

**Rating Action: Moody's upgrades SNS Bank N.V.'s long-term deposit rating to A3 and senior unsecured debt rating to Baa1, positive outlook**

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Global Credit Research - 22 Nov 2016

London, 22 November 2016 -- Moody's Investors Service, ("Moody's") has upgraded SNS Bank N.V. (SNS Bank)'s long-term deposit rating to A3, from Baa1, and its senior unsecured rating to Baa1, from Baa2, with a positive outlook. SNS Bank's intrinsic financial strength (expressed by its baseline credit assessment, or BCA) has been upgraded to baa2 (from baa3) to reflect the improved credit fundamentals of the bank. SNS Bank's subordinated debt rating has also been upgraded to Baa3 from Ba1 and its long-term Counterparty Risk (CR) assessment has been upgraded to A1(cr) from A2(cr). Short-term CR assessment and other short-term ratings have been affirmed at Prime-1(cr) and (P)Prime-2, respectively.

A full list of ratings is provided towards the end of this press release.

**RATINGS RATIONALE**

The upgrade of SNS Bank's BCA to baa2 from baa3 reflects primarily the bank's improved credit fundamentals. As a result of its strategic refocus on its retail activities, in particular the mortgage market in the Netherlands, SNS Bank has improved its asset risk, as reflected in a cost of risk of less than 10 basis points over the last two years. SNS has a strong capital base with a Common Equity Tier 1 (CET1) capital ratio above 25%, which is testimony to a low-risk loan portfolio mostly comprised of mortgages. Further, against a low interest rate environment, SNS Bank has shown good profitability since 2014 owing to well-preserved interest margins, a significant decrease in credit costs and operating expenses in check. Furthermore, the State-owned bank's successful return to capital markets in October 2015 allowed it to diversify its funding sources, even though retail deposits will continue to account for the largest share of its funding. Looking to the future, the bank will continue to be constrained by its mono-line business and lack of diversification, which is reflected in a negative qualitative adjustment to its BCA.

The upgrade of the bank's long-term deposit and senior unsecured debt ratings to A3 and Baa1, respectively, reflects the bank's BCA of baa2 and the application of Moody's Advanced Loss Given Failure (LGF) analysis. The latter results in an uplift of one notch for deposits, reflecting the rating agency's expectation of low loss-given-failure for these instruments, thanks to the possibility of their being treated as preferred to senior unsecured debt in a resolution. There is no uplift for senior unsecured debt, reflecting likely moderate loss-given-failure in view of its modest volume in the bank's balance sheet and the limited cushion of more subordinated debt. Finally, SNS Bank's long-term deposit and senior unsecured ratings incorporate an additional one-notch uplift reflecting a moderate probability of government support, as the bank is considered systemic in the Netherlands.

The upgrade of SNS Bank's subordinated debt rating to Baa3 from Ba1 reflects the bank's higher BCA as well as the application of the Advanced LGF analysis, which reflects a high level of loss-given-failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity.

**WHAT COULD CHANGE THE RATING UP/DOWN**

The outlook on SNS Bank's long-term deposit and debt ratings is positive, reflecting the potential for a further increase in the bank's BCA. This results from 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. 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.

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.

#### LIST OF AFFECTED RATINGS

Issuer: SNS Bank N.V.

##### Upgrades:

- ...LT Bank Deposits (Local & Foreign Currency), Upgraded to A3 Positive from Baa1 Stable
- ...Subordinate (Local Currency), Upgraded to Baa3 from Ba1
- ...Senior Unsecured Regular Bond/Debenture (Local Currency), Upgraded to Baa1 Positive from Baa2 Stable
- ...Subordinate MTN (Local Currency), Upgraded to (P)Baa3 from (P)Ba1
- ...Senior Unsecured MTN (Local Currency), Upgraded to (P)Baa1 from (P)Baa2
- ...Adjusted Baseline Credit Assessment, Upgraded to baa2 from baa3
- ...Baseline Credit Assessment, Upgraded to baa2 from baa3
- ...LT Counterparty Risk Assessment, Upgraded to A1(cr) from A2(cr)

##### Affirmations:

- ...ST Bank Deposits (Local & Foreign Currency), Affirmed P-2
- ...Other Short Term (Local Currency), Affirmed (P)P-2
- ...Commercial Paper (Local Currency), Affirmed P-2
- ...ST Counterparty Risk Assessment, Affirmed P-1(cr)

##### Outlook Actions:

- ...Outlook, Changed To Positive From Stable

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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Laurent Le Mouel  
Vice President - Senior Analyst  
Financial Institutions Group  
Moody's France SAS  
96 Boulevard Haussmann  
Paris 75008  
France  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Nicholas Hill  
MD - Banking  
Financial Institutions Group  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:  
Moody's Investors Service Ltd.  
One Canada Square  
Canary Wharf  
London E14 5FA  
United Kingdom  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

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