	4,163	-
A+ to A-	2			
- EMU		0%	-	-
- Outside EMU		20%	-	-
BBB+ to BBB-	3			
- EMU		0%	458	-
- Outside EMU		50%	-	-
BB+ to B-	4			
- EMU		0%	-	-
- Outside EMU		100%	-	-
CC	6			
- EMU		0%	-	-
- Outside EMU		100%	-	-

Exposure to central governments and central banks, 31 December 2012

in € millions	Credit quality step	Risk weight	EAD	Basel II RWA
AAA to AA-	1	0%	4,698	-
A+ to A-	2			
- EMU		0%	-	-
- Outside EMU		20%	-	-
BBB+ to BBB-	3			
- EMU		0%	448	-
- Outside EMU		50%	-	-
BB+ to B-	4			
- EMU		0%	-	-
- Outside EMU		100%	-	-
CC	6			
- EMU		0%	-	-
- Outside EMU		100%	-	-

Exposure to institutions, 31 December 2013

in € millions	Credit quality step	Risk weight	EAD	Basel II RWA
AAA to AA-	1	0%	4,055	-
		20%	1,003	201
A+ to A-	2			
- < 3 months		20%	141	28
- > 3 months		50%	23	11
BBB+ to BBB-	3			
- < 3 months		20%	1	-
- > 3 months		50%	-	-
BB+ to B-	4			
- < 3 months		50%	-	-
- > 3 months		100%	-	-

Exposure to institutions, 31 December 2012

in € millions	Credit quality step	Risk weight	EAD	Basel II RWA
AAA to AA-	1	0%	-	-
		20%	155	31
A+ to A-	2			
- < 3 months		20%	380	76
- > 3 months		50%	68	34
BBB+ to BBB-	3			
- < 3 months		20%	-	-
- > 3 months		50%	56	28
BB+ to B-	4			
- < 3 months		50%	-	-
- > 3 months		100%	-	-

Exposure to corporates, 31 December 2013

in € millions	**Credit quality step**	**Risk weight**	**EAD**	**Basel II RWA**
AAA to AA-	1	20%	602	120
A+ to A-	2	50%	24	12
BBB+ to BBB-	3	100%		
BB+ to B-	4	100%		

Exposure to corporates, 31 December 2012

in € millions	Credit quality step	Risk weight	EAD	Basel II RWA
AAA to AA-	1	20%	-	-
A+ to A-	2	50%	38	19
BBB+ to BBB-	3	100%	-	-
BB+ to B-	4	100%	-	-

29.4.4.3 *Calculation of RWA with the IRB advanced approach*

The IRB advanced approach measures credit risk using formulas with internal input for the calculation of Probability of Defaults (PD), Loss Given Default (LGD) and Exposure at Default (EAD). In the following sections, these parameters and rating system are described in more detail.

Probability of customer default (PD)

SNS Retail Bank assesses the credit quality of borrowers and other counterparties by assigning an internal risk rating. The rating reflects the statistical probability of a customer in a rating class defaulting within the next 12-month period. PD measures the unconditional probability of a counterparty defaulting over a defined future period, typically the next 12 months.

SNS Retail Bank categorises its current exposures according to an internal default grade rating scale that corresponds to a statistical long term average probability of customers in that rating class defaulting within a 12-month period.

Exposure in the event of default (EAD)

Exposure in the event of default represents the expected level of usage of the credit facility when default occurs. During the course of a loan, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit. However, when SNS Retail Bank evaluates loans, it takes exposure at default into consideration, using its extensive historical experience. This recognises that customers may make heavier than average usage of their facilities as they approach default.

Severity of loss-given default (LGD)

When a customer defaults, some part of the amount outstanding on his/her loans is usually recovered. The part that is not recovered, the actual loss, together with the economic costs associated with the recovery process, combine to produce a figure called the LGD. The severity of the LGD is measured as a percentage of the EAD. Using historical information, SNS Retail Bank can estimate how much is likely to be lost, on average, for various types of loans in the event of default.

SNS Retail Bank categorises its current exposures according to an internal LGD grade rating scale that corresponds to a statistical downturn LGD so estimating the losses that originates from defaults within a 12-month period given an economic downturn. For exposures already in default classes of best estimate LGD is used. Using statistics the loss is estimated of exposure in default.

SNS Bank is currently reviewing its IRB model for mortgages. This also includes development of a new Down Turn LGD model that addresses the high level of procyclicality embedded in the current Down Turn LGD model. SNS Retail Bank will implement the updated Down Turn LGD model as well as the reviewed PD/LGD model after the appropriate internal and DNB approval.

The credit quality on the retail mortgage portfolio runs from class 1 to class 11.

Exposure split by probability of default class

Probability of default class	Exposure weighted average LGD		Exposure weighted average PD		EAD (in € millions)		Exposure weighted average risk weight (in € millions)	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
1	6.47%	6.48%	0.06%	0.06%	4,434	3,875	68	58
2	9.73%	8.96%	0.19%	0.19%	8,478	6,775	341	258
3	17.85%	16.92%	0.45%	0.45%	10,537	9,046	1,434	1,167
4	16.53%	16.35%	0.81%	0.81%	4,819	4,263	920	805
5	11.99%	11.99%	1.35%	1.35%	1,838	1,828	356	354
6	18.62%	17.84%	1.89%	1.89%	3,941	3,334	1,465	1,188
7	18.64%	17.33%	6.55%	6.55%	1,482	1,234	1,103	854
8	18.18%	17.64%	17.02%	17.02%	932	768	974	779
9	18.72%	17.78%	36.90%	36.90%	518	504	586	542
10	16.92%	15.87%	100.00%	100.00%	1,169	802	476	314
11	0.00%	0.00%	0.00%	0.00%	-	-	-	-
Total					**38,148**	**32,429**	**7,723**	**6,319**

Note: The increase in EAD and RWA has been mainly caused by multiple securitisation calls. Also the average PD and LGD increased.

29.4.5 Internal Rating procedure and control mechanism

29.4.5.1 Internal rating procedure

Retail mortgages

The internal rating process on SNS Retail Bank's retail mortgages exposures is based on a number of data elements in order to ensure risk is measured correctly.

To enhance correct risk model outputs, that also support management decision making, an independent model validation department is in place.

29.4.5.2 Control mechanisms for the Internal Rating System

Model documentation

Documentation should be sufficiently detailed to allow independent validation of the model from the original data sources. It includes a description of the data used for model development, the methodology used (and the rationale for choosing such a methodology), and all assumptions used in the model.

Initial model validation

All models are subject to an independent validation and review process before they can be signed off for implementation. For credit risk models an independent model validation department and Model Governance Committee ensures that the model building and approval process is followed. Furthermore, Basel II compliancy is checked, and independent reviews are performed as part of the technical and business approval of models. The model validation exercise must demonstrate that the model fits its purpose and that it provides accurate estimates.

Model sign-off

There are clearly laid out rules for the sign-off process for models. The credit risk models in SNS Retail Bank receive their final sign-off for implementation from Model Governance Committee (MGC), and ALCO Group is notified. However, if there is a negative decision from the Model Governance Committee only the Group Risk Committee (GRC) is allowed to make the decision.

29.4.6 Stress testing

Stress testing is a tool to assess the impact of an extreme, but plausible event on the financial position of SNS Bank NV. This tool is a complementary instrument to the usual risk models used by Group Risk Management. In 2013 SNS REAAL executed stress tests for its banking operations, as explained below.

DNB Stress test

In the third quarter of 2013 SNS Bank NV has participated in the DNB (macro) stress test.
This firm wide stress test has a time horizon of 2.5 years. The DNB stress test has a base and a stress scenario. The stress scenario contains a further deterioration of the economy and the financial markets. It includes a significant decline in the value of housing (over 25%) and real estate (40%) and a rise in unemployment (up 3%) cover a time horizon of 2.5 years. Based on the results of the stress test it is concluded that SNS Bank NV is sufficiently capitalized, also in an extremely negative economic scenario.

- **EBA stress test banking**
  The EBA’s Board of Supervisors decided to postpone the 2013 EU-wide stress test. The European Banking Authority (EBA) announced a 2014 EU-wide stress test that will be conducted on a wide sample of EU banks. The objective of the EU-wide stress tests is to help supervisors assess the resilience of financial institutions in the European Union to adverse market developments.
- **Stress test ICAAP banking**
  SNS Bank NV has performed an internal stress test in the third quarter of 2013 as part of its Internal Capital Adequacy Assessment Process (ICAAP). In doing so, a thorough analysis of the risks taken place and these are tested by performing a stress test. SNS Bank NV has developed its own specific economic scenarios for the stress test. The outcome of the ICAAP stress test shows that SNS Bank NV is sufficiently capitalized, also in an extremely negative economic scenario.

29.4.7 Comparison between expected and actual losses

For retail mortgages, which is the only asset class running IRB advanced approach since 2008, the expected loss for non-defaulted exposures was € 116 million during the year 2013. This is to be compared to the realised loss of € 33 million. The counterparty weighted probability of default (including defaulted exposure) for 2013 was 1,7% and the corresponding observed default frequency was 2,24%.

Note that the expected loss will vary over time due to the migration of the rating over the business cycle. This shows that SNS Retail Bank's rating models are neither perfectly through-the-cycle nor perfectly point-in-time. The implications are that the expected loss calculated at the top of the business cycle not will represent the expected loss over a full business cycle and that migrations will not explain the full variation in actual losses. It is expected that the average long term net loss will match the average expected loss over time.

Alternative uses of the Internal Rating Approach.

SNS Retail Bank also uses the internal ratings system, other than for the calculation of regulatory capital, in the following processes:

- Collection processes, early and late collections
- Provisioning process
- Pricing
- Portfolio management
- Marketing

Provisioning process

The IRB advanced approach helps to determine the required provisions for the retail and retail business portfolios in default. Also, the IRB advanced model is used in the calculation of provisions for Incurred But Not Reported (IBNR) losses for the mortgage retail portfolio not in default.

29.4.8 Credit risk mitigation

Credit Risk Mitigation

SNS Retail Bank applies a range of risk management procedures to mitigate credit risk on its loan portfolios. The most fundamental of these is to assess the ability, at origination, of a borrower to service the proposed level of debt without distress at the outset. It is a SNS Retail Bank policy to establish that loans are within the customer's capacity to repay rather than to rely solely on collateral.

Collateral

SNS Retail Bank's credit policies also include the assessment of collateral. The appraisal at origination is used in the calculation of the LGD. The recognition of collateral to mitigate credit risk is managed in terms of the credit policy that clearly defines the following:

- The definition of what qualifies as collateral
- The requirements for the valuation of collateral
- Foreclosure values (as of 1.1.2013 market value) applied to collateral values

Collateral Valuation – what qualifies as collateral

SNS Retail Bank accepts primarily residential real estate, bonds and cash as collateral. SNS Retail Bank's credit policy determines what type of residential property qualifies as collateral.

Collateral Valuation - requirements

Valuation of the collateral taken will be within agreed parameters and will be conservative in value. Collateral, in the form of residential and commercial property, long-term insurance policies and so on is maintained in a specific system. The market value of collateral, at its origination date, is also captured in this system. The market value of residential properties is indexed to the price development of the residential housing market.

Collateral Valuation - foreclosure

Collateral of the retail mortgage portfolios is subject to revaluation after a client is transferred to restructuring & recovery services department, so as to ensure that the impairment allowance is appropriate given the current valuation. The proceeds realised are being used to reduce or repay the outstanding loan. Any additional funds are returned to the customer.

Within the corporate portfolios, collateral for impaired loans, including guarantees and insurance, is reviewed regularly. The review helps to set the impairment allowance at an appropriate level given the current valuation. In the case of a decrease in the value of collateral, an additional impairment allowance may be considered. On the other hand, increases in the value of collateral may result in a release of the impairment allowance. Guarantees and legal covenants are subject to regular review, to ensure that they remain fit for purpose and remain consistent with accepted local market practice.

SNS Bank NV also uses netting agreements, financial guarantees and the use of covenants in commercial lending agreements to reduce risk. SNS Retail Bank's principal collateral types are:

- Retail sector – mortgages over residential properties, equity, bonds etc. in case of trading exposures
- Commercial sector – business assets such as premises, stock and debtors
- Commercial real estate sector – properties being financed

Exposure secured by collaterals, guarantees and credit derivatives 2013

	Exposure	Of which secured by guarantees	Of which secured by credit derivatives	Of which secured by collateral
Standardised exposure classes				
Central governments and central banks	10,948	-	-	-
Institutions	8,642	4,880	-	1,180
Corporate	4,082	1,493	-	1,303
Retail	2,237	16	-	24
Equity	11	-	-	-
Total standardised approach	**25,920**	**6,389**	**-**	**2,507**
IRB exposure classes *				
Retail	38,148	10,671	-	56,125
Securitisation	7,145	-	-	-
Total IRB approach	**45,293**	**10,671**	**-**	**56,125**
Other	1,826	-	-	-
Total exposure	**73,039**	**17,060**	**-**	**58,632**

** The IRB exposure class Retail concern residential retail mortgages. These mortgages are secured by residential real estate. The value of this real estate is included in the LGD calculations.*

Exposure secured by collaterals, guarantees and credit derivatives 2012

	Exposure	Of which secured by guarantees	Of which secured by credit derivatives	Of which secured by collateral
Standardised exposure classes				
Central governments and central banks	12,118	-	-	-
Institutions	4,228	305	-	1,471
Corporate	12,835	1,268	-	2,301
Retail	2,687	9	-	332
Equity	13	-	-	-
Total standardised approach	**31,881**	**1,582**	**-**	**4,104**
IRB exposure classes *				
Retail	32,429	10,848	-	48,905
Securitisation	15,396	-	-	-
Total IRB approach	**47,825**	**10,848**	**-**	**48,905**
Other	1,820	-	-	-
Total exposure	**81,526**	**12,430**	**-**	**53,009**

** The IRB exposure class Retail concern residential retail mortgages. These mortgages are secured by residential real estate. The value of this real estate is included in the LGD calculations.*

The decrease of the figures of Corporate is attributable to the separation of SNS Property Finance in 2013.

In the table below a breakdown of collateral type is presented. The percentages are based on the figures in table above.

Collateral concentration

	2013	2012
Guarantees	23%	75%
Collateral:		
- of which real estate	2%	14%
- of which financial collateral	76%	11%

29.4.9 Information about credit risk management, impaired loans and loan losses

29.4.9.1 Credit risk management

A distinction has been made in credit management between retail clients on the one hand and property finance and other corporate clients on the other. In addition, there is a distinction between credit management for individual clients and credit management on a portfolio level.

As per 31 December 2013 the exposures of Property Finance are no longer recognized on the balance sheet of SNS REAAL due to the transfer of the shares of Property Finance to the Dutch State.

For an elaborate description on credit management relating to retail clients, we refer to the chapter on Risk management, section 20.3.2 Credit risk, subsection Credit management for loans and advances to customers. For detailed information on impaired loans and loan losses for SNS Retail Bank and Property Finance we refer to the chapter on Risk management, section 20.3 and 20.4.

Restructuring & Recovery departments of SNS Retail Bank

An essential part of the risk policy is the timely deployment of the Restructuring and Recovery (R&R)department. There is an R&R department for the retail loans provided to private customers and a special R&R department for loans provided to small and medium enterprises (SME).

29.4.9.2 Information about impaired loans and loan losses

An exposure is impaired and a provision is recognised, if there are objective indications that SNS Bank will not be able to collect all the amounts due in accordance with the original contract. An objective evidence of impairment usually means that a facility have been past due for 90 days or more. This means that an obligor has been past due for 90 days or more or else that the obligor is considered to be unlikely-to-pay.

In determining the amount of provisions, account is taken of the actual amount of defaults and the experience that credit loss may also be caused by non-default accounts (Incurred but not Reported, or IBNR). A customer is 'in default' if the period in arrears is longer than 3 months or when it is determined that further payment is unlikely.

For detailed information on impaired loans and loan losses for SNS Retail Bank and Property Finance we refer to the chapter on Risk management, section 20.3 and 20.4.

The following table provides information on financial assets in arrears. With respect to mortgages and other loans and advances to customers this information on arrears is a main factor in determining the provision collectively.

Loans and advances to customers in arrears SNS Retail Bank

In € millions	2013	2012
No arrears	51,420	53,330
< 3 months	1,205	1,247
3 - 6 months	296	287
6 - 12 months	346	265
> 1 year	591	390
Provision	(453)	(356)
Total	**53,405**	**55,163**

The table below represents the provisions for loans and advances to customers for SNS Bank NV. The figures of 2012 include the provision of Property Finance for the loans and advances to customers. As per 31 December 2013 these exposures are no longer recognized on the balance sheet of SNS Bank NV as a result of the separation.

Provisions SNS Bank NV

	Specific		IBNR		Total	
in € millions	2013	2012	2013	2012	2013	2012
Balance as at 1 January	1,553	851	20	19	1,573	870
Reclassification	(1,786)	28	-	3	(1,786)	31
Usage	(236)	(252)	(9)	(7)	(245)	(259)
Additions	1,376	1,043	13	15	1,389	1,058
Releases	(313)	(107)	(5)	(10)	(318)	(117)
Foreclosures	(185)	(33)	-	-	(185)	(33)
Other changes	25	23	-	-	25	23
Balance as at 31 December	**434**	**1,553**	**19**	**20**	**453**	**1,573**

The amount mentioned under reclassification is attributable to the SNS Property Finance that was reclassified to 'held for sale'.

The tables below represent the loan impairments by geography and by industry. The figures of 2012 also contain the loan impairments of Property Finance. As per 31 December 2013 these exposures are no longer recognized on the balance sheet of SNS Bank NV as a result of the separation.

Loan impairment SNS Bank NV by geography 2013

in € millions	Book value non-provisioned loans	Book value provisioned loans (gross receivable)	Specific provision	IBNR provision	**Total book value**	Impairment charges
The Netherlands	50,679	2,438	(434)	(19)	52,664	835
EMU	741	-	-	-	741	190
Outside EMU	-	-	-	-	-	47
Total	**51,420**	**2,438**	**(434)**	**(19)**	**53,405**	**1,072**

Loan impairment SNS Bank NV by geography 2012

in € millions	Book value non-provisioned loans	Book value provisioned loans (gross receivable)	Specific provision	IBNR provision	**Total book value**	Impairment charges
The Netherlands	57,683	4,088	(1,193)	(20)	60,558	751
EMU	534	618	(263)	-	889	183
Outside EMU	287	131	(97)	-	321	8
Total	**58,504**	**4,837**	**(1,553)**	**(20)**	**61,768**	**942**

Loan provisions SNS Bank NV by industry 2013

in € millions	Book value non-provisioned loans	Book value provisioned loans (gross receivable)	Specific provision	IBNR provision	**Total book value**
Construction and property	345	17	(3)	-	359
Public sector	2,302	-	-	-	2,302
Agriculture, horticulture, forestry and fishery	22	1	-	-	23
Industry	27	1	-	-	28
Service sector companies	480	24	(4)	-	500
Other commercial	601	30	(5)	-	626
Retail	47,643	2,365	(422)	(19)	49,567
Total	**51,420**	**2,438**	**(434)**	**(19)**	**53,405**

Loan provisions SNS Bank NV by industry 2012

in € millions	Book value non-provisioned loans	Book value provisioned loans (gross receivable)	Specific provision	IBNR provision	**Total book value**
Construction and property	4,815	2,649	(850)	(10)	6,604
Public sector	2,295	-	-	-	2,295
Agriculture, horticulture, forestry and fishery	28	1	-	-	29
Industry	189	9	(3)	-	195
Service sector companies	799	32	(10)	(2)	819
Other commercial	563	66	(21)	-	608
Retail	49,815	2,080	(669)	(8)	51,218
Total	**58,504**	**4,837**	**(1,553)**	**(20)**	**61,768**

29.5 Market risk

Market risk is the risk that the company's equity, result or continuity is threatened by movements in the level and/or volatility of market prices. Market prices include interest rates, stock prices and exchange rates.

SNS Retail Bank uses the standard approach in the CRD to calculate capital requirements for market risk in the trading book. The model covers interest rate risk and equity risk and is based on fixed risk weights.

Further information about Market risk is included in the chapter on Risk management, section 20.5.

29.6 Operational risk

In accordance with the Basel II definition operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. SNS Bank NV manages its operational risks by planning, implementing and monitoring its activities effectively en efficiently, by observing:

- achieving predictable performance,
- protecting SNS Bank NV from unforeseen losses,
- and offering sufficient certainty on the reliability of information in order to realize (strategic) objectives.

Upon implementing the Corporate Governance Code, SNS Bank NV has chosen to realise as much synergy as possible between the risk management demands of this code and compliance with Basel II requirements. In the day to day operations, this enables the use of one framework (Risk Management Policy) for an adequate management of the risks. As a part of SNS REAAL, managing Operational Risks of SNS Bank NV is described in more detail in the SNS REAAL Operational Risk Management Framework. Activities related to Operational Risk Management include incident management and loss registration, risk self-assessments, In Control statements, key risk indicators, monitoring the follow up of audit issues and capital requirements.

The capital requirements for operational risk are calculated according to the standardised approach, in which all of SNS Bank NV's activities are divided into eight standardised business lines: corporate finance, trading & sales, retail banking, commercial banking, payment & settlement, agency services, asset management and retail brokerage.

The total capital requirement for operational risk is calculated as the sum of the capital requirements for each of the business lines. The risk for each business line is the beta coefficient multiplied by gross income. This is based on a 12 months average, as a result for the year 2013 the capital requirements is the average of 2011, 2012 and 2013. The beta coefficients differ between business lines and are 12%, 15% or 18%. On a yearly basis the calculated capital requirement is challenged with the Internal Capital Adequacy Assessment Process (ICAAP).

Further information about the total amount of the capital requirements for Operational risk is included in section 29.3.4.

29.7 Disclosure of off-balance items

29.7.1 General

In this chapter, SNS Retail Bank discloses information about off-balance items with focus on derivatives. Off-balance sheet items are divided into two different exposure types in accordance with calculation of credit risk RWA in the CRD:

- Off-balance sheet items: main categories of off-balance sheet items are guarantees, credit commitments, and unutilised portion of approved credit facilities.
- Derivatives: financial instruments that derive their value from underlying interest rates, currencies, equities, credit spreads or commodity prices. Derivatives do not only result in counterparty risk measured within the credit risk RWA but also affect the market risk.

For the different off-balance exposure types mentioned above, there are different possible values for the calculation base. For the off-balance sheet items, the nominal value of the guarantee is applied with a credit conversion factor (CCF) for calculating the exposure at default (EAD). The CCF factor is 50% or 100% depending of the type of guarantee, i.e. lowering the risk weight compared with the same exposure on balance. Credit commitments and unutilised amounts are the part of the external commitment that has not been utilised. This amount forms the calculation base for which a CCF is used for calculating the EAD. The CCF factor is multiplied with the calculation base and is 0%, 20%, 50%, 75% or 100% depending of approach, product type and whether the unutilised amounts are unconditionally cancellable or not. For derivatives it is a combination of the market value and the notional amount.

The overall capital requirements for these items are available in the table where the figures for derivatives stem from counterparty risk. It can be concluded that although off balance items have large exposure amounts, the effect on RWA is reduced due to the use of CCF in the calculation of EAD. These CCF's are fixed rates within the standardised approach. They are related to predetermined hedging sets.

Exposure, RWA and capital requirements by exposure type 2013

in € millions	On-balance sheet items	Off-balance sheet items	Derivatives	**Total**
Exposure	68,817	2,738	1,484	73,039
EAD	61,394	440	1,484	63,318
RWA	12,029	53	788	12,870
Capital requirement	964	4	63	1,031
Average risk weight	20%	12%	53%	20%

Exposure, RWA and capital requirements by exposure type 2012

in € millions	On-balance sheet items	Off-balance sheet items	Derivatives	**Total**
Exposure	75,171	4,241	2,113	81,525
EAD	64,324	647	2,113	67,084
RWA	17,256	231	1,085	18,572
Capital requirement	1,380	18	87	1,485
Average risk weight	27%	36%	51%	28%

The decrease of the average risk weights is mainly attributable to the separation of SNS Property Finance in 2013.

29.7.2 Risk in derivatives

General information about derivatives

Derivative contracts are financial instruments that derive their value from underlying entities, such as interest rates, currencies, equities or credit spreads. SNS Retail Bank uses derivatives to manage market risks on an economic basis. Derivatives affect counterparty risk and market risk.

Counterparty risk

Counterparty risk is the risk that SNS Retail Bank's counterpart in an FX, interest, commodity, equity or credit derivative contract defaults prior to maturity of the contract and that SNS Retail Bank at that time has a claim on the counterpart. Counterparty risk in SNS Retail Bank is subject to credit limits like other credit exposures and is treated accordingly. To minimize counterparty risk, CSA (collateral support annex) of the International Swaps and Derivatives Association agreement, are in place with eligible counterparties, apart from one ASN fund.

Pillar I method for counterparty risk

Since 2011 the market value approach to calculate the EAD in accordance with the credit risk framework in CRD, i.e. the positive market value of the derivatives and an add-on charge, which is based on the contract type, remaining maturity and the notional value, to cover the potential future exposure of these contracts. All derivative transactions that are subject to an International Swaps and Derivatives Association (ISDA-) agreement are considered to be part of a netting set. The EAD is multiplied by a risk weight. The size of the risk weight depends on the contract's remaining lifetime and the underlying asset. In the table below, the EAD as well as the RWA and capital requirement split on the exposure classes are available.

Counterparty risk exposures

	EAD		RWA		Capital requirement	
in € millions	**2013**	2012	**2013**	2012	**2013**	2012
Institutions	1,295	1,932	643	911	51	73
Corporate	189	181	145	174	12	14

Mitigation of counterparty risk exposure

SNS Retail Bank enters into money and capital market transactions with various financial institutions as part of its treasury and funding activities. This concerns, among others, derivative transactions for the hedging of interest rate and currency risks. Derivative transactions that are subject to a Credit Support Annex (CSA) of the International Swaps and Derivatives Association agreement have terms to maturity varying from 1 year to a maximum of 20 years. The emphasis is on longer maturities. These CSA's are primarily aimed at minimising counterparty risk. Changes in the present value of all existing transactions are settled periodically on a cash basis with the counterparty in question. In addition, a system with counterparty limits applies. This system reduces the concentration risk. SNS Retail Bank's financial collateral agreements do typically not contain any trigger dependent features, for example rating triggers. Next to CSA's, SNS Retail Bank uses central clearing of OTC derivative transactions to shift counterparty risk exposure to Central Clearing Parties.

In the following table information is available of how the counterparty risk exposure is reduced with risk mitigation techniques.

Mitigation of counterparty risk exposure due to closeout netting and collateral agreements 2013

in € millions	Current exposure (gross)	Impact back-to-back swaps securitisation	Reduction from netting agreements/ collateral	**Current exposure (net)**
Total	2,484	(224)	1,224	1,484

Mitigation of counterparty risk exposure due to closeout netting and collateral agreements 2012

in € millions	Current exposure (gross)	Impact back-to-back swaps securitisation	Reduction from netting agreements/ collateral	**Current exposure (net)**
Total	3,661	(564)	2,112	2,113

29.7.3 Hedging

Information about hedging is included in the Chapter 21 on Financial instruments and hedge accounting, section 21.2.

29.8 Securitisations

29.8.1 General

SNS Retail Bank has securitised € 23.0 billion mortgage receivables in special purpose entities (SPV's). With these transactions the economic and legal ownership of the mortgage receivables is transferred to separate entities. The reasons for SNS Retail Bank to securitize mortgage receivables are:

- Funding: securitisation is a funding instrument which allows SNS Retail Bank to diversify its funding base. Furthermore through securitisation, SNS Retail Bank is able to reduce the funding costs by borrowing at lower rates compared to senior unsecured lending, subject to market conditions.
- Lower capital requirements: by securitising mortgage receivables SNS Retail Bank is able to manage the RWA and

hence capital requirement to lower levels, while maintaining the “earning power” of the asset.

- Liquidity: future cash flows out of mortgage receivables are currently not available in the liquidity position either as cash or as liquid asset. By securitising the mortgage receivables, the cash can be made available for funding new business or investments.

29.8.2 Roles

SNS Retail Bank plays various roles in connection to its securitisation transactions. In order to support its business development while meeting regulatory capital requirements, SNS Retail Bank, as originator, has launched securitisation programmes based on its Dutch residential mortgage portfolio. As arranger and underwriter SNS Retail Bank is active as arranger of MBS transactions. SNS Retail Bank is responsible for structuring the transaction including negotiations with the rating agencies and coordination with legal counsel for documenting the transaction. As an underwriter SNS Retail Bank is, in cooperation with other financial institutions, responsible for placing the notes issued by the SPV with institutional investors.

SNS Retail Bank has transferred all of the SPV interest rate swaps to third parties; SNS Retail Bank has back-to-back swaps with these third parties and therefore retains the prepayment and interest rate risk on its own book. Exceptions are the Holland Homes transactions where SNS Retail Bank has no back-to-back swap.

SNS Retail Bank is, as servicer, responsible for the daily management of the mortgage assets. Regarding the collection of principal and interest SNS Retail Bank has set up a collection foundation: “Stichting Hypotheken Incasso”. The collection foundation is responsible for collecting the mortgage payments which are passed to the relevant SPV’s.

29.8.3 Approaches

SNS Retail Bank has adopted the Advanced Internal Rating Approach and the use of the Rating Based Approach (RBA) for rated assets. Under the RBA, the risk-weighted assets (RWA) are determined by multiplying the amount of the exposure by the appropriate risk weights. The risk weights depend on the external rating and the seniority of the position. Based on each pool’s characteristics, the RBA will provide a risk weight, which is applied in the formula.

29.8.4 Accounting principles

SNS Bank NV fully consolidates these SPV’s in its financial statements if, on the basis of the economic reality of the relationship between SNS Bank NV and the SPV, SNS Bank NV retains the majority of the risks and rewards.

29.8.5 Information about securitisation

SNS Retail Bank has securitised a part of the mortgage book. With these securitisation transactions, the economic and legal ownership of mortgages is transferred to separate companies. These loans are transferred at nominal value plus a deferred selling price. This deferred selling price means that, for some transactions, SNS Bank NV has a claim against the SPV that will not be settled in full until the transaction is concluded. Some of the notes issued by the SPV’s are e-notes, which are high-yielding bonds. Stress tests have shown that the remaining credit risk for SNS Retail Bank manifests itself in the deferred selling price and the e-notes. The E-notes of the securitisation programs presented in full in the books were not externally subscribed. The sum of the deferred purchase prices was nil as at the end of December 2013. Furthermore Lowland 1 (all bonds) was on balance for liquidity purposes.

SNS Retail Bank has also structured a synthetic securitisation in the form of credit guarantees, whereby the credit risk protection has been bought.

SNS Retail Bank has purchased subordinated bonds issued by various Pearl companies and also taken positions in bonds issued by various Hermes companies.

Outstanding amounts of exposures securitised 2013

	Traditional		Synthetic	
in € millions	**Originator**	**Investor**	**Originator**	**Investor**
Residential mortgages	6,670	179	296	-
Total	**6,670**	**179**	**296**	**-**

Outstanding amounts of exposures securitised 2012

	Traditional		Synthetic	
in € millions	Originator	Investor	Originator	Investor
Residential mortgages	14,870	207	319	-
Total	**14,870**	**207**	**319**	**-**

The decrease of the Securitisation exposure attributable to several securitisations that were called. This was the case regarding Hermes 8, 14, 16 and 17.

Outstanding amounts of exposures securitised and impaired 2013

	Impaired/past due		Losses	
in € millions	**Originator**	**Investor**	**Originator**	**Investor**
Residential mortgages	42	-	16	-
Total	**42**	**-**	**16**	**-**

Outstanding amounts of exposures securitised and impaired 2012

	Impaired/past due		Losses	
in € millions	Originator	Investor	Originator	Investor
Residential mortgages	71	-	56	-
Total	**71**	**-**	**56**	**-**

Exposure and capital charges of securitisation positions retained or purchased per risk weight band

	Exposure amount		Capital charges	
in € millions	**2013**	2012	**2013**	2012
<= 10%	1,394	6,401	8	38
> 10% <= 20%	78	189	1	2
> 20% <= 50%	44	254	1	5
> 50% <= 100%	96	340	5	20
> 100% <= 650%	12	14	2	3
- E-notes Hermes XVIII	14	14	14	14
Total	**1,638**	**7,212**	**31**	**82**

SNS Retail Bank uses the credit rating agencies to rate its securitisation positions.

29.9 Internal capital adequacy assessment process

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

The robustness of capital levels is also tried by performing stress tests. In 2013, SNS REAAL performed an internal stress test on the Banking activities as part of the 2013 ICAAP. For this stress test, the risks involved were thoroughly analysed and tested. SNS REAAL applies its own specific economic scenarios for this stress test. The economic capital and the Regulatory Capital (Basel II, pillar I) are part of the ICAAP as well and the capital management process is reviewed. The results of the 2013 ICAAP show that the Banking activities of SNS REAAL abundantly meet the internal standards either in the base case scenario or in a stress scenario. With reference to the Supervisory Review and Evaluation Process (SREP) SNS REAAL is in ongoing dialogue with the Dutch Central Bank on the ICAAP results.

The Dutch Central Bank (DNB) is expected to inform SNS REAAL in March on the outcome of the assessment on the solvency of SNS Bank NV through its Supervisory Review and Evaluation Process (SREP).

29.10 Liquidity risk

Information about liquidity risk is included in Chapter 20 Financial risk management, section 20.6.

29.11 Capital adequacy

29.11.1 General

This chapter describes the conditions and major components of the capital base.

The calculation of capital base is done in accordance with the CRD and the Dutch legislation. The outcome must, as a minimum, correspond to the sum of the capital requirement for credit risks, market risks and operational risks and capital requirement related to transition rules. In the capital base for SNS Bank NV only capital contributed by subsidiaries or firms that are covered by the consolidated accounts are to be included.

Items included in the capital base should without restrictions or time constrains be available for the institution to cover risk and absorb potential losses. All amounts are included net of any tax charge. Generally, SNS Bank NV has the ability to transfer capital within its legal entities without material restrictions.

A summary of items included in the capital base is available in the table in the next section.

The capital base (referred to as own funds in the CRD) is the sum of Tier 1 capital and Tier 2 capital after deductions. The two main components in the capital base are core equity in the balance sheet and subordinated debt. Below is a detailed description of the items included in the capital base. The capital ratio is calculated by dividing the capital base with risk weighted assets (RWA).

29.11.2 Capital base and conditions for items to be included in the capital base

Tier 1 capital

Tier 1 capital is defined as capital of the same or close to the character of eligible capital, eligible reserves and also a limited part (up to 25% of Tier 1) of the hybrid capital loans (perpetual loans).

Eligible capital

Paid up capital is equal to the share capital contributed by shareholders.

Eligible reserves

Eligible reserves consist primarily of retained earnings, other reserves, minority interest and income from current year. Retained earnings are earnings from previous years reported via the income statement. Other reserves are related to the capital part of untaxed reserves, revaluation and translation reserves referred to acquisitions and associated companies under the equity method. The equity interests of minority shareholdings in companies that are fully consolidated in the financial companies group are also included. Positive income from current year is included as eligible capital after verification by the external auditors. However, negative income must always be included as a deduction.

Hybrid capital loans subject to limits

The requirements for including undated loans in Tier 1 capital are restricted. Repurchase of these undated loans can normally not take place until five years after the loan originally is issued. Hybrid capital loans, undated subordinated loans, may be repaid only by decision from Board of Directors of SNS REAAL NV and with the permission of the DNB. Further, there are restrictions related to step up conditions, order of priority, interest payments under constraint conditions and the level of amount that can be part of the Tier 1 capital. If there is any surplus after applying the legal limit on Tier 1 capital the exceeding amount can be transferred to Tier 2 capital.

Deductions from Tier 1 capital

Intangible assets

A significant part of deducted intangible assets contains goodwill. Other intangible assets relate to IT, software and client relations.

IRB provisions excess (+) / shortfall

The calculation of the capital base is in accordance with the CRD and the Dutch legislation. The capital base is adjusted for the difference between expected loss (EL) and actual provision made for the related exposures. Note that this is only relevant for the IRB exposures. A negative difference (when the EL amount is larger than the provision amount) is included in the capital base as shortfall. According to the rules in the CRD, the shortfall amount shall be deducted from the capital base and be equally divided into tier 1 capital and tier 2 capital. For the purpose of the CRD transitional rules, calculation of the shortfall is under Dutch regulation deducted from the RWA to be neutralised in a Basel I perspective. A positive difference (provisions exceed EL) can be included in Tier 2 capital with certain limitations.

Profit on securitisation / Significant risk

SNS Bank NV has securitised part of the mortgage loans. With these securitisation transactions, the economic ownership of mortgage loans is transferred to separate companies. These loans are transferred at nominal value plus a deferred selling price. A positive result within the separate companies creates a positive value of the deferred selling price. According to the rules in the CRD, the profit on securitisation is deducted from the Tier 1 capital.

SNS Bank NV has purchased subordinated bonds issued by various Pearl companies and also taken positions in bonds issued by various Hermes companies. According to the rules in the CRD, an amount for significant risk is deducted from the Tier 1 capital.

Tier 2 capital

The Tier 2 capital is mainly related to subordinated debt with some specific deductions. Tier 2 capital includes two different types of subordinated loan capital; perpetual loans and dated loans. The total Tier 2 amount may not exceed Tier 1 and dated Tier 2 loans may not exceed half the amount of Tier 1. The limits are set after deductions.

The basic principle for subordinated debt in the capital base is the order of priority in a default or bankruptcy situation.

Under such conditions, the holder of the subordinated loan would be repaid after other creditors, but before shareholders. The Act on Special Measures for Financial Enterprises (Intervention Act) surpasses the normal rank order of creditors as loans. With a ruling subordinated debt might be expropriated. The subordinated debt will - to some extent - prevent the institution to go into liquidation.

If the remaining maturity of dated subordinated loans is less than 5 years, a reduction factor on the outstanding notional amount is used to calculate the eligible amount for inclusion in Tier 2 capital. Outstanding amount in the specific issue is deducted by 20% for each year beyond five years.

As of year-end 2013, SNS Bank holds € 1 million (2012: € 315 million) in dated subordinated debenture loans and € 40 million (2012: € 40 million) in undated subordinated debenture loans.

A summary of items included in the capital base is shown in the table below. Please note that as a result of the nationalisation of SNS REAAL NV on February 1st, 2013, the capital base has changed substantially, as described in Chapter 5.

Calculation of total capital base

in € millions	2013	2012
Tier 1 capital		
Paid up capital	381	381
Share premium	3,787	1,186
Eligible capital	**4,168**	**1,567**
Reserves	(181)	538
Income (positive/negative) from current Year	(1,352)	(719)
Eligible reserves	**(1,533)**	**(181)**
Tier 1 capital (before hybrid capital and deductions)	**2,635**	**1,386**
Hybrid capital loans subject to limits	-	331
Intangible assets	(74)	(75)
IRB provisions excess (+) / shortfall (-)	(19)	(31)
Securities capital	-	-
Other items, net	(127)	(27)
- of which eligible reserves SPVs	(20)	(17)
- of which Credit facility SNS REAAL	(100)	-
- of which result tier 1 exchange	-	(1)
- of which result tier 2 exchange	(7)	(9)
Deductions from Tier 1 capital	**(220)**	**(133)**
Tier 1 capital including hybrid capital (net after deduction)	**2,415**	**1,584**
- of which hybrid capital	-	331
Tier 2 capital		
Subordinate loan capital	1	315
Other additional own funds	40	40
Tier 2 capital (before deductions)	**41**	**355**
IRB provisions excess (+) / shortfall (-)	(19)	(31)
Deductions from Tier 2 capital	**(19)**	**(31)**
Tier 2 capital (net after deductions)	**22**	**324**
Capital base	**2,437**	**1,908**

29.12 Remuneration

In compliance with the requirements set in the Policy act and Regulation on Sound Remuneration policies pursuant to the Financial Supervision Act (Besluit Beheerst Beloningsbeleid Wft 2011 en Regeling Beheerst Beloningsbeleid Wft 2011), which is the implementation of changes in Pillar III disclosure requirements, SNS Bank NV will issue a report on remuneration simultaneously with SNS REAAL NV’s Group report on remuneration. This separate report will be made public on our website when available.

SNS Bank NV’s remuneration policy forms an integral part of SNS REAAL NV’s Group remuneration policy. As such, it is fully derived from and aligned with all the procedures from this Group policy and accompanying actions. The report will display the 2013 remuneration for SNS Bank NV's senior management and members of staff whose actions have a material impact on the risk profile of SNS Bank NV (the other Identified Staff).