

## **Rating Action: Moody's downgrades Dutch banking groups; most outlooks now stable**

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Global Credit Research - 15 Jun 2012

### **Actions conclude rating reviews announced on 15 February 2012**

Frankfurt am Main, June 15, 2012 -- Moody's Investors Service has today downgraded the long-term debt and deposit ratings for five Dutch banking groups.

The long-term debt and deposit ratings for four groups declined by two notches: to Aa2 for Rabobank Nederland, to A2 for ING Bank N.V., to A2 for ABN AMRO Bank N.V., and to Baa2 for LeasePlan Corporation N.V.. The long-term debt and deposit ratings for SNS Bank N.V. were downgraded by one notch to Baa2. The short-term ratings for all aforementioned groups are unchanged.

Concurrently, Moody's has assigned stable outlooks to the ratings for four of the aforementioned groups, while assigning negative outlooks to the ratings for ING Bank N.V. and its related entities.

Please click this link [http://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_143130](http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_143130) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer. For additional information on bank ratings, please refer to the webpage containing Moody's related announcements <http://www.moodys.com/bankratings2012>.

Today's actions reflect Moody's 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. With today's rating actions, Moody's is giving greater weight to these features in assessing the overall risk profile of these institutions, consistent with its previously-announced analytic approach (see "European Banks -- How Moody's Analytic Approach Reflects Evolving Challenges", 19 January 2012, [http://www.moodys.com/research/European-Banks-How-Moodys-Analytic-Approach-Reflects-Evolving-Challenges--PBC\\_139207](http://www.moodys.com/research/European-Banks-How-Moodys-Analytic-Approach-Reflects-Evolving-Challenges--PBC_139207)).

Specifically, the main drivers underlying today's rating actions on Dutch banks are as follows:

(i) 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 limits household incomes and business earnings, which will likely adversely affect credit costs and profitability for banks.

(ii) The Dutch banks affected by today's rating actions have characteristics that render them more vulnerable in the current environment, including 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. Moody's recognises, however, that Dutch banks have generally retained good access to market funding, and asset quality remains sound to date.

In addition, Moody's assumptions about the availability of government support for ABN AMRO have declined slightly, reducing the support-driven uplift factored into the long-term debt and deposit ratings for the bank to three notches (previously four). 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 discussed below.

The revised rating levels also take into account several mitigating factors, including (i) the large Dutch banks' strong, sustainable domestic franchises; (ii) improved regulatory capitalisation; and (iii) relatively stable pre-provision earnings. Moody's also recognises that the domestic environment for Dutch banks has weakened less compared with more stressed euro area countries, given the strong credit profile of the Dutch government (rated Aaa, with a

stable outlook).

Following today's downgrades, the average asset-weighted deposit rating for Dutch banks is between A1 and A2 (closer to A1), but still ranks in the upper range among European banking systems. The average asset-weighted standalone credit assessments is between a3 and baa1 (closer to baa1), also in the upper peer range.

Moody's has published a Special Comment today entitled "Key Drivers of Dutch Bank Rating Actions," ([http://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_143143](http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_143143)) which provides more detail on the rationales for these rating actions.

#### MOST RATING OUTLOOKS ARE STABLE

The stable rating outlooks for four of the five Dutch banking groups downgraded today express Moody's 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, Moody's has factored into the ratings an increased risk of an exit of Greece from the euro area, but this is currently not the 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.

#### RATINGS RATIONALE -- STANDALONE CREDIT STRENGTH

##### - FIRST DRIVER: ADVERSE OPERATING CONDITIONS WILL LIKELY PERSIST

The Dutch economy is currently in recession and Moody's expects Dutch real GDP to contract by 0.6% in 2012 overall (see Sovereign Country Credit Statistical Handbook, 31 May 2012, [http://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_141528](http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_141528)). As an open economy deeply integrated within the EU, the Netherlands is affected by regional economic weakness and by the increased risk of additional shocks emanating from the ongoing euro area debt crisis.

In addition, housing prices in the Netherlands have declined since 2009 after more than a decade of steady growth (source: Dutch Central Bank). As a result, the value of real estate collateral backing domestic housing loans is declining. Amidst the current recession, bankruptcies have also risen to the highest level since 1993 (source: Central statistical office of the Netherlands), posing a risk for banks' lending to small and mid-sized enterprises.

Furthermore, Dutch households have some of the highest debt levels among western European countries, at 127% of GDP and almost 250% of gross income at year-end 2010 (source: Eurostat). Moody's recognises that Dutch household loans, including banks' large residential mortgage books, have shown resilient performance to date; however, highly indebted Dutch consumers are vulnerable to the possibility of a prolonged recession.

##### - SECOND DRIVER: BANKS HAVE STRUCTURAL FEATURES THAT LEAVE THEM VULNERABLE TO PREVAILING ELEVATED RISKS AND UNCERTAINTY

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 difficult environment. Specifically, 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. Besides their large household mortgage portfolios, several Dutch banks are also active in commercial real estate (CRE) lending. Collateral values for these loans have declined in recent years together with commercial property prices (source: DNB/International Monetary Fund).

Another key vulnerability of Dutch banks is their structural reliance on wholesale and non-domestic funding sources to finance a portion of their core domestic lending. This reliance renders banks vulnerable to potentially sudden changes in market confidence amidst the adverse and highly uncertain European operating environment. Indicating a gap in retail funding, the loan-to-deposit ratio of ING Bank, Rabobank, ABN AMRO and SNS Bank ranged between 122% and 162% at year-end 2011 (source: Moody's computation based on company reports), above the levels of many international peers. In addition, under a stressed scenario, non-domestic deposits of Dutch banks could, in Moody's view, become less fungible, because national regulators increasingly focus on safeguarding local liquidity.

These concerns are partly mitigated by the success of Dutch banks in accessing capital markets on reasonable terms recently, and by their ability to maintain or increase average debt maturities and grow deposits.

#### - MITIGATING FACTORS: SOLID DOMESTIC FRANCHISES AND IMPROVED REGULATORY CAPITALISATION SUPPORT STANDALONE CREDIT PROFILES

Dutch banks' strong and sustainable domestic franchises are a source of steady pre-provision earnings. These earnings provide a buffer to absorb losses and underpin the continued high ratings for the leading Dutch banks relative to many of their European peers. Dutch banks also recorded solid net profits in 2010 and 2011, bolstered by low loan-loss provisions, although credit costs may increase going forward.

Another mitigating factor is the improved regulatory capitalisation of most banks, which have increased significantly in recent years. However, Moody's notes that banks face only small capital charges against their large residential mortgage books, which carry low regulatory risk weights. If the historically strong performance of these loans deteriorated significantly, banks would have only limited equity cushions and reserves to absorb any losses exceeding their earnings.

#### RATINGS RATIONALE -- LONG AND SHORT-TERM DEBT AND DEPOSIT RATINGS

The long-term debt and deposit ratings for four of the five Dutch banking groups downgraded today continue to be positioned above their standalone credit assessments, reflecting Moody's assumption of a high likelihood of systemic support, if needed.

The debt and deposit ratings of ABN AMRO now benefit from three notches of government support-driven ratings uplift (vs. four notches previously). The revised ratings uplift is more in line with other European banks and reflects the clear intent of the Dutch government to sell its ownership stake.

The debt and deposit ratings for Rabobank, ING Bank and SNS Bank continue to benefit from two notches of support uplift. The debt and deposit ratings for LeasePlan do not incorporate any uplift, as its smaller size and international business model make it less systemically important.

#### RATINGS RATIONALE -- SUBORDINATED DEBT AND HYBRID RATINGS

In addition to the above-described rating actions, Moody's has today downgraded the subordinated debt ratings of four Dutch banking groups by up to five notches, following the removal of systemic support for these securities and the respective reductions of the banks' standalone credit assessments. The removal of support for this debt class reflects Moody's view that, in the Netherlands, systemic support for subordinated debt is no longer sufficiently predictable and reliable to warrant incorporating uplift into Moody's ratings. (For more detail, see 29 November 2011 announcement "Moody's reviews European banks' subordinated, junior and Tier 3 debt for downgrade" - [http://www.moodys.com/research/Moodys-reviews-European-banks-subordinated-junior-and-Tier-3-debt--PR\\_231957](http://www.moodys.com/research/Moodys-reviews-European-banks-subordinated-junior-and-Tier-3-debt--PR_231957).)

Furthermore, Moody's downgraded today the junior subordinated debt ratings of Rabobank by two notches to Baa1(hyb), reflecting the securities' junior ranking compared with subordinated debt and the lowering of the bank's standalone credit assessment.

#### WHAT COULD MOVE THE RATINGS UP/DOWN

The current rating levels and outlooks incorporate a degree of expected further deterioration. However, the ratings may decline further (i) if operating conditions worsen beyond current expectations, notably if the economic environment encountered material negative pressure, leading to asset-quality deterioration exceeding current expectations; or (ii) if Dutch banks' market funding access experiences a significant decline; or (iii) if earnings or asset quality deteriorate sharply.

Rating upgrades are unlikely in the near future for banks affected by today's actions, for the reasons cited above. A limited amount of upward rating momentum could develop for some banks if the relevant bank substantially improves its credit profile and resilience to the prevailing conditions. This may occur through increased standalone strength, e.g. bolstered capital and liquidity buffers, work-out of asset-quality challenges or improved earnings. Improved credit strength could also result from external support, such as a change in ownership or an improved likelihood of systemic support.

## RESEARCH REFERENCES

For further detail please refer to:

- List of Affected Issuers ([http://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_143130](http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_143130)), 15 June 2012
- Special Comment: Key Drivers of Dutch Bank Rating Actions, 15 June 2012
- Press Release: Moody's Reviews Ratings for European Banks, 15 Feb 2012
- Special Comment: How Sovereign Credit Quality May Affect Other Ratings, 13 Feb 2012.
- Special Comment: Euro Area Debt Crisis Weakens Bank Credit Profiles, 19 Jan 2012
- Special Comment: European Banks: How Moody's Analytic Approach Reflects Evolving Challenges, 19 Jan 2012

Moody's webpages with additional information:

- <http://www.moodys.com/bankratings2012>
- <http://www.moodys.com/eusovereign>

The methodologies used in these ratings were Bank Financial Strength Ratings: Global Methodology published in February 2007, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: Global Methodology, published in March 2012. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

## BANK-SPECIFIC RATING CONSIDERATIONS

Please click this link [http://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_143130](http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_143130) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

### RABOBANK NEDERLAND (Aa2 STABLE/P-1, B-/a1 STABLE)

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.

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### ING BANK N.V. (A2 NEGATIVE/P-1, C-/baa1, NEGATIVE)

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 as reflected by 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 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.

#### ING GROEP N.V. (A3 NEGATIVE)

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.

#### ING BELGIUM SA/NV (A2 NEGATIVE/P-1, C-/baa1, NEGATIVE)

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.

#### ING DiBa AG (A2 NEGATIVE/P-1, C/a3, NEGATIVE)

The one-notch lowering of ING DiBa AG'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 group, 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.

#### ABN AMRO BANK N.V. (A2 STABLE/P-1, C-/baa2 STABLE)

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

and reflects the clear intent of the Dutch government to sell its ownership stake .

#### SNS BANK N.V. (Baa2 STABLE/P-2, D+/ba1 STABLE)

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.

#### LEASEPLAN CORPORATION N.V. (Baa2 STABLE/P-2, C-/baa2 STABLE)

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 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).

#### REGULATORY DISCLOSURES

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The below contact information is provided for information purposes only. Please see the issuer page on [www.moody's.com](http://www.moody's.com) for Moody's regulatory disclosure of the name of the lead analyst and the office that has issued the credit rating.

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