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Research Update:

Dutch SNS Bank Upgraded To 'BBB+' On Increasing Loss-Absorbing Capacity; Outlook Stable

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Overview

- By our measures, Netherlands-based SNS Bank's additional loss-absorbing capacity (ALAC) benefiting senior debt holders represents 5.8% of our risk-weighted assets at year-end 2015.
- We are therefore incorporating one notch of uplift in our long-term rating on SNS Bank because we believe the bank will sustain ALAC above our 5.5% threshold.
- At the same time, the announcements from NL financial investments (NLFI) and the Dutch government regarding SNS Bank's future reassure us that the bank will maintain strong capital buffers through 2018.
- We are therefore raising our long-term rating on SNS Bank to 'BBB+' from 'BBB' and affirming the short-term rating at 'A-2'.
- The stable outlook reflects our expectation that SNS Bank will maintain very high loss-absorbing capabilities, enabling the bank to withstand pressure from the low interest rates in its revenues base and from potentially higher risk weights while the regulatory agenda for banks develops.

Rating Action

On Aug. 11, 2016, S&P Global Ratings raised its long-term counterparty credit rating on SNS Bank N.V. to 'BBB+' from 'BBB'. At the same we affirmed our 'A-2' short-term counterparty credit rating. The outlook is stable.

In addition, we raised our issue rating on SNS Bank's senior unsecured debt to 'BBB+', and affirmed the 'BB+' issue rating on SNS Bank's nondeferrable subordinated debt.

Rationale

We expect the deferral of SNS Bank's privatization will lead to a stable capital policy in the next two years. This reassures us on the sustainability of the bank's additional loss-absorbing capacity (ALAC) over our two-year outlook horizon through 2018.

In early July 2016, in a letter to the House of Representatives, the Dutch Minister of Finance agreed with the conclusion drawn by NL financial investments (NLFI) that SNS Bank is not yet ready to be back in the private

sector. NLFII is a not-for-profit organization with a statutory mandate, which has owned SNS Bank since its nationalization. It was established to ensure a clear separation of interests, a credible exit strategy for the bank and a commercial, nonpolitical, corporate governance. We note, moreover, that the conclusion does not exclude any exit options or ownership structures. The rationale for the delay is to wait for the bank to achieve its optimum value in order to increase market interest and for more clarity on future capital regulations that could impact the bank's capital structure and efficiency. Although no precise timeframe has been communicated on the exit plan, NLFII stated that SNS Bank would need two to three years to fully implement its current strategy and achieve the optimum value. We assume, therefore, that, during the next two years, the bank will continue to implement its existing strategic plan and gradually increase its dividend payout ratio (after the €100 million dividend on 2015 profits), while maintaining very strong capital ratios.

Since December 2015, we believe that extraordinary government support for the Dutch banking sector is uncertain following the full implementation of the EU Bank Recovery and Resolution Directive. We view the Dutch resolution regime as effective under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process, under which authorities would permit nonviable systemically important banks to continue critical functions as going concerns, following a bail-in of eligible liabilities.

SNS Bank issued €500 million Tier 2 debt in November 2015 and the bank reported excess total adjusted capital above our 15% threshold for a very strong capital and earnings assessment. Our risk-adjusted capital ratio for SNS Bank was 17.9% as of year-end 2015. We therefore consider that the bank's ALAC ratio already exceeds and will remain above the 5.5% threshold we deem appropriate for a one-notch of uplift in our assessment of the long-term rating on SNS Bank. This issuance of bail-in-able debt further reinforces the bank's loss-absorbing capabilities.

The threshold we apply to SNS Bank is above our standard 5.0%, reflecting a concentration of maturities, as we expect this buffer will consist of a limited number of instruments. We calculate that ALAC was 5.8% of S&P Global Ratings risk-weighted assets at year-end 2015, and anticipate the ratio will improve further, thanks to retained earnings. We do not include issuance of other ALAC-eligible instruments into our forecasts at this time because we think further issuance will depend on the still-unclear definitive standards for minimum own funds and eligible liabilities.

We continue to assess SNS Bank's unsupported group credit profile at 'bbb', reflecting an unchanged intrinsic creditworthiness at the moment. Although the bank has improved its financial profile since its nationalization in 2013, we still believe its competitive position is more vulnerable than that of the three largest Dutch banks. We also recognize that the business concentration on retail banking at a time of record low interest rates will pressure top-line revenue generation, since net interest income typically makes up 90% of those revenues.

We also think that the uncertainties around regulatory changes, in particular potentially higher risk weights on mortgages (which form the vast majority of SNS Bank's loan book) could constrain the bank's future origination capabilities and the recovery of its profitability in line with 'A-' rated peers. However, we view positively the reduction of nonperforming loans in the bank's books and of credit losses, but we view the revenue concentration in Dutch retail mortgages as a rating constraint.

Outlook

The stable outlook on SNS Bank reflects our view that SNS Bank will continue its progress in stabilizing its balance sheet and will maintain a very strong capital policy in the next two years. During 2016 and 2017, our base-case assumption is that SNS Bank will maintain a broadly stable balance sheet, but will make limited progress in terms of recovering its mortgage market position. Following the government's announcement that it would postpone the privatization of SNS Bank until after the banks' implementation of its strategic plan, we do not include the return to private ownership in our two-year outlook.

We could consider an upgrade of SNS Bank if the bank demonstrates its ability to build a stronger commercial franchise faster than we currently forecast. This could happen if SNS Bank's loan origination outperforms our current expectations while the bank maintains decent margins under the current unfavorable interest rate environment, as well as limiting risk costs and hence increasing the sustainability of its business model. To consider an upgrade, we would also need to have more clarity on the future regulatory changes shaping the bank's strategy.

We see relatively limited downside risk for SNS Bank's creditworthiness at this time. We could lower the ratings if a more aggressive capital policy were to materially weaken the bank's financial profile and its ability to build a sustainable franchise.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB+/Stable/A-2	BBB/Positive/A-2
SACP	bbb	bbb
Anchor	bbb+	bbb+
Business Position	Weak (-2)	Weak (-2)
Capital and Earnings	Very Strong(+2)	Very Strong(+2)
Risk Position	Moderate(-1)	Moderate(-1)
Funding	Average	Average
and Liquidity	Adequate(0)	Adequate(0)

Support	(+1)	(0)
ALAC Support	(+1)	(0)
GRE Support	(0)	(0)
Group Support	(0)	(0)
Sovereign Support	(0)	(0)
Additional Factors	(0)	(0)

Related Criteria And Research

Related Criteria

- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - January 29, 2015
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity - April 27, 2015
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks - March 23, 2004
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions - December 06, 2010
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Ratings List

Upgraded; Ratings Affirmed

	To	From
SNS Bank N.V.		
Counterparty Credit Rating	BBB+/Stable/A-2	BBB/Positive/A-2
Senior Unsecured	BBB+	BBB
Certificate Of Deposit	BBB+/A-2	BBB/A-2
Subordinated	BB+	BB+
Commercial Paper	A-2	A-2

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