NL financial investments

Advisory report on the future direction of SNS Bank

June 2016

Content

Summary & conclusions

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In his letter of 22 May 2015 to the House of Representatives ('Sale of ABN AMRO'), the Minister of Finance stated his intention to request the Trust Office Foundation for the Management of Financial Institutions *(Stichting administratiekantoor beheer financiële instellingen*, hereinafter: NLFI), to issue an advisory report on the future of SNS Bank by mid-2016. By submitting this letter, NLFI complies with this request. NLFI has prepared its advice in line with NLFI's legal purpose as laid down in the Trust Office Foundation for the Management of Financial Institutions Act (*Wet stichting administratiekantoor beheer financiële instellingen*, hereinafter: NLFI Act). In drawing up this advisory report, NLFI has been guided by the statutory description of NLFI's goals.

In its investigation (based on, *inter alia*, a public consultation of stakeholders and opinion makers from academia, the financial sector, regulatory bodies, interest groups and civic organisations), NLFI found that there is a widespread interest in the future strategic position of SNS Bank being that of a safe retail bank offering simple, transparent and fairly priced financial products, operating on the basis of an operationally excellent business model and delivering a competitive dividend yield. NLFI has assessed SNS Bank's strategic plan - named 'Spot On'- and determined that the above mentioned strategic principles can be met, should the plan be successfully executed. The execution of the strategic plan also meets the preconditions set by the European Commission in the context of the restructuring plan.

NLFI is of the opinion that SNS Bank needs more time to acquire a strong position within the Dutch banking sector and is currently not yet ready for an exit. While the financial and operational results have improved ever since SNS REAAL was nationalised, the bank is still confronted with a number of operational and structural challenges. The primary reasons for the existence of these challenges are: the currently extremely low interest rates, which result in pressure on margins and volumes; the upward pressure on costs incurred by SNS Bank due to higher regulatory costs and the split-off of the former parent company; and uncertainty about the capital structure due to the uncertain effects of, *inter alia*, the new 'Basel IV' regulations.

NLFI believes that effecting optimum long-term value creation requires that Spot On be executed over a period of two to three years, during which time the bank will at any rate have the opportunity to build up a solid track record in terms of reducing costs and achieving sufficient dividend yield on the basis of a balance sheet comprising safe assets and a solid liquidity and capital structure.

The market at present is insufficiently interested in a sale of SNS Bank on conditions acceptable to the State, partly in connection with the current uncertainties arising from 'Basel IV' regulations. Successful execution of Spot On will, in the opinion of

NLFI, result in a revenue model featuring a low risk profile and a dividend yield that may be attractive to a wide group of long-term investors. Hence, the execution of the desired improvement plan does not, for the years to come, result in irreversible measures being taken or options being precluded in respect of future ownership structures.

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1 Introduction

1 Introduction

In this letter, the Trust Office Foundation for the Management of Financial Institutions (*Stichting administratiekantoor beheer financiële instellingen*), operating under the name of NLFI, provides the Minister of Finance with its advice on the options open to SNS Bank in respect of its future direction. It submits this letter in response to your request, made in your letter of 22 May 2015 to the House of Representatives ('ABN AMRO sale').[1] When making the request, you emphasised the importance of SNS Bank acquiring a strong, independent position within the Dutch banking sector before a decision can be made on the future of SNS Bank.

In this advisory report, NLFI provides an overview of the current position of SNS Bank, based on its current views on the possibilities of meeting the four preconditions for allowing SNS Bank to return to the private sector, as set by your predecessor.[2] In so doing, wherever possible, NLFI refers to the *van Hijum/Nijboer* motion on safeguarding the utility bank character (*nutsbank karakter*) of SNS Bank[3] and the Merkies/Nijboer motion on conducting an investigation into having SNS Bank remain in State hands.[4] At the same time, this advisory report provides an overview of the fundamental starting points that a future SNS Bank strategy may be built on, without excluding any sale options.

In drawing up this advisory report, NLFI has been guided by the statutory description of NLFI's goals. In discharging its statutory task and in exercising the rights associated with the shares held by NLFI, NLFI has focused primarily on the financial and economic interests of the State, while taking into consideration the interests of the company, its associated businesses and the employees involved.

NLFI seeks to align its advice with the fundamental tenets of the Government Policy on Government Holdings Memorandum 2013.[5] Its advice is also in keeping with the decision-making framework phrased by the Privatisation/Empowerment of Government Services Parliamentary Inquiry Committee.[6] This decision-making framework defines five different phases. Your ministry has indicated that the process is currently in the phase where a decision is to be taken on the privatisation design, i.e. phase two. As of yet, no irreversible steps towards privatisation are being taken.

1 Parliamentary Documents II, session year 2014-2015, 31789, no 64
2 Parliamentary Documents II, session year 2010-2011, 28165, no 117
3 Parliamentary Documents II, session year 2015-2016, 34346
4 Parliamentary Documents II, session year 2013-2014, 32013, no 45
5 Government Policy on Holdings Memorandum, 18 October 2013, annexe to: Parliamentary Documents II, session year 2013-2014, 28165, no 165
6 Privatisation/Empowerment of Government Services Parliamentary Inquiry Committee (2012), "*Verbinding Verbroken?*" Inquiry into the parliamentary decision-making process on the privatisation and empowerment of government services, Senate, session year 2012-2013, C, A

In order to substantiate its advice, NLFI relied on a public consultation on the desired role to be played by SNS Bank in the Dutch banking sector and an exploration of the strategic options available to SNS Bank conducted by the Boston Consulting Group on the instructions of NLFI. This advisory report was partly based on intensive contact between NLFI and SNS Bank. We also owe our thanks to the Ministry of Finance and *De Nederlandsche Bank* for providing their opinion on earlier versions of this report.

In addition, discussions were held with a number of market experts, legal advisers and other experts who shared their views with us. We are very grateful to all those who helped us produce this document.

This is a translation of the original text in Dutch. In case of divergences between the texts, the text of the Dutch version shall prevail.

2 SNS Bank strategy and profile

2 SNS Bank strategy and profile

2.1 Introduction

This Chapter provides an overview of SNS Bank's current position and profile. Based on the parliamentary debate of NLFI's previous recommendations, BCG, on the instructions of NLFI, conducted a public consultation on the desired role of SNS Bank in the Dutch banking sector. NLFI has compared the results with SNS Bank's strategic plan. This Chapter provides an overview of how SNS Bank's elaboration of the strategy and its future profile is in line with the views held by others on the future profile of SNS Bank.

2.2 SNS Bank's current position

SNS Bank was split off from SNS REAAL on 30 September 2015. This was prompted by the book loss resulting from the sale of Vivat (REAAL N.V.) by SNS REAAL, which was accounted for on the consolidated level, but carried over into the calculation of the prudential capital held by SNS Bank at the consolidated level. The State acquired the bank from SNS REAAL and transferred control of the shares in the bank to NLFI. For the purposes of exercising this control, a holding company (SNS Holding B.V.) was founded, which owns all shares in SNS Bank. NLFI manages 100% of the share capital and exercises full voting rights in SNS Holding. The Articles of Association of SNS Holding provide that prior permission by NLFI is required for major decisions by SNS Bank.

Profile

SNS Bank's history dates back to 1817, when the '*Maatschappij tot Nut van 't Algemeen*' - '*t Nut* for short - was founded: the first true utility savings bank. Utility savings banks generally pursued social over commercial goals, aiming, for instance, working to help people become more self-reliant. They were characterised by converting deposits into safe assets. In the second half of the 20th century, the savings banks expanded their portfolio of assets, which now also included, for example, residential mortgages and consumer credit. This period was also characterised by mergers of savings banks, many of which merged into SNS, which stands for '*Samenwerkende Nederlandse Spaarbanken*', or Association of Dutch Savings Banks.

Presently, SNS Bank is the Netherlands' fourth largest bank in terms of assets and market position. The bank is predominantly active in the Dutch retail market.[7] Its range of products on offer consists of the core product groups of payment products, mortgages and savings products, to which can be added consumer credit. In addition, SNS Bank serves as a distributor of insurance and investment products. SNS Bank has a relatively high number of 'secondary' customers - that is, customers with only one product - when compared to ABN AMRO, ING Bank and Rabobank, all of which attract more 'primary' customers, thus realising higher cross-selling rates.

SNS Bank pursues a multi-brand strategy. The brands SNS, *Regiobank*, ASN Bank and *BLG Wonen* all feature their own positioning and associated target audience. Regiobank, profiled as the 'bank close to you', and ASN Bank, profiled as 'the sustainable bank', both have a clear and distinctive position within the market. The SNS brand is profiled as the 'normal bank'. The various brands share the same IT platform for every product group.

SNS Bank's mission is detailed in a manifesto, which states that the bank focuses on banking with a human touch' in offering its services.[8] In its manifesto, SNS Bank states that its financial services are focused on utility for the customer (instead of on yield), financial strength and sustainability. SNS Bank translates the manifesto into services for its customers such as a mortgage term service, an interest-free temporary overdraft and purchase protection insurance for purchases made via payment accounts.

Competitive position

Approximately 90% of SNS Bank's revenue is derived from interest income from mortgages. Retail deposits in savings accounts make up about 60% of total assets. The loan/deposit ratio is 105%. The bank's market shares have increased since it was nationalised. By the end of 2015, SNS Bank had a 4.1% market share in new mortgage production. Its savings market share amounted to 10.9%. SNS Bank's mortgage portfolio market share dropped from 7.4% in 2013 to 6.9% in 2015.

7 In this connection, SNS Bank sold SNS Securities, which is active in the field of securities broking, capital market transactions and asset management, last year.
8 The text of this manifesto is available at: https://www.snsbanknv.nl/over-ons/missie-strategie/ons-manifest

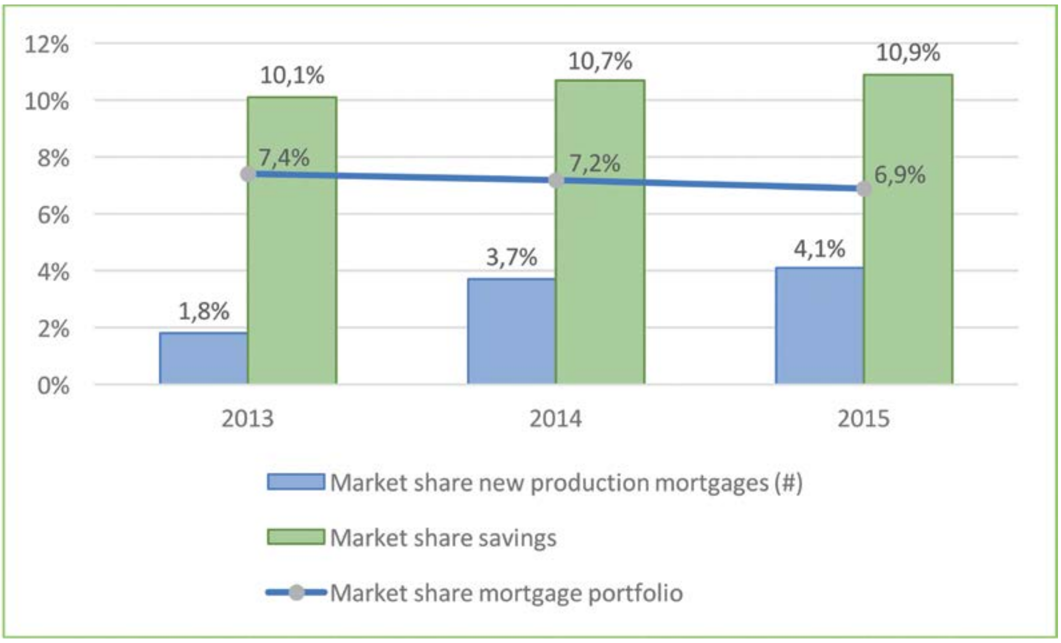

Figure 1: SNS Bank market shares.

Because of the persistently low interest rates, the bank's net interest income may come under pressure. This is due, in the first instance, to the possibilities of further reducing interest on savings becoming more limited, while mortgage loan interest rates are going down. Second, the persistently low interest rates result in further shifts in both customer behaviour and the competition. If interest rates are low, customers are more inclined to pay off their mortgage early and take out a new mortgage loan at a lower interest rate, despite the customary penalty fees to be paid when paying off early. In addition, customers more often opt for a longer-term mortgage, a market segment that has become increasingly dominated by insurers and pension funds over the past few years. These parties are particularly active in this segment due to the preferred matching of their long-term liabilities and assets. These mortgages are often offered by 'regiepartijen, which are companies financed by pension funds and asset managers.

Figure 2: Dutch mortgage market share by type of mortgage lender. Source: IG&H, Mortgage Update Q4 2015

For SNS Bank, the increasing competition by non-banks translates into rising pressure on both interest margins and mortgage portfolio. In 2015, the total private mortgage portfolio decreased by 3% (EUR 1.5 billion) to EUR 45 billion, as total (early) repayment outpaced the production of new mortgages. SNS Bank aims to increase the retention rate by intensifying contact with mortgagees and expanding its mortgage portfolio.

Cost structure

Compared to the three major Dutch banks, SNS Bank's organisation is relatively simply structured. Consequently, it is able to service its brands in a cost-effective manner. As for both SNS and Regiobank, distribution is mostly by way of franchising, the costs incurred by SNS Bank are notably lower than is the case for similar banks.[9] However, this position has worsened somewhat in recent times. SNS Bank's operational costs are at a structurally higher level than they used to be, partly because of the increase in mortgage-related activities and the split-off from its former parent company. In addition, the costs arising from stricter regulation have risen sharply. The scaling up of the middle office, necessary to handle the increased level of mortgage-related activities and to improveoperational effectiveness and the control framework, led to higher costs being incurred in 2015.

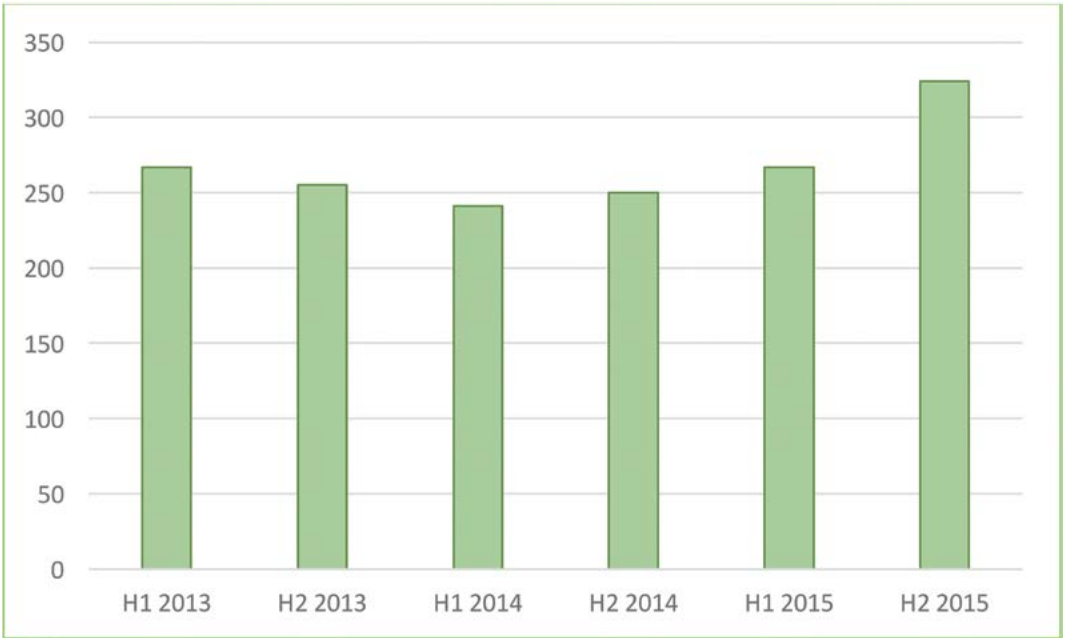

Figure 3: SNS Bank operational expenses (including statutory levies, in millions of EUR).

Capital structure

The bank's regulatory capital is differentiated to a limited degree only. Tier 1 capital is fully made up of common equity. On the basis of current regulations, SNS Bank has a Common Equity Tier 1 (CET1) target of 14% in place. However, at present, the CET1 ratio is significantly higher (end of 2015: 25.3%). This significant deviation from

9 Due to the use of a franchising system, a part of the income, too, accrue to the franchisees. However, as these reductions in costs and benefits are not proportionally related, SNS Bank operates at a lower cost level (costs/total assets) than the Dutch major banks.

the target figure was necessary, until recently, in order to maintain the (unweighted) leverage ratio. By the end of 2015, the leverage ratio was 4.7%, which was higher than the 2018 minimum ratio estimate of 4%.

In addition, the CET1 ratio of SNS Bank is relatively high due to uncertainty about the new capital rules and their possible impact. The Basel Committee on Banking Supervision has recently made a number of proposals aimed at limiting the influence of internal risk models used to determine risk-weighted assets (internal ratings based approach) in a number of fields (including certain counterparty-related risks, mortgages and operational risks). These proposals form part of a more expansive set of proposals related to the banks' capital management, made in connection with the so-called 'Basel IV' regulations. These proposals may yet be amended, also on the basis of a Quantitative Impact Study performed on the instructions of the Basel Committee. Expectations are that the Basel Committee on Banking Supervision will issue a definitive set of rules by the end of this year.[10]

Given the relatively low risk weights Dutch banks attach to their mortgage portfolio on the basis of historically low credit losses, the tightening of capital requirements will specifically affect the Dutch mortgage market. This also applies to SNS Bank. SNS Bank currently makes use of its own risk models to calculate the risk-weighted assets (RWA) of residential mortgages. This currently (end of 2015) results in an average RWA density of 16%. While the exact impact of the Basel Committee's proposals is as yet unknown, management expects that implementation of the proposed adjustments will result in a significant increase of the risk weighting of the SNS Bank residential mortgages. The total impact on SNS Bank's required capital level could well be significant, considering the high proportion of residential mortgages on its balance sheet. Should the Basel Committee's current proposals be adopted and implemented, management believes that the capital required to meet the leverage ratio will be lower than the capital required to meet the risk-weighted targets.

In addition to focusing on the influence of the harmonisation of mortgage risk weights, the regulators have also become more aware of the vulnerabilities of so-called monoline banks - i.e., specialised banks whose assets derive from a specific set of products. This monoline nature increases the bank's concentration risk. Because of its own monoline nature, SNS Bank's statutory SREP ratio[11] of 11.75% is relatively high. When including the Sifi buffer[12] of 0.25% SNS Bank is required to hold, SNS Bank's current minimum CET1 ratio is 12%. SNS Bank's monoline business model also translates into a significant contractual term mismatch between assets (which are long term) and liabilities (mostly short term, directly withdrawable savings), resulting in distinct liquidity risk in the business operations.

10 Regulations introduced by the Basel Committee can be considered to anticipate on European regulations. It as yet unclear when - and to what extent - the Basel Committee's proposals will be adopted. Expectations are that this will take a couple of years.
11 This is the minimum capital ratio required by the supervisor under the Supervisory Review and Evaluation Process.
12 The Sifi buffer is an additional capital buffer for banks deemed to be systemically important.

Conclusion

The profitability of SNS Bank is heavily dependent on the developments in the Dutch savings and mortgage market and the maximum obtainable level of customer service efficiency. SNS Bank is currently confronted with a number of operational and structural challenges. The primary reasons for the existence of these challenges are the currently extremely low interest rates, which result in pressure on the margins and volumes, the upward pressure on the costs incurred by SNS Bank - partly due to higher regulatory costs and the split-off of the former parent company - and uncertainty about the capital structure due to the uncertain effects of, *inter alia*, the new 'Basel IV' regulations. NLFI believes that SNS Bank being able to address these challenges is crucial to the bank having a lasting future.

2.3 Strategic fundamentals and profile

On the instructions of NLFI, strategic advisory firm BCG has explored the possible strategic alternatives open to SNS Bank, assuming the bank's starting position as detailed in the previous section. This exploration is partly based on a public consultation on the desired role of SNS Bank in the Dutch banking sector conducted by BCG (*refer to Section 2.5*). The strategic alternatives explored by BCG are:

- Retaining SNS Bank's current profile and current business model;
- Retaining the bank as it is now, but adding new services such as making its payment platform available to third parties, including smaller banks and 'fintech' companies, and/or focusing on a specific target client segment like the self-employed;
- Becoming a 'simple retail bank' with a focus on offering three core products - mortgages, payment products and savings products - and competitive pricing, based on an efficient business model;
- Becoming a niche bank with a focus on a single product, like 'green' mortgages, or a single target client segment, such as the self-employed;
- Becoming a mortgage provider based on the Danish model, featuring an exact contractual term match between outstanding mortgages on the bank's balance sheet and the bonds issued to finance them;
- Becoming a one-stop shop offering a wide range of financial services, for instance by becoming a bancassurance group or by becoming part of a consortium;
- Becoming a fourth major bank, offering private banking and corporate banking activities by entering into a joint venture or merging with other, domestic or foreign, banks;
- Splitting up the bank into its various brands or dismantling it by way of assets/ liability transactions.

BCG developed an assessment framework, based also on input from NLFI, to score the alternatives based on various criteria relevant to the stakeholders: recouping the investment by the State, stability for existing customers, contributing to a diverse banking sector, alignment with the current strategy, alignment with the bank's current capabilities, preservation of jobs, feasibility of the change processes and being related to SNS Bank's current activities and business model. Giving equal weight to the various assessment criteria, BCG finds the following four strategic alternatives most suitable:

1. Current SNS Bank profile and business model
2. Current SNS Bank but adding new services
3. Current SNS Bank with a focus on a specific target client segment
4. The 'simple retail bank' offering a limited range of products

NLFI has based its own assessment of the various profiling options open to the bank on the above alternatives, also taking account of the bank's current specific business model, its position within the Dutch banking sector, the developments in the sector and the bank's company culture. Moreover, for the time being, it is important that the future strategy and profile of SNS Bank does not preclude any exit options or future ownership structures.

European Commission preconditions

By virtue of the European Commission's decision of 19 December 2013, due to the State support provided and the impact thereof on the competitive conditions, a number of restrictions apply to SNS Bank. Some of the restrictions relevant to the SNS Bank strategy for the period up until the end of 2017 include:

- A prohibition against acquiring companies or asset portfolios which can be deemed to form a company;[13]
- A prohibition against pursuing aggressive commercial strategies that would not be possible without the State support;
- A prohibition against entering the property finance market.

Basic principles

Given its historic profile, SNS Bank is a bank focused on retail activities, whereby offering mortgage and savings products to the Dutch market constitutes a key part of its business model. Historically, the bank has had a low risk profile and is 'close to the customer'. This sets SNS Bank apart from the three major Dutch banks, which offer various products and services, including to (large) enterprises, and are active abroad. As concerns SNS Bank's profile, NLFI believes the following starting points apply:

- *Low risk profile; no diversification*
  Being a retail bank, it is crucial that SNS Bank maintains a low risk profile. This, in view of the unique risks associated with the bank's monoline nature, which makes it vulnerable to liquidity and solvency risks should internal or external circumstances change. This requires high-level credit risk control and balance sheet management. Low risk profile banks primarily turn their liabilities into low risk assets - which can be converted into cash resources if necessary - and maintain a cautious capital management attitude.

  SNS Bank's low risk profile is at odds with striving for business diversification, both geographically and as concerns the products on offer. The bank's focus should remain on the Dutch retail market (payment, savings, mortgages) and it

13 This restriction applies until 19 December 2016.

should not significantly expand into related activities like extending credit to SMEs or granting higher risk consumer loans. The limited size of SNS Bank, as compared to the major three Dutch banks, means that SNS Bank is less well suited to independently offer other products at equal prices and conditions. SNS Bank could, however, take on the role of distributor of such products.

Maintaining a low risk profile also means that the bank forgoes accepting higher risks within product categories. The bank should not 'chase yield' and in so doing accept more risk than is desirable to maintain sustainable business operations. A search for yield will increase the risk of making the wrong risk acceptance choices and mainly attracting customers with a high risk profile (adverse selection). By offering simple mortgages to retail customers on the basis of cautious credit management, a low risk profile can be maintained. When assessing whether to offer new products, the product also needs to first be checked against the principle of maintaining a low risk profile. The mortgage loans on the balance sheet need to be standardised, so as to enable their use in securitisation and attract ECB funding. The trend towards longer-term mortgages is increasing the pressure on maturity transformation services, which in turn increases the importance of being able to convert long-term assets into short-term cash resources in the form of ECB collateral.

- *Cost management; efficiency*
  The combination of SNS Bank's specialised range of products and its more limited size as compared to the three major Dutch banks requires the bank to have excellent cost management systems in place to remain competitive in the Dutch savings and mortgage market. Despite SNS Bank's historically strong cost basis, recent years have seen an increase in operational costs. In part, this is due to its small cost basis actually increasing as a result of new regulatory requirements, while ING Bank, ABN AMRO and Rabobank were actually able to implement cost savings programmes. As a consequence, when SNS Bank's efficiency is compared to that of the three major Dutch banks, as measured by cost/income ratio, its position has worsened.[14] NLFI believes that SNS Bank needs to show significant improvement in its operational cost development if it is to remain competitive in the medium and long term. Exclusively offering a simple range of products might help reduce costs, as might more efficient internal processes operations.
  In addition, savings can be realised by staff rationalisation performed in combination with further optimisation of the multi-label single platform and reduction of the administrative and salary costs, which have increased since the split off from the former parent company.

The aforementioned starting points provide ample room to project SNS Bank as a low cost producer cautious in accepting risk, which fits nicely with the profile of a simple retail bank as presented by BCG. In addition, SNS Bank should be able to capture sufficient market share in the Dutch savings and mortgage market, in line

14 The SNS Bank's 2015 cost/income ratio was 53%, compared to ABN AMRO Retail Bank's 55%, ING Bank's 56% and Rabobank Domestic Retail's 70%.

with market conditions. It therefore needs to set competitive targets that are tailored to the bank's low risk profile.

2.4 SNS Bank's views of its future profile

Ever since late 2015, when it was de-merged from SNS REAAL, SNS Bank has been working on a strategic plan - named Spot On - and on creating a future profile for the bank. The bank considered various options:

- Being a commercial bank offering retail activities, in the vein of the three major Dutch banks;
- Being a 'social bank' providing services to the customer and making a positive contribution to society as a whole;
- Being a utility bank/state bank focused only on managing savings deposits and providing payment services.

SNS Bank prefers the profile of being a 'social bank'. This profile is characterised by a number of features:

- On the basis of its social role within the real economy (warehousing, risk transformation, money creation), SNS Bank offers simple core products in such a way as to be both of service to its customers and profitable, yet without running unnecessary risks;
- The bank distinguishes itself from other banks by directly translating its vision and manifesto into its products, processes and business model;
- Efficiency is to be achieved by keeping its business operations simple and efficient, ensuring an absolute reduction in operational costs;
- Improving risk management allows for structurally reducing mortgage risk costs, depending on the state of the Dutch economy;

The bank strives to optimise its compound return by way of the so-called '*Shared Value*' strategy, which takes the interests of customers, employees, shareholders and society as a whole, into account. SNS Bank believes this profile to be an important addition to the Dutch banking sector and expects to be able to attract more customers and strengthen its relations with existing customers, by adopting it. The bank's board has stated that this growth potential forms a basis for a successful long-term strategy.

NLFI has assessed SNS Bank's strategic plan and determined that the bank, by successfully implementing it, will meet the principles of low risk profile and high efficiency. The vision as provided by SNS Bank is also in line with the 'simple retail bank' profile as presented by BCG, by which the bank would have a focus on offering three core products - mortgages, payment products and savings products - and competitive pricing, based on an efficient business model. The bank will focus on producing simple and transparent products based on low production costs and effecting a healthy balance between the core elements of the *Shared Value* strategy, ensuring that shareholder financial returns are not subordinated to the other elements.

2.5 Other views on SNS Bank's future profile

On the instructions of NLFI, BCG investigated the opinions current in society on the desired role to be played by banks in the Dutch banking sector and SNS Bank's place in it. This round of consultation charted which possible positions to be taken by SNS Bank receive wide support, also in view of the van Hijum/Nijboer motion [15] on safeguarding the utility character of SNS Bank.

BCG consultation

BCG conducted a public consultation on the desired role of SNS Bank in the Dutch banking sector. BCG had various meetings with selected stakeholders and opinion makers from academia, the financial sector, regulatory bodies, interest groups and civic organisations. BCG found that the persons consulted broadly agree that the Dutch banking sector requires increased diversity and competition to widen the range of options open to the consumer and to ensure that the existing financial institutions be attentive to, for instance, their prices and product conditions. In addition, the view that a bank should not be a utility company - in the sense of providing utility services accessible to everyone - but should or may have a social function, was found to be widely supported. To SNS Bank, this means that its social function should benefit the whole of Dutch society, not just existing or future SNS customers. The respondents also stated that returns lower than usual in the market should not be the result of inefficient business operations. Such lower returns should be demonstrably compensated by the creation of social value.

The 'simple retail bank' profile was found to be widely supported during the consultations. In the view of the respondents, this profile is characterised by the bank having to be socially involved and focused on the 'mass retail segment', offering transparent products based on efficient business operations. Most of the interviewees believe a possible expansion by SNS Bank of its range of products into other segments - for example, offering credit to SMEs, etc. - would complicate matters, not be in line with the bank's current capabilities and culture, and be risky. Creating a fourth major bank is very widely held not be a realistic or useful option by the respondents. NLFI endorses this conclusion. NLFI has included the input provided during the round of consultations when determining the points of departure at the base of SNS Bank's strategy and future profile.

Van Hijum/Nijboer motion on safeguarding the utility character of SNS Bank

The House of Representatives on 12 December 2014 adopted the van Hijum/Nijboer motion on safeguarding the utility character of SNS Bank. This motion constitutes a request to the government to investigate how best to safeguard SNS Bank's utility character in light of the bank's "People for people" manifesto, which includes the ambition to turn SNS Bank into a simple savings bank, putting social benefit over financial returns.

15 Parliamentary Documents II, session year 2015-2016, 34346

On the instructions of NLFI, BCG investigated how SNS Bank could best fulfil a utility bank function in line with the findings from the consultation round. In its investigation, BCG distinguishes between high utility and low utility banks. BCG used the following definition of a high utility bank:

- Products: the bank only offers basic products under clear product conditions
- Segments: the bank offers financial retail services to the 'mass retail segment'
- Risk profile: the bank maintains a conservative risk profile
- Returns: the bank strives towards acquiring maximum returns, unless deviating from this drive benefits broad social objectives
- Ownership form: the utility nature can be ensured in the long term by way of the ownership structure used, irrespective of the bank being in public or private ownership.

BCG indicates that each of SNS Bank's future profile options allows for the bank having either a high or a low utility nature. A high utility nature may also be connected to expected returns. A high utility bank could, for instance, be focused on composite return instead of on an economic rate of return. While SNS Bank's manifesto does not explicitly state how stakeholder interests should be balanced, it does, in view of the bank's social origin, attach a lot of weight to customer interests. The manifesto can be translated into conditions that are attractive to customers, like offering a mortgage term service (including interest rate averaging), an interest-free temporary overdraft, interest on balances in payment accounts and purchase protection insurance for purchases made via payment accounts.

Competitive returns are required to be able to grow and to attract investors. To a bank, this is of great importance in connection with controlling the cost of capital. BCG notes that abandoning the pursuit of economic rates of return is not a necessary precondition for having a high utility nature as part of the company profile. The drive to realise stable and predictable returns with reduced upward potential, but also reduced risk forms part of the bank's financial policy. In order to ensure the bank's high utility nature, alternative measures, including embedding SNS Bank's social role in its Articles of Association and protecting itself against undesired shareholder activism by implementing customary market measures like issuing depositary receipts for shares and founding a foundation to protect the bank's identity, may be considered. In addition, the bank's utility function could be safeguarded by subscribing to the cooperative model. SNS Bank could, in that connection, issue depositary receipts for shares or various classes of shares to parties affiliated to the bank. This can be worked out more fully when SNS Bank is exit-ready.

2.6 Conclusion

The results of the House of Representatives' debate on the future of SNS Bank and of the round of consultation held by BCG show that there is a widely supported need for the future strategic position of SNS Bank to be that of a safe retail bank offering simple, transparent and fairly priced financial products, operating on the basis of an operationally excellent business model and resulting in a competitive dividend yield.

Opting for a future profile of being a 'social bank' is in line with this need and is also in keeping with the 'simple retail bank' profile presented by BCG.

NLFI has assessed SNS Bank's strategic plan and determined that the strategic principles following from the views on the bank current in society will have been met, should the plan be successfully executed. The strategic plan also meets the pre-conditions set by the European Commission in the context of the restructuring plan. The next Chapter will elaborate on the required transition towards a new SNS Bank profile. NLFI believes that various ownership structures are possible for a bank with this strategy and profile. This focus therefore does not *a priori* preclude any sale or ownership structures.

3 Transition to future profile

3 Transition to future profile

3.1 Starting points

In the previous Chapter, we noted that SNS Bank is currently confronted with a number of operational and structural challenges. Addressing these challenges is crucial to the bank having a lasting future. For SNS Bank to become a simple retail bank, it must undergo a transition. SNS Bank has accounted for this transition in Spot On, its strategic plan. The transition will at any rate include the following elements:

- Lowering the cost structure. The costs of production can be reduced to a level allowing SNS Bank to become competitive on a long-lasting basis.
- Improving risk management. The successes already achieved in improving risk management need to be followed up on. The provisions made to cover credit losses when investing in Dutch mortgages have to be at an equal, or even lower, level than are made by the three major banks through the cycle.
- Further shift of the range of products towards standardised products. The bank should not perform activities that fall outside the scope of normal business operations.
- Becoming a ‘smart adopter’ of fintech developments, thereby structurally improving customer contact, product innovation and service level.
- Possible adjustment and streamlining of the bank’s capital structure on the basis of the determination of future mortgage investment risk weights and the definition of MREL duties.

Based on SNS Bank’s current starting position, the improvement plan drafted by the bank and the financial substantiation of acquiring the profile of a ‘social bank’, NLFI believes that SNS Bank requires at least 2, possibly up to 3, years to address the various challenges it faces and realise at least the majority of the desired improvements. During this time, the bank should at any rate build up a solid track record in terms of reducing costs and achieving sufficient dividend yield on the basis of a solid liquidity and capital structure.

3.2 Transition and improvement plan objectives and monitoring

The elements allowing SNS Bank to take up the position of a simple retail bank need to be realised in the medium term. NLFI and SNS Bank defined a number of objectives to this purpose.

Cost reduction

The operational costs, excluding statutory levies, need to be reduced in absolute terms from the realised 2015 figure of EUR 575 million to achieve a structurally lower cost of production. However, in order to realise these cost reductions, initial investments in and additions to the restructuring provision are required. Achieving such *absolute reduction of cost* forms an important indicator to the bank.

Due to the pressure on the bank's income and its alternative distribution model, which is partly based on franchising, the *cost/income ratio* is not fully suitable to serve as the sole gauge for measuring the cost reduction to be achieved by SNS Bank. As a significant share of the assets on the balance sheet (72%) are composed of residential mortgages, the mortgage production costs are also mainly expressed in the *operational costs/average assets*, thus forming a better gauge of the degree to which the bank has improved its efficiency, to be used alongside the traditional cost/income ratio.

Improving risk management

SNS Bank has substantially cut back on its credit loss provisions in the past few years. The ground for effecting this reduction was the recovery of the Dutch economy and, in particular, of the property market. In addition, SNS Bank invested in improving its processes to prevent or limit mortgage arrears. These measures, too, contributed to reducing credit loss provisions to a competitive level. *Loan impairment charges as a percentage of the total mortgage portfolio* was 0.07% (7 basis points) in 2015. SNS Bank aims to maintain a low level.

Mortgage standardisation

Standardisation of the mortgage products on offer may result in operational efficiency gains and makes securitising mortgages and creating collateral eligible to receive ECB funding easier. The transition towards a product portfolio featuring standardised simple and transparent products will take some time, given the maturity term of mortgages. However, current low interest rates have resulted in high refinancing and redemption rates. SNS Bank also actively offers interest rate averaging services to its mortgage customers so as to increase the retention rate. Interest rate averaging means that the penalty interest payable on early refinancing is included in the revised interest rate as a surcharge for the duration of the new fixed-interest term. The newly issued mortgage will then be a standardised one. In this way, *standardisation of the mortgage portfolio* may be achieved within a couple of years. The aim is to have *a greater share of the mortgage portfolio be securitisable* so as to serve as collateral for possible ECB funding without an appreciable 'haircut' being applied.

The European Commission in the context of the SNS Bank restructuring plan requires an annual assessment of market conditions to determine whether the bank could be privatised. In the opinion of NLFI, the above gauges and objectives, set up by SNS Bank in the context of its transition towards being a simple retail bank, could form a part of this annual market conditions test required by the European Commission.

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SNS Bank strategy and profile
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Appendix

3.3 Anticipated return considerations

The cost reduction drive at SNS Bank and the lower credit loss provisions are expected to lead to the bank's profitability remaining at the same level for the coming years and slightly improving around 2020, even when taking into account the expected decrease in the net interest margin as a consequence of the shrinking credit portfolio and the persistently low interest rates. NLFI believes that this improvement will be reflected in the returns to the State over the period up to privatisation. European regulations require that market consistent, competitive returns are realised. Whether the return is in line with market conditions is tested on the basis of the market economy investor principle. Under this test, the Member State has to consider a company just like it would be considered by a private investor in similar circumstances. If a Member State systematically waives a return on the capital it has invested in the company, irrespective of the company's results, or if it would systematically accept non-competitive returns, this might constitute illegal state aid.

In Chapter 2, we noted that SNS Bank at present holds a relatively high amount of capital in order to meet the - expected - leverage ratio and 'Basel IV' requirements. The definitive impact of the current proposals by the Basel Committee on Banking Supervision is important to determining the total amount of capital SNS Bank is to hold. This means that, for the moment, the bank will continue to hold a relatively high amount of capital so as to allow it to meet future prudential requirements. Because of this denominator effect, the return on equity (RoE) is not very well suited to serve as a gauge for measuring the bank's overall return.

With respect to the holdings managed by the State, the State applies a specific standard return to each separate government holding.[16] This standard return is also used to encourage a company's board to operate more efficiently. Due to the temporary nature of the investments related to the financial crisis, SNS Bank does not qualify as a company under permanent State management. A dividend yield structure could be applied to follow the basic principle of ensuring a competitive level of return to the State during the transition phase. Taking the average dividend yield of similar banks in the Netherlands and Europe as a calculation basis and adjusting this figure for SNS Bank's low risk profile, a minimum annual dividend yield of 5% on the State's capital investment in SNS Bank at a 2015 selling price of EUR 2.7 billion appears to be adequate. This would have the annual dividend yield on the State's investment in SNS Bank amount to at least EUR 135 million for the next couple of years, or 40% of the bank's 2015 realised profits. On the basis of parameters agreed in advance, this yield may also be higher than 5% from 2017 onward. This could be the case for instance if the yield was to grow in line with growth in the Dutch GDP, insofar as the bank's capital position allows.

16 Government Policy on Government Holdings Memorandum 2013, p. 41

The starting points for the transition from SNS Bank's current profile to that of being a simple retail bank - reducing the costs of production, improving risk management, standardising the product range and streamlining the capital structure - in the opinion of NLFI, provide a basis for an acceptable long-term return. In the years to come, the management has the opportunity to build up a solid track record in reducing costs and realising sufficient return while maintaining an efficient capital structure. During this period, the transition has to be regularly assessed and, if necessary, adjusted to create a bank featuring a low risk profile and sufficient dividend yield in line with that risk profile, such that SNS Bank can become attractive to a wide range of investors.

4 Exit preconditions

4 Exit preconditions

4.1 Introduction

SNS REAAL, the former parent company of SNS Bank, was nationalised on 1 February 2013 to protect the financial stability.[17] You and your predecessors have emphasised the temporary nature of the investments made to protect the stability of the financial sector. The government desires a swift return of all nationalised companies to the private sector, if and to the extent that three preconditions are met:[18]

i. The company is ready for privatisation;
ii. The financial sector is stable; and
iii. There is sufficient market interest in the relevant transaction

In addition to these preconditions, the State wishes to recoup as much of the total investment made into the company to be privatised, plus the State's capital costs.

Over the past period, NLFI has carefully monitored whether the sale of SNS Bank can be considered, keeping in mind the above preconditions, and also whether trying to sell the bank would be feasible and appropriate at this moment. NLFI's current perspective on whether SNS Bank has met these preconditions is further detailed below. The particular focus is on determining whether the bank is ready for sale. Only once we have established that the bank is ready do we need to more fully consider whether the sector is stable and whether there is sufficient market interest.

4.2 Is SNS Bank ready for sale?

When discussing the present state of SNS Bank in Chapter 2, we noted that the bank is currently confronted with a number of operational and structural challenges. The low interest rate results in pressure on margins and volumes. This trend is increased by the growing competition on the Dutch mortgage market. In addition, SNS Bank's operational expenses have increased over the past period due to its split-off from SNS REAAL group and the associated dis-synergies, investments into its middle office capacity and the costs incurred to improve operational efficiency and the control framework. To this need to be added the present uncertainty about the capital structure due to the uncertain effects of upcoming changes in applicable regulations. Determining the future mortgage investment risk weights in future regulations on the basis of the Basel Committee on Banking Supervision's proposals

17 Parliamentary documents II, session year 2012-2013, 33532, no 1
18 Parliamentary Documents II, session year 2010-2011, 28165, no 117

on the harmonisation of risk-weighted assets and further defining the MREL requirements may allow for streamlining the bank's capital structure.

Conclusion

NLFI finds that SNS Bank is currently confronted with a number of operational and structural challenges and uncertainties. These challenges, at present, stand in the way of a clear equity story. As stated in Section 2.3, NLFI believes it to be imperative that SNS Bank implements its strategy and more clearly defines itself as a simple retail bank - i.e., a bank featuring competitive pricing, low cost of production and a low risk profile - in the coming time. The bank is at any rate to work towards the objectives referred to in *Section 3.2* to become ready for privatisation. NLFI believes SNS Bank is, at present, not yet ready for an IPO (initial public offering). NLFI also believes that, at present, no optimum result can be realised from any other sale options. Considering the current position of SNS Bank and the financial substantiation of Spot On as drawn up by the bank, the implementation of the strategic plan will require two to three years to realise optimum long-term value creation.

4.3 Is the financial sector stable, in particular for mortgage and savings banks?

The macro-economic conditions in the Netherlands have clearly improved in the past few years and economic recovery continues in both the US and Europe. However, the rate of growth in a number of important emerging economies is decreasing, playing an important part in an upsurge of volatility in the financial market. The surge follows on the heels of a period with exceptionally low volatility and may therefore partly be explained as a corrective effect. At the same time, however, concern among investors about lagging global economic growth has increased sharply.[19]

In response to the uncertain economic circumstances and inflation rates that have been below internal targets for a long time now, the ECB has further eased its monetary policy over the past few months, also taking a number of unconventional measures. The ECB's base interest rate has by now been lowered to 0% and the ECB deposit facility interest rate is currently even negative, having been lowered to -0.4% in March 2016. In addition, monthly purchases under the quantitative easing policy have been further increased while the list of assets that may serve as collateral for ECB funding has been expanded to cover high-quality corporate bonds. These interventions have led to a further levelling-off of the yield curve.

This low interest environment negatively impacts the banks' interest margin, especially since there now is less room to reduce interest rates on deposits. In addition, the persistently low interest rates result in further shifts in both customer behaviour and the competition. While a slight increase in the production of mortgages has been

19 Also refer to: De Nederlandsche Bank, Annual Report 2015, p. 11 ff.

visible for the market as a whole since 2013 (refer to figure 4), the share held by banks has decreased. On balance, the altered competitive conditions have resulted in lower new mortgage production volumes for the banking sector as a whole.

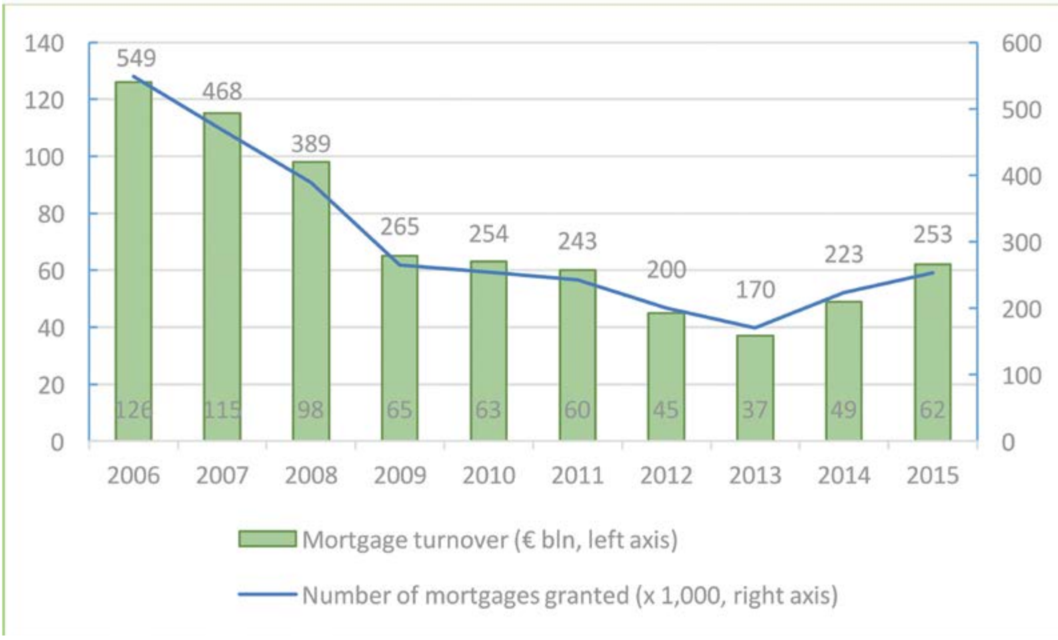

Figure 4: Mortgage turnover and number of mortgages sold in the Netherlands. Source: IG&H, Mortgage Update Q4 2014 and Q4 2015.

Maintaining the interest margin, the most important source of income for banks, depends on the extent to which banks are able to maintain the mortgage margin and reduce financing costs, but is also related to uncertain interest income factors like the level of competition, the demand for new loans and the weighing of keeping market share against profitability.[20] Generally speaking, the profitability of banks seems to be under pressure.

Concerns about profitability held by financial institutions in the past year led to financial market volatility. The start of the year witnessed a particular surge in volatility in the contingent convertible obligations (CoCos) market as there was a distinct possibility that European banks would not be able to meet dividend and CoCo coupon payments due to falling profitability levels.[21] The Bank for International Settlements noted that the limited impact on the banks' senior obligation prices over this period suggested that primary investor concern is not about the size or quality of the banks' capital buffers.[22] Strong intervention by governments and central banks has contributed significantly to this state of affairs. Crucial steps have been taken in the reform process at national and European level over the last years in order to strengthen the stability of the financial sector. This has led to, for example, regulations requiring banks to

20 DNB, press release: *Lage rente uitdaging voor gehele financiële sector; integriteit blijft zorgpunt* (Low Interest challenge for entire financial sector; integrity is of concern), 19 May 2016, http://www.dnb.nl/nieuws/nieuwsoverzicht-en-archief/persberichten-2016/dnb341434.jsp

21 DNB, Overview of Financial Stability, Spring 2016, p. 13

22 Bank for International Settlements, BIS Quarterly Review, December 2015

hold higher capital buffers, the introduction of an unweighted minimum leverage ratio and the coming into force of a bail-in regime that is to ensure that banks issue sufficient numbers of loss-absorbing instruments.

For banks with a focus on relatively low-risk activities, like residential mortgages, the downside of the introduction of the unweighted minimum leverage ratio[23] is that these banks are required to hold a relatively high amount of capital. In addition, banks are also confronted with the uncertain results of, *inter alia*, 'Basel IV' regulations. To mortgage banks, this in particular concerns uncertainty about future rules on the harmonisation of risk-weighted assets in case of, *inter alia*, mortgage investments and the amount of loss-absorbing capital to be held (MREL and TLAC requirements[24]). The harmonisation of risk-weighted assets in connection with mortgage investments forms an especially big challenge to Dutch retail banks due to their low mortgage risk weights, resulting from historically low credit losses. The combination of changing market conditions and the tightening of capital requirements has prompted a number of Dutch banks to limit their mortgage production.

Conclusion

Macroeconomic conditions have noticeably improved over the past few years and the stability of the financial sector as a whole has been strengthened due to tighter legislation. However, circumstances in the savings and mortgage markets are less clear, in particular due to the low interest rate and the uncertainties in connection with the future mortgage capital requirements. These circumstances have an especially large impact on Dutch mortgage and savings banks and, at the moment, hamper the speedy return of SNS Bank to the private sector.

4.4 Is there sufficient market interest in a sale of SNS Bank?

Proactively contacting parties in order to ascertain their interest in a possible acquisition of SNS Bank was not part of the process within the context of this advisory report. NLFI does regularly consult with investment banks on market developments and possible investor interest in banks like SNS Bank. This has allowed NLFI to form an opinion on possible market interest. In view of the market conditions referred to in the above, the existing uncertainties about upcoming regulation, the current expected returns and the systematic challenges SNS Bank is facing, there is at the moment very little to no potential buyer interest in SNS Bank at conditions acceptable to the State. This applies to both strategic buyers and private investors. These State conditions concern not only the price, but also the acquisition structure,

23 Under the CRD4 directive, a minimum leverage of 3% currently applies. The future ratio expected to apply to the Netherlands, is 4%.

24 The MREL (minimum own funds and eligible liabilities) and TLAC (total loss absorbing capacity) requirements relate to improving the resolvability of banks in case of a bank requiring rescue. The liabilities side of the balance sheet of a systematically important bank, in this connection, is to be comprised, to a degree as determined advance, of equity and financial instruments of sufficient loss-absorbing capacity to allow for the required recapitalisation of the bank in a resolution scenario.

the effects on employment and aspects of the company culture. The lack of sufficient investor interest applies to both a private sale of the bank and, especially as concerns an acceptable price, to a possible stock market flotation.

Conclusion

Also in view of NLFI's analysis with respect to the first two preconditions for an SNS Bank exit, NLFI finds that, at present, there is insufficient market interest for a sale at conditions acceptable to the State. NLFI expects interest at conditions acceptable to the State to be created once the bank has built up a track record - including on the operational front - as a stand-alone bank, independent of its former parent company, and once more certainty exists as concerns the impact of the new regulations in connection with mortgage investment risk weights.

4.5 Will capital expenditures be recouped?

State capital expenditures to SNS REAAL, including SNS Bank, are calculated to amount to EUR 4.458 billion.[25] This is reflected in table 1. The amount listed does not include the capital costs - including interest charges - of the State.

In the spring of 2015, NLFI had performed a valuation of SNS Bank as a stand-alone bank in connection with SNS Bank being split from the SNS REAAL group. The valuation was performed by Macquarie Capital on the basis of SNS Bank's 2015 Operational Plan and publicly accessible information. Macquarie produced a valuation range of EUR 2.5 to 2.9 billion, which was less than SNS Bank's late 2014 carrying amount of EUR 3 billion. In consultation with SNS REAAL and the European Commission, the purchase price was set at EUR 2.7 billion.[26] The bridging loan of EUR 1.1 billion granted by the State, plus interest paid, were offset against the purchase price of the shares in SNS Bank.

SNS REAAL's insurance subsidiary, REAAL N.V., currently operating as Vivat, was sold by SNS REAAL for EUR 85 million last year. Following settlement of certain tax claims, the net selling price amounted to approximately EUR 1.

25 In previous advisory reports, NLFI stated that EUR 2.865 billion in State capital expenditures are allocated to SNS REAAL. However, since SNS Bank was split from SNS REAAL, the sale of the SNS Bank shares by SNS REAAL, offset against the bridge loan and the associated interest, are counted as capital expenses for the benefit of SNS REAAL and SNS Bank. In addition, the proceeds of the resolution levy are EUR 5 million in excess of the estimates used in previous advisory reports.
26 Parliamentary Documents II, session year 2014-2015, 33532, B no 47

Description	Date	ABN AMRO	a.s.r.	RFS	SRH (previously: SNS REAAL)	SNS Bank	Propertize	Total
Nationalisation Fortis/ABN AMRO	okt-2008	€ 12.800 mln	€ 4.000 mln					€ 16.800 mln
Provision of core capital SNS Reaal	nov-2008				€ 750 mln			€ 750 mln
Recapitalisation ABN AMRO	dec-2008	€ 4.320 mln		€ 2.220 mln				€ 6.540 mln
Sale of Fortis Corporate Insurance	jul-2009		€ (350) mln					€ (350) mln
Mandatory Convertible Note (MCN) I (ABN AMRO)	jul-2009	€ 800 mln						€ 800 mln
Repayment portion core capital SNS REAAL	nov-2009				€ (185) mln			€ (185) mln
MCN II and conversion loan to equity (ABN AMRO)	dec-2009	€ 3.150 mln						€ 3.150 mln
Settlement and capitalisation RFS	mrt-2010			€ 438 mln				€ 438 mln
Not received coupon payment MCN	apr-2010	€ 103 mln						€ 103 mln
Remaining capitalisation ABN AMRO	jun-2010	€ 490 mln						€ 490 mln
Repatriation of RFS capital	dec-2011			€ (16) mln				€ (16) mln
Capitalisation SNS REAAL	mrt-2013				€ 2.200 mln			€ 2.200 mln
Provision of bridge financing	mrt-2013				€ 1.100 mln			€ 1.100 mln
Capitalisation Propertize	dec-2013						€ 500 mln	€ 500 mln
Resolution levy SNS REAAL	feb-2013				€ (1.005) mln			€ (1.005) mln
Sale of Vivat	jul-2015				€ 0 mln			€ 0 mln
Purchase of SNS Bank (offset against bridge loan)	sep-2015				€ (1.102) mln	€ 2.700 mln		€ 1.598 mln
IPO ABN AMRO	nov-2015	€ (3.828) mln						€ (3.828) mln
IPO a.s.r.	jun-2016		€ (1.018) mln					€ (1.018) mln
Total expenses		**€ 17.835 mln**	**€ 2.632 mln**	**€ 2.642 mln**	**€ 1.758 mln**	**€ 2.700 mln**	**€ 500 mln**	**€ 28.067 mln**
Dividends reveived until 2015		€ 1.600 mln	€ 397 mln	€ 6 mln	€ 0 mln	€ 0 mln	€ 0 mln	€ 2.003 mln
Final dividends 2015 received in 2016		€ 318 mln	€ 170 mln	€ 0 mln	€ 0 mln	€ 100 mln	€ 46 mln	€ 634 mln
Expenses after dividends received		**€ 15.917 mln**	**€ 2.065 mln**	**€ 2.636 mln**	**€ 1.758 mln**	**€ 2.600 mln**	**€ 454 mln**	**€ 25.430 mln**

Table 1: Overview of capital expenditures of and dividend received by the Dutch State

Conclusion

At the moment, it is uncertain whether the capital expenditures incurred for the benefit of SNS REAAL can be recouped by way of the sale of SNS Bank and the dismantling of SRH. Having SNS Bank implement the desired improvements over the coming period may positively affect the bank's yield and value.

5 Future ownership structure considerations

5 Future ownership structure considerations

Your letter to the House of Representatives of 23 August 2013 ('Plans for the future of the financial institutions ABN AMRO, ASR and SNS REAAL')[27] states that the State, as part of the state aid procedure with the European Commission, proposed that SNS Bank continue to exist independently, thereby ensuring that enough parties are active on the Dutch market. In this context, the State informed the European Commission on the existing problems with reduced competition on the Dutch market as a consequence of the price leadership ban. In your 22 May 2015 letter to the House of Representatives ('ABN AMRO sale')[28] you also emphasised the importance of SNS Bank acquiring a strong, independent position within the Dutch banking sector before a decision can be made on the future of SNS Bank.

You and your predecessors have emphasised the temporary nature of the investments made to protect the stability of the financial sector.[29] The 19 December 2013 decision of the European Commission[30] on the restructuring plan of SNS Bank, too, states that the State, as part of the State aid procedure, committed itself to privatising SNS Bank in due course. In addition, the State has to investigate whether market conditions permit privatisation of SNS Bank at least once a year. The State did not commit to a certain date by which SNS Bank has to be privatised. Nevertheless, keeping SNS Bank in the hands of the State seems to be at odds with the European Commission's decision.

NLFI believes that SNS Bank is not yet ready to be privatised. It may alter its opinion if SNS Bank energetically works towards effecting the desired operational and structural improvements. NLFI expects SNS Bank to require at least 2 and possibly up to 3 years to realise the improvements. NLFI is authorised to keep managing the shares in SNS Holding and SNS Bank under the Trust Office Foundation for the Management of Financial Institutions Act and its Articles of Association (commercial, non-political governance), allowing for the preservation of the temporary nature of the State's investment in SNS Bank. An investigation into the existence of a need to having SNS Bank remain in State hands, in conformity with the Merkies/Nijboer motion, can be conducted at a later stage of the bank's transition.[31] The results of this investigation may then be compared to alternatives which, at present, are not available or expedient, including a sale and/or stock market flotation in one of multiple ways.

27 Parliamentary Documents II, session year 2012-2013, 32013, no 36
28 Parliamentary Documents II, session year 2014-2015, 31789, no 64
29 Parliamentary Documents II, session year 2010-2011, 28165, no 117
30 European Commission, The Netherlands - Restructuring Plan SNS REAAL 2013, C(2013) 9592, 19 February 2013; available at: http://ec.europa.eu/competition/state_aid/cases/249726/249726_1544400_217_2.pdf
31 Parliamentary Documents II, session year 2015-2016, 34346

The successful execution of the strategic plan will, in the opinion of NLFI, result in a revenue model featuring a risk profile and a dividend yield that may be attractive to a wide group of long-term investors. Options include a sale to parties such as provinces, pension funds and foreign banks, placement of shares/depositary receipt of shares with customers or a full or partial stock market flotation.

NLFI believes that it is as yet too early to chart the various exit possibilities open to SNS Bank in terms of future ownership structures, as it is currently not known to what extent the capital structure has to be adjusted to the bank's future capital requirements, while a start does have to be made to effecting the desired improvement of operational efficiency. The execution of the desired improvement plan does not, for the years to come, result in irreversible measures being taken or options being precluded as concerns future ownership structures.

Appendix

Appendix

The following appendices are included:

- Response Management and Supervisory Board of SNS Bank's opinion, June 27, 2016
- Reaction Works of SNS Bank's advice, June 10, 2016

SNS BANK N.V.

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3503 RK Utrecht

NL Financial Investments
For the attention of the Board
Lange Houtstraat 26
2511 CW The Hague

27 June 2016

Our reference 2016/0027/JvR/MO/az

Re Your advice with regard to the future options for SNS Bank NV

Dear members of the Board,

It is with interest and satisfaction that we noted your advice on the future options for SNS Bank NV (hereinafter: SNS Bank) to the Minister of Finance. We would like to express our appreciation for your cooperation. We experienced the intensive dialogue between us on the future of SNS Bank as constructive. Moreover, we would like to express our gratitude for the opportunity you have given us to respond to your advice.

We are positive about the advice delivered by you and would like to outline our vision on banking in more detail. Our vision meets a social need and is the starting point for SNS Bank's strategic plan.

Vision on banking
Society is appealing to banks to take their responsibility. A bank should be subservient to its customers and take responsibility towards society with fewer risks for savers and taxpayers. Customers want their banks to provide them with simple, basic financial products that are fairly priced, and to contribute to the real economy. Finally, a bank should be healthy without having a bonus culture and contribute to a stable Dutch financial sector.

A nationally representative survey carried out by Motivaction for SNS Bank in February 2016 shows that the majority of Dutch people supports the idea of a social bank. Two-thirds of the Dutch population find such a bank appealing.

A large number of Dutch consumers has a need for a bank that speaks the language of its customers and takes a constructive approach to customers. There is also a need for a helpful local bank and there is a growing number of people who would like to bank with a sustainable bank.

The history of SNS Bank as a Dutch retail bank goes back nearly 200 years. SNS Bank originates from local and social savings banks for the common good and trade union savings banks that were close to customers and, therefore, at the heart of society. The nationalisation of SNS REAAL in 2013 was

ASN BANK BLGwonen RegioBank SNS

SNS BANK N.V.

followed by the split-off of Propertize BV, the sale of VIVAT Verzekeringen NV and the spin-off of SNS Bank. SNS Bank is now back to basics again: a simple bank for all Dutch citizens. We are grateful to society for enabling us to look towards the future and give substance to our vision of the future, which is responsive to the wishes of our customers, society, our employees and our shareholder.

Strategic Plan 2020 SNS Bank

Mission and ambition

SNS Bank's mission is geared to the public appeal to give meaning to subservient banking: 'banking with a human touch'. To live up to our mission, SNS Bank has formulated an ambition, based on the principle of shared value. Shared value is directed towards both social and economic, financial and non-financial aspects; which go hand in hand. SNS Bank's ambition is to optimise this shared value by delivering benefits for customers, taking responsibility for society, providing meaning for employees and achieving returns for the shareholder(s).

Profile

SNS Bank offers retail services and products to private individuals, self-employed persons and SMEs in the Netherlands. To fulfil the needs of customers, SNS Bank carries multiple brands: ASN Bank (which also offers sustainable loans and investments), BLG Wonen, RegioBank and SNS. All brands have a distinctive profile that meet the different customer needs for simple financial products. These products particularly respond to the needs of customers to have a safe digital wallet (payment products), build up and soundly manage financial buffers (savings products) and make their housing wishes come true (mortgages). Through its brands, SNS Bank also offers insurance, investment and lending services. A single back office, a powerful IT organisation and a central staff organisation allow SNS Bank to operate effectively and efficiently.

Through this profile, SNS Bank wants to bring about a turnaround of the predominantly product-driven banking model to a model organised around customers' needs: payments are not just about vying for the customer's favour, but about the need for a safe digital wallet; savings are not just about retail funding, but about reliably managing financial buffers; mortgages are not just assets in which to invest, but are about making housing wishes come true.

Pillars

To fulfil its ambition, SNS Bank will focus on maximum strengthening of its social identity. Starting from customer needs, SNS Bank will tighten its brand positioning and continue to develop customer propositions.

SNS Bank will further simplify and enhance the efficiency of its business operations. Measures leading to simplification and digitalisation of processes and products will make services to customers simpler, cheaper and more transparent and will allow SNS Bank to achieve a future-proof and low cost level.

To keep pace with technological developments, SNS Bank will continue to develop towards an agile organisation that innovates as a smart adopter. SNS Bank will follow innovations in the area of core banking functions and will innovate quickly and with focus to constantly improve customer service in a way that suits customers' needs and expectations. In this respect, SNS Bank has opted for an open innovation process with multi-disciplinary external cooperation and partnering.

Execution of these combined pillars help ensure that SNS Bank will achieve its ambition.

SNS BANK N.V.

In conclusion

We are pleased with your advice to the Minister of Finance in which you clearly indicate that you see a future for the social course our bank wants to pursue. We will use the next few years to further develop this course. We agree to your point of view that SNS Bank needs time to successfully execute its strategy, excellent business operations being essential in this respect. Ongoing strategic improvement programmes will provide the necessary precondition. Despite SNS Bank's solid liquidity and capital position, we also understand the advice to take the time due to uncertainty about future regulations.

We would like to emphasise that we will make every effort to successfully execute our strategy in order to fulfil our 'banking with a human touch' mission.

Yours sincerely,
On behalf of the Supervisory Board and Board of Directors of SNS Bank NV

Jan van Rutte

Maurice Oostendorp

2016/0027/JvR/MO/az

Your advice with regard to the future options for SNS Bank NV

SNS BANK N.V.

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Classification Confidential

Our reference OR 2016-26
Date 10 juni 2016
Subject Point of view Works Council SNS Bank NV on advice on future options for SNS Bank NV

Dear Mr Enthoven,

Over the past few months, a great deal of work has been done to examine the options for the future privatisation of SNS Bank NV.

The Works Council of SNS Bank NV (hereinafter OR) is very grateful that the Board of Directors has closely involved us in the examination of the options and has allowed us express our views.

From the OR's point of view, we would like to present the following points of attention to you in connection with your advice to the Minister of Finance on the future of SNS Bank NV.

The OR subscribes the strategic plan (named Spot On) drawn up by the bank to position SNS Bank NV as a 'social bank'. We understand that cost reductions are necessary to achieve acceptable returns in the long run and to provide adequate dividend yields in order to interest a wide range of investors. We frequently and constructively consult with the Board. In this process, we have to make balanced assessments of the necessity to work more efficiently and reduce costs on the one hand, and to serve short and long term employee interests on the other.

Both now and in the future (in the post exit period too), we find it important that the principles of the Manifesto of SNS Bank N.V. remain intact and are protected.

As far as the OR is concerned, the aforementioned starting points also apply to the assessment of any future exit options, in respect of which we are pleased to note that NLFI, apart from the price, has also taken into consideration the effects on employment and cultural aspects of the organisation. The ultimate exit option may give us reason to go into greater depth/expand on our starting points.

Kind regards,

Dassen

Susan Dassen-Luhrman
Chair Works Council SNS Bank NV

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