STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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SNS Bank N.V.

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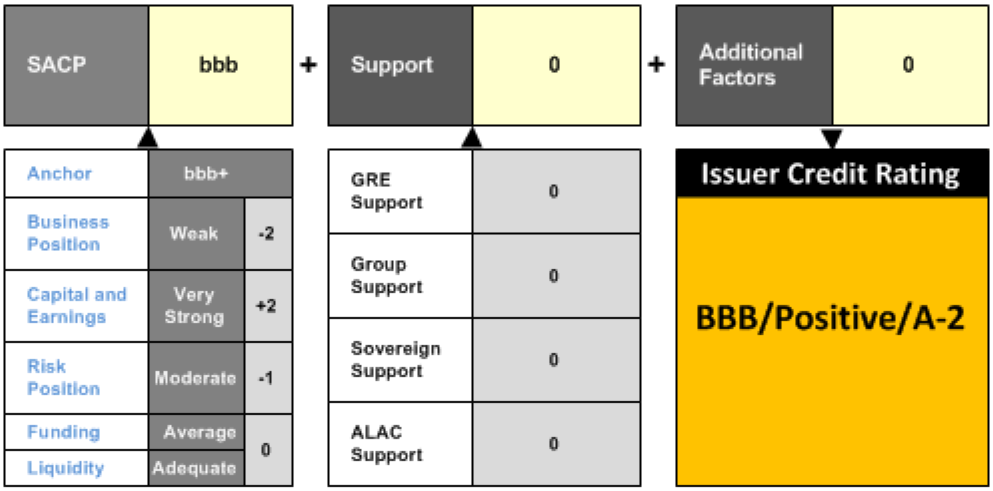
SNS Bank N.V.



ALAC--Additional loss-absorbing capacity.

Major Rating Factors

Counterparty Credit Rating
BBB/Positive/A-2

Strengths:	Weaknesses:
• Very strong capitalization by our measures. • Reasonably predictable recurring earnings. • Granular deposit balances broadly match loan balances.	• Greater reliance on domestic retail activities than larger peers. • Declining mortgage book, in a growing market, is one indication that the bank's market position and competitive dynamism has yet to fully re-emerge after its nationalization in 2013. • Higher mortgage loan impairment charges than peers.

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Outlook

Standard & Poor's Ratings Services' positive outlook on SNS Bank reflects its view that the bank may continue to build capital and loss-absorbing buffers for the benefit of senior debtholders, by our measures. If we gain sufficient confidence that SNS Bank will sustain our measure of additional loss-absorbing capacity (ALAC) to Standard & Poor's risk-weighted assets above our 5% threshold throughout our two-year outlook horizon, then we could raise the ratings by including one notch for ALAC support.

During 2016, we assume that SNS Bank will further elaborate on its strategic goals and that we will gain a clearer indication of the government's plan to return ownership of the bank to the private sector. Related to this, we would expect to gain greater clarity on the bank's dividend policy, which will help to inform our capital projections. Our base-case assumption is that SNS Bank will maintain a broadly stable balance sheet over the next two years but will make only modest progress in terms of recovering its mortgage market position.

We could consider revising the outlook to stable if we do not have confidence that the bank will be able to build ALAC or maintain its risk-adjusted capital (RAC) ratio above our 15% threshold for a "very strong" capital and earnings assessment.

Rationale

Our ratings on SNS Bank reflect the 'bbb+' anchor, which we then adjust for the following bank-specific factors:

- A "weak" business position to reflect the relatively undiversified business profile, particularly in relation to the three largest Dutch banks, and its modest market position in terms of new mortgage lending.
- A "very strong" capital and earnings assessment, primarily driven by our projection of a RAC ratio in the 19%-20% range by year-end 2017.
- A "moderate" risk position assessment, reflecting a combination of our view of the bank's general risk management track record and our expectation that the bank's mortgage loan losses will continue to exceed the Dutch system average.
- "Average" funding and "adequate" liquidity, reflecting the broad matching of its loan book with a granular deposit base, our expectation that credit growth will be low, and the absence of short-term wholesale funding maturities.

The resulting stand-alone credit profile (SACP) is 'bbb'. At this time we make no adjustments for ALAC, though we do reflect this potential in the positive outlook.

Anchor:'bbb+' for banks operating in The Netherlands

Table 1

SNS Bank N.V. Key Figures

	--Year-ended Dec. 31--				
(Mil. €)	**2015***	**2014**	**2013**	**2012**	**2011**
Adjusted assets	65,315	68,144	74,448	81,243	81,119
Customer loans (gross)	50,196	53,344	53,858	63,341	65,667

Table 1

SNS Bank N.V. Key Figures (cont.)					
Adjusted common equity	3,017	2,533	2,192	1,199	1,732
Operating revenues	588	1,099	1,043	927	934
Noninterest expenses	266	498	477	561	573
Core earnings	209	237	103	(684)	(42)

*Data as of June 30.

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic and industry risk scores to determine a bank's anchor--the starting point in assigning an issuer credit rating. The anchor for a commercial bank operating only in The Netherlands, such as SNS, is 'bbb+'. We base our assessment of economic risk on our view that the Dutch economy is wealthy, diversified, open, and competitive, as seen in its high income per capita, its net external asset position, recurrent and elevated current account surpluses, and a long track record of prudent and flexible macroeconomic policies. Following real GDP growth of 1% in 2014, we believe that The Netherlands' real GDP will accelerate by just under 2% annually during 2015-2018. This is based on the recovery in domestic demand, as private consumption will benefit from rising disposable income and solid labor market performance, and also stronger investment activity starting from this year. These economic growth drivers are only partly offset by the government's decision to further limit natural gas production, which will have a negative impact on exports, risks emanating from the slowdown in emerging markets and the possible effects on The Netherlands' main trading partners in the eurozone. We anticipate that after several years of adjustment, the housing market will gradually recover on the back of higher disposable income and benign financial conditions. That said, we observe that this gradual turnaround is uneven across the country and that vacancy rates in the commercial real estate sector remain high. In the office sector, for example, vacancies are about 15%-20%.

Our assessment of industry risk for Dutch banks incorporates strong domestic concentration and our view that the competitive environment is stable. We consider that the prospective profitability of domestic banking activities is adequate. The system's relatively heavy reliance on wholesale funding is partly attributable to households' propensity to save using life insurance and pension products, rather than bank deposits. Ongoing Dutch banking sector deleveraging continues to reduce the external debt of its financial sector. We consider that Dutch systemwide funding profile benefits from factors including the depth of the domestic capital market and the Dutch authorities' good track record in providing liquidity support.

Business position: Relatively narrow domestic retail banking profile

Our assessment of the bank's business position as "weak" primarily reflects its relatively narrow domestic retail banking focus--especially mortgage and savings products--in a market which is dominated by three large and diverse Dutch banks. Moreover, its market share of new mortgage lending has been below 4% since its nationalization in early 2013, which is well below its share of stock (about 7%). SNS Bank's lack of business diversity does not necessarily preclude it from achieving a stronger assessment in time, particularly if we consider revenue and business performance (such as expanding its customer base and improving its market share) to be very predictable. However, in the meantime, we observe a degree of ongoing strategy uncertainty, and business underperformance relative to the bank's status as the main retail banking alternative to Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland), ABN Amro Bank N.V., and ING Bank N.V.--the three banks that dominate the Dutch banking landscape.

With reported net customer loans of €49.8 billion as of June 30, 2015, SNS Bank is The Netherlands' fourth-largest lender to the private sector. The loan book is quite narrowly focused; residential mortgages represent over 90% of net loans and net interest income dominates revenue sources. We view SNS Bank's activities and revenue sources as less diversified than those of its larger competitors, despite its nationwide franchise. We acknowledge that the bank's multibrand strategy helps to differentiate its positioning from peers'.

SNS Bank has demonstrated weak mortgage lending market share over the past few years. Its market share of new mortgage lending fell to about 2% in 2012 and 2013. Lending share increased to 3.7% in 2014 and remained broadly at that level in the first half of 2015. We assume only a modest improving trend--competitive trends have increased in the Dutch market, as insurance-owned banks and other small banks seek to gain market share. By contrast, SNS Bank's retail savings inflows have been stable at just above 10%; the bank has also reported a healthy share of new personal current account market share.

The difficulties which SNS Bank faced, both before and after its nationalization were not related to its core retail banking activities but contribute to its relatively weak business performance. Nevertheless, the nationalization measures, which included a capital injection and the appropriation of its subordinated bondholders, facilitated the bank's rapid return to net profit and a healthier capital position. During 2015, the disentanglement of the bank from its former holding company, SNS REAAL, was completed. The culmination of this process was the Sept. 30, 2015 announcement by SNS REAAL that its ownership of the bank had been transferred to direct ownership by the Dutch state.

We now consider that SNS Bank's management is better positioned to solely focus upon business growth, improving its operational capacity and make refinements to its strategy. Our ratings assume that SNS Bank will continue to focus upon its core capabilities and that the Dutch state will seek to return the bank to the private sector as soon as it reasonably can.

Capital and earnings: Nationalization measures have led to unusually high capitalization

We regard SNS Bank's capital and earnings as "very strong," an assessment which we improved from "strong" in December 2015. Most notably, we have revised our projection of the bank's RAC ratio to the 19%-20% range (by end-2017) from a previous projection of 13.5%-14.5% (by end-2016). The sharp improvement reflects the completion of the disentanglement from SNS REAAL, the utilization of tax losses carried forward, better-than-expected earnings, and greater reduction in the loan book than we previously assumed. As described below, we have also updated our dividend assumptions.

We judge that our relatively high RAC projection and the bank's relatively high regulatory capital measures are unlikely to be sustained over the medium term as SNS Bank transitions back to the private sector. But, over our two-year outlook horizon, we are confident that SNS Bank's capitalization will remain "very strong" as defined by our criteria. As a result, we also maintain a 100 basis points (bps) projected range, rather than our typical 50bps range.

We calculate that SNS Bank's RAC ratio was 14.9% as of the end-2014. We assume that the end-2015 metric will be comfortably above 15%.

Our projected end-2017 RAC range assumes the following:

- After declining in 2015, and falling marginally again in 2016, improved commercial dynamism will lead to a flat loan book in 2017; all told, the end-2017 net loan book will likely be about 10% lower than the €53.3 billion reported at end-2014.
- Preprovision operating income in 2016 will decline by more than 10% compared with 2015, and by about 4%-6% more in 2017. We factor in increased interest expense as the bank builds up its subordinated debt buffers, competitive pressures eroding margins, other income being broadly flat, and our expectation that the bank will continue to invest in its operational capability.
- The loan impairment charge to be around the 20bps mark in each year from 2015 to 2017.
- No exceptional items of note in both 2016 and 2017.
- Standard & Poor's risk-weighted assets, which we assume will be about €16.5 billion at end-2015, will likely be little changed by end-2017.
- Although the bank has not stated a dividend policy, for the sole purpose of our projected RAC analysis, we assume a 50% payout ratio in respect of 2016 and 2017 earnings.

Our projection does not take into account potential Additional Tier 1 issuance.

SNS Bank stated that its regulatory common equity Tier 1 (CET1) ratio as of June 30, 2015 was 20.4% (on a stand-alone basis). It has reported this metric on a transitional regulatory basis, but the difference between the reported figure and the fully loaded measure is not large. On the same basis, the bank disclosed a leverage ratio of 4.3%. SNS states that, on a pro forma basis, its transitional CET1 metric improved to a relatively high 24.5% after the inclusion of:

- The second-quarter profit;
- A reduction in risk-weighted assets from the expected redemption of a €250 million loan by the bank to VIVAT (the former sister insurance company of the bank, which was sold by SNS REAAL in July 2015); and
- An increase in CET1 capital upon the termination of a €100 million cash facility by the bank to SNS REAAL.

Core regulatory capital consists solely of CET1 capital and the bank has stated that it aims to diversify its capital structure after its transfer to the Dutch state.

Given the reduced scale of the franchise, we think that ongoing cost initiatives will be key to the long-term viability of SNS Bank's strategy. It reported an adjusted cost-income ratio of 46.6% in the first half of 2015, which appears reasonable. That said, similar to other Dutch banks, operating expenses in the second-half of 2015, as we measure them, will have to reflect various banking taxes and scheme contributions and, as mentioned above, we assume a weaker outlook for operating revenues.

Table 2

SNS Bank N.V. Capital And Earnings					
		--Year-ended Dec. 31--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Tier 1 capital ratio	20.7	17.4	16.6	7.7	12.2
S&P RAC ratio before diversification	N.M.	14.9	11.5	4.8	8.8
S&P RAC ratio after diversification	N.M.	13.3	10.6	4.4	7.7
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	79.2
Double leverage	N.M.	N.M.	115.6	180.6	142.6

Table 2

SNS Bank N.V. Capital And Earnings (cont.)					
Net interest income/operating revenues	87.6	93.2	91.8	86.6	86.0
Fee income/operating revenues	4.1	4.0	4.8	5.8	9.2
Market-sensitive income/operating revenues	8.2	2.4	2.9	6.8	5.6
Noninterest expenses/operating revenues	45.2	45.3	45.7	60.5	61.3
Preprovision operating income/average assets	1.0	0.8	0.7	0.5	0.5
Core earnings/average managed assets	0.5	0.3	0.1	(0.7)	(0.0)

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 3

SNS Bank N.V.: Reconciliation Of Total Adjusted Capital			
		--Year ended Dec. 31--	
(Mil €)	**2015***	**2014**	**2013**
Common shareholders' equity (as reported by the company)	3,148	2,963	2,582
(+) Minority interest-equity	0	0	0
(-) Dividends (not yet accrued or distributed)	0	0	0
(-) Revaluation reserves	(119)	(176)	53
(-) Goodwill and nonservicing intangibles	(12)	(15)	(89)
(-) Interest-only strips	0	0	0
(-) Tax loss carryforwards	0	(239)	(354)
(+/-) Postretirement benefit adjustments	0	0	0
(+/-) Cumulative effect of credit-spread related revaluation of liabilities	0	0	0
(+/-) Other adjustments	0	0	0
= Adjusted common equity (ACE)	3,017	2,533	2,192
(+) Preferred stock and hybrid capital instruments (subject to our limits)	0	0	0
(+) General reserves	0	0	0
= Total adjusted capital (TAC)	3,017	2,533	2,192

*As of June 30, 2015.

Risk position: Mortgage book performance expected to remain a little weaker than the system-average

We assess the bank's risk position as "moderate." In the past, commercial property comprised a disproportionate share of the bank's total credit losses. In 2013, the group transferred its commercial property finance out of SNS REAAL because, at the time, the Dutch authorities judged it was jeopardizing the group's capital position. The €5 billion Propertize transfer at the end of 2013 eliminated these risks from the bank's balance sheet.

As a result, SNS Bank is now focused almost entirely on retail activities. Our assessment therefore increasingly considers the relative performance of the bank's mortgage book--its mortgage loan losses exceed the domestic system average--but also still factors in the bank's general risk management track record. We would need to see much stronger evidence that SNS Bank's mortgage book will perform in line with peers before we could consider a stronger assessment.

Table 4

SNS Bank N.V. RACF [Risk-Adjusted Capital Framework] Data

(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government and central banks	12,277	38	0	563	5
Institutions	2,323	763	33	540	23
Corporate	856	1,738	203	706	83
Retail	42,399	7,850	19	10,615	25
Of which mortgage	42,138	7,663	18	10,419	25
Securitization§	1,124	138	12	388	35
Other assets	309	1,100	356	348	113
Total credit risk	59,288	11,625	20	13,160	22
Market risk					
Equity in the banking book†	113	13	96	1,339	1,185
Trading book market risk	--	275	--	413	--
Total market risk	--	288	--	1,752	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	1,563	--	2,061	--
(Mil. €)		**Basel III RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		13,475		16,972	100
Total Diversification/Concentration Adjustments		--		2,047	12
RWA after diversification		13,475		19,019	112
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		2,403	17.8	2,533	14.9
Capital ratio after adjustments‡		2,403	17.4	2,533	13.3

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g., transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2014, Standard & Poor's.

Although we continue to view mortgages as one of the safer asset classes in The Netherlands, we note that SNS Bank's mortgage impairment charges in 2011-2014 exceeded the system average. For instance, the mortgage loan impairment charge represented 31bps of average mortgage loans in 2014, a level which is higher than most domestic peers.

The bank reported a lower mortgage loss rate of 15bps in the first half of 2015, helped by the gradual improvement in the Dutch housing market and wider economy. That said, the average loan-to-value of the €45.5 billion mortgage book was a relatively high 85% as of June 30, 2015, although 29% of the portfolio benefited from the Nationale Hypotheek Garantie (NHG) scheme. In our RAC framework, we treat the NHG scheme as a Dutch sovereign guarantee--reflecting what we view as a material risk-reduction--although we apply a 35% haircut to the guaranteed amount.

The bank reported that impaired loans were 3.1% of gross loans as of June 30, 2015, unchanged from year-end 2014. Within this total, small-and-midsize enterprises impaired loans were a high 18.4%, though the reported coverage ratio of these loans was a satisfactory 57% and there are no large loan exposures of note.

We assume that the stock of impaired loans will gradually reduce, noting that the flow of new problem loans has reduced considerably, but that the backlog of longer-term defaulted loans may linger.

Chart 1

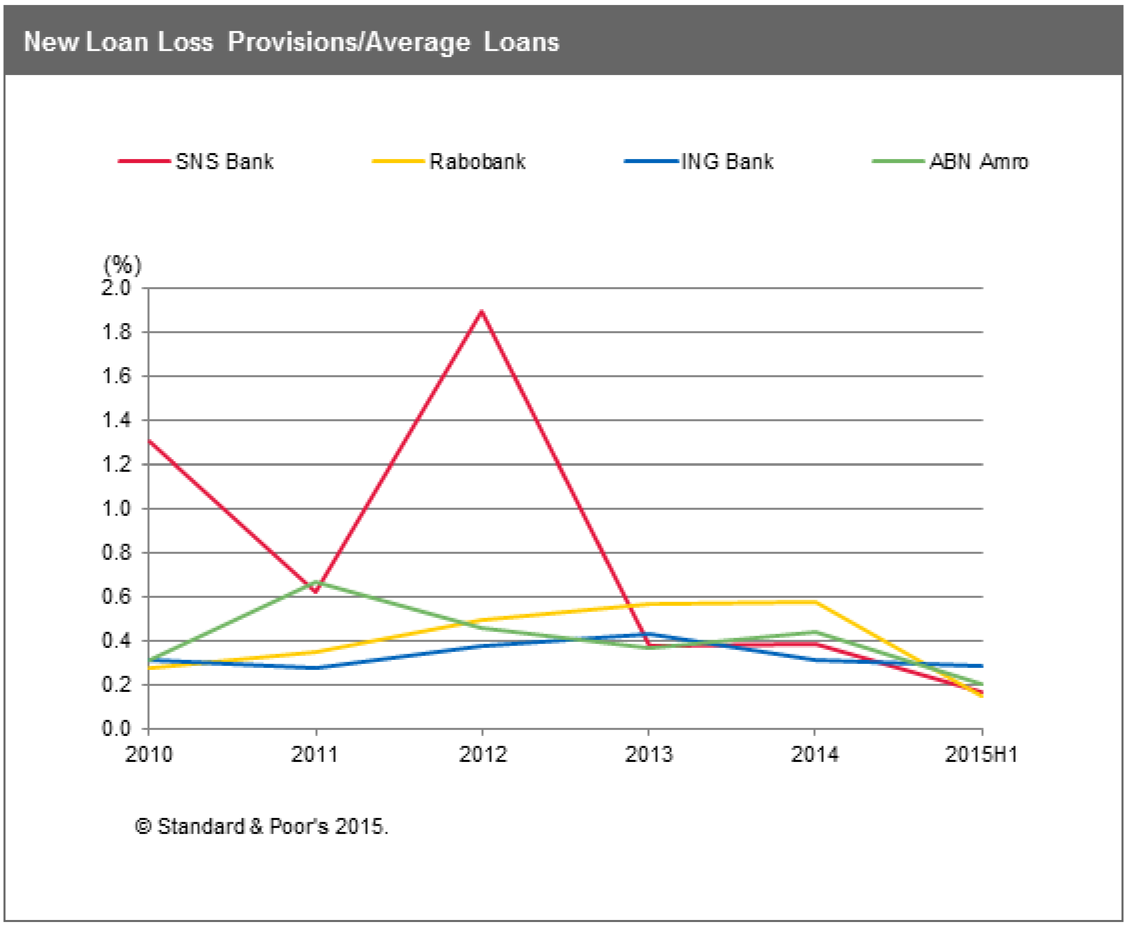

Chart 2

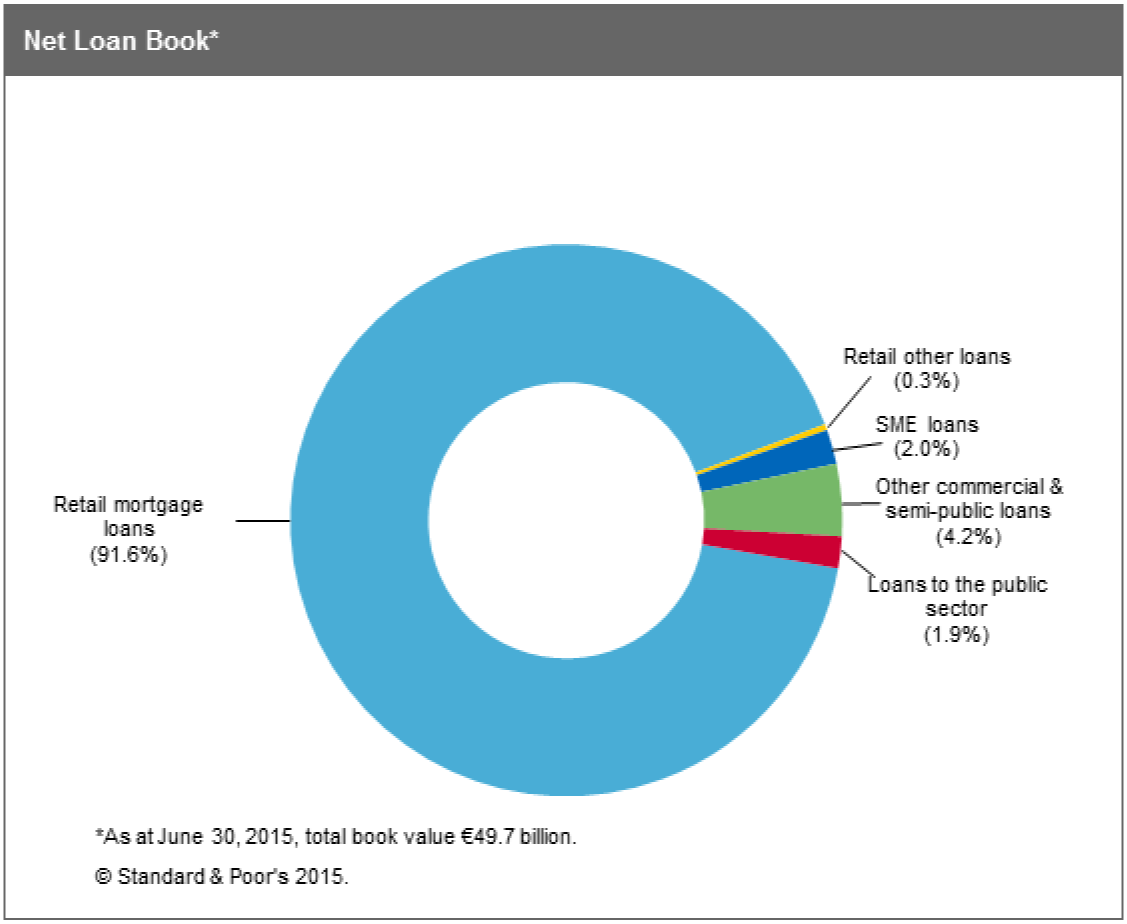

Table 5

SNS Bank N.V. Risk Position

	--Year-ended Dec. 31--				
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Growth in customer loans	(11.8)	(1.0)	(15.0)	(3.5)	(0.5)
Total diversification adjustment / S&P RWA before diversification	N.M.	12.1	8.5	8.3	14.4
Total managed assets/adjusted common equity (x)	21.7	35.2	44.5	86.8	59.0
New loan loss provisions/average customer loans	0.2	0.4	0.4	1.9	0.6
Net charge-offs/average customer loans	N.M.	0.1	0.1	0.2	(0.1)
Gross nonperforming assets/customer loans + other real estate owned	4.2	4.3	4.9	8.3	6.9
Loan loss reserves/gross nonperforming assets	23.3	22.1	17.0	29.8	19.1

*Data as of June 30. N.M.--Not meaningful.

Funding and liquidity: Funding profile expected to become more diversified over time

We view the bank's funding as "average" and its liquidity as "adequate." In November 2015, SNS Bank issued its first debt instrument since nationalization, a €500 million Tier 2 instrument due 2025. We see this issuance as one of the first steps toward the bank evolving a more typical capital and funding structure.

The bank's granular and stable retail deposit base underpins its funding profile. Reported customer deposits of €47.6 billion at June 30, 2015 have grown steadily from €44.0 billion at end-2013. At the same time, the loan book has declined; thus, the reported loan-deposit ratio has improved to 107% from 122%. Henceforth, we expect more stability in this metric. Our stable funding ratio, 105% at Dec. 31, 2014, also highlights the improved funding profile.

In our view, the bank's liquidity position remains comfortable reflecting the relative absence of short-term wholesale funding maturities or other needs. The bank states that its liquidity buffer was €14.1 billion at June 30, 2015, comprising €3.7 billion of cash and €10.4 billion of other liquid assets (of which sovereign bonds were €3.6 billion), up from €13.5 billion at year-end.

Table 6

SNS Bank N.V. Funding And Liquidity					
		--Year-ended Dec. 31--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Core deposits/funding base	81.8	77.5	64.7	57.3	55.2
Customer loans (net)/customer deposits	104.4	114.3	121.6	145.9	159.8
Long term funding ratio	96.7	95.8	75.0	88.6	89.1
Stable funding ratio	113.3	105.5	92.7	101.6	97.9
Short-term wholesale funding/funding base	3.5	4.4	25.9	11.6	11.2
Broad liquid assets/short-term wholesale funding (x)	5.3	3.7	0.9	1.6	1.2
Net broad liquid assets/short-term customer deposits	22.4	19.0	(3.9)	13.3	5.8
Short-term wholesale funding/total wholesale funding	19.1	19.6	73.4	27.2	24.7
Narrow liquid assets/3-month wholesale funding (x)	13.0	8.9	3.3	6.0	2.3

*Data as of June 30.

Support: ALAC has replaced government support in Dutch bank ratings

In our view, SNS Bank has "moderate" systemic importance in the Netherlands, mainly reflecting its meaningful market share in retail deposits. Since December 2015, we have regarded the prospect of extraordinary government support for Dutch banks as "uncertain" in view of the country's well-advanced and effective resolution regime. As a result, systemic banks are not eligible for notching uplift for possible future Dutch government support.

However, 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.

Our end-2014 ALAC calculation is not especially meaningful for SNS Bank because at that time it had no ALAC-eligible instruments in issue, which is unusual. As a result of the recent Tier 2 debt issue, we estimate that at year-end 2015 its ALAC could exceed 5%, in part because we expect the bank to have meaningful excess total adjusted capital above our 15% threshold for a "very strong" capital and earnings assessment. However, at this time, we are uncertain whether the bank will sustain this level, and it lacks a proven track record of debt issuance.

Additional rating factors:

No additional factors affect this rating.

Related Criteria And Research

Related Criteria

- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Related Research

- Netherlands-Based SNS Bank Outlook Revised To Positive; 'BBB/A-2' Ratings Affirmed On Government Support And ALAC Review, Dec. 3, 2015
- Most European Bank Ratings Affirmed Following Government Support And ALAC Review, Dec. 2, 2015

Ratings Detail (As Of December 3, 2015)	
SNS Bank N.V.	
Counterparty Credit Rating	BBB/Positive/A-2
Certificate Of Deposit	
Local Currency	A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB
Short-Term Debt	A-2
Subordinated	BB+
Counterparty Credit Ratings History	
02-Dec-2015	BBB/Positive/A-2
04-Nov-2014	BBB/Negative/A-2
21-Jun-2013	BBB/Negative/A-3
05-Feb-2013	BBB/Watch Dev/A-3
29-Jan-2013	BBB/Watch Neg/A-3
16-Nov-2012	BBB/Negative/A-3
20-Jul-2012	BBB+/Negative/A-2
01-Mar-2012	BBB+/Stable/A-2
Sovereign Rating	
Netherlands (State of The)	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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