Moody's INVESTORS SERVICE

Issuer Comment: Moody's: SNS REAAL YE2012 losses reflect varied challenges for banking and insurance operations

Global Credit Research - 06 Jun 2013

On 6 June, SNS REAAL reported a net loss of EUR972 million for the year 2012 and a net loss of EUR1,622 million in the first quarter of 2013. Most of the losses stem from SNS Bank (Bank Financial Strength Rating of E, currently on review for possible upgrade, and senior debt rating of Baa3, on review for possible downgrade) and its Property Finance unit. At the same time, SNS REAAL outlined the positive implications for SNS Bank of the group's recent nationalisation as well as the impact of the expected legal separation of Property Finance from SNS Bank.

However, SNS REAAL also reported EUR649 million of one-off losses in 2012, mainly attributable to the insurance operations (REAAL Schadeverzekeringen and SRLEV, rated Baa2 for Insurance Financial Strength Rating, on review for possible downgrade), highlighting the specific challenges faced by these operations.

We will incorporate these new elements in our analysis and we expect to shortly conclude our reviews on SNS REAAL group's ratings.

SNS Bank

The banking activities of the group generated a net loss of EUR724 million in 2012, including a net profit of EUR88 million on the retail bank operations and a net loss of EUR813 million on Property Finance, driven by impairments of EUR941 million. At year-end 2012, SNS Bank's Core Tier 1 ratio was 6.1%. The nationalization of the group involved among other things (1) significant additional impairments in the property finance portfolio, (2) the expropriation of the equity and subordinated debt holders, and (3) a capital injection worth EUR2.2 billion and EUR0.8 write-off of earlier state aid. The capital injection and the debt expropriation contributed to restore the bank's Core Tier 1 to 11.5% at the end of March 2012, inclusive of the results of Q1 2013. SNS REAAL also indicated that on a pro-forma basis, the expected, but not effective yet, full separation of the bank and the legacy property finance portfolio would further improve the Core Tier 1 ratio to 15.6%.

On the retail banking side, SNS Bank's franchise has remained resilient. It experienced some deposit outflows in January 2013 but the trend has clearly reversed since the nationalization, and the bank has now recovered the level of savings at year-end 2012. The retail bank's performance has been affected by the deterioration of the domestic operating environment through higher loan impairments which reached 40bps in 2012. On a positive note, the bank achieved higher net interest margins, both in 2012 and Q1 2013.

The current review consists in assessing the extent to which these developments contribute to restoring SNS Bank's soundness and long-term viability. We will also ascertain the impact of the remedial measures that the European Commission (EC) may impose to SNS REAAL.

SNS REAAL Insurance activities

The regulatory solvency for SNS REAAL's insurance activities declined to 176% at year-end 2012 from 203% in 2011. SNS REAAL also reported EUR549 million of exceptional losses for 2012 related to its insurance activities. Although we consider these losses as one-off items, we believe they also reflect the challenging Dutch insurance market environment together with ongoing intrinsic challenges faced by SNS REAAL's insurance activities.

In particular, SNS REAAL recorded goodwill impairments in life and non-life (respectively EUR141 million and EUR110 million), an intangibles impairment related to the life distribution network (EUR18 million), a EUR129 million loss related to a shortfall in the valuation of the insurance liabilities at Zwitserleven, and provisioned an additional EUR56 million for the settlement of claims related to unit-linked policies. These items are in line with Moody's expectation of continued profitability pressure for all Dutch insurance companies stemming mainly from the persistently low interest rates environment and the continuous fierce competition amongst Dutch insurers, - but also with banks - in both life and non-life.

Nevertheless, these challenges are exacerbated by the intrinsic weaknesses of SNS REAAL's insurance activities, which themselves are influenced by contagion risks from the group's restructuring activities. In particular, we believe that the issues faced by SNS Bank which led to the nationalization of SNS REAAL group has weakened the franchise of its insurance activities, especially in the group life segment, as evidenced by the EUR95 million impairment of the Zwitserleven brand name. In addition, potential EC remedies could further impact the market shares of the insurance activities.

Moody's downgrade of REAAL Schadeverzekeringen and SRLEV's IFSRs to Baa2 in January 2013 already reflected the foreseeable contagion risks between the insurance and the banking operations of the SNS REAAL group. We will assess the potential residual risks to the insurance operations' market position, profitability, capitalisation and access to capital markets, in the context of the bank's standalone credit profile and the expected role of the insurance operations within the SNS REAAL group.

Contacts	**Phone**
Benjamin Serra/Paris	33153301073
Nadine Abaza/London	442077721541
Ted Collins/New York	12125537903
Simon Harris/London	442077721576

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for retail clients to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.