MOODY'S
INVESTORS SERVICE

CREDIT OPINION
26 August 2016

Update

Rate this Research

RATINGS

SNS Bank N.V.

Domicile	Netherlands
Long Term Debt	Baa2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

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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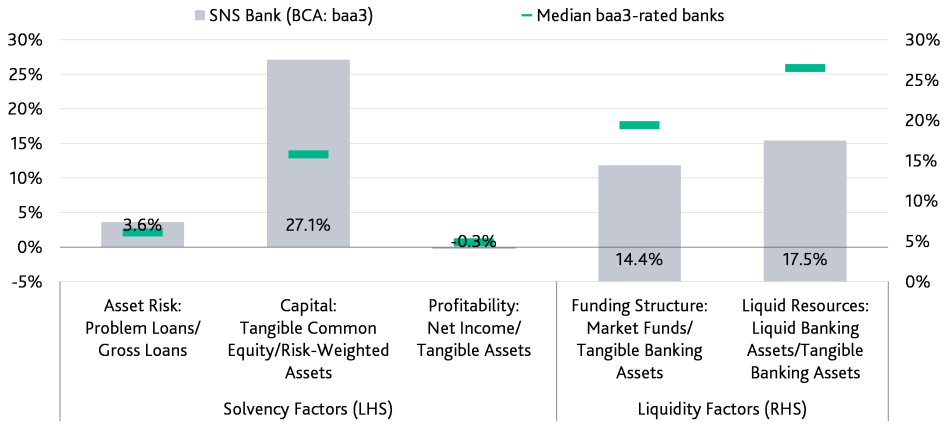
SNS Bank N.V.

Semiannual Update

Summary Rating Rationale

SNS Bank N.V. (SNS Bank)'s long-term deposit and senior unsecured ratings of Baa1 and Baa2, respectively, reflect primarily the bank's baa3 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. The bank's BCA is constrained by its modest profitability, which suffers from reduced net interest income. 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

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 modest profitability, constrained by its focus on mortgages low interest margins;

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

Rating Outlook

The outlook on the long-term deposit and debt ratings is stable, reflecting Moody's view that the currently foreseen risks to creditors, particularly those resulting from a potential downturn in the Dutch economic environment, are already incorporated in the bank's BCA.

Factors that Could Lead to an Upgrade

Upward rating pressure may result from an improvement in SNS Bank's BCA, particularly if SNS Bank succeeds in strengthening its domestic franchise and profitability, while maintaining a low risk profile. A higher BCA would likely lead to an upgrade of the bank's long-term ratings.

The bank's long-term deposit and debt ratings could also be upgraded if the bank increases the volume of these instruments and/or the amount of subordinated debt, leading to an additional uplift under our advanced Loss-Given-Failure (LGF) analysis.

Factors that Could Lead to a Downgrade

SNS Bank's ratings could be downgraded as a result of a deterioration of bank's baa3 BCA, for example driven by (1) an economic downturn in the Netherlands which would weigh on the bank's financial position beyond our current expectations; 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 bank's loss-given-failure and weigh negatively on its long-term ratings.

Key Indicators

Exhibit 2

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

	12-15[2]	12-14[2]	12-13[2]	12-12[3]	12-11[3]	Avg.
Total Assets (EUR million)	61422.0	66513.0	73416.5	81343.0	81271.0	-6.8[4]
Total Assets (USD million)	66722.4	80484.3	101163.7	107241.9	105501.5	-10.8[4]
Tangible Common Equity (EUR million)	3118.0	2579.7	2265.7	1058.2	1674.6	16.8[4]
Tangible Common Equity (USD million)	3387.1	3121.6	3122.1	1395.2	2173.8	11.7[4]
Problem Loans / Gross Loans (%)	2.7	3.8	4.5	7.6	5.7	4.9[5]
Tangible Common Equity / Risk Weighted Assets (%)	27.1	18.7	15.0	5.1	8.2	20.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	37.5	65.2	89.2	183.8	148.2	104.8[5]
Net Interest Margin (%)	1.6	1.5	1.3	0.9	1.0	1.2[5]
PPI / Average RWA (%)	4.0	3.6	3.6	1.8	2.2	3.7[6]
Net Income / Tangible Assets (%)	0.6	0.2	-1.8	-0.8	0.0	-0.4[5]
Cost / Income Ratio (%)	54.4	52.2	49.1	56.8	55.0	53.5[5]
Market Funds / Tangible Banking Assets (%)	14.4	22.5	34.7	42.2	44.0	31.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	17.5	17.4	23.5	17.3	13.3	17.8[5]
Gross loans / Due to customers (%)	104.6	115.4	122.7	149.6	161.9	130.8[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

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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 €47.4 billion and a loan book of €49.2 billion as of year-end 2015. The bank's creditworthiness was severely damaged by large losses on its commercial real estate lending in 2013. This impaired depositors' confidence who took out retail deposits of EUR2.1 billion in the weeks before its public bailout and nationalization on 1st February 2013. Following its nationalization, the SNS group (SNS REAAL) has been progressively restructured. SNS Bank refocused its activities on the Dutch retail mortgage market under the ownership of the state agency NL Financial Investments (NLFI), while the group's insurance activities (Vivat) were sold and its loss-making commercial real-estate portfolio was put in a run-off entity Propertize N.V. (Aaa stable). On 1st July 2016, NLFI 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.

As a consequence of the dismantling of the group, SNS Bank's activities are now refocused on the Dutch retail market: 91% of the €49.2 billion loan book is comprised of Dutch retail mortgages as of December 2015. The other 9% comprise loans to SMEs and public sector entities.

Overall, this change in business focus is credit positive for the bank. Risks on the firm's loan book have substantially abated and the firm now benefits from a more granular and lower-risk loan portfolio. The recovery of the Dutch mortgage market together with stricter lending standards have helped SNS improve the bank's asset quality : the average loan-to-value (LTV) of the whole mortgage portfolio decreased to 84% in December 2015 from 89% in 2013. Within the domestic retail sector, SNS Bank's overall credit risk has decreased substantially to 8 basis points (bps) of gross loans on domestic mortgages in December 2015, from 31 bps in December 2014. Credit cost is now in line with the average of the bank's main competitors.

The a3 score for asset risk, which results from a relatively low non-performing loan ratio of 3.6%, reflects our assessment of SNS Bank's enhanced risk profile.

A VERY STRONG CAPITAL BUFFER

SNS Bank's capital increased 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 (whose RWAs diminished to €6.1 billion, from €6.8 billion) 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. At year-end 2015, the bank's stand-alone CET1 ratio (Basel III fully loaded) was a high 25.8% and its leverage ratio was 4.8%. SNS Bank's leverage ratio, which is structurally low due to the low risk weight applied to mortgages, now compares to Dutch peers.

SNS Bank resumed dividend in 2016 and paid €100 mn to its sole shareholder NLFI. The bank's MREL eligible liabilities amount to 8.7% of total assets, above the 8% threshold. Going forward, SNS Bank could be materially affected by both the new standard on leverage and ongoing regulatory works on RWAs (known as "Basel 4").

SNS Bank's ratio of tangible common equity (TCE) on RWA of 27.1% maps into an aa1 score for capital. We adjust it downwards to a1 to reflect the potentially significant impact of new regulatory standards (i.e. leverage ratio and "Basel 4" rules) on SNS Bank's future solvency ratio.

A MODEST PROFITABILITY, CONSTRAINED BY ITS FOCUS ON MORTGAGES AND LOW INTEREST MARGINS

The profitability of SNS Bank's retail core activities is constrained by the challenging low interest rate environment. The bank reported a €348 million net profit for the full-year 2015, mainly driven by lower credit costs on retail mortgages.

The bank's net interest income decreased by 3% in 2015 as a result of the low interest rate environment, a reduced mortgage loan portfolio impacted by early repayments and the inclusion of additional interest charges on the €500 million Tier 2 notes issued in October 2015. SNS Bank's profitability is constrained by the fact that 80% of its revenues come from retail mortgages, and are thus highly dependent on the Dutch mortgage market. This lack of diversification makes its business model more fragile in the case of a new downturn in Dutch housing prices. In addition, the prospect of protracted low interest rates in Europe will continue to put pressure on

the bank's interest income. Moreover, more intense competition in the mortgage market, which has intensified over the past year, in particular from the non-bank sector, also weigh on SNS Bank's revenues.

SNS Bank's operating expenses increased in 2015 as a result of regulatory costs and dis-synergies generated by the separation from SNS REAAL, bringing the bank's cost-to-income ratio to 53.4%, from 44.7% in 2014.

The bank reported a negative average ratio of net income to tangible banking assets of 0.3% for the last three full years (as 2013's result was deep in negative territory), which results in a caa1 score to profitability. We have adjusted this score to b1 to reflect the bank's improving profitability in 2014 and 2015.

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 11.8 billion in December 2015, consisting of cash (€2.1 billion), sovereign and public sector bonds (€4.5 billion) and RMBS eligible for central bank refinancing (€4.8 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 €47.4 billion (€36.9 billion of retail savings and €10.6 billion of other deposits) as at December 2015, bringing its gross loan-to-deposit ratio to 105%. The bank's strong liquidity and funding profiles are also confirmed by its liquidity coverage ratio 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 baa2.

SNS Bank's BCA of baa3 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.

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, SNS Bank's deposits are likely to face low loss-given-failure, due to the loss absorption provided by subordinated debt and residual equity (amounting to 3.8% of tangible banking assets in resolution) and, potentially, by senior unsecured debt (2.4% of tangible banking assets) should deposits be treated preferentially in a resolution, as well as the volume of deposits themselves (amounting to 5.3% of tangible banking assets). This results in a one-notch uplift from the BCA for SNS Bank's junior deposits. For SNS's senior unsecured debt, our LGF analysis shows a moderate loss-given-failure resulting from a combination of its own volume and the amount of debt subordinated to it. This results in no uplift from the BCA.

For subordinated debt, our LGF analysis confirms a high level of loss-given-failure, given the small volume of debt (0.8% of tangible banking assets) and limited protection from more subordinated instruments and residual equity.

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, 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 A2(cr)/Prime-1(cr). The CR Assessment, prior to government support, is positioned three notches above the bank's BCA of baa3, based on the cushion against default provided by instruments subordinated to the senior obligations represented by the CR Assessment, which amounts to about 11.5% of tangible banking assets. 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 3

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	3.6%	a3	← →	a3	Quality of assets	
Capital						
TCE / RWA	27.1%	aa1	← →	a1	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	-0.3%	caa1	← →	b1	Earnings quality	
Combined Solvency Score		a3		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	14.4%	a2	← →	baa2	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	17.5%	baa2	← →	baa2	Quality of liquid assets	
Combined Liquidity Score		a3		baa2		
Financial Profile				baa1		
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		

Sovereign or Affiliate constraint:	Aaa
Scorecard Calculated BCA range	baa1-baa3
Assigned BCA	baa3
Affiliate Support notching	0
Adjusted BCA	baa3

Balance Sheet	**in-scope (EUR)**	**% in-scope**	**at-failure (EUR)**	**% at-failure**
Other liabilities	14,385	23.4%	17,410	28.4%
Deposits	43,218	70.4%	40,193	65.5%
Preferred deposits	38,896	63.3%	36,951	60.2%
Junior Deposits	4,322	7.0%	3,241	5.3%
Senior unsecured bank debt	1,469	2.4%	1,469	2.4%
Dated subordinated bank debt	493	0.8%	493	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	1,842	3.0%	1,842	3.0%
Total Tangible Banking Assets	61,407	100%	61,407	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	11.5%	11.5%	11.5%	11.5%	3	3	3	3	0	a3 (cr)
Deposits	11.5%	3.8%	11.5%	6.2%	0	1	0	1	0	baa2
Senior unsecured bank debt	11.5%	3.8%	6.2%	3.8%	0	-1	0	0	0	baa3
Dated subordinated bank debt	3.8%	3.0%	3.8%	3.0%	-1	-1	-1	-1	0	ba1

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	a3 (cr)	1	A2 (cr)	--
Deposits	1	0	baa2	1	Baa1	Baa1
Senior unsecured bank debt	0	0	baa3	1	Baa2	Baa2
Dated subordinated bank debt	-1	0	ba1	0	Ba1	Ba1

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
SNS BANK N.V.	
Outlook	Stable
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Senior Unsecured	Baa2
Subordinate -Dom Curr	Ba1
Commercial Paper -Dom Curr	P-2
Other Short Term	(P)P-2

Source: Moody's Investors Service

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