MOODY'S
INVESTORS SERVICE

SPECIAL COMMENT

Key Drivers of Dutch Bank Ratings Actions

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Summary

Today, we downgraded five Dutch banking groups. The ratings for four groups (ING Bank N.V., Rabobank Nederland, ABN AMRO Bank N.V. and LeasePlan Corporation N.V.) declined by two notches, while the ratings for one institution (SNS Bank N.V.) were downgraded by one notch. This report provides detailed information on the key drivers for today's rating actions on Dutch banking groups (see today's press release "Moody's downgrades Dutch banking groups; most outlooks now stable"). These rating actions conclude the rating reviews initiated on 15 February 2012 as part of a wider review of European bank ratings.[1]

Today's actions reflect our view that Dutch banks will face difficult operating conditions throughout 2012 and possibly beyond. Furthermore, the Dutch banks affected by today's actions have structural features which, while not new, heighten risks for creditors amidst elevated uncertainty and downside risks to the economic outlook and fragile investor confidence in Europe. We are incorporating these vulnerabilities in our forward-looking credit analysis of European banks.[2] Specifically, the main drivers underlying today's rating actions on Dutch banks are as follows:

» **Adverse operating conditions, including the current recession and declining house prices in the Netherlands, will likely persist at least through 2012**. Moreover, the Netherlands, as a euro area member deeply integrated within the EU, is affected by the ongoing euro area debt crisis and regional economic weakness. Economic weakness also limits household incomes and business earnings, which will likely adversely affect credit costs and profitability for banks.

» **The Dutch banks affected by today's rating actions have characteristics that render them more vulnerable in the current environment**. These characteristics include structural reliance on wholesale funds and large mortgage books. Wholesale funding is susceptible to changes in investor confidence, while high real estate exposures leave banks sensitive to potential deterioration in loan performance given declining real estate collateral values. We recognise that Dutch banks have generally retained market funding access and asset quality remains sound to date. However, we note the heightened risks these vulnerabilities pose in the current uncertain environment and we are giving greater weight to these features when assessing the overall risk profile of these institutions.

1 For review announcements, see: Rating Action: Moody's Reviews Ratings for European Banks, 15 February 2012.

2 See European Banks – How Moody's Analytic Approach Reflects Evolving Challenges, 19 January 2012

- **In addition, our assumptions about the availability of government support for ABN AMRO (A2 stable, C-/baa2 stable)[3] have declined slightly**, reducing the support-driven uplift factored into the long-term debt and deposit ratings for the bank to three notches (previously it was four notches). Support-driven ratings uplift for ABN AMRO is now more in line with other systemically-important European banks. Support-driven ratings uplift for the other four Dutch groups downgraded today is unchanged.

More detail on bank-specific rating drivers is provided at the end of this report.

We recognise mitigating factors. The revised rating levels for Dutch banks take into account several mitigating factors, including (i) the banks' well-established domestic franchises, (ii) their improved regulatory capitalisation, and (iii) their relatively stable pre-provision earnings. In addition, several Dutch banks have typically remained successful in accessing capital markets on reasonable terms while maintaining or increasing average debt maturities and growing their domestic deposits. We also recognise that while the domestic environment has weakened, the extent of the deterioration has been less than it has been in more stressed euro area countries. The domestic operating environment is supported by the strong credit profile of the Dutch government, as reflected in our Aaa government bond rating, with a stable outlook.

Most rating outlooks are now stable. The stable rating outlooks for four of the five Dutch banking groups downgraded today express our view that currently foreseen risks to creditors are now reflected in these ratings. Nevertheless, negative rating momentum could develop if conditions deteriorate beyond current expectations. Specifically, we have factored into the ratings an increased risk of an exit of Greece from the euro area, but this is currently not our central scenario. If a Greek exit became Moody's central scenario, further rating actions on European banks could well be needed.

The negative rating outlooks for ING Bank and its related entities take into account the bank's specific funding structure which substantially relies on wholesale funds and which has a significant proportion of non-domestic deposits. Under a stressed scenario, some of these non-domestic deposits could, in Moody's view, become less fungible as national regulators focus on safeguarding local liquidity.

Support assumptions have changed little. For four of the five Dutch groups affected by today's downgrades, we have not changed our assumptions about the availability of government (or systemic) support in case of need. The exception is ABN AMRO, for which we have slightly lowered our support assumptions.

Average deposit ratings and standalone credit assessments for Dutch banks remain in the upper range among western European banking systems. The asset-weighted average deposit rating for Dutch banks is between A1 and A2 (closer to A1), and the asset-weighted average standalone credit assessment is between a3 and baa1 (closer to baa1). While both the asset-weighted average deposit rating and standalone credit assessment have declined significantly, they remain high compared with those of many European peers.

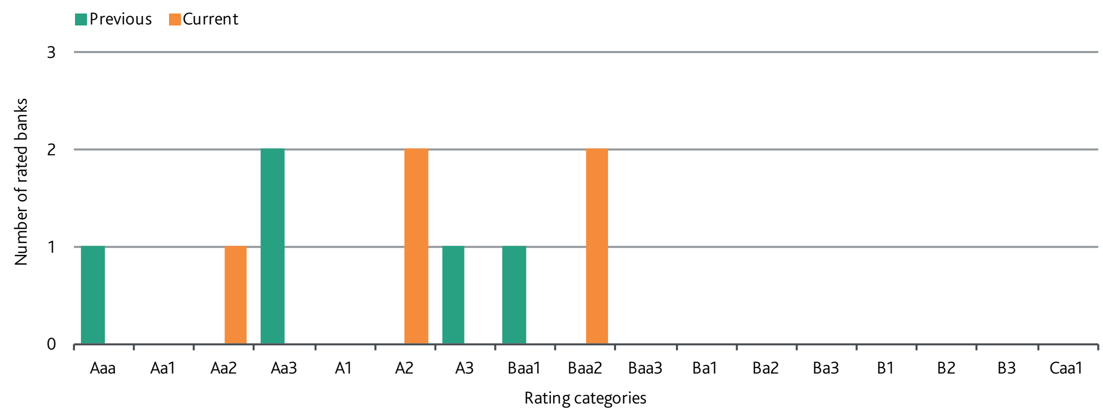
[3] The bank ratings shown in this report are the deposit rating, the standalone bank financial strength rating (BFSR) / baseline credit assessment (BCA), and the corresponding outlooks

Overview of Dutch bank ratings

Exhibit 1 below shows how the ratings for Dutch banks downgraded today have changed. Exhibit 2 (further below) shows information for each rated bank. The section entitled "Bank-specific factors" at the end of this report explains the key issuer-specific credit drivers.

EXHIBIT 1

Long-term deposit ratings for Dutch banks affected by today's rating actions (Number of rated banks per rating category)



Note: Excludes subsidiaries and holding company

Source: Moody's Investors Service

- Below is a brief summary of today's rating actions (for details, see Exhibit 2):
  - The debt and deposit ratings for ING Bank , the lead bank entity of ING Groep, were downgraded by two notches to A2. The Prime-1 short-term rating was unaffected.
    - The senior unsecured rating for ING Groep was downgraded by two notches to A3. (We do not rate short-term debt issued by ING Groep)
    - The debt and deposit ratings for ING Bank 's Belgian subsidiary, ING Belgium, and for its German subsidiary, ING DiBa, were downgraded by two notches to A2. Both entities' Prime-1 short-term ratings were unaffected.
  - The debt and deposit ratings for Rabobank Nederland were downgraded by two notches to Aa2. The Prime-1 short-term rating was unaffected.
  - The debt and deposit ratings for ABN AMRO were downgraded by two notches to A2. The Prime-1 short-term rating was unaffected.
  - The debt and deposit ratings for SNS Bank were downgraded by one notch to Baa2. The Prime-2 short-term rating was confirmed.
  - The debt and deposit ratings for LeasePlan were downgraded by two notches to Baa2. The Prime-2 short-term rating was confirmed.
- The A2 debt and deposit ratings for Royal Bank of Scotland N.V., a Dutch subsidiary of the UK's RBS Group remain on review for downgrade. We expect to conclude the rating reviews for the subsidiary at the same time as we conclude those of its UK parent, which is part of our wider review of firms with global capital markets operations.

» The ratings for NIBC Bank N.V.(Baa3/Prime-3 stable, D+/baa3) and the rated Dutch subsidiaries of Turkish banks are unaffected, given that their franchises and credit profiles are less susceptible to the adverse European operating environment and other drivers of today's rating actions.

EXHIBIT 2

Rated Dutch banking groups and Dutch subsidiaries of foreign groups (ranked by size)

Issuer	LT deposit rating	Outlook LT deposit rating	Standalone credit assessment	Outlook standalone credit assessment	Parent / coop / RLG support	Systemic support	Previous LT deposit rating	Previous Standalone credit assessment
Affected by today's rating actions								
ING Groep N.V.	A3	Neg	none	Neg	na*	na	A1	none
ING Bank N. V.	A2	Neg	baa1	Neg	0	2	Aa3	a2
ING Belgium SA/NV	A2	Neg	baa1	Neg	0	2	Aa3	a2
ING DIBa AG	A2	Neg	a3	Neg	0	1	Aa3	a2
Rabobank Nederland	Aa2	Sta	a1	Sta	0	2	Aaa	aa2
ABN AMRO Bank N.V.	A2	Sta	baa2	Sta	0	3	Aa3	baa1
SNS Bank N.V.	Baa2	Sta	ba1	Sta	0	2	Baa1	baa3
LeasePlan Corporation N.V.	Baa2	Sta	baa2	Sta	0	0	A3	a3
Not affected by today's rating actions								
Royal Bank of Scotland N.V.	A2	Review down	ba2	Sta	3	3	A2	ba2
NIBC Bank N.V.	Baa3	Sta	baa3	Sta	0	0	Baa3	baa3
Credit Europe Bank N.V.	Ba2	Pos	ba2	Pos	0	0	Ba2	ba2
Demir-Halk Bank (Nederland) N.V.	Ba2	Sta	ba2	Sta	0	0	Ba2	ba2
GarantiBank International N.V.	Baa1	Review down	baa2	Sta	1	0	Baa1	baa2

*ING Groep's ratings are notched off its lead bank subsidiary, ING Bank.

Notes: LT deposit rating = Long-term deposit rating which reflects a bank's standalone profile and support considerations; Standalone credit assessment = Baseline Credit Assessment (BCA) which reflects credit strength without support considerations; Parental/coop support = number of notches of uplift due to support from parent, cooperative group, regional and local government; Systemic support = number of notches of uplift due to support from the government. The table includes all rated Dutch banks, including those not affected by today's rating actions. Excludes government-related issuers

Source: Moody's Investors Service (ratings information)

Dutch banks ratings have declined, but still rank in upper range among European peers

» The average asset-weighted deposit rating for Dutch banks has declined by almost two notches, to a new level between A1 and A2 (closer to A1, see Exhibit 3, below). The average asset-weighted standalone credit assessment declined slightly less, to between a3 and baa1 (closer to baa1).[4]

» Both the average deposit rating and the average standalone credit assessment position Dutch banks in the upper range among European peers. The average standalone credit assessment reflects the aforementioned positive factors, namely (i) banks' well-established domestic franchises, (ii) improved regulatory capitalisation, and (iii) mostly stable pre-provision earnings.

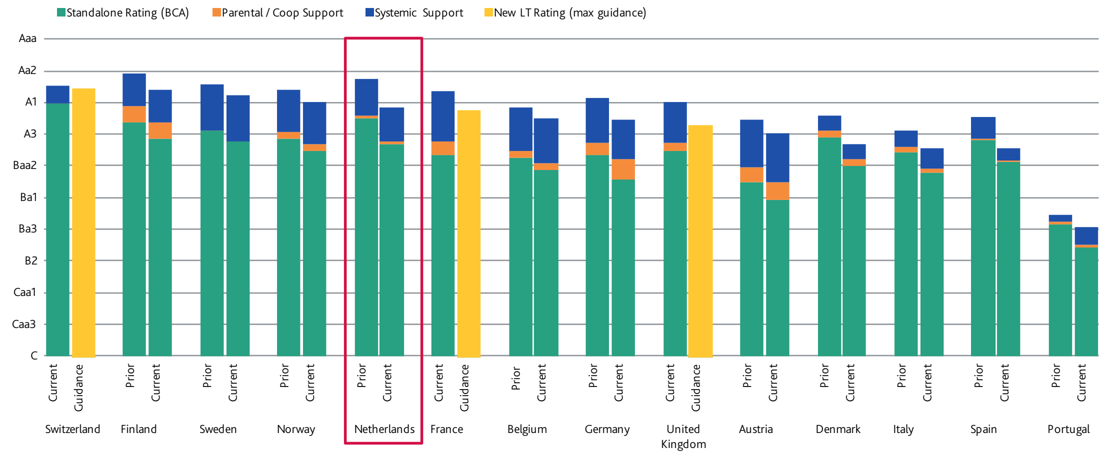
» The average deposit rating further reflects the capacity and demonstrated willingness of the Dutch government to support the largest banks in the system, if needed, despite the government's recent

[4] The significant decline of the system-wide average reflects the magnitude of today's downgrades and the fact that the five affected Dutch groups together comprise the bulk of rated banks' assets (88% at year-end 2011, source: Moody's Banking Financial Metrics).

actions to allow for more flexible and potentially limited support for bank creditors in a crisis (discussed below).[5]

EXHIBIT 3

Average long-term bank deposit ratings and prospective ratings among selected countries



Note: Averages are asset-weighted; 'New LT Rating (max guidance)' refers to ratings for which the review has not been concluded yet.
Source: Moody's Investors Service

System-wide considerations

Adverse operating conditions will likely persist

Domestic economic output is expected to decline during 2012

» The Dutch economy is currently in recession. Real gross domestic product (GDP) contracted in the last two quarters of 2011 and we anticipate a 0.6% contraction in real GDP in 2012 overall. Private and government consumption has continued to decline in line with recent trends.

» In addition, the Dutch economy is open and deeply integrated within the EU market. Given that the country's main trading partners also face a weak economic outlook in 2012, Dutch exports are therefore being undermined (see Exhibit 4 below).

Euro area debt crisis increases downside risks

» Dutch banks also face the increased likelihood of additional, unforeseen risks emanating from the ongoing euro area debt crisis. A further acceleration of the crisis would likely adversely affect the European economy (and therefore also the Dutch economic outlook), and financial market conditions. These factors would in turn affect the credit profiles of Dutch banks.

[5] See "Proposed Dutch Resolution Regime is Credit Negative for Banks", dated 21 March, 2011.

EXHIBIT 4

Macroeconomic data for selected countries (in %)

Country	Real GDP (% change) 2012 F	Gen Gov't Financial Liabilities (% of GDP)	Households Financial Liabilities (% of GDP)	Financial Corporations Financial Liabilities (% of GDP)
Austria	0.8	86	57	111
Belgium	0.5	109	53	71
Denmark	1.2	54	142	248
Finland	0.8	53	63	104
France	0.2	89	55	127
Germany	0.7	87	62	95
Italy	-1.6	110	45	98
Netherlands	**-0.6**	**72**	**127**	**395**
Norway	1.5	58	107	85
Portugal	-3.7	89	94	120
Spain	-1.5	68	86	109
Sweden	0.7	43	82	129

Notes: Real GDP growth = expected increase in gross domestic product, inflation-adjusted. Liabilities include: securities other than shares plus loans; Liquid assets include: currency and deposits, short-term securities other than shares, and shares and other equity. Liabilities data as of year-end 2010 (latest date for which comparable data is available).

Source: Moody's Investors Service (GDP outlook), Eurostat (financial liabilities / GDP)

The likely deleveraging among banks, consumers and the government, will weigh on the economy

» As Exhibit 4 above shows, the Dutch government's financial liabilities compare favourably with European (and global) peers, amounting to 72%[6] of GDP at year-end 2010. However, the financial liabilities of households are among the highest for advanced countries, at 127%[7] of GDP at year-end 2010. The financial sector of the Netherlands is large relative to the domestic economy, with liabilities of financial corporations amounting to almost four times GDP,[8] one of the highest ratios in Europe (Exhibit 4 above). This implies an elevated risk of negative feedback effects between economic stress, the health of banks and their ability and willingness to lend.

» Overall, we expect that Dutch households, banks and the government will strive to manage their liabilities. These efforts will cause a reduction in demand at a time when the economy is already in recession. We believe this prospect will weigh on the economy for years to come.

High debt levels of Dutch households exceed their liquid assets

» The Netherlands is one of a few European countries in which households' financial liabilities exceed their liquid assets (see Exhibit 5 below). Although we recognise that Dutch households' total assets outweigh their high debt burden, much of this wealth is in non-liquid forms, such as pension savings and life insurance policies, some of which may not be available to pay off debt upon maturity.

» Dutch households receive large tax subsidies for housing, which has promoted investment in property and contributed to the accumulation of large amounts of mortgage debt in interest-only

[6] Source: Eurostat (latest date for which comparable data available)

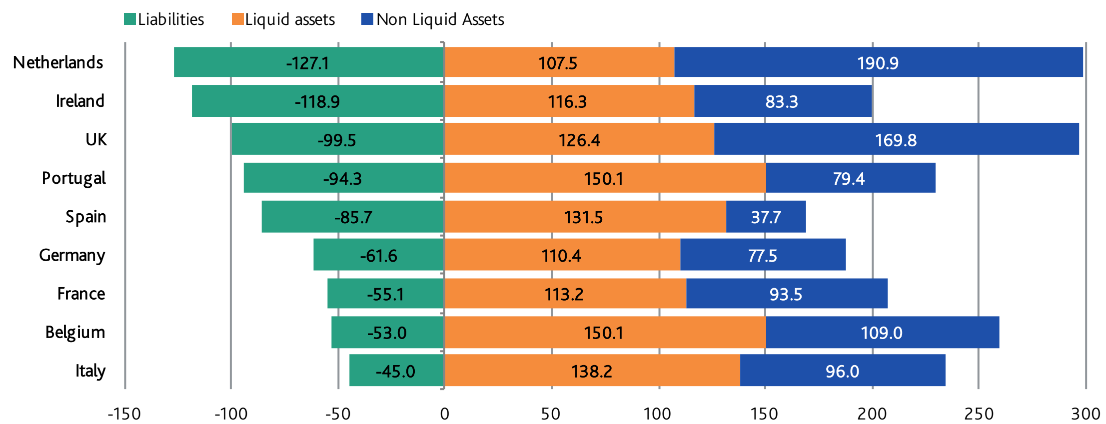
[7] Source: Eurostat (latest date for which comparable data available)

[8] Source: Eurostat

mortgages (bullet loans). Overall, Dutch households' debt-to-income ratio stood at almost 250%[9] at year-end 2010. Low unemployment (4.4%[10] at year-end 2011) underpins debt-service capacity. However, we expect that unemployment will increase moderately to 5.3%[11] by year-end 2012. Rising unemployment or restrictions in refinancing options (possibly triggered by declining real estate collateral values) pose risks to household loan performance.

EXHIBIT 5

Households' financial liabilities and assets among selected countries (in % of GDP)



Note: Liabilities include: securities other than shares plus loans; Liquid assets include: currency and deposits, short-term securities other than shares, and shares and other equity

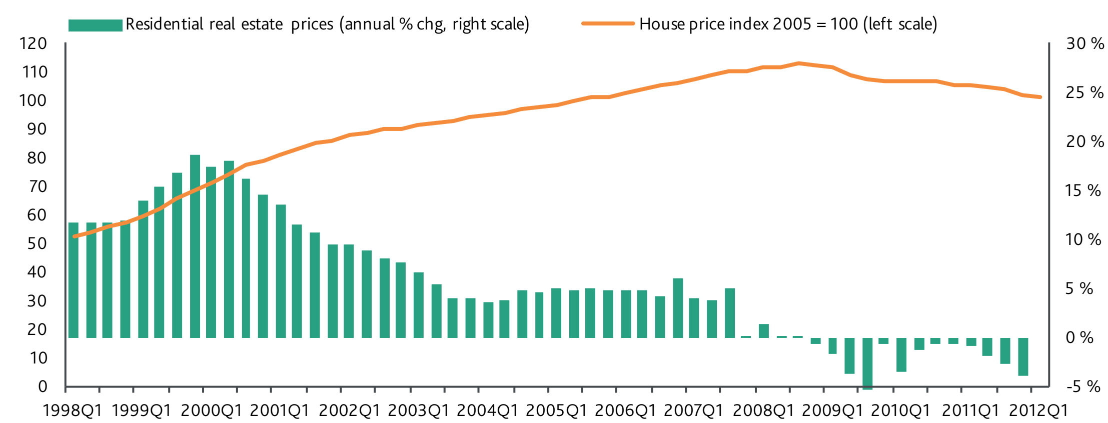
Source: Eurostat

Real estate prices are declining

» In addition to the weak overall operating environment, Dutch house prices have been declining since 2009, and we do not expect this trend to reverse in the near term (see Exhibit 6, below). With residential mortgages comprising a large portion of bank balance sheets, the weak real estate market is a key risk for banks and has contributed to today's downgrades.

EXHIBIT 6

Dutch house prices have declined Since 2009 (%)



Source: Dutch National Bank (DNB) and Central statistical office of the Netherlands (CSB)

[9] Source: Eurostat (latest date for which comparable data available)

[10] Source: Eurostat

[11] Source: Moody's Sovereign Statistical Handbook, May 2012

- The decline in house prices reflects the weak economic prospects in the Netherlands. In addition, a number of other factors are negatively affecting the behaviour of both consumers and lenders. Firstly, since the general elections in June 2010, the tax benefits for homeowners' mortgages have been gradually eroded. Secondly, the code of conduct for mortgage financing, which was created in 2007 and amended in 2010, as applied by the Dutch banks, limits mortgage lending conditions. In particular, it caps the maximum loan-to-value (LTV) ratios at 106% and requires that 50% of the principal be amortised before a mortgage's expiration. Going forward, the maximum applicable LTV will likely reduce further to 100%, as proposed in the new austerity package the Dutch authorities submitted to the European Commission at the end of April 2012. While these measures may be positive for the sustainability of the mortgage market in the long term,[12] they will likely weigh on housing prices in the short term.
- The banks' vulnerability to a possible increase in household loan delinquencies is elevated by the high intial loan-to-value (LTV) ratios of Dutch mortgages (mortgages can be issued with LTVs above 100%, while the average LTVs of Dutch banks' mortgage books typically exceeds 70%).
- The number of foreclosures in the Netherlands, while still low, has steadily increased since 2008,[13] reflecting growing stress levels for some borrowers.

In the corporate lending sector, real estate companies, SMEs and export companies are most at risk

- We perceive a risk that problem loans at Dutch banks may increase further given the low economic growth. Loans to export companies are of particular concern, as they face the fallout from weaker growth among the Netherlands' trading partners.
- The total number of bankruptcies (both natural and legal persons) in the Netherlands has increased during the 2008-09 recession and again since mid-2011, to reach the highest levels recorded in at least 20 years (Exhibit 7, below). If the recession persists throughout 2012 and possibly beyond, we expect greater stresses among borrowers to lead to rising loan delinquencies for banks.
- However, we recognise that the moderate increase in problem loan levels at Dutch banks since 2007 have stemmed mostly from non-domestic lending, for example to Irish borrowers in the cases of both Rabobank and SNS Bank. Given the negative economic outlook, we expect to see an increase in non-performing loans to domestic borrowers, in particular small- and mid-sized enterprises (SMEs) and real estate companies (which have also been suffering from declining commercial real estate values in recent years[14]). Several rated banks have sizeable exposures to these borrower categories.

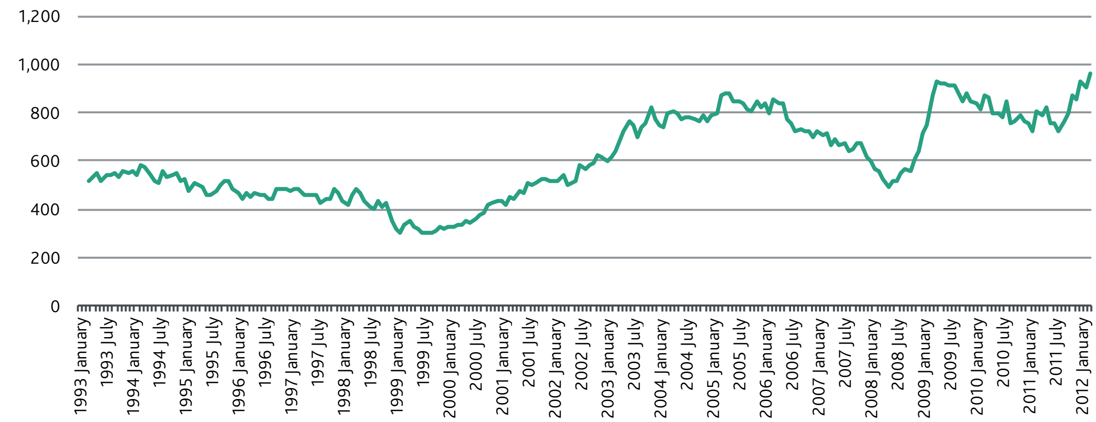
[12] Netherlands' Proposed Austerity Measures Are Positive for Dutch RMBS, May 2012

[13] Source: Dutch Land Registry

[14] Source: IMF/DNB

EXHIBIT 7

Bankruptcies are at highest level since 1993- and rising (three-month average)



Source: CSB

Despite downside risks, operating conditions are better than in highly stressed euro area countries

» Notwithstanding the aforementioned risks, we recognise that the operating environment for Dutch banks is much less adverse than the environment for banks in highly stressed euro area countries. This differential is reflected in lower ratings for most southern European banks, for example. The competitive and diversified economy of the Netherlands is a key strength, as is the strong credit profile of the sovereign.

Structural features leave banks vulnerable to elevated uncertainty and downside risks

» As stated, the Dutch banks affected by today's actions have structural features that, while not new, exacerbate risks for bank creditors in the current environment of heightened uncertainty and downside risks. Two key features discussed in this section are the banks' large mortgage books and their structural reliance on wholesale funding. Consistent with our previously announced approach,[15] today's rating actions on Dutch banks partly reflect our focus on the forward-looking elements of our bank credit analysis.

Residential mortgages are the dominant loan type for many Dutch banks

» At four of the five Dutch groups downgraded today, residential mortgages are by far the most prevalent loan category. (LeasePlan, which is a pure car leasing company, is the exception). Residential mortgages account for 37% of the four groups' total combined assets (adjusted for derivatives) at year-end 2011 (see Exhibit 8, below). [16] In addition, these banks also engage in CRE lending to various degrees. The large mortgage books of Dutch banks have historically contributed to low and relatively stable loan losses; however, amidst the current recession and declining housing values, this large sector exposure may lead to elevated losses if the so-far modest deterioration of housing loans accelerates.

» The historically strong and stable performance of residential mortgages is a key driver of the low weight of regulatory risk in Dutch banks' overall loan books, and correspondingly low capital charges. Tangible equity amounted to 4.2%[17] of total assets (adjusted for derivatives) for the four rated banks with large residential mortgage exposures at year-end 2011. The low equity cushion,

[15] For more detail, see "European Banks – How Moody's Analytic Approach Reflects Evolving Challenges", 19 January 2012

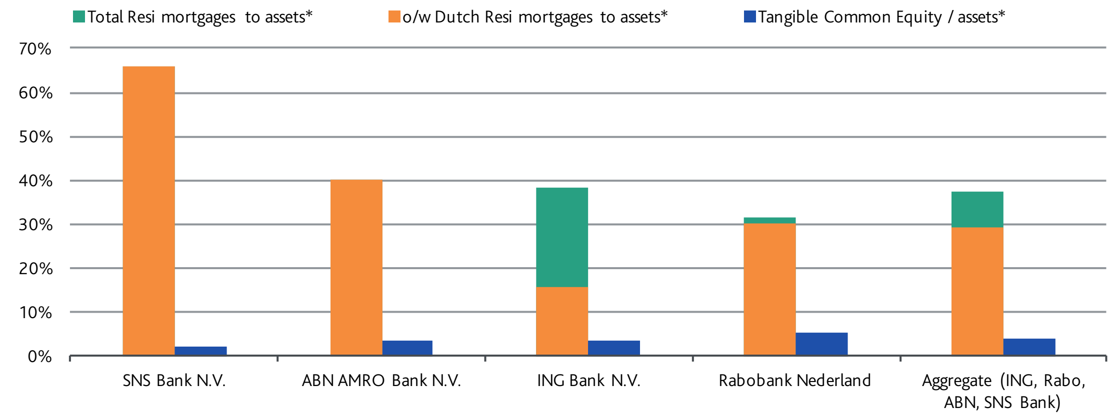
[16] Source: Companies' financial statements (ING Bank, Rabobank, ABN AMRO, SNS Bank). Excludes LeasePlan, which is a pure car leasing company

[17] Source: Moody's Banking Financial Metrics and companies' financial statements (ING Bank, Rabobank, ABN AMRO, SNS Bank)

combined with low loan loss reserves (at approximately 1% of total loans at year-end 2011 for rated Dutch banks[18]), means that loan losses that exceed pre-provision earnings could lead to a rapid erosion of capital.

EXHIBIT 8

Residential mortgages and tangible common equity (in % of assets*) among selected banks



* Assets = total assets, net of derivatives. Mortgages = residential mortgages, Dutch banks downgraded today = SNS Bank, ABN AMRO Bank, Rabobank Nederland, ING Bank, excluding LeasePlan Corporation N.V. which has no residential mortgages. Data as of year-end 2011

Source: Companies' annual reports

Structural features of Dutch financial system limit concerns about residential mortgages

» We recognise several mitigants for the risks related to Dutch residential mortgages. The risks generated by high household leverage are partly mitigated by the Netherlands' generous unemployment benefits. Moreover, high household debt ratios partly reflect structural features, such as the tax deductibility of interest payments, but also the accounting treatment of household debt, which does not consider household's substantial savings. While many Dutch investors accumulate wealth in separate investments or insurance accounts, it is however difficult to assess whether these accumulated funds will be sufficient to repay mortgage debts.

Although Dutch loan delinquencies have increased, they remain low compared to European peers

» Our concerns about the banks' asset quality are also partly mitigated by the continued low levels of problem loans. Low delinquencies in the Netherlands reflect the high proportion and strong performance of Dutch mortgages to date and the limited exposure of Dutch banks to the most stressed euro area countries. At year-end 2011, problem loans (defined as impaired loans) for rated Dutch banks amounted to 2.5%[19] of total loans, well below the level reported by many European peers (Exhibit 9 below).

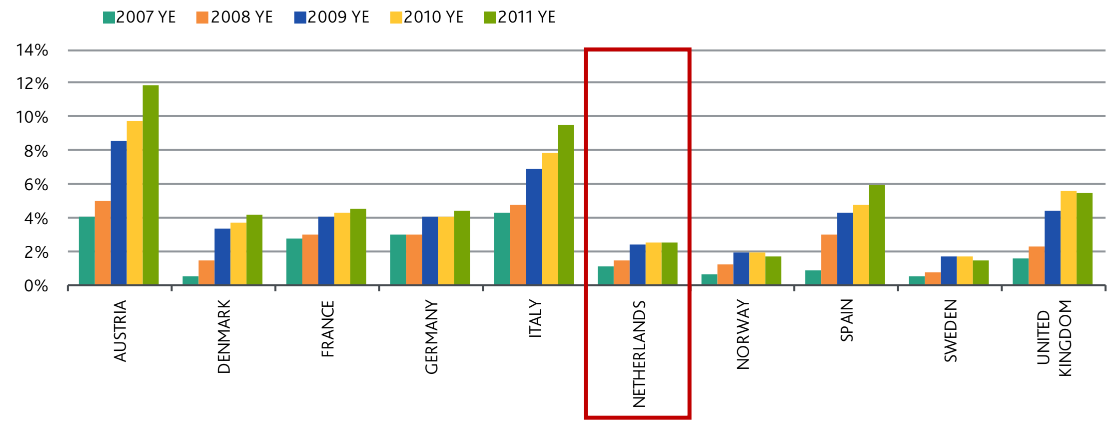
» While still low, the proportion of problem loans at rated Dutch banks has increased between year-end 2007 and 2009. Although this proportion has remained relatively stable in 2010 and 2011, we expect renewed increases in the coming quarters, given the adverse operating environment.

[18] Source: Moody's Banking Financial Metrics

[19] Source: Moody's Banking Financial Metrics

EXHIBIT 9

Problem loans vs. gross loans among Moody's-rated banks, aggregates per system (%)



Note: Aggregates are based on rated banks' results available as of early May 2012.
Source: Moody's Banking Financial Metrics (publicly-adjusted results)

Banks rely on wholesale funds, which are susceptible to market shocks

» Another vulnerability and key driver of today's downgrades for Dutch financial institutions is their structural reliance on wholesale funds.[20] Banks' funding profiles are susceptible to possible shocks to investor confidence. We generally regard a bank's reliance on wholesale funding as a weakness, compared with a bank that is largely funded with retail deposits, given the inherent confidence-sensitivity of market funds and the potential for sudden changes in investor sentiment.

» While we recognise the relatively stable recent market access of Dutch banks, the 2008-09 global financial crisis demonstrated how quickly this can change. In October 2008, the Dutch government introduced a medium-term debt guarantee scheme[21] of €200billion in order to protect the financial sector, thereby providing substantial liquidity support to six Dutch banks.[22]

Dutch banks use wholesale funds to finance a portion of their loan books

» Indicating a gap in retail funding, the loan-to-deposit ratio of ING, Rabobank, ABN AMRO and SNS Bank ranged between 122% and 162% at year-end 2011,[23] above the levels of many international peers. (See Exhibit 10 below for average loan-to-deposit ratios for rated banks in selected countries.)

» In addition, several banks collect international deposits. Excluding the deposits collected outside the Netherlands,[24] the adjusted domestic loan-to-deposit ratio for rated banks would be even higher. International deposits collected by subsidiaries of Dutch banks are becoming less fungible, because national regulators increasingly focus on safeguarding local liquidity.

[20] See article by the DNB "Bank Mortgage lending makes banks dependent on market funding", June 2012

[21] Credit Guarantee Scheme

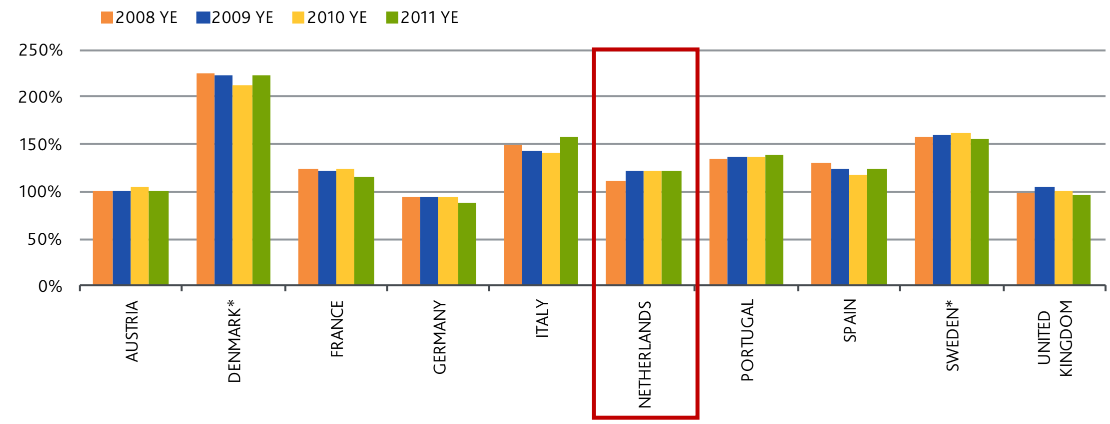
[22] Source: Dutch State Treasury Agency

[23] Source: Moody's computation based on companies reports

[24] In particular, ING Bank sources large deposits internationally through its branches and subsidiaries.

EXHIBIT 10

Gross loans vs. total deposits among Moody's-rated banks, aggregates per system (%)



Note: *Averages for Denmark and Sweden are affected by the significant (wholesale) covered bonds funding of their banks, which we regard as less volatile than other forms of wholesale funding. Aggregates are based on rated banks' results available as of early May 2012.
Source: Moody's Banking Financial Metrics (publicly-adjusted results)

Dutch banks compete with pension schemes and insurers for customer funds

» Dutch banks face a structural funding gap partly stemming from the structure of Dutch household savings, which is partly invested in collective pension savings, outside the banking system. While some of these funds are invested in banks' wholesale liabilities, we consider such wholesale funds as generally less reliable than (retail) deposits that benefit from deposit insurance.

» In order to reduce their reliance on the wholesale debt market, Dutch banks are striving to increase their deposit funding. This results in more competition, weighing on savings deposit margins in the Netherlands.

Several strengths underpin Dutch banks' continued high ratings vs. peers

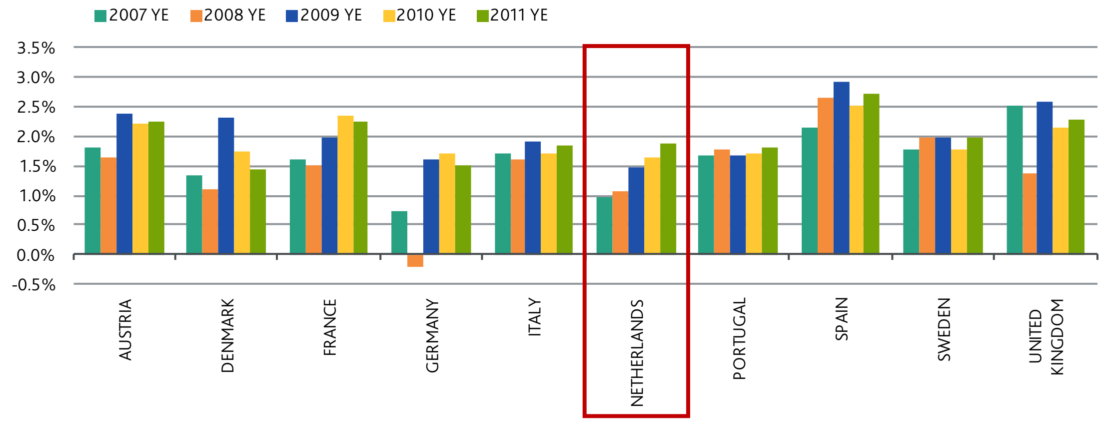
Dutch banks' franchises generate solid pre-provision earnings

» Dutch banks exhibit solid underlying earnings, which have improved in recent years (see Exhibit 11, below). These pre-provision earnings reflect their well-established franchises in the relatively concentrated Dutch market. Good underlying profits provide a buffer that allows banks to absorb moderate increases in losses without eroding capital. As such, they limit our concerns about the difficult environment for banks and their vulnerabilities.

» In addition, rated Dutch banks have shown solid net profits in 2010 and 2011 after very weak results in 2008 and 2009. Low loan provisioning costs have been a key contributor to the recently improved net earnings; however, rising credit costs could weigh on future results.

EXHIBIT 11

Earnings before provisions and taxes vs. risk-weighted assets among Moody's-rated banks, averages per system (in %)



Note: Aggregates are based on rated banks' results available as of early May 2012.
Source: Moody's Banking Financial Metrics (publicly-adjusted results)

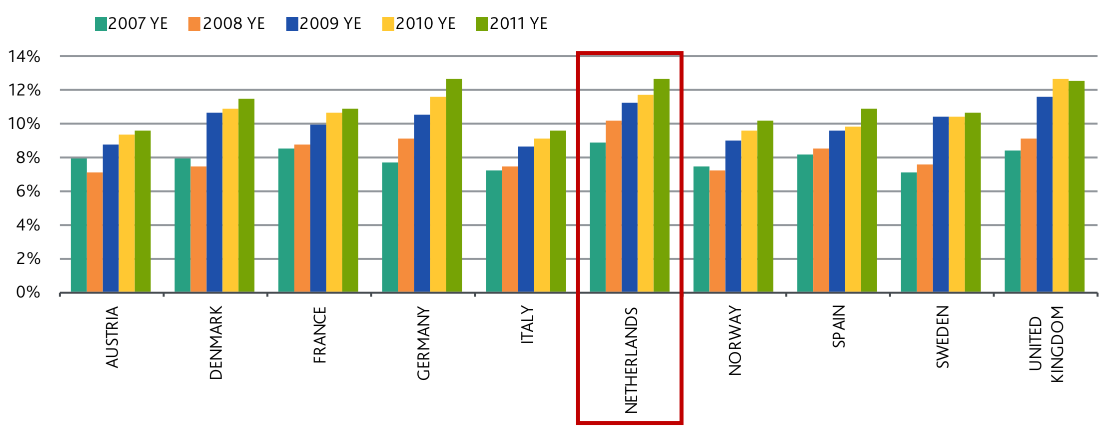
Regulatory capitalisation has improved

» Like most European banks, Dutch banks have increased their regulatory capital ratios in recent years, with rated Dutch banks raising their capital resources to reach an average Tier 1 ratio of 12.6% (floored RWAs)[25] at year-end 2011, which is above that of many European peers.

» However, we note that given the low regulatory risk weights, banks face only small capital charges against their large residential mortgage books. As discussed above, should the historically strong performance of these loans deteriorate significantly, banks have only limited equity cushions and reserves to absorb losses that exceed their earnings.

EXHIBIT 12

Tier 1 capital ratio among Moody's-rated banks, aggregates per system (%)



Note: Aggregates are based on rated banks' results available as of early May 2012. Risk Weighted Asset (RWA) related to Dutch Banks are based on Basel II and hence take into account a 80% floor except for Rabobank and ABN AMRO which report unfloored RWAs
Source: Moody's Banking Financial Metrics (publicly-adjusted results)

25 Source: Moody's Banking Financial Metrics. Risk-weighted assets (RWA) reported by Dutch banks are based on Basel II and hence take into account the 80% floor, except for Rabobank and ABN AMRO which report unfloored RWA.

Support assumptions declined slightly for one bank, but remain unchanged for all others

» As stated above, with the exception of ABN AMRO, there has been no change in the notches of uplift we incorporate into the senior debt ratings for many Dutch banks to reflect our view that they would likely have access to government support, if needed. In the case of ABN AMRO, we have modestly lowered the government support-driven ratings uplift to three notches above the standalone credit assessment (previously it was four notches). The decrease in government support assumptions reflects an appropriate positioning versus peers considering the clear intent of the Dutch government to divest its controlling stake in the bank.

» Our government support assumptions for Dutch banks take into account the steps taken by the Dutch government to develop tools to limit future support for bank creditors in a crisis scenario. The Dutch Ministry of Finance issued a draft resolution law for financial institutions in mid-March 2011, in anticipation of the European Commission's recently-announced proposal.[26] The Dutch draft law, once implemented, will give the central bank more options to deal with ailing institutions outside of bankruptcy without extending support to creditors. It therefore increases the probability that creditors of ailing banks will incur losses. The Dutch government has also drafted a bill on funding ex ante the national deposit guarantee scheme.

» Nonetheless, we continue to believe that the rated large domestic Dutch banks that are affected by today's rating action would have access to substantial further government support in case of need. This view reflects the risk of severe economic repercussions from a disorderly unwinding of large banks, the large size and importance of several Dutch banks, as well as the track record of government support.

Bank-specific factors

At Aa2, **Rabobank** remains one of the most highly rated banks in Europe. The two-notch downgrade of its ratings reflects our view that, despite the many strengths and mitigants highlighted below, a long-term rating higher than Aa2 is not commensurate with an institution using wholesale funding and operating in the current adverse European economic environment. We anticipate that Rabobank will experience pressures on profitability and asset quality arising from the unfavourable operating environment both in the Netherlands and the euro area. Pressure on deposit margins in the Netherlands and an environment of elevated wholesale funding cost could affect Rabobank's earnings in our view. Credit losses are likely to increase as a result of the worsening of the macro-economic environment in the Netherlands thereby adding to profitability pressures. At the same time, we consider Rabobank's track record of satisfactory risk management and resilient earnings generation during the crisis to date, the latter being a reflection of its exceptional franchise in its domestic market. Further, the lengthening of the duration of its liabilities has reduced the bank's exposure to confidence sensitivity and its high level of capital provides it with comfortable loss-absorption capacity

The two-notch downgrade of **ING Bank**'s standalone credit assessment primarily reflects our reassessment of its funding structure, as well as potential pressures on asset quality and profitability resulting from the weakening macroeconomic environment. Although ING is a major deposit-taker through its ING Direct business, it nonetheless has a significant reliance on wholesale funding which is not wholly available to finance the gap that results from the high loan-to-deposit ratio in the domestic banking business of its parent, ING Bank. We consider this reliance to be mitigated in part by its low

[26] See European Commission's Proposals Are Credit Negative for Bank Bondholders, 11 June 2012

asset encumbrance, as well as the bank's on-going efforts to lengthen the duration of its debt and redeploy the excess funding from its subsidiaries through an active group-wide balance sheet management strategy. These efforts, however, may yet face some time and regulatory hurdles. Moody's also notes that a large share of the bank's overall deposits is internet-based and may prove less sticky. Among the general factors mitigating the downgrade, we recognise that ING Bank's franchise remains strong and generates sustainable earnings and sufficient capital generation to maintain its 10% minimum core Tier-1 target ratio after the repayment of the residual state aid within a reasonable timeframe. The two-notch downgrade of ING bank's debt and deposit ratings to A2 reflects the lowering of the bank's standalone credit strength. Moody's continues to incorporate two notches of uplift into the debt and deposit ratings to reflect potential systemic support. The negative outlook on both ING Bank's BFSR and senior debt and deposit ratings reflects Moody's view that further deterioration in the funding environment for European banks' may weigh on its liquidity due to its aforementioned specific funding structure.

» The two-notch downgrade of **ING Groep**'s long-term senior debt was prompted by the downgrade of ING Bank's long-term senior ratings. The negative outlooks are aligned. ING Groep is the main holding company of the group and parent company of ING Verzekeringen N.V. (Baa2 debt rating) and ING Bank. Going forward, and following management's announcement that it intends to divest the entire insurance operation by the end of 2013, ING Groep will become a pure bank with its ownership limited to ING's banking activities. Therefore, ING Groep's senior and subordinated ratings reflect Moody's standard notching for bank holding companies relative to ING Bank's ratings.

» The lowering of **ING Belgium**'s standalone credit assessment to baa1 reflects the strong interdependence of the bank with its parent company due to certain unsecured intra-group exposures. We understand these exposures will be subject to new regulatory limitations capping them at the level of the subsidiary's equity by the end of 2012. Given this concentration risk, we believe there is a convergence between the profile of ING Belgium and that of the group and the subsidiary's standalone credit strength remains aligned with the one of ING Bank. Supporting factors for ING Belgium's standalone credit strength include its solid financial profile as one of the leading commercial banks in Belgium with deeply entrenched franchises. ING Belgium's A2 long-term senior ratings continue to incorporate two notches of systemic uplift from its baa1 standalone credit assessment, reflecting the bank's strong market position in Belgium. The negative outlook on its ratings reflects the negative outlook on all of ING Bank's ratings in the context of the above-mentioned interdependence.

» The one-notch lowering of **ING DiBa**'s standalone credit assessment to a3 mostly reflects the current degree of its strategic and operational interdependence with its parent, ING Bank. Whilst Moody's recognises a satisfactory level of ring fencing from risks elsewhere in the ING Groep, the correlation in the areas of reputation and investor confidence gave reason to position the standalone rating at a level no higher than two notches above that of ING DiBa's parent, as did also the bank's asset profile adjustments in response to the group's funding needs outside Germany. Supporting factors for the a3 standalone credit assessment, which remains at the high end of the German banks' standalone rating universe, include ING DiBa's robust credit and funding profiles in combination with its high loss-absorption capacity from earnings and capital, as reflected in Moody's capital stress tests. The two-notch downgrade of its long-term debt ratings to A2 follows the lowering of its standalone credit strength. The downgrade additionally reflects the weakened support capacity of its parent, ING Bank, at its lower standalone credit assessment of baa1, even though Moody's has not changed its assumptions of ING Bank having a high readiness to support its group members. Also, a high probability of systemic support continues to be factored into the A2 ratings. The outlook on ING DiBa's ratings is negative, reflecting the negative outlook on all of ING Bank's ratings in the context of the above-mentioned interdependence.

As a primarily domestically focused commercial bank, the one-notch lowering of **ABN AMRO**'s standalone credit assessment reflects our expectation that the deteriorating operating environment in the Netherlands will pose challenges to the bank's profitability and asset quality in the coming quarters. Given the moderate reliance on wholesale funding, the bank is likely to be faced with higher funding cost, affecting earnings. However, the bank has made substantial progress towards reaching the full operational integration of the two former banks, ABN AMRO and Fortis Bank Nederland N.V. (which were merged in July 2010) and has implemented further cost control initiatives that should counter some of these pressures. We also consider the bank's strong capital base relative to its peers and its sound liquidity to be counterbalancing factors. The two-notch downgrade of ABN AMRO's long-term ratings follows the lower standalone credit assessment and also reflects Moody's re-assessment of the willingness of the Dutch government to provide systemic support to the group, in case of need. The uplift for systemic support included in the long-term debt and deposit ratings of ABN AMRO was lowered to three from four notches and brought into line with the same support probabilities applicable to other large and systemically important Dutch and European banks.

The one-notch lowering of **SNS Bank**'s standalone credit assessment to ba1 reflects our concerns that the bank's large Dutch and international property finance portfolio - which is currently in wind-down mode - makes it vulnerable to pressures in our capital stress test simulations in a highly adverse scenario. Despite a significant reduction in SNS Bank's exposures to real estate development projects in recent years, the more challenging macroeconomic environment in the euro area lead us to expect further impairments in the bank's portfolio until its wind-down has been completed. SNS Bank is also exposed to a deterioration of the Dutch housing market through its large mortgage book. We also took into account a number of counterbalancing factors, including the opportunity available to SNS Bank to transfer part of the potential losses on mortgages to investors under the sold first loss pieces on its own Dutch RMBS transactions. Further, we consider the bank's liquidity profile to have strengthened due to a significant increase in its deposit funding, an ample liquidity buffer as well as decreasing funding requirements on its property finance portfolio. The downgrade of SNS Bank's long-term rating to Baa2 reflects the lowering of the bank's standalone credit strength and Moody's unchanged assessment of high systemic support. The Prime-2 short-term rating was confirmed.

The two-notch lowering of **LeasePlan**'s standalone credit assessment reflects the bank's high reliance on wholesale funding despite its growing internet deposit base. We consider internet sourced deposits to be relatively price and confidence sensitive as compared to more traditional network sourced deposits. Residual value risk – inherent to the car leasing business - is another key risk driver for LeasePlan's ratings. In a weakening environment LeasePlan's will be exposed to sluggish second-hand car markets and deteriorating corporate credit quality, which we have taken into account in our capital stress tests. At the same time, we considered LeasePlan's proven ability to pass on higher funding costs to its corporate customers without a visible impact on its commercial franchise, thereby buffering its profitability and in turn therefore loss-absorption capacity. Furthermore, the strong diversification of its lease portfolio, both by geographies and by customers, should support LeasePlan's asset quality. The downgrade of LeasePlan's long-term debt and deposit ratings by two notches to Baa2 follows the lowering of its standalone credit strength. We maintain the view that LeasePlan is unlikely to benefit from systemic nor parental support from its majority owner Volkswagen Financial Services AG (A3 positive).

Appendix: Moody's scenario analysis for Dutch banks

Consistent with our global banking methodology, our scenario analysis provides a forward-looking opinion on the robustness of bank capital, which is an important driver of a bank's standalone credit strength and, ultimately, of its debt and deposit ratings.

In our forward-looking assessment of banks' capital positions, we start by estimating lifetime losses embedded in each bank's balance sheet under two scenarios. We then assess the potential impact on a bank's capital, if estimated losses were recognised "upfront" (over one year). We deduct from our loss estimates: built-up reserves, losses already charged off, one-year stressed earnings estimates and tax effects.

In November 2009, we published the credit loss estimates that were used in our scenario analysis for Dutch banks.[27] The base case scenario is the main driver of ratings, while the stressed scenario assesses bank's ability to cope with less likely but still possible additional stress. The table below shows the underlying assumptions for Dutch banks domestic books. For exposures in other countries, we have used assumptions similar to those applied when rating a respective country's banks.

Moody's Summary Scenario Analysis Assumptions for Dutch Banks

	Base Case			Stressed Case		
	Probability of Default	Loss Given Default	Expected Loss	Probability of Default	Loss Given Default	Expected Loss
Residential mortgage loans to individuals (Assumptions for 75-90% loan-to-value shown below)						
Prime-Amortising	n.a.	n.a.	0.7%	n.a.	n.a.	1.5%
Prime-Bullet	n.a.	n.a.	0.8%	n.a.	n.a.	1.7%
NHG-Guaranteed	n.a.	n.a.	0.1%	n.a.	n.a.	0.3%
Self-Certified	n.a.	n.a.	1.1%	n.a.	n.a.	2.3%
Other Loans Granted to Individuals						
Consumer financing	7.5%	75%	5.6%	18.8%	80%	15%
Auto financing	6.5%	50%	3.3%	16.3%	80%	13%
Auto financing - Captive	3.5%	50%	1.8%	16.3%	80%	13%
Corporate and SME lending (Assumptions for medium sized enterprises shown below)						
Less risky sectors	5%	35%	2%	12%	50%	6%
Risky Sectors – Real Estate/manufacturing	12%	35%	4%	21%	50%	11%
Securities holdings						
Domestic sovereign bond holdings						

Source: Moody's Investors Service

[27] Moody's Approach to Estimating Dutch Banks Credit Losses, October 2009 (120742)

Residential mortgage losses

Our analysis of residential mortgages uses different Expected Loss (EL) based on (i) the nature of the loan (Prime bullet versus amortising, NHG-guaranteed, Self-certified), (ii) its loan-to-value (LTV[28]). In our base case, we assume a 15% house price decline from peak to trough. In the stressed scenario, we assume a reduction of 30%. In addition, we include 6% foreclosure costs in our LGD calculations.

Other retail loan losses

We break down the other loans granted to individuals into the following sub-categories of homogenous risks: consumer loans (including overdrafts, unsecured financing and financing secured on household goods), auto loans granted by captive finance companies and auto loans granted by non-captive finance companies.

For retail loans which we deem to pose a higher risk such as those granted by institutions with weak underwriting policies (e.g. Internet-based retail partners), we apply probability of loss assumptions which are twice those shown in table above.

Corporate loans

Our corporate assumptions use different Expected Loss (EL) based on (i) size of enterprise (micro, SMEs and large corporate), (ii) industry or sector. In the base case we generally assume a probability of default (PD) of 5% (12% stressed case), which is then adjusted up or down using corporate size and industry risk characteristics. Based on loss experience in prior cycles, we judge following industries to be more risky: (i) real estate (ii) manufacturing (iii) small traders and retailers. Shipping exposures are considered more risky in all countries.

Sovereign Bonds

Given the sovereign strength of the Netherlands we do not apply any stresses to banks' holding of Dutch sovereign debt.

[28] Market norm in Netherlands is loan-to-foreclosure-value and we adjust our calculations to take this into account.

Moody's related research

Analysis:

- Netherlands, November 2011 (137328)

Sector Comments:

- European Commission's Proposals Are Credit Negative for Bank Bondholders, 11 June 2012 (143086)

Special Comments:

- Sovereign Country Credit Statistical Handbook, May 2012 (141528)
- Update to Our Global Macro-Risk Outlook 2012-2013: Modest Growth and Resurfacing Oil Price Risk, April 2012 (141580)
- Challenges for Firms with Global Capital Markets Operations: Moody's Rating Reviews and Rationale, February 2012 (139659)
- European Banks: How Moody's Analytic Approach Reflects Evolving Challenges, January 2012 (139207)
- Euro Area Debt Crisis Weakens Bank Credit Profiles, January 2012 (137981)
- Why Global Bank Ratings Are Likely to Decline in 2012, January 2012 (139205)
- Moody's Approach to Estimating Bank Credit Losses and their Impact on Bank Financial Strength Ratings, May 2009 (117326)
- Moody's Approach to Estimating Dutch Banks Credit Losses, October 2009 (120742)

Rating Action:

- Moody's Reviews Ratings for European Banks, 15 February 2012

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- Moody's Reviews Ratings for Banks and Securities Firms with Global Capital Markets Operations, 15 February 2012

Rating Methodologies:

- How Sovereign Credit Quality May Affect Other Ratings, Rating Implementation Guidance, February 2012 (139495)
- Bank Financial Strength Ratings: Global Methodology, February 2007 (102151)
- Incorporation of Joint-Default Analysis into Moody's Bank Ratings: Global Methodology, March 2012 (138100)

Moody's websites

- Global Bank Rating Methodology webpage
- Moody's Bank Ratings 2012
- Euro Area Sovereign Crisis & Affected Credits

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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