

Ratings

Category	Moody's Rating
Outlook	Negative
Bank Deposits	A3/P-2
Bank Financial Strength	C-
Baseline Credit Assessment	Baa2
Adjusted Baseline Credit Assessment	Baa2
Senior Unsecured -Dom Curr	A3
Subordinate -Dom Curr	Baa1
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Other Short Term -Dom Curr	(P)P-2

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Key Indicators

Friesland Bank N.V. (Consolidated Financials)[1]

	[2]12-10	[2]12-09	[2]12-08	[3]12-07	[3]12-06	Avg.
Total Assets (EUR million)	11,055.4	11,009.5	10,934.1	10,188.8	9,346.8	[4]4.3
Total Assets (USD million)	14,831.3	15,795.8	15,198.9	14,896.5	12,325.2	[4]4.7
Tangible Common Equity (EUR million)	533.6	642.2	606.9	789.9	657.0	[4]-5.1
Tangible Common Equity (USD million)	715.8	921.5	843.6	1,154.8	866.4	[4]-4.7
Net Interest Margin (%)	1.1	0.9	1.1	1.1	1.2	[5]1.1
PPI / Avg RWA (%)	0.1	0.0	-1.1	-1.3	-0.9	[6]-0.3
Net Income / Avg RWA (%)	-0.6	0.1	-2.1	2.2	2.0	[6]-0.9
(Market Funds - Liquid Assets) / Total Assets (%)	29.3	26.5	22.2	18.4	20.7	[5]23.4
Core Deposits / Average Gross Loans (%)	61.2	64.6	71.1	71.8	67.9	[5]67.3
Tier 1 Ratio (%)	9.0	10.0	10.1	12.6	13.2	[6]9.7
Tangible Common Equity / RWA (%)	8.4	10.7	10.0	14.1	11.9	[6]9.7
Cost / Income Ratio (%)	95.2	101.2	162.8	137.5	124.1	[5]124.1
Problem Loans / Gross Loans (%)	6.0	4.9	4.0	4.0	4.8	[5]4.7
Problem Loans / (Equity + Loan Loss Reserves) (%)	58.6	48.9	43.1	32.3	42.0	[5]45.0

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Basel I; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation [6] Basel II & IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of C- to Friesland Bank, mapping to Baa2 in the long-term scale. The rating derives from the bank's strong regional franchise in the northern part of the Netherlands but also Moody's expectations that the bank's financial fundamentals will face continued pressure as a result of the weak Dutch macroeconomic environment, as well as the risks inherent to the bank's private equity portfolio and its investments in financial institutions.

Friesland Bank's A3/Prime-2 global local currency (GLC) deposit ratings receive a two-notch uplift from the Baa2 BCA on the basis of Moody's assessment of a moderate probability of systemic support in case of need.

Credit Strengths

- Strong franchise as the only significant regional bank in the northern part of the Netherlands;
- Stability of its deposit base
- Overall good asset quality of the retail mortgage portfolio

Credit Challenges

- Limited scale, compared to the larger Dutch banks, which have more diverse product offerings and more powerful distribution networks
- Volatility of the bank's earnings induced by its investments in other banks
- Weak macroeconomic environment is expected to continue to weigh on the asset quality of its SME and corporate loan portfolio
- Investments in private equity, adding a riskier element to the bank's profile (although it currently contains unrealised aggregate gains)
- Low underlying profitability and efficiency, partly as a result of the intense competition in the Dutch banking market

Rating Outlook

The BFSR and long-term ratings of Friesland Bank carry a negative outlook, reflecting Moody's view that the bank's financial strength could come under further pressure should the bank's cost of risk increase with charges exceeding our expectations, thereby affecting its already weak underlying profitability.

What Could Change the Rating - Up

Given the negative outlook on Friesland Bank's ratings, an upgrade of the BFSR is unlikely in the foreseeable future.

That said, upward pressure on the BFSR could be exerted by a combination of the following elements:

- A sustainable improvement in the asset quality on the loans to SMEs and corporates
- A sustainable improvement in the quality and quantum of earnings, through improved efficiency and/or reduced volatility from private equity and bank investments

An upgrade of the long-term ratings could be triggered by an upgrade of the BFSR, or by an assessment by Moody's of a higher probability of support. We however view the latter as unlikely given the bank's relatively narrow and regionally focused franchise.

What Could Change the Rating - Down

A downgrade of the BFSR could be triggered by any of the following:

- A deterioration in asset quality or the financial fundamentals
- A further loss in value of the bank's banking associates
- Expansion in activities perceived as more volatile by Moody's, such as private equity investments
- Inability to protect its franchise in the northern Netherlands, in light of the very competitive banking system

A downgrade of the long-term ratings could be triggered by a downgrade of the BFSR or by a lower assessment by Moody's of the support assumptions. The latter could result from the assessment of a lower probability of systemic support or by a downgrade of the rating of the Kingdom of the Netherlands.

Recent Results and Company Events

The figures below are based on Friesland Bank's IFRS reporting, where the bank consolidates participating interests of more than 50%. As such, the bank's income statement reflects not only Friesland Bank's banking activities, but also the activities conducted by corporates owned by more than 50% by Friesland Bank Investment (for more details on the results excluding the full consolidation of private equity investments, please refer to the Profitability and Efficiency sections of this Credit Opinion).

At YE 2010, Friesland Bank reported a consolidated Net Banking Income (NBI) of EUR413 million, down from EUR537 million in FY 2009. The significant improvement in the bank's Net Interest Income (NII) up to EUR110 million from EUR85 million a year earlier) and improvement in the commissions (FY 2010: EUR42 million; FY 2009: EUR 31 million) were offset by lower revenues of companies included as private equity investments (FY 2010: EUR197 million ; FY 2009: EUR325 million).

At YE 2010, Friesland Bank reported a net loss of EUR43 million, (FY 2009: net profit of EUR 27 million) which mainly results from:

- The increasing level of impairments on the bank's SME and corporate loan exposures (at YE 2010, the bank reported a cost of risk of EUR37 million, up from EUR33 million at YE 2009);
- Impairments on other financial assets amounting to EUR79 million (FY 2009: EUR8 million), of which EUR61 million were related to an impairment on Friesland Bank's stake in Van Lanschot N.V. and EUR18 million on private equity stakes in the Netherlands (FY 2009: no impairment on the stake on Van Lanschot and EUR8 million of impairment on private equity investments).

Friesland Bank's main business activity ("Banking business")'s net profit improved to EUR14 million from EUR11 million, while Friesland Bank's private equity business ("Friesland Bank Investment")'s net profit was halved to EUR15 million (FY 2009: EUR29 million). Stakes in Van Lanschot N.V. and BinckBank ("Banking associates") reported a net loss of EUR72 million (FY 2009: net loss of EUR13 million).

DETAILED RATING CONSIDERATIONS

Detailed considerations for Friesland Bank's currently assigned ratings are based on the most recent annual report (YE 2010). Moreover, the quantitative scores are based on figures for FY 2010, and under Basel II.

It is important to note that:

- The financial fundamentals discussed are based on Moody's chart of accounts, which incorporates a set of standard and non-standard adjustments in order to reflect the credit profile of the institution. For more details on the adjustments performed by Moody's to financial institution's accounts, please refer to Moody's "Moody's Approach to Global Standard Adjustments in the Analysis of the Financial Statements of Banks, Securities Firms and Finance Companies" and the corresponding "Frequently Asked Questions: Moody's Approach to Global Standard Adjustments in the Analysis of the Financial Statements of Banks, Securities Firms and Finance Companies", published on 19 July 2010

The most notable differences are the classification of income from associates, which Moody's considers as non-operating, and the reclassification of breakdown of perpetual capital securities between equity and liabilities, according to our own treatment of hybrid instruments.

- Also, our assessment of the Profitability and Efficiency sub-factors below are based on results excluding the full consolidation of Friesland Bank Investment's stakes in corporates, as we believe these figures provide a more accurate view of the bank's performance.

Indeed, in accordance with IFRS reporting the bank consolidates participating interests of more than 50%. Practically speaking, this means the bank's consolidated Profit and Loss account reflects not only Friesland Bank's banking activities, but also the activities conducted by corporates owned by more than 50% by Friesland Bank Investment.

Bank Financial Strength Rating

Moody's assigns a bank financial strength rating (BFSR) of C- to Friesland Bank, mapping to Baa2 in the long-term scale. The rating derives from the bank's strong regional franchise in the northern part of the Netherlands but also Moody's expectations that the bank's financial fundamentals will face continued pressure as a result of the weak Dutch macroeconomic environment, as well as the risks inherent to the bank's private equity portfolio and its investments in financial institutions.

As a point of reference, the assigned C- BFSR is one notch above the outcome of Moody's Bank Financial Strength scorecard. The scorecard outcome is based on the FY 2010 results, which include the one-off effect of the impairments on the bank's stake in Van Lanschot N.V.

Qualitative Factors (50%)

Factor: Franchise Value

Trend: Neutral

Long established in its region, Friesland Bank has deep roots in the local economy and was founded as Zuivelbank (Zuivel = dairy) to service local dairy farmers and producers. It has since then developed into a bank with a wider set of product/expertise, yet still mostly in the Northern part of the Netherlands.

Despite its small relative size as the eighth-largest Dutch bank, ranked by total assets, Friesland Bank enjoys a solid position in its home market and benefits from being the only regional commercial bank in the northern Netherlands. It is the second-largest bank in the Friesland region, after Rabobank (rated Aaa/B+/Aa2 negative) and the bank has around a 30% share of mid-sized corporate lending in Friesland, and about one-quarter of retail banking customers in the region have their primary relationship with Friesland bank (source: issuer).

Friesland Bank continues to face challenges in competing with the larger national Dutch banks (which have wider product ranges and much greater financial resources). That said, in recent years the bank reported an increasing number of customer base (YE 2010: 274 000, up by close to 10 000 y-o-y).

Friesland Bank's reporting is broken down into three categories of activities:

- Banking, which comprises traditional banking activities with retail customers, corporates and SME;
- Private equity, which mainly focuses on private equity investments in small corporates of its home region and the rest of the Netherlands; and
- Banking associates, which comprises the bank's 23% investments in Van Lanschot N.V. (a Dutch private bank) and BinckBank, a discount broker.

While the weak profitability and efficiency of the Banking divisions was compensated by a strong performance of the private equity business in 2010, Friesland Bank Investments's net profit for FY 2010 was halved due to higher-than-anticipated impairments (for more details, please refer to the Recent Results and Developments and Risk Positioning sections of this Credit Opinion). This, combined with the potential further impairments on the bank's 23% stake in Van Lanschot N.V., results in high earnings volatility at Friesland Bank, reflected in the current negative outlook on Friesland Bank's Moody's ratings.

As a point of reference, the scorecard generated a score of D+ for franchise value, which is in line with our own view.

Factor: Risk Positioning

Trend: Neutral

An important risk factor is the credit risk on the loan portfolio, which accounts for the bulk of the assets at Friesland Bank. The loan portfolio is approximately equally split between loans to corporates and SMEs on the one hand, and loans to retail customers on the other hand (the vast majority of which are retail mortgage loans).

The level of impaired loans to retail customers has remained relatively low, and at YE 2010, loans with specific impairments stood at 1.9% of total housing loans (gross of collateral). That being said, we note the deterioration in asset quality of loans to corporates and SMEs in the last

couple of years, as a marked result of the weak macroeconomic environment in which the bank operates. This is evidenced by the proportion of loans with a specific impairments amounted to 11.7% of loans to large companies and 9.6% of loans to SMEs (figures at YE 2010, gross of collateral).

We expect the asset quality of the loans to corporates and SMEs to remain under pressure in the foreseeable future, in line with our expectation of weak macroeconomic prospects in the Netherlands in the short-to-medium term.

The bank reports a large amount of collateral (across all segments), which offers some protection in the case of default of the borrowers. Part of the collateral is secured (mortgages on housing loans) but the bank also has unsecured collateral.

It is our understanding that the bank currently reports the original value of the house as the collateral value for its housing loans.

While collateral offers some additional loss absorption capacity, we caution that collateral values can be volatile and may fall short of expectations, especially if not re-valued on a regular basis.

As a direct consequence of the bank's regional presence in the Netherlands, the bank is highly concentrated both geographically and by counterparty.

The bank does not have material capital markets activity, but the private equity investments contribute to earnings volatility. Although there are still unrealized aggregate capital gains and the bank has displayed a good track record in managing the business thus far, we caution that such activities are inherently more volatile and could further weaken profitability in case of stress. We caution that any increasing risk or exposure to private equity may weigh on the bank's financial strength, in Moody's view, all the more so given the bank's low underlying profitability in its traditional banking business.

With regards to Friesland's banking associates, we believe that the significant impairment booked at YE 2010 substantially mitigates the risk of further impairments. That being said, given that its stake in Van Lanschot is accounted for using the equity method, its valuation is dependent upon the performance of Van Lanschot in the coming future. The risk positioning score of D+ is in line with our own assessment.

Factor: Regulatory Environment

Please refer to Moody's Banking System Outlook for the Netherlands, published in July 2010, to obtain a detailed discussion on Regulatory Environment.

Factor: Operating Environment

Trend: Neutral

This factor is common to all Dutch banks. Refer to Moody's Banking System Outlook for the Netherlands, published in July 2010, to obtain a detailed discussion on Operating Environment.

Quantitative Factors (50%)

Factor: Profitability

Trend: Weakening

Figures below exclude the consolidation of participating interests of Friesland Bank Investment and take into account the reclassification of income from associates as non-operating income. For more details, please refer to the beginning of the Detailed Rating Considerations section of this Credit Opinion.

During FY 2010, the quality of Friesland Bank's earnings streams significantly improved, as evidenced by the increase in NII (up to EUR113 million from EUR89 million a year earlier) and in the commissions to EUR42 million (FY 2009: EUR 31 million).

We also note the positive trends on the bank's operating expenses, and especially of personnel expenses, as a result of the Back to Basics plan initiated by the bank a couple of years ago (at YE 2010, total operating expenses stood at EUR162 million, down from EUR169 million a year earlier).

The general improvement in the bank's operating profit was offset by higher loan impairments (YE 2010: EUR37 million; YE 2009: EUR33 million) and by the significant impairment on its stake in Van Lanschot N.V. for a total of EUR61 million (please refer to the Recent Results and Developments and Risk Positioning section of this Credit Opinion).

In addition, despite the recent improvements in the quality of earnings and reduction in operating costs, we view the bank's underlying profitability and efficiency as relatively weak and volatile. Although returning to positive territory, Friesland Bank's preprovision income as a percentage of risk weighted assets was low at 0.13% at year-end 2010 (compared to -0.04% at YE 2009). Restoring the underlying profitability in the banking division is a key rating driver, which we will closely monitor.

The profitability score of E takes into account the once-off impairment on the bank's stake in Van Lanschot. We assess the underlying profitability of the bank would be in the D range.

Factor: Liquidity

Trend: Neutral

In recent years, the bank has been unable to fund the growth of its loan book by deposits, which has resulted in a high loan-to-deposit ratio. At YE 2010, this ratio stood at 165% at YE 2010, up from 157% a year earlier. Instead, in recent years, the bank has been issuing some long-term unsecured debt, as well as secured funding, as evidenced by the bank's funding breakdown at YE 2010:

- Deposits (54% of total funding sources);

- Interbank (10%);
- Medium-term notes and other debt securities (15%);
- Notes issued in connection with securitization transactions (17%); and
- Subordinated debt - excluding the perpetual capital securities (4%).

(The percentages above are relative to the sum of all of the items.)

Despite this structural dependence of external funding, we note that Friesland Bank did not have any recourse to State guaranteed debt in 2008/2009, unlike many of its Dutch peers (although it could still have access to the ECB in case of need). Furthermore, the bank's strong regional foothold and the success of its term savings products with increasing rates, have enabled the bank to maintain a stable deposit base thus far.

In our view the bank's liquidity positioning is sound, as the bank primarily funds itself via deposits and long-term issuance (both unsecured and secured). We view the bank's ability to successfully issue secured notes as a positive element for its liquidity/funding. Furthermore, the bank still has retained on its balance sheet part of its own securitizations (of ca. EUR300 million as of August 2011), and third party RMBS of ca. EUR100 million that it can pledge at ECB for refinancing if need be.

AD+ score for liquidity is therefore appropriate in our view.

Factor: Capital Adequacy

Trend: Weakening

At YE 2010, Friesland Bank reported a Tier 1 ratio of 9%, down 100 bps from 10% at YE 2009. The decrease in regulatory capital is attributable to the net loss for the year (for more details, please refer to the Recent Results and Company Events and Profitability sections of this Credit Opinion).

The impairment on Van Lanschot's stake is neutral to the bank's Tier 1 capital (the loss recorded in the bottom-line is offset by a lower deduction from the regulatory capital).

We note that following the implementation of Basel III standards, the stake in Van Lanschot will have to be 100% deducted from Friesland Bank's core Tier 1, while it is now 50% deducted from Tier 1 and 100% from Total Capital.

Given the size of its stake in Van Lanschot relative to Friesland Bank's capital, the implementation of Basel III capital adequacy ratios may have a substantially higher impact than for other banks with banking associates. That said, we note the bank's intention to dispose of its stake in Van Lanschot, which would be positive for the bank's solvency ratios.

Furthermore, we view as a key element the bank's ability to maintain adequate capital buffers, in light of its relatively sizeable private equity portfolio and its weak underlying profitability (i.e. weak recurring earnings generation capacity).

Until 1 April 2011, 100% of Friesland Bank Holding N.V.'s ordinary shares were held by a "Vereniging" (Dutch association). On that date, this association was transformed into a "Stichting", a Dutch foundation. In our view, this change is neutral to the bank's capital adequacy as the association continues to aim to preserve the integrity and autonomy of the bank. In addition, no dividend is paid by Friesland Bank on its ordinary shares held by the Stichting, unlike perpetual capital securities which are subject to an annual dividend payment.

Given this, a score of B+ for capital adequacy is, in our view, appropriate.

Factor: Efficiency

Trend: Neutral

Figures below exclude the consolidation of participating interests of Friesland Bank Investment and take into account the reclassification of income from associates as non-operating income. For more details, please refer to the beginning of the Detailed Rating Considerations section of this Credit Opinion.

Although the bank's efficiency - and profitability - remain weak, we note positively the improvement in the bank's operating expenses, and more particularly on personnel expenses, which we understand results from the Back to Basics plan initiated a couple of years ago.

Although Friesland Bank benefits from a well established franchise, we caution that the intense competition in the Dutch banking market may weigh on the bank's margins going forward.

In our view, the E score for efficiency fails to reflect the recent improvements in the underlying efficiency. We also note that excluding Moody's reclassification as non-operating of the income from associates, the cost/income ratio for the bank (excluding consolidation of private equity investments) would be in the range of 75% (vs. 95% under our own chart of accounts).

Factor: Asset Quality

Trend: Neutral

At YE 2010, the bank's loan portfolio was evenly split between loans to corporates and SMEs (45% of the total gross outstanding loans, of which 25% and 20% to corporates and SME, respectively) and retail loans (55% of which 48% are retail mortgages and 7% are other loans to households).

Despite high Loan-to-Values in the Dutch housing loan market as a whole, the performance of the Dutch mortgages has remained strong to date. This has also been the case for Friesland Bank, whose level of impairments on housing loans was of 10 bps of outstanding gross mortgage loans at YE 2010.

The level of impaired loans on corporates and SMEs is however very high (11.7% and 9.6% respectively, as percentage of outstanding loans, gross of provisions and collateral, at YE 2010). These ratios have weakened in the course of 2009 and 2010, in line with Moody's anticipations of a weak macro-economic environment, which primarily affected medium-sized companies. We expect the asset quality of the loans to corporates and SMEs to remain under pressure in the short-to-medium term, given our expectation of a weak macro-economic prospects in the Netherlands in the foreseeable future.

The bank reports a large amount of collateral (across all segments), which offers some protection in the case of default of the borrowers. In this respect, we note that the bank reported that at YE 2010, loan loss provisions amounted to 63% and 65% of impaired loans (net of collateral) for corporate and SME loans, respectively. We nonetheless caution that collateral values are inherently volatile and could fall short of expectations (for more details, please refer to the Risk Positioning section of this Credit Opinion).

Friesland Bank scores E+ for asset quality which mainly reflects the very high level of impairment on corporate and SME loans but does not reflect the sound asset quality of the bank's retail loans.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns GLC deposit ratings of A3/Prime-2 to Friesland Bank. Under Moody's Joint Default Analysis methodology, the ratings receive a two-notch uplift from the Baa2 BCA as a result of our assessment of a moderate probability of systemic support in case of need. This assessment derives from Friesland Bank's importance to its home region and the potential for disruption to the Dutch financial market that could result from the failure of and default by a small but nonetheless important institution. The assessment is of no more than a moderate probability of support in recognition of the fact that the operations of the bank are not too complex to unwind in an orderly manner in an otherwise stable operating environment.

Notching Considerations

In line with Moody's methodology entitled "Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt", published on 16 November 2009, Friesland Bank's dated subordinated debt is rated Baa1 with negative outlook, i.e. one notch below the bank's senior debt rating.

The rating of the perpetual capital securities are based on i) Friesland Bank's intrinsic financial strength, represented by the bank's Baa2 Baseline Credit Assessment ("BCA"); and ii) Moody's assessment of the absence of any parental support.

As such, the perpetual capital securities are rated Ba1 with negative outlook, i.e. two notches below the bank's Adjusted BCA, to reflect (i) their deeply subordinated claim in liquidation; (ii) the cumulative (with ACSM) characteristics of the instrument; and (iii) optional or mandatory deferral triggers.

Foreign Currency Deposit Rating

Friesland Bank's A3 foreign currency deposit ratings of are unconstrained given that the Netherlands, like other EU members, has a country ceiling of Aaa.

Foreign Currency Debt Rating

Friesland Bank's A3 foreign currency debt ratings of are unconstrained given that the Netherlands, like other EU members, has a country ceiling of Aaa.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Moody's uses the Baseline Credit Assessment (BCA) to map BFSRs onto the 21-point Aaa-C rating scale and like the BFSR, it reflects a bank stand-alone default risk. Each point on the Aaa-C scale represents a specific probability of default and therefore allows Moody's to use the BCA as an input to Moody's Joint Default Analysis (JDA), described below. The baseline credit assessment reflects what the local currency deposit rating of the bank with the given BFSR would be without any assumed external support from a government or third party

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of any external elements of support into the bank's Baseline Credit Assessment. In assigning the local currency deposit rating to a bank, the JDA methodology also factors in the rating of the various potential support providers (parent company, cooperative group, regional or national governments), as well as the degree of dependence that may exist between each one of them and the bank. Moody's assessment of

the probability of systemic support (by a national government) is derived from the analysis of the capacity of a government and its central bank to provide support on a system-wide basis. The systemic support indicator is determined for a particular country and serves as an input for all bank ratings in that country. The support indicator can be set at, above or, in rare cases, below the government's local currency bond rating for that country.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. AAaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's bank financial strength scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Friesland Bank N.V.

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						C-	
Factor: Franchise Value						D+	Neutral
Market Share and Sustainability			x				
Geographical Diversification				x			
Earnings Stability				x			
Earnings Diversification [2]							
Factor: Risk Positioning						D+	Neutral
Corporate Governance [2]							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management		x					
- Risk Management			x				
- Controls	x						
Financial Reporting Transparency			x				
- Global Comparability	x						
- Frequency and Timeliness				x			
- Quality of Financial Information				x			
Credit Risk Concentration				x			
- Borrower Concentration				x			
- Industry Concentration		x					
Liquidity Management			x				
Market Risk Appetite			x				
Factor: Operating Environment						A-	Neutral
Economic Stability		x					
Integrity and Corruption	x						
Legal System	x						
Financial Factors (50%)						D-	

Factor: Profitability						E	Weakening
PPI / Average RWA- Basel II					0.13%		
Net Income / Average RWA- Basel II					-0.60%		
Factor: Liquidity						D+	Neutral
(Mkt funds-Liquid Assets) / Total Assets					29.31%		
Liquidity Management			x				
Factor: Capital Adequacy						B+	Weakening
Tier 1 Ratio - Basel II		9.00%					
Tangible Common Equity / RWA- Basel II	8.38%						
Factor: Efficiency						E	Neutral
Cost / Income Ratio					95.17%		
Factor: Asset Quality						E+	Neutral
Problem Loans / Gross Loans				5.99%			
Problem Loans / (Equity + LLR)					58.58%		
Lowest Combined Score (15%)						E	
Economic Insolvency Override						Neutral	
Aggregate Score						D+	
Assigned BFSR						C-	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral



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