

### Research Update:

# Ratings Lowered On Netherlands-Based SNS REAAL N.V. Group And Core Subs On Slower Recovery Prospects; Outlook Stable

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## Research Update:

# Ratings Lowered On Netherlands-Based SNS REAAL N.V. Group And Core Subs On Slower Recovery Prospects; Outlook Stable

## Overview

- We believe that recovery prospects for Netherlands-based bancassurance group, SNS REAAL N.V., are dampened by an economic outlook that is weaker than we had previously anticipated.
- In particular, we expect the economic backdrop to delay any marked improvements in SNS Bank's risk position and earnings generation, while also posing some downside risk to the insurance operations' prospective performance.
- As a result, we are lowering by one notch our long-term ratings on parent SNS REAAL N.V., SNS Bank N.V., and on the group's core insurance subsidiaries.
- The stable outlook factors in our expectation that the insurance operations will remain strong. It also balances our view that, while the bank's earnings are likely to remain under material short-term pressure, we believe that the bank's capital position should continue to benefit from the continued reduction in property-related exposures.

## Rating Action

On March 1, 2012, Standard & Poor's Ratings Services lowered to 'BBB' from 'BBB+' its long-term counterparty credit ratings on Netherlands-based bancassurance group SNS REAAL N.V. (SNS REAAL, or the group) and its core insurance holding company REAAL Verzekeringen N.V. We also lowered our short-term rating on SNS REAAL to 'A-3' from 'A-2'. At the same time, we lowered our long-term ratings on SNS REAAL's other core subsidiaries SNS Bank N.V., and insurance operations SRLEV N.V. and REAAL Schadeverzekeringen N.V., to 'BBB+' from 'A-'. We affirmed our short-term ratings on these entities at 'A-2'. We lowered by one notch our ratings on subordinated instruments issued by the group and its core entities. The outlook on all entities is stable.

## Rationale

The downgrade of SNS REAAL and the core entities of the group is underpinned by our view of the weaker-than-previously-expected economic outlook in the group's main markets. It reflects our anticipation that this will result in a slower and weaker recovery in the bank's risk exposures and earnings, while representing some downside risk to the insurance operations' prospective performance. In the current environment, we also believe that the company's commitment to repay by end-2013 the capital securities received from the Dutch government constitutes a more-onerous undertaking than we previously

anticipated. This is despite the group's rapid progress against its capital release program.

Our ratings on SNS REAAL are based on our view of the combined strength of its banking and insurance operations. The ratings on SNS Bank and SNS REAAL Insurance Operations (SRIO) reflect their status as core operating entities of the SNS REAAL group. As a result, the counterparty credit rating on SNS Bank benefits from one notch of group support above our assessment of its stand-alone credit profile (SACP), underpinned by the size and our view of the relatively stronger SACP's of the sister insurance companies. SNS REAAL, along with other insurance holding companies in the group, is rated one notch beneath the operating entities in line with our criteria for rating non-operating holding companies.

Standard & Poor's bases its 'bbb' SACP assessment for SNS Bank on the 'a-' anchor for commercial banks operating only in The Netherlands, as well as the company's "adequate" business position, "adequate" capital and earnings, "weak" risk position, and "average" funding and "adequate liquidity", as our criteria define these terms.

Our assessment of SNS Bank's business position as adequate primarily reflects the bank's sound retail and small and midsize enterprise franchise in The Netherlands. With total assets of €81 billion at end-2011, SNS Bank is The Netherlands' fourth-largest bank. SNS Bank's capital and earnings position is adequate, in our view. This assessment is based primarily on our expectation that the bank's capital ratio before diversification adjustments, as measured by our risk-adjusted capital (RAC) framework, will remain slightly under 9% in the next 18 months, even after assuming a repayment by the bank of its share of the Core Tier 1 securities received by SNS REAAL from the government. The forecast assumes a continued decrease in the property finance book and an earnings capacity constrained by still-elevated property-related loan impairment charges, despite the improvement achieved after 2010, and a weak near-term economic outlook. We consider SNS Bank's risk position to be weak, primarily reflecting the substantial loan losses caused by the bank's property finance activities and some concentration in this sector. While it now accounts for a smaller 14% of total lending, commercial property loans still generated around 70% of impairment charges in 2011. Our assessment of the bank's risk position could improve to "moderate" once loan losses are set to normalize to a level where the bank again starts to generate capital. Our assessment on the bank's funding and liquidity reflects the rapid decrease in the bank's reliance on wholesale funding, and significant liquidity buffer at end-2011, which we consider adequate in light of material debt maturities in 2012.

We assess SRIO at 'A' on a stand-alone basis. The stand-alone ratings on SRIO reflect our view of its strong position in the Dutch market, diversification across life and non-life classes of business, strong investment profile and asset-liability management, and strong capitalization. Offsetting these positives are the group's operating performance in the challenging Dutch market and its financial flexibility, which we view as weaker than the other

rating factors. We believe operating conditions in the Dutch life market remain challenging and, along with the low interest rate environment, will impair the insurance operations' future profitability. The group's ultimate commitment to repay the Dutch government constrains our assessment of the group's capitalization.

Notably, we classify SNS Bank as having "moderate" systemic importance in The Netherlands, a country we view as "supportive" of its banking system, as defined by our criteria, although the notch of support factored into our counterparty credit rating on SNS Bank is attributable to its status as a "core" subsidiary of the SNS REAAL group.

## Outlook

The outlook on SNS REAAL and its core subsidiaries is stable. It takes into consideration our expectation that the insurance operations should maintain a sound underlying performance. It also balances our view that, while the bank's earnings are likely to remain under material short-term pressure, we believe that the bank's capital position should continue to benefit from the continued reduction in property-related exposures.

We could lower the ratings on SNS REAAL and its core subsidiaries in the event of a material reduction in the insurance operations' contribution to group underlying earnings, or if asset disposals were to weaken the group's business profile, or if the group's capitalization were to significantly deteriorate. We could also lower the ratings if the bank's liquidity position were to weaken.

A large reduction in the bank's impairment charges to a level supportive of meaningful capital generation by the bank would likely lead us to revise our risk position score to "moderate". If this were combined with a stable earnings profile by the insurance sister operations, we could consider raising our ratings on the group and its core entities.

## Related Criteria And Research

- Bank Capital Methodology and Assumptions, Dec. 6, 2010
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Interactive Ratings Methodology, April 22, 2009
- Holding Company Analysis, June 11, 2009
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

## Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
SNS REAAL N.V. Counterparty Credit Rating	BBB/Stable/A-3	BBB+/Negative/A-2

REAAL Schadeverzekeringen N.V.  
SRLEV N.V.

Counterparty Credit Rating Local Currency	BBB+/Stable/--	A-/Negative/--
Financial Strength Rating Local Currency	BBB+/Stable/--	A-/Negative/--

REAAL Verzekeringen N.V.

Counterparty Credit Rating	BBB/Stable/--	BBB+/Negative/--
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Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
SNS Bank N.V. Counterparty Credit Rating Certificate Of Deposit Local Currency	BBB+/Stable/A-2 BBB+/A-2	A-/Negative/A-2 A-/A-2

Downgraded

	To	From
SNS REAAL N.V. Senior Unsecured	BBB	BBB+
Subordinated	BBB-	BBB
Junior Subordinated	BB+	BBB-

SNS Bank N.V.

Senior Unsecured	BBB+	A-
Subordinated	BBB	BBB+
Junior Subordinated	BBB-	BBB

SRLEV N.V.

Subordinated*	BBB-	BBB
Junior Subordinated*	BBB-	BBB

Downgraded; Ratings Affirmed

	To	From
SNS Bank N.V. Certificate Of Deposit Foreign Currency	BBB+	A-

Ratings Affirmed

*Research Update: Ratings Lowered On Netherlands-Based SNS REAAL N.V. Group And Core Subs On Slower Recovery Prospects; Outlook Stable*

SNS Bank N.V.	
Certificate Of Deposit	A-2
Commercial Paper	A-2

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