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Onderwerp: SNS REAAL - reactie C&W rapport
Bijlagen: Letter regarding CW report (sent).pdf; Letter regarding CW report - Addendum (sent).pdf

Beste Gita en Wouter,

Zoals door Ronald aangekondigd, zend ik jullie hierbij namens de Raad van Bestuur de formele reactie van SNS REAAL op het rapport van Cushman & Wakefield.

Morgen zal er een ondertekende versie aan jullie gestuurd worden.

Met vriendelijke groet,

Karen Berg

Secretaris van de vennootschap
SNS REAAL N.V.

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Ministry of Finance

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Our reference

Date 13 January 2013

Subject Cushman&Wakefield report

Dear Ms Salden, dear Mr Raab, dear Gita, dear Wouter,

The Ministry of Finance and SNS REAAL have been involved in an open, constructive and intensive dialogue, including with the Dutch Central Bank (*De Nederlandsche Bank*, **DNB**), since the beginning of 2012 on SNS REAAL's capital position and repayment of the Dutch State Core Tier 1 Securities. We have discussed a wide range and combinations of scenarios with you. The scenarios discussed vary in terms of the impact on the stakeholders and the society at large. The latter impact is a key consideration for all parties concerned. It is with the interests of all stakeholders in mind as well as our shared preference for a private sector solution for SNS REAAL with minimal or no use of tax payers' money, that we explicitly seek your attention for the following.

In each of these scenarios a solution for the property finance portfolio plays a crucial role, which makes a transparent and thorough assessment of the expected loss of the utmost importance for the position of SNS REAAL and its stakeholders. Therefore, SNS REAAL has performed an internal review and engaged the real estate experts of Ernst & Young (**E&Y**) to perform an independent external review of the expected losses in its property finance portfolio. The Ministry has engaged Cushman & Wakefield (**C&W**) for an independent assessment and validation of these findings.

SNS REAAL considers that both the procedure followed and the methodology used in the creation of the C&W report as seriously flawed, which has a material impact on C&W's estimation of the *Real Economic Value* and the negotiation process between all the parties involved for a comprehensive solution. Therefore, at this moment no conclusions or actions can be taken on the basis of the results of the C&W report.

Procedure intransparent and not sufficiently thorough

On the procedure, SNS REAAL observes that C&W has not extensively used the reports prepared by E&Y, nor the (exit) strategies prepared by Property Finance, nor any loan documentation which is not captured in the loan tapes while these are fundamental to an analysis. Moreover, the interactions between SNS REAAL and C&W have been limited to data requests, despite multiple

offers to hold content discussions with e.g., the management of Property Finance and E&Y. Since C&W only had a short time frame for its validation, i.e. 6-7 weeks, it would have been logical that C&W would have banked on the knowledge of E&Y (and our management), who have performed an extensive review lasting 16 weeks with a substantial team. There has been no validation before finalising the report to reconcile the material differences with the internal and E&Y reviews, nor has the report been shared with SNS REAAL's advisors or its potential investor CVC.

SNS REAAL was informed of the outcome of the C&W review only after the report had been finalised and shared with the European Commission. The Ministry has apparently asked two experts to validate certain parts of the C&W report but has also not yet shared the questions asked and the results with SNS REAAL.

Methodology flawed

Based on the C&W report and the meeting of 20 December 2012 with the Ministry and C&W, SNS REAAL has to conclude that C&W did not apply the methodology correctly. First, the applied discount factor (on average) is not correctly calculated. C&W itself says in its report that it has not been provided with a WACC, but we note that it has also not requested any guidance thereon from us either. This is an important concern for SNS REAAL as each percentage point change in the discount rate may result in a change of the expected loss figures of ~€600m. The discount rate used to value the Property Finance loan portfolio should in our view rather be between 4-5%, which is consistent with the discount rates used by other Dutch banks. Second, based on the report and the verbal comments provided by C&W, SNS REAAL deduces that there is double counting through the calculation of an *expected loss*, while also using a risk-adjusted *discount rate*. Moreover, the methodology does not seem to be consistent with the recent methodology applied by the Spanish Central Bank (based on the advice of Oliver & Wyman, **O&W**) in relation to the creation of a bad bank. Also, the *probability-of-default* and *loss-given-default* have not been verified with SNS REAAL's detailed credit scoring models. We refer to the annex to this letter for a more detailed explanation of our objections.

Outcome C&W not justifiable in broader context

If the results of the C&W report are assessed in a broader perspective this leads to even stronger reservations as to the accuracy of the outcome:

- C&W's estimation of the expected loss differs significantly from the calculations of E&Y, SNS REAAL's internal review and C&W's own recent real estate appraisals, while the real estate and macroeconomic assumptions underlying these reviews do not seem to differ significantly. Since these differences are so significant it would only be justified to examine these further.
- The used macroeconomic estimations imply a very deep and prolonged recession in The Netherlands with very high unemployment, which does not seem to be consistent with the macroeconomic outlook of both DNB and the Netherlands Bureau for Economic Policy Analysis (*Centraal Planbureau*).
- The estimations of C&W are higher than for similar asset classes in the O&W review conducted in Spain.
- The C&W results deviate considerably from SNS REAAL's experience in the last few years. Notwithstanding that real estate markets do worsen further, it is unclear what fundamentally

determines the fact that the difference between realised losses to date and the expectations in the C&W report is four times higher.

- A conservative estimate indicates that even in a positive scenario whereby the losses of other Dutch market parties would be half of the amount of those calculated for Property Finance, [REDACTED]

[REDACTED] In our meeting with C&W it was confirmed that C&W has not performed a validation as to whether this outcome does indeed match the situation of other market players and would therefore be plausible.

Next steps

Given the importance of the C&W review for SNS REAAL and its stakeholders, our serious concerns about the thoroughness and transparency of the procedure followed, and the apparent flaws in the methodology, we believe that it is necessary to have full access to the C&W report and to be able to further discuss the results with C&W, your Ministry and the European Commission before any action on the basis of the report can be taken. With a view thereto, SNS REAAL finds that the report is not sufficiently transparent for an adequate assessment and would therefore like to receive better insight in the model used and the 20 largest projects selected. To enable meaningful discussions with all parties involved, we consider it also necessary to share the C&W report with CVC and the Foundation Beheer SNS REAAL. Moreover, we feel we must also share the C&W report with our own advisors, to ensure further validation. Finally, we would think it would be most helpful as well to receive the questions asked and reports provided by the further experts who have been engaged by the Ministry to validate the report.

We intend to send a copy of this letter to the European Commission and contact them to request a meeting to discuss the report and the conclusions therein directly. SNS REAAL believes that these steps would be a prerequisite in order to establish the final outcome of the assessment of the Property Finance portfolio and in connection therewith any decision for a comprehensive solution for SNS REAAL on which matter we have sent you a separate letter of the same date.

Yours sincerely,

On behalf of the Executive Board and the Supervisory Board,

R.R. Latenstein van Voorst
CEO SNS REAAL

F.K.V. Lamp
CFRO SNS REAAL

Annex: Addendum



Addendum

Please find in this addendum further explanation and background to the concerns raised in our letter dated 13 January 2013. This addendum deals with three topics:

1. Procedure followed
2. Methodology used
3. Assessment in a broader perspective

1. Procedure followed

In 2011 SNS REAAL requested its advisor Ernst & Young LLP (**E&Y**) to provide an independent assessment of the internal review performed by SNS REAAL on the Non-Core property finance portfolio for expected possible additional future deficits and losses in a stress situation (potential shortfalls). Given discussions with the Ministry of Finance and the Dutch Central Bank (*De Nederlandsche Bank*, **DNB**), SNS REAAL has instructed E&Y to re-assess these potential shortfalls for both the Core and Non-Core property finance portfolios. The E&Y report, based on the reviews of SNS REAAL, were delivered in November 2012. In order to further discuss solutions for the portfolio, the Ministry of Finance has subsequently – in accordance with the guidelines of the European Commission (**EC**) – engaged its own advisor Cushman & Wakefield (**C&W**) to provide an independent assessment of the Real Economic Value (**REV**) of the loan portfolio.

On 14 December 2012 C&W delivered its draft report to the Ministry of Finance. The report was shared with SNS REAAL late on 19 December 2012. Subsequently, the Ministry of Finance and C&W have provided further explanation on the methods used and the results of the assessment in a meeting on 20 December 2012. No further discussion with SNS REAAL on the contents of the report has taken place since that date.

SNS REAAL has the following observations on the process:

1. Limited use of available information. C&W has limited its analysis primarily to model based analysis for which the loan tape was the most important input. We understand that C&W has not taken into account the extensive analyses prepared by SNS REAAL, by E&Y, or the (exit) strategies per loan.
2. No content discussions and limited interaction. C&W has refrained from any content discussions with SNS REAAL management or its advisors. C&W has limited the interaction to additional data requests. SNS REAAL has been informed, after repeated insistence, only after the report had been finalised and shared with the EC. There has been no external validation before finalising the report, nor has the report been shared with SNS REAAL's advisors or its potential investor CVC.
3. Information disclosure to the EC. Both SNS REAAL's internal report and the E&Y report have - as far as we know - not yet been shared with the EC.

1 Limited use of available information

In 2012, there have been three reviews of the PF portfolio to estimate the expected loss: (i) SNS REAAL's internal loan-by-loan analysis, (ii) E&Y's independent review, (iii) C&W's independent review. The depth of analysis and methodology of each have varied and complement each other.

Firstly, SNS REAAL has performed a loan-by-loan review of the property finance portfolios (~80% of the Core portfolio in Project Rottum and ~85% of the Non-Core portfolio in Project Schiermonnikoog). The analysis included:

- Updating appraisals for the collateral
- Defining the (exit) strategy per loan (one/two pagers) based on all available information (including recent appraisals, potential recourse, site visits, etc.)
- Modeling the cash flows, which include the expected loss

Secondly, SNS REAAL has requested E&Y to perform an independent review. E&Y has analysed a representative sample of the portfolio (51% of the Core portfolio and 85% of the Non-Core portfolio). E&Y could build on its experience from a similar analysis of the Non-Core portfolio in 2011. E&Y's independent review was extensive, taking 16 weeks with a substantial team [REDACTED]. In the process, full transparency was observed towards the Ministry, the Dutch regulator and their respective advisors. The Ministry and DNB and their respective advisors have provided input for the scope of work and have challenged the methodology and results in three half-day workshops. The assessment included a loan-by-loan analysis based on SNS REAAL's strategy per loan, supporting documents (appraisals, revision memos, provision memos, etc.), a loan tape, and multiple interviews with management and account managers. The analysis comprised of three elements:

- Collateral analysis – Independent appraisal of the collateral
- Loan analysis – Review of the loan, including potential recourse on the borrower
- Shortfall analysis and confrontation with the PF review

Thirdly, the Ministry of Finance has requested C&W to perform an independent model-based review. The review has taken 6-7 weeks [REDACTED]. C&W has had access to ~3900 documents, which consist among others of the (exit) strategies per loan, appraisals, rent rolls, revision memos and provision memos.

We understand that C&W has developed its own model to value the loan portfolio for which the loan tape provided by SNS REAAL is the most important input. In addition, we understand that C&W has not (extensively) used the reports prepared internally by SNS REAAL and validated externally by E&Y, nor the (exit) strategies prepared by SNSPF, nor loan documentation that is not captured in the loan tapes. C&W is therefore not able to explain any differences between their findings and the SNS REAAL or E&Y review. We believe that understanding the methodology and results of the earlier reviews would have contributed to the quality of the C&W analysis.

2 No content discussions and limited interaction

During the C&W project, SNS REAAL has offered C&W to have content discussions with or pose questions to SNS REAAL management, risk managers, account managers and / or E&Y to optimally facilitate C&W in its analysis. C&W has declined these offers. During the process, C&W had limited the interaction with SNS REAAL to requests for additional factual information, such as specifications of the loan tape and information related to smaller loans outside the scope of SNS REAAL's and E&Y's respective analysis. Also, C&W did not have any challenge sessions with SNS REAAL during the process.

The Ministry of Finance has shared the C&W report with SNS REAAL on December 19th, while the report was finalised and shared with the EC on December 14th. Despite requests by SNS REAAL, the report has not been shared with any advisors of SNS REAAL or other 3rd parties. Also, the report has not been shared with CVC, while this potential investor has been in close interaction with the Ministry

and has been requested to bridge the difference in expected loss. SNS REAAL had a meeting with C&W and the Ministry of Finance on December 20th. In this meeting, SNS REAAL raised multiple questions and voiced its concerns.

SNS REAAL has requested the Ministry of Finance in the meeting on December 20th to validate the results and the discrepancies with independent advisors and SNS REAAL management, provide more transparency on the model used and show the sensitivities in the results. We have not received the follow up on these requests, which is disappointing, especially considering the importance of the report. The Ministry has apparently asked two experts to validate certain parts of the C&W report but has also not yet shared the questions asked and the results with SNS REAAL. SNS REAAL was not allowed to share the report with its advisors nor with CVC.

Considering the importance of the C&W report, we believe that despite the challenging time table, a due process should have included sufficient room for validation by other stakeholders and advisors. We would have expected at a minimum a discussion with SNS REAAL management and advisors prior to sharing with the EC.

3 Information disclosure towards EC

We understand that the C&W report has been shared with the EC, but that the EC has not yet received the E&Y or PF reports. We believe that it is of the utmost importance that the EC has access to all relevant documents prior to taking any views and making any decisions.

2. Methodology used

Based on our limited knowledge of the C&W report and the meeting of 20 December 2012, SNS REAAL has to conclude that the methodology has not been applied correctly by C&W. We have limited ourselves to the key methodological concerns in this addendum. It cannot be concluded that SNS REAAL accepts aspects of the C&W report that are not covered by this addendum. Further, we note that the report does not provide sufficient insight into the model calculations by C&W and that we have not been provided with the model nor any detailed calculations.

1 Our understanding of C&W's methodology

The requirements from the EC are the starting point for C&W's analysis: *"The (base case) REV or intrinsic value of an asset (portfolio) could be estimated as the sum of the discounted expected cash flows that follow from holding the asset (portfolio) until maturity. Put differently, the REV corresponds to the Net Present Value (NPV) of the stream of expected cash flows, taking into account upward revisions of expected loss (due to the crisis) but ignoring factors such as liquidity that has plagued several markets"*

We understand that the methodology applied by C&W consists of the following steps:

1. Bucketing. C&W has segmented the Property Finance portfolio into buckets based on risk perception of C&W.
2. Sampling. Within each bucket C&W selects a sample for detailed analysis. The results of the detailed analyses are extrapolated to the remainder of the bucket.
3. REV analysis. C&W distinguishes three categories of loans of which the cash flows are valued separately:
 - a. Non-performing loans: valuation of the cash flows generated by the collateral of the loan. The cash flows are discounted resulting in an REV per loan. The results are then extrapolated to

the remainder of the bucket. The REV is then used to determine a loss given default (LGD) (REV / UPB) which consecutively is used to value the sub-performing loans.

- b. Performing loans: valuation of the cash flows based on the contractual agreements.
- c. Sub-performing loans: These are performing loans which are likely to default within a 5-year stabilizing period. C&W has used specific indicators to determine if a performing loan needs to be qualified as sub-performing. These indicators are amongst others a high loan to value ratio, low interest coverage ratio or debt service capacity ratio, and the quality of the borrower and underlying collateral. C&W has made its own assessment of the probability that a sub performing loan will default (probability of default (PD)).

C&W applies a discount rate that is differentiated by bucket / asset class (office, residential, etc.): *"We based the discount rates on a risk free rate, specific real estate risk and a spread for servicing the performing loan portfolio"*. The weighted average discount rate used is [REDACTED]. During the meeting C&W indicated that C&W was not provided with a discount rate. The discount rate used is a best-estimate approximation and C&W indicated that there is a substantial amount of uncertainty with regard to this discount rate.

We understand that C&W has developed its own model to value the loan portfolio for which the loan tape provided by SNS REAAL is the most important input. In addition we understand that C&W has not used the reports prepared by E&Y, nor the (exit) strategies prepared by SNSPF, nor any loan documentation that is not captured on the loan tapes.

2 Observations with regard to the discount rate / discount factor

The discount factor applied by C&W is [REDACTED] on average. In our view this discount factor is incorrectly calculated. This is an important concern for SNS REAAL as the results are extremely sensitive to the discount factor. A simplified calculation (assuming a 3.5% coupon, 7 year maturity and [REDACTED] discount rate) shows that each percentage point change in the discount rate may result in a change of the expected loss figures of [REDACTED] for the Property Finance portfolio of €9.3bln (or [REDACTED] change in the present value of the cash flows). This is in line with C&W's observation during the meeting of December 20th 2012 that the results would probably be in line with the E&Y report if the discount rate would be [REDACTED] 5.5%. We cannot determine the exact impact of changing the discount rate as the C&W report does not contain a sensitivity analysis for the discount rate and the model was not provided to us.

In our view the discount factor used to value the Property Finance loan portfolio should rather be between 4-5%. Below we list three arguments supporting a discount rate in the 4-5% range:

Assumptions and weighting for cost-of-equity and cost-of-debt are too conservative

The discount factor or WACC is the weighted cost of capital taking into account a cost-of-debt (expected return for a debt investor) and a cost-of-equity (expected return of an equity investor).

- In the capital markets and at financial institutions, it is customary to use a weighting of 10-30% equity as the portfolio consists of loans with collateral. We conservatively assume a weighting of 25% equity. Note that, in practice, the weighting would more likely be in the range of 10% equity in the bad bank's capital structure (also due to the substantial impairment that will have taken place).
- The cost-of-debt is estimated conservatively at a spread of 300 basis point above the 5-year swap rate. The spread of ~300 basis points is based on current pricing of commercial real estate financing observed in the market by SNS REAAL. Please note that all Dutch banks consider this credit spread sufficient to cover all costs including cost of risk, operational expenses and return for equity investors.

- The cost-of-equity is estimated as risk free rate + Beta x market risk premium. The risk free rate is estimated at ~1.75% based on 10-year Dutch sovereign bonds. Beta is estimated conservatively at 1.5 with a market risk premium of 5%.
- Based on these conservative assumptions the resulting discount factor is as follows: discount factor = 75% x (1-tax) x cost-of-debt + 25% x cost-of-equity = 75% x (1-25%) x 4.3% + 25% x (1.75% + 5% x 1.5) = 2.4% + 2.2% = 4.7%

Specific (idiosyncratic) risk and servicing costs included in the discount factor

In its report, C&W states that the discount factor also includes “*specific real estate risk*”. During the meeting C&W explained that the discount rates have been further adjusted to reflect the specific situation at SNS REAAL. As is explained further in paragraph 3 “potential double counting of risk factors”, the specific risks related to the Property Finance portfolio are already captured through the expected loss. In addition, C&W includes “*a spread for servicing the loan portfolio*” in the discount factor while these costs are already captured in the cash flows and should not be reflected in the discount factor as well.

Inconsistency of cash flow maturities

When valuing loans, the maturity of each cash flow would be discounted with a discount rate corresponding to this maturity. Over [REDACTED] of the Property Finance loan portfolio consists of floating rate loans that are composed of 1- or 3-month Euribor or Libor and a fixed spread. C&W has indicated to use so-called forward curves to project the interest rates charged by Property Finance to its clients. It appears, however, that the interest payments and amortization are discounted with a constant discount factor based on an interest rate (risk free rate) with a long maturity. If this is indeed the case, this inconsistency may lead to a substantial underestimation of REV since interest rates with a short term maturity are substantially lower than interest rates with a longer dated maturity. For example, the difference in yield between 10-year and 3-month Dutch sovereign bonds is approximately ~165 basis points.

3 Potential double counting of risk factors

C&W incorporates risk in its analysis in two ways:

- *Weighted average cost of capital (discount factor or discount rate)*: the discount rate for cash flows related to an asset class that includes sector wide risk related to that asset class (systemic risk). The discount factor takes into account a target capital structure (debt vs. equity). The discount factor allows a comparison between cash flows with different risk profiles. The discount factor for a specific class of assets (e.g. real estate) is higher than the risk free rate such that a potential investor is compensated for the additional systematic risk related to that class of assets.
- *Expected loss*: the total losses expected by a lender in certain (stress) scenarios. The expected loss includes both systematic (sector wide) risk and specific additional (idiosyncratic) risk related to the loan portfolio of the institution.

Based on these definitions, discount factor and *expected loss* both include systemic risk. Based on the report and the verbal comments provided by C&W, SNS REAAL ascertains that the definitions of *expected loss* and *discount factor* are overlapping. As a result, there is double counting of risk through the definition of *expected loss* (based on PD and LGD) and the *discount rate* applied by C&W.

We understand that in the recent Spanish bad bank situation, the experts appointed by the Bank of Spain have valued loans using only *expected loss* in certain stress scenarios. The *expected loss* in

the Spanish situation is based on PDs and LGDs per bucket. An additional risk-adjusted discount rate has to our understanding not been taken into account.

4 Estimation of PD and LGD not validated with regulator approved models

C&W has made its own estimate of PD per loan and LGD per bucket to calculate the *expected loss of sub-performing loans*. SNS REAAL has detailed credit scoring models in place to estimate PD and LGD. We note that C&W has not asked to be provided with SNS REAAL's assessment of PD and LGD and has not compared its own assessment of PD and LGD with SNS REAAL's internal assessment. C&W has not provided an overview of its PD estimates and therefore we have not been able to verify these estimates either.

Specifically with regard to estimation of the LGD for *sub-performing loans* we note that C&W bases the LGD on the results of its analysis of *non-performing loans*. The vast majority of *non-performing loans* reside within the Non-Core portfolio of Property Finance. C&W states it does not make a distinction between the Core and Non-Core portfolios and therefore it appears that C&W de-facto applies an LGD primarily based on the Non-Core portfolio on *sub-performing loans* which could also be part of the Core portfolio of Property Finance. We believe this leads to a substantial overestimation of the LGD for loans in the Core portfolio as realized losses in the Non-core portfolio are substantially higher than realized losses in the Core portfolio. Benchmarking of LGDs estimated by C&W and SNS REAAL could help to further calibrate and refine C&W's analysis.

3. Assessment in broader perspective

Apart from the questions that we have surrounding the process and methodology used, it is also relevant to put the results of the C&W report in a broader perspective. This leads to a stronger reservation as to the accuracy of the outcome.

C&W calculates an expected loss of [REDACTED] of the gross exposure of Property Finance (see figure 1 and the appendix) in the adverse case (the indication of the Ministry of Finance to CVC amounts to [REDACTED]). This leads to the following observations in broader perspective:

- The C&W expected loss rate differs significantly from the calculations of E&Y (28% of gross exposure) and SNS REAAL's own review (31% of gross exposure) and also from recent appraisals of C&W itself, while the real estate and macro-economic assumptions underlying these reviews do not seem to differ significantly. In our view the only logical explanation for this divergence consists of the abovementioned methodological differences.
- The assumed expected loss of [REDACTED] would implicate that, from a macro-economic point of view, the Dutch economy would be in a very deep recession causing, inter alia, very high vacancies of shops and private tenants who are unable to pay their rent due to high unemployment rates. This does not seem to be in line with the current macro-economic assessments for the Netherlands of both DNB and the Netherlands Bureau for Economic Policy Analysis (*Centraal Planbureau*, CPB).
- In Spain, Oliver & Wyman has performed an extensive analysis of the credit losses. Their estimation of [REDACTED] in the adverse case for real estate loans is almost similar to the estimations by C&W and the Ministry of Finance. However, the underlying assumptions of the O&W report are much more conservative. Once again this suggests that there are methodological flaws that increase the C&W results.
 - In Spain, the high expected loss figure of [REDACTED] is driven by (urban) land and loans without collateral, which represent roughly [REDACTED] of the balance. The expected loss for loans for finalised and 'in progress' real estate is on average substantially lower (between [REDACTED]%). The PF portfolio consists mainly of the latter asset classes, which means that C&W arrives at

- an unexplainable higher difference between book value and REV than O&W for similar asset classes.
- However, the macro-economic assumptions for Spain from O&W in the adverse case are much harsher:
 - O&W: cumulative GDP decline of -2.4% for 2013-2014
 - C&W: cumulative GDP decline of -0.6% for 2013-2014
 - Moreover, the largest part of the portfolio is in The Netherlands, where macro-economic expectations are more benign than in Spain, which should intuitively lead to a relatively lower expected loss figure.
 - The C&W results deviate strongly from SNS REAAL's experience in the last few years on the realised phase-out of the portfolio. Notwithstanding that real estate markets may further worsen significantly, it is unclear what fundamentally determines the difference between realised discounts and impairments and the expectations in the C&W report which are approximately four times higher.
 - We believe that the impact of the C&W report for the Dutch real estate market in general has not been taken into account. Assuming the results of the C&W report would be correct, the impact for the Dutch real estate market would be significant. Even in a (positive) scenario whereby losses of other Dutch market parties would be half of the amount of those calculated for Property Finance, [REDACTED] In our meeting with C&W it was confirmed that C&W does not have insight into whether this image does indeed match the situation of these other market players. It seems important to test this view, also considering a possible reaction from the market if the results of the C&W report would become public.

Portfolio	1H 2012 x € mln
Gross exposure	9.130
Current provisions	740
Net exposure	8.390

Additional expected loss	Base		Bear	
	€ mln		€ mln	
PF internal	1.382		2.083	
E&Y	1.004		1.838	
C&W	2.149		2.853	

Total expected loss, incl. €740m provisions				
	€ mln	% gross	€ mln	% gross
PF Internal	2.122	-23%	2.823	-31%
E&Y	1.744	-19%	2.578	-28%
C&W	2.888	-32%	3.592	-39%

Figure 1: Overview of outcomes

APPENDIX: COMPARISON OF RESULTS

Projection PF			
Net Exposure	1H 2012	1H 2012	
x € mln	R	R	
	Base	Bear	
<i>Actual</i>			
Non- core	4,740	4,740	
Core	3,573	3,573	
Subtotal PF 'old'	8,313	8,313	
Shareholder loan (Non Core)	77	77	
Net exposure (*)	8,390	8,390	
<i>Projection PF</i>			
Non- core	-980	-1,426	
Core	-402	-657	
Additional expected loss (**)	-1,382	-2,083	
Valuation portfolio - PF	7,008	8,307	
Additional expected loss	1,382	2,083	

(*) Including € 740 mln provision.

(**) Base case based on Impairments and discounts in OP 2013-2015.

OP 2013-2015 assumption more conservative than base case Rottum and Schiermonnikoog II

Projection E&Y			
Net Exposure	1H 2012	1H 2012	
x € mln	R	R	
	Base	Bear	
<i>Actual</i>			
Non- core	4,740	4,740	
Core	3,573	3,573	
Subtotal PF 'old'	8,313	8,313	
Shareholder loan (Non Core)	77	77	
Net exposure	8,390	8,390	
<i>Projection E&Y</i>			
Non- core	-804	-1,335	
Core	-199	-504	
Additional expected loss	-1,004	-1,838	
Valuation portfolio - E&Y	7,388	8,552	
Additional expected loss	1,004	1,838	

Projection C&W			
	1H 2012	1H 2012	
	R	R	
	Base	Bear	
<i>Actual</i>			
Performing Loans			
Non Performing Loans			
Outstanding balance (*)	8,523	8,523	
Shortfall C&W	-2,888	-3,592	
	5,635	4,931	
<i>Not in scope C&W</i>			
REO	518	518	
Shareholder loan (Non Core)	77	77	
Loans bank	-10	-10	
Capitalized fees	22	22	
Subtotal not in scope C&W	607	607	
Valuation portfolio - C&W	8,242	5,538	
Additional expected loss	2,149	2,853	

(*) Outstanding balance including €607m which is not in scope of C&W is €9.130 and corresponds to scope of PF and E&Y