MOODY'S
INVESTORS SERVICE

CREDIT OPINION
16 December 2016

Update

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RATINGS

SNS Bank N.V.

Domicile	Netherlands
Long Term Debt	Baa1
Type	Senior Unsecured - Fgn Curr
Outlook	Positive
Long Term Deposit	A3
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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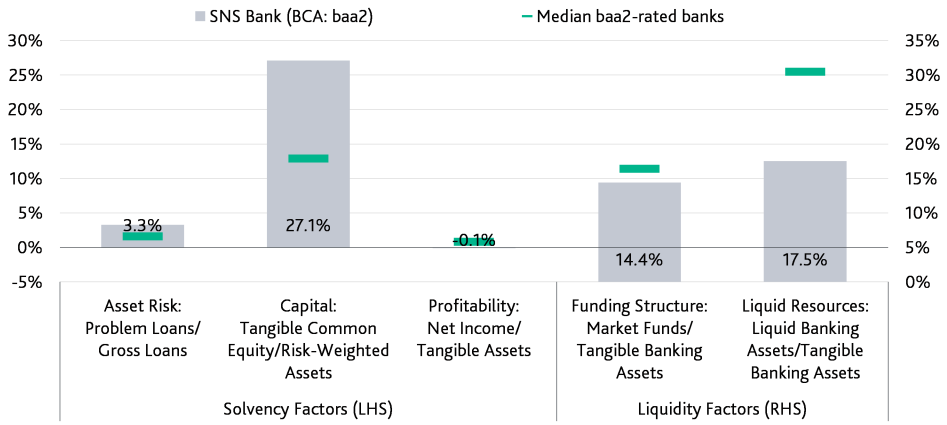
SNS Bank N.V.

Update Following Recent Upgrade to A3 Positive

Summary Rating Rationale

SNS Bank N.V. (SNS Bank)'s long-term deposit and senior unsecured ratings of A3 and Baa1, respectively, reflect primarily the bank's baa2 standalone baseline credit assessment (BCA). SNS Bank's BCA is driven by its strengthened loan book quality, as its activity has been refocused on the Dutch retail market, a very strong capital buffer and a sound liquidity profile, enhanced by the bank renewed access to market funding. In a challenging and competitive environment for retail banking, SNS Bank's profitability is resilient and will benefit from measures taken by the bank to strengthen its franchise. SNS Bank's deposit rating also incorporates a low loss-given-failure which translates in a one-notch uplift from the BCA. For senior unsecured debt, the moderate loss-given-failure leads to no uplift. In addition, both ratings benefit from an additional one-notch uplift due to the moderate probability of government support as SNS Bank - still state-owned - is considered systemic in the Netherlands.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

THIS REPORT WAS REPUBLISHED ON 21 DECEMBER 2016 WITH CHANGES IN P.6 (BCA OF baa3 AND CR ASSESSMENT OF A2(cr) REPLACED BY baa2 AND A1(cr) RESPECTIVELY).

Credit Strengths

» A strengthened loan book quality and business profile, refocused on the Dutch retail market;

» A very strong capital buffer;

» A sound liquidity profile, enhanced by a renewed access to market funding.

Credit Challenges

» A profitability challenged by the low interest rate environment and a highly competitive Dutch market;

» Risks and revenues are correlated with the Dutch mortgage market.

Rating Outlook

The outlook on the long-term deposit and debt ratings is positive, reflecting Moody's view that further improvements in the Dutch macroeconomic environment, with a low unemployment rate and rising house prices, will continue to support SNS Bank's business model, despite the challenging low interest rate environment. The bank also benefits from a revised strategy which, if successful, will enhance its commercial franchise and profitability.

Factors that Could Lead to an Upgrade

» SNS Bank's BCA could be upgraded as a result of (i) further improvements in the Dutch economy, resulting in lower asset risk and enhanced profitability and (ii) the bank's successful strategy to strengthen its franchise. An upgrade of SNS Bank's BCA and adjusted BCA would likely result in an upgrade of all bank's ratings.

» A significant increase in the bank's senior unsecured and/or subordinated debt outstanding could also lead to a reduction in loss-given-failure for senior unsecured debt, which could result in its upgrade.

Factors that Could Lead to a Downgrade

» The positive outlook assigned to SNS Bank's deposit and senior unsecured debt ratings indicates that the likelihood of a downgrade is low. SNS Bank's ratings could nevertheless be downgraded as a result of a reduction in the bank's baa2 BCA, for example driven by (1) an unexpected deterioration of the macroeconomic environment in the Netherlands, which would weigh on the bank's financial position, and/or (2) a material deterioration of the bank's asset quality, solvency or liquidity profile and/or in its recurring earnings generation capacity. A reduction in the BCA would likely lead to a downgrade of the long-term ratings.

» A decrease in the amount of outstanding debt and/or deposits would also increase the loss-given-failure of these instruments and potentially lead to a downgrade of its deposit rating.

Key Indicators

Exhibit 2
SNS Bank N.V. (Consolidated Financials) [1]

	6-16[2]	12-15[2]	12-14[2]	12-13[2]	12-12[3]	Avg.
Total Assets (EUR million)	63,222.0	61,422.0	66,513.0	73,416.5	81,343.0	-6.1[4]
Total Assets (USD million)	70,236.5	66,722.4	80,484.3	101,163.7	107,241.9	-10.0[4]
Tangible Common Equity (EUR million)	3,146.4	3,118.0	2,579.7	2,265.7	1,058.2	31.3[4]
Tangible Common Equity (USD million)	3,495.4	3,387.1	3,121.6	3,122.1	1,395.2	25.8[4]
Problem Loans / Gross Loans (%)	2.2	2.7	3.8	4.5	7.6	4.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	27.1	27.1	18.7	15.0	5.1	22.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	32.0	37.5	65.2	89.2	183.8	81.6[5]
Net Interest Margin (%)	1.5	1.6	1.5	1.3	0.9	1.3[5]
PPI / Average RWA (%)	3.2	4.0	3.6	3.6	1.8	3.6[6]
Net Income / Tangible Assets (%)	0.5	0.6	0.2	-1.8	-0.8	-0.3[5]
Cost / Income Ratio (%)	62.6	54.4	52.2	49.1	56.8	55.0[5]
Market Funds / Tangible Banking Assets (%)	14.0	14.4	22.5	34.7	42.2	25.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	20.7	17.5	17.4	23.5	17.3	19.3[5]
Gross loans / Due to customers (%)	99.7	104.6	115.4	122.7	149.6	118.4[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation [6] Basel III - fully-loaded or transitional phase-in & IFRS reporting periods have been used for average calculation
Source: Moody's Financial Metrics

Detailed Rating Considerations

The financial data in the following sections are sourced from SNS Bank's financial statements unless otherwise stated.

A STRENGTHENED LOAN BOOK QUALITY AND BUSINESS PROFILE, REFOCUSED ON THE DUTCH RETAIL MARKET

SNS Bank is the fourth largest retail bank in the Netherlands, with a deposit base of €49.2 billion and a loan book of €48.7 billion as of June 2016. Following large losses on its commercial real estate lending portfolio, the former SNS Group (SNS REAAL) was nationalized on 1st February 2013 and subject to an in-depth restructuring. On 1st July 2016, the Dutch state agency NL Financial Investments (NLFI), owner of SNS Bank, submitted a report to the Dutch Ministry of Finance advising to postpone any decision as to a possible transfer of SNS Bank's shares back to the private sector. The report suggests that this step should not be taken before the new bank business strategy has been fully implemented.

The new bank's business strategy is focused on retail banking with the aim of offering simple and transparent products in the areas of mortgages, savings and payments. As a result of this de-risking and deleveraging strategy, SNS Bank's activities are now refocused on the Dutch retail market: 92% of the €48.7 billion loan book is comprised of Dutch retail mortgages as of June 2016. The other 8% comprise loans to SMEs and public sector entities.

As a consequence of (i) its new strategy, (ii) improving macroeconomic conditions in the Netherlands and (iii) stricter lending standards, driven by the Dutch government measures on tax deductibility of home loan interests and maximum loan-to-value ratios, SNS Bank's asset risk profile has materially decreased since 2012. Its NPL ratio dropped to 2.2%, in June 2016, from 7.6% in 2012, and its credit cost on domestic mortgages decreased substantially to 8 basis points (bps) of gross loans in 2015, from 31 bps in 2014, bringing it in line with the average of the bank's main competitors.

We expect the Dutch economy to continue to grow at a 1.8%-2% rate in 2016 and 2017, favoring employment and household spending. House prices have increased steadily over the last three years at a 4-5% rate and we do not expect a material deterioration over the next 12-18 months. This favorable macroeconomic environment will, thus, continue to benefit to SNS's asset quality. Its credit cost is expected to stabilize at below 10 bps of gross loans for the full year 2016.

The a3 score for asset risk, which results from a relatively low average non-performing loan ratio of 3.3% over the last three years, reflects our assessment of SNS Bank's enhanced risk profile.

A VERY STRONG CAPITAL BUFFER

SNS Bank is well capitalized: its tangible common equity (TCE) amounted to 27.1% of its risk-weighted assets (RWAs) in June 2016, and its common equity Tier 1 (CET 1) ratio stood at 26.6% at the same date, well above its requirement of 12% in 2016 (comprised of an 11.75% SREP requirement and a 0.25% systemic buffer). The bank's capital ratio increased substantially in 2014 and 2015 as a result of (i) retained earnings and (ii) a decrease in risk-weighted assets (RWA), driven by a decline in mortgage loans and derivative positions. Furthermore, as a consequence of the transfer of SNS Bank from SNS REAAL to the Dutch state, SNS Bank no longer bears the risk of its former insurance sister company. As of June 2016, SNS Bank's leverage ratio stood at 4.9%. The bank's RWA ratio is high due to the low risk weight applied to mortgages but its leverage ratio is structurally low, although it now compares favorably to peers. Due to uncertainties around the future so-called Basel 4 rules, SNS intends to maintain a high level of capital in the coming years.

SNS Bank resumed dividend in 2016, from 2015 profits, and paid €100 million to its sole shareholder NLFI, which represents a pay-out ratio of 32% (i.e. dividend as a % of net profit adjusted for fair value change of DBV mortgage portfolio and related derivatives). The bank's MREL eligible liabilities amount to 7.9% of total assets, among which 5.8% of regulatory capital, and its TLAC ratio stands at 30.8% of RWAs (and 5.6% of non-risk weighted assets). We expect SNS Bank to increase the amount of debt eligible to MREL and TLAC in 2017.

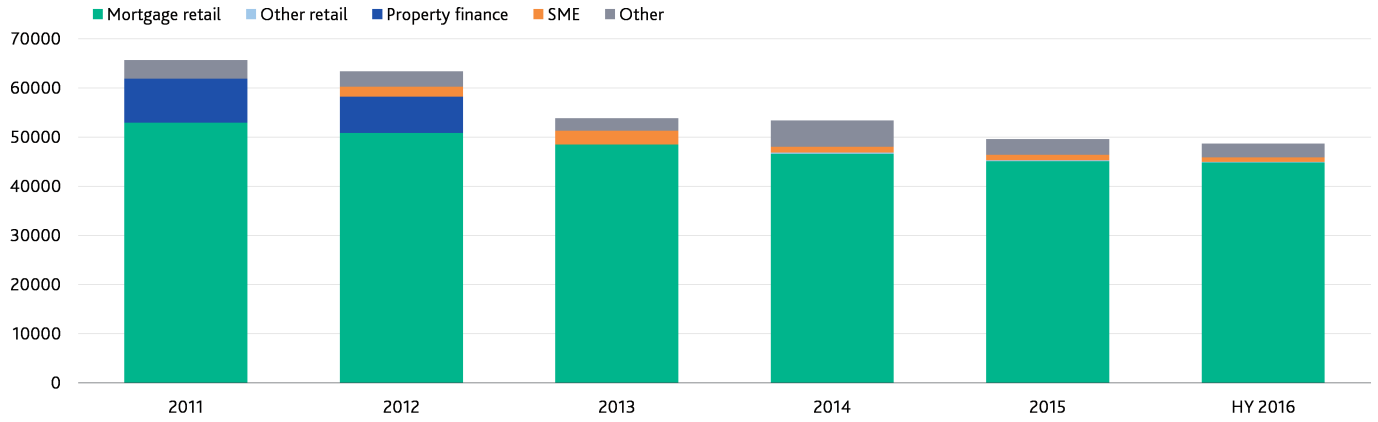
SNS Bank's ratio of tangible common equity (TCE) on RWA of 27.1% maps into an aa1 score for capital. This ratio is adjusted downwards by 2 notches to aa3 to reflect the potential impact of the new regulatory framework on SNS Bank's capital ratios.

A PROFITABILITY CHALLENGED BY LOW INTEREST RATES AND A HIGHLY COMPETITIVE ENVIRONMENT

The profitability of SNS Bank's retail core activities is constrained by the challenging low interest rate environment and its modest commercial franchise compared to Dutch peers. The bank reported a €348 million net profit for the full-year 2015, and €181 million for H1 2016. This represents a 130% increase from 2014, mainly driven by lower credit costs on retail mortgages. Since end-2015, though, the bank's net interest income has decreased. This results from loan renegotiations at a lower rate and a decline of its outstanding loan portfolio stemming from (i) Dutch households' tendency to reduce their indebtedness and (ii) harsh competition from the non-bank sector on the mortgage market.

Exhibit 3

SNS Bank Loan Portfolio (in € mn)



Source: Bank Financial Statements

SNS Bank will continue to face transformation costs, in order to develop its digital offer and enhance the efficiency of its business operations, as well as increased regulatory costs. Its cost-to-income ratio deteriorated in H1 2016 to 55.9%, from 53.4% in 2015. A key challenge for SNS Bank is, therefore, to preserve its profitability by attracting new clients and improve its cost-efficiency. We consider that the bank is well positioned to achieve these targets:

» First, SNS Bank's loan portfolio is stabilising since year-end 2015, chiefly thanks to the bank's efforts to redefine its commercial offering and pricing policies; these measures will be continued, notably with the rebranding of SNS Bank into de Volksbank, as of 1st January 2017;

» Second, over the last year, SNS Bank has reduced its deposit rates in order to preserve margins and we estimate that, compared to their Dutch peers, they have still room to further reduce deposit rates

» Third, SNS Bank should continue to benefit from the positive prospects for the Dutch mortgage market in the coming years. Constraints on housing supply have driven a 4-5% yearly price increase since 2014 and the current low unemployment and low mortgage rates lay the ground for further price gains and favor the construction sector.

Further, SNS Bank has been implementing a new strategy aimed at tightening its brand positioning, de-risking its activity and streamlining its commercial offering. This new strategy has been endorsed by the Dutch Ministry of Finance, who, on 1st July 2016, granted more time to the bank before deciding on its future shareholding. If successful, this new strategy will help SNS Bank strengthen its business franchise and achieve full value creation.

These elements are reflected in the ba1 score assigned to SNS Bank's profitability, six notches above the mere score of caa1, taking into consideration the banks stability and resilience of profits since 2014.

A SOUND LIQUIDITY PROFILE, ENHANCED BY A RENEWED ACCESS TO MARKET FUNDING

SNS Bank's liquidity profile supports its overall standalone credit profile, primarily as a result of its large liquidity buffer, which should enable it to resist a prolonged period of financial market disruption. SNS Bank's liquid assets amounted to 11 billion in June 2016, consisting of cash (€2.9 billion), sovereign and public sector bonds (€3.5 billion) and RMBS eligible for central bank refinancing (€4.3 billion). Although these assets are eligible to ECB operations, we consider them of lower quality than central bank deposits or government bonds, as they may not be negotiable in the secondary market in a stress situation.

In recent years, the bank has significantly reduced its wholesale funding reliance, as a result of the disposal of its legacy CRE portfolio, and a successful deposit-acquisition strategy. Following the period of uncertainty that preceded nationalization, in 2013, SNS Bank suffered deposit outflows but was able since then to restore and further increase its deposit base to €49.1 billion (€37.7 billion of retail savings and €11.5 billion of other deposits) as at June 2016, bringing its gross loan-to-deposit ratio to 101%. The "other deposit" category is comprised of deposits relating to life insurance contracts and private loans, which are partly considered wholesale funding, and commercial deposits from SMEs and retail customers. The bank's strong liquidity and funding profiles are also confirmed by its liquidity coverage ratio and net stable funding ratio, both above 100%, as of the same date.

On October 29, 2015, SNS Bank issued a EUR500 million 10-year Tier 2 bond. This was the first time SNS Bank tapped the capital market since its nationalization and the bank plans to be a frequent issuer of capital market debt in the future. This development is credit positive as it demonstrates that SNS Bank's liquidity profile is no longer constrained by its restricted access to capital market. This is reflected in the bank's combined liquidity score of baa1.

SNS Bank's BCA of baa2 reflects its financial profile of baa1, which is adjusted downwards to reflect the bank's risk and revenue sensitivity to the Dutch retail mortgage market. The assigned bank's BCA is at the lower-end of the range resulting from the scorecard, to reflect a potential for further upgrade, as explained above.

Notching Considerations

LOSS GIVEN FAILURE AND ADDITIONAL NOTCHING

The Netherlands has implemented the EU Bank Recovery and Resolution Directive (BRRD), which we consider to be an operational resolution regime. As a result, we apply our advanced Loss Given Failure (LGF) analysis assuming (1) a residual tangible common equity at failure of 3% of tangible banking assets, (2) losses post-failure of 8% of tangible banking assets, (3) a 25% run-off in junior wholesale deposits, (4) a 5% run-off in preferred deposits, and (5) a 25% probability of deposits being preferred to senior unsecured debt. As SNS Bank's deposits are mainly retail in nature, we assume 90% of them being preferred (and 10% being junior) in a case of failure.

Under these assumptions, our LGF analysis indicates a low loss-given-failure for SNS Bank's deposits, leading us to position their Provisional Rating Assessment one notch above the Adjusted BCA. For SNS Bank's senior unsecured debt, our LGF analysis indicates a moderate loss-given-failure, leading us to position its Preliminary Rating Assessment in line with the Adjusted BCA.

Our LGF analysis indicates a high loss-given-failure for subordinated debt, leading us to position its Preliminary Rating Assessment one notch below the Adjusted BCA.

GOVERNMENT SUPPORT

As SNS Bank is considered systemic in the Netherlands, we expect a moderate probability of government support for junior deposits and senior unsecured debt, resulting in a one-notch additional uplift from the bank's BCA.

For other junior securities, we assume a low government support probability, and, as such, the ratings for these instruments do not include any related uplift.

COUNTERPARTY RISK ASSESSMENT

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

The CR Assessment is positioned at A1(cr)/Prime-1(cr). The CR Assessment, prior to government support, is positioned three notches above the bank's BCA of baa2, based on the cushion against default provided by instruments subordinated to the senior obligations represented by the CR Assessment. The CR Assessment also benefits from one notch of government support, in line with our support assumptions on deposits and senior unsecured debt.

ABOUT MOODY'S BANK SCORECARD

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Methodology and Scorecard Factors

Exhibit 4

SNS Bank N.V.

Macro Factors		
Weighted Macro Profile	**Strong +**	**100%**

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	3.3%	a3	← →	a3	Quality of assets	
Capital						
TCE / RWA	27.1%	aa1	↓↓	aa3	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	-0.1%	caa1	↓	ba1	Earnings quality	
Combined Solvency Score		a3		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	14.4%	a2	↓	a3	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	17.5%	baa2	← →	baa2	Quality of liquid assets	
Combined Liquidity Score		a3		baa1		
Financial Profile				a3		
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint:				Aaa		
Scorecard Calculated BCA range				a3-baa2		
Assigned BCA				baa2		
Affiliate Support notching				0		
Adjusted BCA				baa2		

Balance Sheet	**in-scope (EUR million)**	**% in-scope**	**at-failure (EUR million)**	**% at-failure**
Other liabilities	10,042	15.9%	13,482	21.3%
Deposits	49,148	77.8%	45,708	72.3%
Preferred deposits	44,233	70.0%	42,022	66.5%
Junior Deposits	4,915	7.8%	3,686	5.8%
Senior unsecured bank debt	1,617	2.6%	1,617	2.6%
Dated subordinated bank debt	505	0.8%	505	0.8%
Junior subordinated bank debt				
Preference shares (bank)				
Senior unsecured holding company debt				
Dated subordinated holding company debt				
Junior subordinated holding company debt				
Preference shares (holding company)				
Equity	1,896	3.0%	1,896	3.0%
Total Tangible Banking Assets	63,208	100%	63,208	100%

Debt class	De jure waterfall		De facto waterfall		Notching		LGF notching guidance versus BCA	Assigned LGF notching	Additional notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De jure	De facto				
Counterparty Risk Assessment	12.2%	12.2%	12.2%	12.2%	3	3	3	3	0	a2 (cr)
Deposits	12.2%	3.8%	12.2%	6.4%	1	1	1	1	0	baa1
Senior unsecured bank debt	12.2%	3.8%	6.4%	3.8%	1	-1	0	0	0	baa2
Dated subordinated bank debt	3.8%	3.0%	3.8%	3.0%	-1	-1	-1	-1	0	baa3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency rating	Foreign Currency rating
Counterparty Risk Assessment	3	0	a2 (cr)	1	A1 (cr)	--
Deposits	1	0	baa1	1	A3	A3
Senior unsecured bank debt	0	0	baa2	1	Baa1	Baa1
Dated subordinated bank debt	-1	0	baa3	0	Baa3	--

Source: Moody's Financial Metrics

Ratings

Exhibit 5

Category	Moody's Rating
SNS BANK N.V.	
Outlook	Positive
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured	Baa1
Subordinate -Dom Curr	Baa3
Commercial Paper -Dom Curr	P-2
Other Short Term -Dom Curr	(P)P-2

Source: Moody's Investors Service

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