FitchRatings

FITCH UPGRADES SNS BANK TO 'BBB+'; OUTLOOK STABLE

Fitch Ratings-London-14 April 2016: Fitch Ratings has upgraded SNS Bank N.V.'s Long-term Issuer Default Rating (IDR) to 'BBB+' from 'BBB', Viability Rating (VR) to 'bbb+' from 'bbb', and Short-term IDR to 'F2' from 'F3'. The Outlook on the Long-term IDR is Stable. A full list of rating actions is available at the end of this rating action commentary.

The ratings actions are part of a periodic portfolio review of major Benelux banking groups rated by Fitch.

KEY RATING DRIVERS
IDRS, SENIOR DEBT AND VR
The upgrade reflects SNS Bank's continuing solid financial metrics and Fitch's expectation that the bank's more conservative risk appetite and the metrics' improvements to date will be maintained. The bank's narrow Dutch retail focus, however, means further upgrades are now unlikely.

SNS Bank's asset quality has improved significantly since 2012 and is now more reflective of a loan book largely (over 90%) made up of granular residential mortgage loans (impaired loans at just over 2% of gross loans at end-2015). We believe the improvement is structural, driven by the change in business model and risk appetite, and will be sustained. Loan impairment charges relating to mortgage lending declined to less than 10bp of average loans in 2015, which is in line with peers.

As a mortgage bank, SNS Bank's earnings are mainly driven by net interest income, and the bank's focus on costs is paying off. Operating profit/risk-weighted assets is solid (3.9% in 2015, 2.5% on average in 2012-2015). However, the net interest margin is affected by low interest rates and will come under pressure as the bank builds up a buffer of subordinated debt. Cost efficiency remains resilient and Fitch expects costs to remain a focus - albeit with some further investments and overall flat-to-slightly increasing costs - and for revenue to be the key determinant of efficiency.

SNS Bank's capitalisation is solid, particularly on a risk-weighted basis. Low risk-weights on residential mortgage loans (16% at end-2015) boost SNS Bank's Fitch core capital ratio (25% at end-2015), but leverage is reasonable for a retail-focused bank (4.8% at end-2015 on a fully-loaded basis). SNS Bank's 4% leverage target effectively supports the Fitch core capital ratio at around 20%, provided risk-weights remain stable and the bank does not decide to shift its capital structure materially to additional Tier 1 securities.

Deposits make up the majority of SNS Bank's funding, with decreasing reliance on wholesale funding, helped by a smaller loan portfolio (loans/deposits ratio of under 105% at end-2015). SNS Bank's smaller franchise means the bank may have to be more competitive in pricing deposits than its larger peers should it need to raise additional funding, although the difference has been minimal recently in light of overall low interest rates. We expect SNS Bank to maintain sound access to deposits, even if profitability is affected. SNS Bank still needs to access debt markets to fund part of its loan book, although refinancing risk is mitigated by a large buffer of liquid assets that exceed maturing debt in 2016-2017.

SUPPORT RATING AND SUPPORT RATING FLOOR
The Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the sovereign in the event that SNS Bank becomes non-viable. The EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) for eurozone banks provide a framework for

resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

SUBORDINATED DEBT
Subordinated debt is rated one notch below SNS Bank's VR, reflecting the higher-than-average loss severity of this type of debt than senior unsecured obligations. Fitch does not apply additional notching for incremental non-performance risk relative to the VR given that any loss absorption would only occur once the bank reaches the point of non-viability.

RATING SENSITIVITIES
IDRS, SENIOR DEBT AND VR
SNS Bank's ratings incorporate Fitch's expectation of improving asset quality, strong capitalisation, and sound liquidity underpinned by gradually improved leverage from retained earnings. As such, further upside is unlikely within the constraints of the bank's company profile.

SNS Bank's ratings are negatively sensitive to an increase in risk appetite, particularly if that would worsen asset quality and capitalisation in the longer term. Given that the bank still depends on the wholesale markets to fund part of its loan book, reduced liquidity buffers or significant shortening of maturities would also be rating-negative.

SUPPORT RATING AND SUPPORT RATING FLOOR
An upgrade of the Support Rating or upward revision of the Support Rating Floor would be contingent on a positive change in the Dutch sovereign's propensity to support its banks. While not impossible, this is highly unlikely, in Fitch's view.

SUBORDINATED BEBT
Subordinated (Tier 2) debt is sensitive to changes in SNS Bank's VR. It is also sensitive to a change in Fitch's assessment of loss severity or non-performance risk.

The rating actions are as follows:

SNS Bank
Long-term IDR upgraded to 'BBB+' from 'BBB'; Outlook Stable
Short-term IDR upgraded to 'F2' from 'F3'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Viability Rating: upgraded to 'bbb+' from 'bbb'
Long-term senior debt rating: upgraded to 'BBB+' from 'BBB'
Short-term senior debt rating: upgraded to 'F2' from 'F3'
Commercial paper: upgraded to 'F2' from 'F3'
Subordinated (Tier 2) debt upgraded to 'BBB' from 'BBB-'

Contact:

Primary Analyst
Jens Hallen
Senior Director
+44 20 3530 1326
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Konstantin Yakimovich

Director
+44 20 3530 1789

Committee Chairperson
Bridget Gandy
Managing Director
+44 20 3530 1095

Media Relations: Elaine Bailey, London, Tel: +44 203 530 1153, Email: elaine.bailey@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Global Bank Rating Criteria (pub. 20 Mar 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501