

Unlikely to repay state in 2013, downgrade to Neutral

Downgrade to Neutral, cut PO to €1.1

We no longer see SNS Reaal being able to repay the Dutch state by the end of 2013, after we cut our earnings forecasts to reflect higher than initially estimated loan losses. If SNS indeed fails to repay next year, the Dutch state will have to re-notify the EC, and SNS's restructuring plan will be reviewed. In our view, material dilution in that case is likely, with the government potentially taking a majority stake in SNS Reaal, assuming the capital securities are converted at new terms, close to the current share price. We are downgrading our rating to Neutral from Buy and lowering our PO to €1.1 from €3.5 reflecting this potential dilution, which translates into 4x P/E'13, and 0.2 P/BV, both on a diluted basis

Lowered earnings forecasts due to higher loan losses

We are lowering our earnings forecasts for SNS Reaal to €173m for 2012, €225m for 2013 and €350m for 2014, a cut of 29%, 34% and 12% respectively. The impact is a combination of higher forecasted loan losses for the Dutch mortgage operations, plus a slower recovery in property finance than previously forecasted. Taking the potential dilution into account, our EPS forecasts are cut by 66%, 69% and 58% respectively. Given the uncertainty, we also cut our 2014 dividend forecast to nil.

Capital generation alternatives limited

Based on our current forecasts, SNS will be about €400m short end 2013 for the €848m required to repay the Dutch state. Although the company still plans to free up about €100m via capital initiatives, which is not included in our numbers, and we see potentially room for some additional liability management, this is unlikely to be enough to close the €400m gap in our view. Given the difficult economic outlook, and weak financial markets, we see limited opportunities for SNS Reaal to raise enough capital via divestments, or in the market. Therefore, a conversion of the government stake at renewed terms is increasingly likely in our view.

Estimates (Dec)

(EUR)	2010A	2011A	2012E	2013E	2014E
Net Earnings	-225	87	173	225	350
EPS (Reported Diluted)	(0.57)	0.22	0.20	0.26	0.41
EPS Change (YoY)	NM	138.7%	-7.8%	29.8%	55.6%
Dividend / Share	0	0	0	0	0
BVPS	11.2	13.4	12.0	12.8	13.8
FCF per share	0.5	1.9	0.9	1.5	2.0

Valuation (Dec)

	2010A	2011A	2012E	2013E	2014E
P/E	NM	4.76x	5.16x	3.98x	2.56x
Dividend Yield	0%	0%	0%	0%	0%
Price/Book Value	0.09x	0.08x	0.09x	0.08x	0.08x
FCF yield	43.2%	183.1%	89.5%	139.9%	194.2%

Equity | Netherlands | Insurance - Multi-line
19 June 2012

Bank of America Merrill Lynch

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Stock Data

Price	EUR1.05
Price Objective	EUR1.10
Date Established	19-Jun-2012
Investment Opinion	C-2-9
Volatility Risk	HIGH
52-Week Range	EUR0.914-EUR3.23
Mrkt Val / Shares Out (mn)	EUR301 / 287.6
Average Daily Volume	2,732,516
BofAML Ticker / Exchange	SNREF / ENA
Bloomberg / Reuters	SR NA / SR.AS
ROE (2012E)	4.7%
Net Dbt to Eqty (Dec-2011A)	-87.8%
Est. 5-Yr EPS / DPS Growth	23.0% / NA
Free Float	50.0%

Key Changes

(EUR)	Previous	Current
Inv. Opinion	C-1-9	C-2-9
Inv. Rating	BUY	NEUTRAL
Price Obj.	3.50	1.10
2012E EPS	0.58	0.20
2013E EPS	0.83	0.26
2014E EPS	0.98	0.41

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Refer to important disclosures on page 12 to 14. Analyst Certification on Page 10. Price Objective Basis/Risk on page 10. Link to Definitions on page 10.11176840

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iQprofileSM SNS Reaal Groep

Key Income Statement Data (Dec)	2010A	2011A	2012E	2013E	2014E
(EUR Millions)					
Life Premium Income	2,919	2,848	2,980	3,119	3,266
Non-Life Premium Income	809	848	873	900	927
Life Reinsurance Premium Income	NA	NA	NA	NA	NA
Non-Life Reinsurance Premium Income	NA	NA	NA	NA	NA
Life Operating Profit	356	179	341	310	298
Non-Life Operating Profit	21.0	43.0	32.0	33.6	35.1
Life Reinsurance Operating Profit	NA	NA	NA	NA	NA
Non-Life Reinsurance Operating Profit	NA	NA	NA	NA	NA
Asset Management Operating Profit	NA	NA	NA	NA	NA
Banking Operating Profit	(532)	27.0	(39.5)	64.3	248
Other Operating Profit	(114)	(120)	(92.4)	(97.0)	(103)
Total Operating Profit	(269)	129	241	311	478
Other Profit	0	0	0	0	0
Pre-Tax Profit	(269)	129	241	311	478
Tax	45.0	(41.0)	(64.3)	(82.2)	(125)
Minorities	(1.00)	(1.00)	(4.00)	(4.00)	(4.00)
Net Income	(225)	87.0	173	225	350
EPS	(0.57)	0.22	0.20	0.26	0.41

Key Balance Sheet Data

Fixed Income	27,995	28,542	31,071	31,789	32,681
Equities	1,345	1,217	2,028	2,159	2,210
Property	252	255	296	302	309
Other Investments	NA	NA	NA	NA	NA
Total Investments	44,475	44,681	47,871	49,838	51,980
Other Assets	82,645	86,939	84,066	82,032	80,666
Total Assets	127,674	132,174	132,491	132,424	133,200
Life Reserves	23,953	24,479	24,031	23,670	23,392
Non-Life Reserves	1,373	1,311	1,348	1,388	1,430
Unit-Linked Reserves	13,433	13,255	14,202	15,220	16,313
Debt	2,396	2,129	2,146	2,164	2,181
Minorities	2.00	1.00	1.00	1.00	1.00
Other Liabilities	81,686	85,572	85,726	84,719	84,335
Shareholders' Funds	3,232	3,848	3,458	3,683	3,970
Shares Outstanding	288	288	288	288	288
Assets Under Management	NA	NA	NA	NA	NA

Key Metrics

Life Premium Growth	NA	NA	NA	NA	NA
Non-Life Premium Growth	NA	NA	NA	NA	NA
Combined Ratio	NA	NA	NA	NA	NA
Investment Yield	NA	NA	NA	NA	NA
New Business Margin	NA	NA	NA	NA	NA
New Business Profit / Life EV	NA	NA	NA	NA	NA
Tax Rate	NA	NA	NA	NA	NA
Normalised ROEV	NA	NA	NA	NA	NA

Business Performance

EPS Growth	NM	139%	-7.80%	29.8%	55.6%
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Company Description

SNS Reaal is a Dutch bancassurance group. The group consists of SNS Bank, the fourth largest Dutch retail bank, and the third largest bank in property finance. In addition, Reaal Verzekeringen ranks second in individual life insurance, fifth in group pensions (Zwitserleven), and fourth overall (excl. health) in insurance. SNS Reaal primary focuses on retail and SME clients. Its main operations are in the Netherlands, except for part of the property finance portfolio.

Investment Thesis

Given the continued tough environment, we expect SNS Reaal will face difficult repaying the Dutch state during 2013. Due to the difficult economic environment, and volatile financial market, we see limited or no possibility for material divestments, or a capital raising in the market. As a result we see as a most likely outcome a change in the terms of the government support, which could result in material dilution, and the Dutch state holding a majority stake in the company.

Stock Data

Price to Book Value 0.1x

Reducing forecasts to reflect loan losses

We are lowering our earnings forecasts for SNS Reaal to €173m for 2012, €225m for 2013 and €350m for 2014, a cut of 29%, 34% and 12% respectively. The cuts in our forecasts are driven by higher loan losses, both for Dutch mortgages, and property finance. In our view, the commercial property market segment in the Netherlands likely remains under pressure, especially given the weak economic outlook and the ongoing difficulties with housing corporations.

Our new forecasts reflect loan loss provisioning of 63bps, 58 bps and 34bps respectively during 2012-2014 for SNS Bank (excl. PF). Our forecasts imply higher than the average loan losses compared with our base case for the mortgage sector, which is driven by SNS Bank's traditional position towards the lower-end of the market, in addition to loan losses for the SME segment, which are included in the SNS Bank numbers.

For SNS Property Finance our new forecasts assume LLP to remain stable in 2012, compared with 2011 at €250m, to come down only gradually in 2013, to €175m, before improving to €75m in 2014. Although we expect the international operations to be relatively stable, we expect continued weakness in the Dutch operations. Despite the higher provisioning, we expect the company to remain on track to reduce the overall property finance portfolio.

As a result of these adjustments, we now forecast the banking operations to be slightly (€31m) loss making in 2012, but to return back to profitability in 2013 (€46m).

Capital generation falling short

As a result of the lowered earnings forecasts, and pressure on insurance solvency from low interest rates, we estimate the company will no longer be able to repay the Dutch state support by end 2013 (€565m plus 50% penalty, resulting in a total of €848m).

Based on our forecasts, the company will get to a CT1 ratio of 9.5% (see tables in back of the report) at the end of 2013 (9.2% end 2011), still €115m short of its 10% target. For the insurance operations we forecast solvency to improve to 216% end 2013 (204% end 2011) after a dip in 2012, reflecting the current low interest rate environment. We continue to see minimum capital requirement at 175%, implying €584m excess capital end 2013 for the insurance operations, or a total of €469m for the two operating units, well short of the €848m required.

Visibility on alternatives limited

Although the company still plans to free up about €100m via capital initiatives, which is not included in our numbers, and we see potentially room for some additional liability management, this is unlikely to be enough to close the €400m gap in our view.

Missing the 2013 deadline to repay the Dutch state will mean that the Dutch government has to re-notify the European Commission, and SNS's restructuring plan will have to be reviewed, creating renewed uncertainty.

Due to economic uncertainty, and weak financial markets, it is difficult to see buyers for SNS's insurance operations, at valuations attractive for the company, which in the past we saw as a potential escape route for management in the case property finance losses would become too large. However, the low interest rate environment puts further pressure on the insurance operation's business model, and also reduces excess capital of Dutch peers.

Although the capital securities owned by the Dutch government can be converted into ordinary shares, at a conversion price of €5.25, this would result in a material loss for the state, compared with a return required of at least 10%, set by the EC. Therefore, this in our view is not an option. One way of avoiding the loss for the state, would be to change the conversion terms to a share price level close to the current share price. If we were to assume conversion took place at €1, this would add 565m new shares, and would make the state owner of 67% of SNS Reaal. However, if the government and company were to decide to walk this route, we believe more material dilution is possible.

Downgrade to Neutral, cut PO to €1.1

Based on our new forecasts, that the company will no longer be able to repay the state by end 2013, we are downgrading the shares to Neutral from Buy. Given the difficult financial markets, and low valuations of bank and insurance assets, in our view it is difficult to see what alternatives there are for the company, other than agreeing new terms with the government, resulting in material dilution for ordinary shareholders. Taking the dilution into consideration, our new theoretical fair value comes in at €1.3 per share. However, given the uncertainty we apply a haircut to our theoretical fair value and set out price objective at €1.1. Our new price objective reflects a valuation of 4x P/E'13, and 0.2x P/BV, both based on diluted numbers.

Table 1: SNS Reaal Groep Sum-of-the-Parts Valuation (Current)

Euro m	2012E Capital	Pct of Total	2013E RoC	2013E Earnings	Discount Rate	Growth	Fair Multiple to BV	Fair Value	Comment
SNS Retail Banking	1,627	29%	12%	194	9%	1%	100%	1,627	8.4x 2013E IFRS net profit
SNS Property Finance	344	6%	-43%	-148	11%	-1%	15%	52	-0.3x 2013E IFRS net profit
Reaal Life	2,426	43%	7%	180	10%	1%	60%	1,456	8.1x 2013E IFRS net profit
Zwitserleven	1,209	21%	4%	49	10%	1%	40%	484	9.8x 2013E IFRS net profit
Reaal Non-life	227	4%	11%	25	9%	1%	100%	227	9.1x 2013E IFRS net profit
Corporate Line	114	2%	-67%	-76	10%	0%	NM	-765	10.0x 2013E IFRS net profit
Total operating	5,947	104%	4%	225	10%	1%	52%	3,080	
Excess/ Deficit capital	-46		5%	-2	10%	NM	15%	-7	
Enterprise value	5,901		4%	223	10%	1%	52%	3,073	
Debt etc	-1,955		3%	-66	3%	NM	100%	-1,955	
Total	3,946			156	11%	1%	28%	1,118	
Total per share (€)	4.6			0.2				1.3	7.2x 2013E IFRS net profit
12 Fwd TFV								1.4	
Implied price objective								1.1	

Source: BofA Merrill Lynch Global Research estimates.

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Financials

Table 2: SNS Reaal Group - Profit forecasts

€ m	2005A	2006A	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E
Net Interest Income Banking	622	567	783	773	672	871	798	728	726	742
Commission Income	114	120	129	116	99	92	86	94	98	102
Investment Income	26	66	11	80	157	38	44	29	51	53
Other Income	29	15	15	-13	170	-16	82	43	28	28
Total Banking Income	791	768	938	956	1,098	985	1,010	894	903	925
Premium Income	1,745	1,958	2,523	4,302	4,254	3,574	3,450	3,613	3,771	3,938
Commission Income	43	50	54	59	78	70	70	74	77	78
Investment Income	937	782	959	-348	3,031	2,415	1,577	2,185	2,167	2,173
Other Income	7	5	11	154	46	40	24	6	6	6
Share in result of associates	0	0	0	-13	0	0	0	0	0	0
Total Insurance Income	2,732	2,795	3,547	4,154	7,409	6,099	5,121	5,879	6,021	6,195
Income Other Activities and Elimination	-42	-21	58	30	18	16	0	22	23	25
Total Income	3,481	3,542	4,543	5,140	8,525	7,100	6,131	6,795	6,947	7,145
Technical Charges	2,095	2,054	2,475	2,781	5,733	4,728	3,714	4,502	4,643	4,797
Staff costs	443	503	604	814	761	713	715	709	717	724
Operating Expenses	447	502	576	956	825	752	702	689	698	709
Other costs	0	0	256	310	308	180	256	264	272	280
Total Operating Expenses	2,985	3,059	3,911	4,861	7,627	6,373	5,387	6,164	6,329	6,509
Value Adjustements	60	35	63	1,020	847	996	615	390	307	157
Operating profit before taxation	436	448	569	-741	51	-269	129	241	311	478
Taxes	93	88	101	-208	29	-45	41	64	82	125
group profit	0	0	0	0	0	0	0	0	0	0
Minorities	-7	-11	3	6	5	1	1	4	4	4
Net result discontinued operations	0	0	0	22	0	0	0	0	0	0
Net profit	350	371	465	-517	17	-225	87	173	225	350
SNS Retail Banking			186	116	120	162	262	179	194	253
SNS Property Finance			86	28	-219	-593	-248	-210	-148	-70
Total Banking			272	144	-99	-431	14	-31	46	183
Reaal Life			177	-473	73	223	223	199	180	175
Zwitserleven			0	-71	80	56	-91	54	49	46
Reaal Non-Life			23	26	54	16	33	24	25	26
Reaal Other			5	-32	-11	-18	1	-15	-15	-15
Total Insurance			205	-550	196	277	166	262	240	232
Corporate			-11	-120	-80	-71	-93	-57	-62	-66
Total			466	-526	17	-225	87	173	225	350
EPS	1.68	1.58	1.78	-1.98	0.06	-0.78	0.30	0.60	0.78	1.22
DPS	0.00	0.71	0.82	0.41	0.00	0.00	0.00	0.00	0.00	0.00
Pay-out ratio	0%	45%	46%	-21%	0%	0%	0%	0%	0%	0%
BVPS	12.11	13.63	13.72	11.56	11.97	11.24	13.38	12.02	12.80	13.80
ROE %	15.9%	13.0%	13.7%	-14.3%	0.4%	-5.7%	2.1%	4.1%	5.4%	7.9%

Source: Company reports and BofA Merrill Lynch Global Research estimates.

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Table 3: SNS Reaal Group - Balance Sheet

€ m	2005A	2006A	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E
Intangible fixed assets	559	882	2,042	2,907	2,697	2,441	2,179	1,634	1,538	1,443
Tangible fixed assets	302	320	425	433	376	350	341	349	358	366
Participating interests	126	139	127	110	100	60	56	58	59	61
Investments	13,508	14,716	28,471	42,660	44,482	44,475	44,681	47,871	49,838	51,980
Investment property	129	135	169	330	792	661	709	791	842	897
Investments	9,953	10,626	21,067	31,606	31,125	31,177	31,552	32,901	33,800	34,794
Investments for insurance products on behalf of policyholders	3,426	3,955	7,235	10,724	12,565	12,637	12,420	14,179	15,197	16,290
Derivatives	1,174	943	1,161	1,761	1,381	2,579	3,893	3,448	3,451	3,455
Mortgage loans	43,544	45,687	50,084	56,670	58,741	55,498	55,458	56,146	56,878	57,624
Other loans	2,599	11,013	12,961	11,979	11,716	13,619	12,076	9,962	7,592	5,737
Banks	4,207	3,769	1,631	4,722	4,344	2,029	2,172	-35	-732	-1,315
Cash and cash equivalents	1,076	960	4,341	1,961	3,472	4,671	5,508	8,563	8,869	9,193
Other assets	993	1,312	1,833	2,156	1,629	1,952	5,810	4,495	4,573	4,655
TOTAL ASSETS	68,088	79,741	103,076	125,359	128,938	127,674	132,174	132,491	132,424	133,200
LIABILITIES										
Shareholders' equity	2,528	3,200	3,588	3,623	4,043	3,832	4,448	4,058	4,283	4,570
Equity attributable to securityholders	0	0	0	1,249	999	999	979	979	979	979
Third-party interests	0	0	3	20	20	2	1	1	1	1
Group equity	2,528	3,200	3,591	4,892	5,062	4,833	5,428	5,038	5,263	5,550
Subordinated debts	1,616	1,664	2,032	2,125	1,982	2,396	2,129	2,146	2,164	2,181
Fund for general banking risks	0	0	0	0	0	0	0	0	0	0
Capital base	4,144	4,864	5,623	7,017	7,044	7,229	7,557	7,184	7,426	7,731
General provisions	120	97	233	445	515	487	526	455	466	478
Technical provisions, insurance operations	12,658	13,283	24,858	36,067	38,030	38,661	38,827	39,363	40,060	40,916
Savings	12,333	13,678	19,179	21,859	24,435	27,397	30,341	33,680	36,374	38,556
Other amounts due to customers	7,078	6,479	7,247	8,357	8,054	9,267	12,142	11,957	12,311	12,674
Debt certificates	25,654	31,259	35,212	32,679	32,956	31,460	27,429	18,631	13,691	8,839
Derivatives	976	692	959	2,358	2,327	2,968	3,618	3,607	3,608	3,609
Banks	3,419	7,534	6,887	10,612	11,136	6,528	7,246	3,896	3,896	3,909
Other liabilities	1,706	1,856	2,880	5,965	4,441	3,677	4,488	13,718	14,591	16,487
TOTAL LIABILITIES	68,088	79,742	103,078	125,359	128,938	127,674	132,174	132,491	132,424	133,200

Source: Company reports and BofA Merrill Lynch Global Research estimates.

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Table 4: SNS Bank Solvency

€ m	2009A	2010A	2011A	2012E	2013E	2014E
Shareholders Equity	2,434	1,836	1,855	1,715	1,761	1,917
Prudential filters	-295	-55	24	24	24	24
Core capital	2,139	1,781	1,879	1,739	1,785	1,941
Banking certificates / Hybrid Tier 1	628	594	626	626	626	626
Tier 1 capital	2,767	2,375	2,505	2,365	2,411	2,567
Risk Weighted Assets	25,885	22,131	20,534	19,704	18,758	18,063
Core tier 1 ratio	8.3%	8.0%	9.2%	8.8%	9.5%	10.7%
Tier 1 ratio	10.7%	10.7%	12.2%	12.0%	12.9%	14.2%
Core tier 1 target	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Excess capital	68	11	236	162	284	496

Source: Company reports and BofA Merrill Lynch Global Research estimates.

Table 5: Reaal Verzekeringen (incl. Zwitserleven) Solvency

€ m	2009A	2010A	2011A	2012E	2013E	2014E
Shareholders Equity	3,287	3,741	4,378	4,186	4,426	4,623
Hybrid capital / subordinated capital	963	960	1,002	1,002	1,002	1,002
Insurance intangibles	-1,795	-1,703	-1,563	-1,295	-1,195	-1,095
Available capital	2,455	2,998	3,817	3,892	4,232	4,530
Excess value LAT	1,836	2,503	2,400	2,400	2,400	2,400
Margin of conservatism	-1,146	-2,782	-3,300	-3,550	-3,550	-3,550
Excess LAT	690	-279	-900	-1,150	-1,150	-1,150
Available regulatory capital	3,145	2,719	2,917	2,742	3,082	3,380
Minimum capital required	1,367	1,390	1,427	1,424	1,427	1,435
Regulatory solvency 1 ratio	230%	196%	204%	193%	216%	236%
Target capital ratio	175%	175%	175%	175%	175%	175%
Excess capital	753	287	419	250	584	869
Leverage	23%	20%	19%	19%	18%	18%
Double leverage insurance operations	629	647	829	829	829	829
Double leverage ratio	20%	24%	28%	30%	27%	25%

Source: Company reports and BofA Merrill Lynch Global Research estimates.

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Table 6: SNS Bank - Profit forecasts

€ m	2005A	2006A	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E
Interest income	1,996	2,314	3,359	3,883	2,773	2,489	2,524	2,507	2,454	2,418
Interest expenses	1,374	1,747	2,576	3,110	2,101	1,618	1,726	1,779	1,728	1,676
Net Interest Income (NII)	622	567	783	773	672	871	798	728	726	742
Commission Income	114	120	129	116	99	92	86	94	98	102
Investment Income	26	66	11	80	157	38	44	29	51	53
Other Income	29	15	15	-13	170	-16	82	43	28	28
Total Income	791	767	938	956	1,098	985	1,010	894	903	925
Staff cost	258	283	332	380	342	256	258	254	254	253
Other operating expenses	199	198	234	220	284	320	315	302	290	279
Total Operating expenses	457	481	566	600	626	576	573	556	544	532
Value adjustments	50	36	35	173	571	941	410	378	295	145
Operating Income	284	250	337	183	-99	-532	27	-40	64	248
Taxes	54	37	64	36	-1	-101	13	-11	15	61
Group profit	230	213	273	147	-98	-431	14	-28	49	186
Minorities	-1	0	1	3	1	0	0	3	3	3
Net profit	231	213	272	144	-99	-431	14	-31	46	183
Efficiency ratio	58%	63%	60%	63%	57%	58%	57%	62%	60%	58%
Tax rate	19%	15%	19%	20%	1%	19%	48%	29%	23%	25%
NII / RWA	3.08%	1.99%	2.55%	2.76%	2.08%	3.15%	3.25%	3.06%	3.18%	3.34%
NII / Interest Bearing Assets	1.28%	1.09%	1.20%	1.08%	0.88%	1.15%	1.09%	1.01%	1.05%	1.10%
Value Adjustments / Loans	0.18%	0.17%	0.12%	0.29%	0.70%	1.21%	0.58%	0.60%	0.48%	0.24%
Value Adjustments / RWA	0.25%	0.13%	0.11%	0.62%	1.76%	3.40%	1.67%	1.59%	1.29%	0.65%
Allowances / Loans	0.37%	0.34%	0.30%	0.29%	0.35%	0.43%	0.23%	0.38%	0.51%	0.55%
Risk Weighted Assets	20,175	28,454	27,670	24,938	25,885	22,131	20,534	19,704	18,758	18,063
BIS Ratio	11.9%	11.2%	11.5%	14.0%	13.9%	16.7%	14.4%	14.3%	15.3%	16.7%
Tier 1 ratio	8.7%	8.2%	8.4%	10.5%	10.7%	10.7%	12.2%	12.0%	12.9%	14.2%
Core- Tier 1 ratio	6.9%	7.4%	6.5%	8.0%	8.3%	8.0%	9.2%	8.8%	9.5%	10.7%

Source: Company reports and BofA Merrill Lynch Global Research estimates.

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Table 7: Reaal Verzekeringen (incl. Zwitserleven) - Profit forecasts

€ m	2005A	2006A	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E
Gross premium income	1,789	2,007	2,584	4,384	4,362	3,728	3,696	3,853	4,019	4,192
Reinsurance premium income	44	49	61	82	108	154	246	240	247	255
Net premium income	1,745	1,958	2,523	4,302	4,254	3,574	3,450	3,613	3,771	3,938
Commission	43	50	54	59	78	70	70	74	77	78
Investment income	937	782	959	-348	3,031	2,415	1,577	2,185	2,167	2,173
Other income	7	5	11	154	46	40	24	6	6	6
Total income	2,732	2,795	3,547	4,154	7,409	6,099	5,121	5,879	6,021	6,195
Technical expenses, insurance operations	2,095	2,054	2,475	2,781	5,733	4,728	3,714	4,502	4,643	4,797
Other interest charges	41	34	144	424	308	179	256	264	272	280
Staff costs	127	146	184	341	313	179	178	172	175	179
Other operating expenses	268	330	456	601	569	631	576	577	595	615
Acquisition costs for insurance operations	188	240	333	398	367	327	306	298	308	319
Depreciation of tangible fixed assets and amortisation of intangible assets	11	16	35	56	58	80	84	91	94	97
Other operating expenses	69	74	88	147	144	224	186	187	193	200
Other costs	0	0	0	0	0	0	0	0	0	0
Total expenses	2,531	2,564	3,288	4,915	6,923	5,717	4,904	5,526	5,697	5,882
Value adjustments	7	-2	29	768	243	29	180	12	12	12
Operating profit before taxation	194	233	259	-761	243	353	217	353	323	312
Taxes	54	63	52	-201	43	75	50	90	82	80
Group profit	140	170	207	-560	200	278	167	263	241	233
Third-party interests	0	0	2	3	4	1	1	1	1	1
Net profit	140	170	205	-563	196	277	166	262	240	232

Source: Company reports and BofA Merrill Lynch Global Research estimates.

Price objective basis & risk

SNS Reaal Groep (SNREF)

Our EUR1.1 price objective is based on our sum-of-the-parts valuation, rolled forward 12 months and adjusted down to reflect the five-year-average sector discount to our fair value - opaque disclosure has made it difficult for the sector historically to achieve theoretical fair values. We allocate capital between divisions and derive an appropriate multiple of that capital based on our estimate of the prospective return, a discount rate, and our assessment of future growth. In addition to a multiple of capital, we also back out an implied earnings multiple from our fair value.

For SNS Reaal, our PO represents a multiple of 4x 2013E IFRS earnings. Upside risks to our PO are a better economic environment, lower loan loss provisioning in property finance and an organic solution to the company's capital issues. Downside risk is a worse-than-anticipated economic condition, further putting pressure on the capital generation.

Link to Definitions

Financials

Click [here](#) for definitions of commonly used terms.

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I, Michael van Wegen, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Insurance Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Aegon	AEG	AEG US	Michael van Wegen
	Aegon	AEGOF	AGN NA	Michael van Wegen
	Ageas	AGESF	AGS BB	Michael van Wegen
	Ageas	AGESY	AGESY US	Michael van Wegen
	Allianz	ALIZF	ALV GR	Brian Shea
	Axa	AXAHY	AXAHY US	Blair Stewart
	Axa	AXAHF	CS FP	Blair Stewart
	Hannover Re	HVRRF	HNR1 GR	Brian Shea
	ING Group	ING	ING US	Michael van Wegen
	ING Group	INGVF	INGA NA	Michael van Wegen
	Legal & General	LGGNF	LGEN LN	Blair Stewart
	Mapfre	MPFRF	MAP SM	William Hardcastle
	Munich Re	MURGF	MUV2 GR	Brian Shea
	Old Mutual	ODMTF	OML LN	Blair Stewart
	Prudential	PUK	PUK US	Blair Stewart
	Prudential PLC	PUKPF	PRU LN	Blair Stewart
	RSA	RSAIF	RSA LN	William Hardcastle
	Sampo plc	SAXPF	SAMAS FH	Blair Stewart
	SCOR	SZCRF	SCR FP	Brian Shea
	Storebrand	SREDF	STB NO	Blair Stewart
	Vienna Insurance Group	VNRGF	VIG AV	Brian Shea

EMEA - Insurance Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
NEUTRAL				
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	Aviva plc	AIVAF	AV/ LN	Blair Stewart
	Catlin Group Limited	CLNGF	CGL LN	William Hardcastle
	CNP	CNPAF	CNP FP	Michael van Wegen
	Generali	ARZGF	G IM	Michael van Wegen
	Lancashire Hldg	LCSHF	LRE LN	William Hardcastle
	Resolution	RSLLF	RSL LN	Blair Stewart
	SNS Reaal Groep	SNREF	SR NA	Michael van Wegen
	St.James's Pl.	STJPF	STJ LN	Blair Stewart
	Swiss Life	SZLMF	SLHN VX	Michael van Wegen
	Zurich Insurance Group	ZFSVF	ZURN VX	Brian Shea
UNDERPERFORM				
	Admiral	AMIGF	ADM LN	William Hardcastle
	Delta Lloyd Groep	DLLLF	DL NA	Michael van Wegen
	Euler Hermes Group	EUHMF	ELE FP	Brian Shea
	Gjensidige	XOINF	GJF NO	William Hardcastle
	Hiscox	HCXLF	HSX LN	William Hardcastle
	Standard Life	SLFPF	SL/ LN	Blair Stewart
	Swiss Re	XERSF	SREN VX	Brian Shea

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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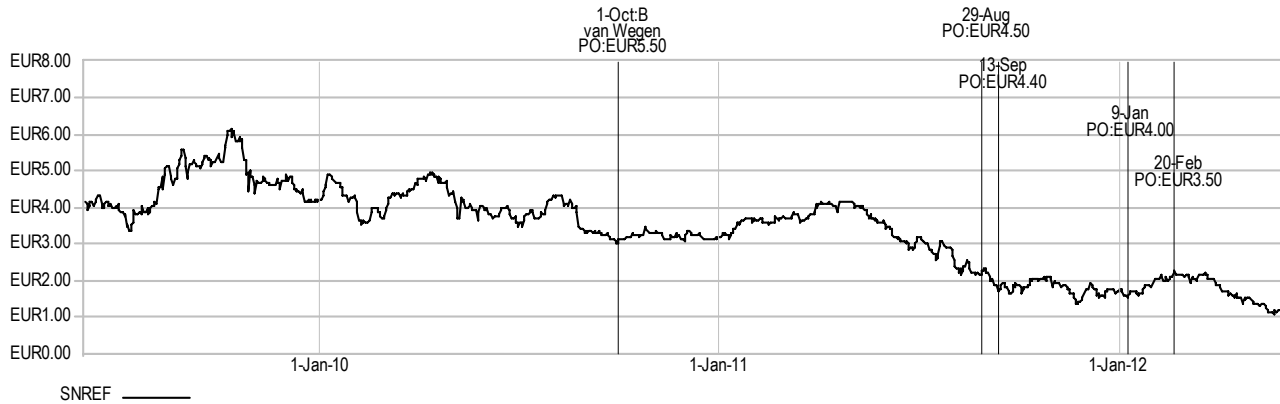
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19 June 2012

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SNREF Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

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Investment Rating Distribution: Financial Services Group (as of 01 Apr 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	169	48.29%	Buy	114	70.81%
Neutral	107	30.57%	Neutral	59	55.14%
Sell	74	21.14%	Sell	43	59.72%

Investment Rating Distribution: Global Group (as of 01 Apr 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1881	49.24%	Buy	1265	73.38%
Neutral	992	25.97%	Neutral	641	70.75%
Sell	947	24.79%	Sell	548	62.27%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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