MOODY'S
INVESTORS SERVICE

Credit Opinion: Friesland Bank N.V.

Global Credit Research - 03 Aug 2010

Leeuwarden, Netherlands

Ratings

Category	**Moody's Rating**
Outlook	Negative
Bank Deposits	A3/P-2
Bank Financial Strength	C-
Senior Unsecured -Dom Curr	A3
Subordinate -Dom Curr	Baa1
Preferred Stock -Dom Curr	Ba1
Other Short Term -Dom Curr	P-2

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Key Indicators

Friesland Bank N.V.

	[1]**2009**	[2]**2008**	**2007**	**2006**	**2005**	[3]**Avg.**
Total assets (EUR billion)	**11.01**	**10.93**	**10.19**	**9.35**	**9.09**	[4]**4.55**
Total capital (EUR billion)	**1.30**	**1.23**	**1.34**	**1.23**	**1.15**	[4]**5.49**
Return on average assets	**0.25**	**-0.71**	**1.22**	**1.16**	**0.86**	**0.55**
Recurring earnings power [5]	**0.51**	**0.12**	**1.60**	**1.47**	**1.21**	**0.98**
Net interest margin [5]	**0.90**	**1.13**	**1.04**	**1.17**	**1.41**	**1.13**
Cost/income ratio (%) [5]	**75.04**	**93.09**	**50.78**	**53.52**	**55.25**	**65.54**
Problem loans % gross loans	**5.85**	**4.04**	**3.98**	**4.80**	**3.24**	**4.38**
Tier 1 ratio (%)	**10.00**	**10.10**	**12.60**	**13.20**	**13.40**	**11.86**

[1] As of December 31. [2] Statement period in which the bank switched to Basel II accounting framework. [3] The average calculations are based on Basel I and Basel II data where applicable. [4] Compound annual growth rate. [5] Excluding full participation of industrial participating interests.

Opinion

RECENT CREDIT DEVELOPMENTS

On 22 July 2010, Moody's Investors Service downgraded Friesland Bank N.V.'s Bank Financial Strength Rating (BFSR) to C- from C, its long-term deposit ratings to A3 from A2 and its subordinated debt ratings to Baa1 from A3. Moody's also downgraded the perpetual capital securities to Ba1 from Baa2 and the short-term ratings to Prime-2 from Prime-1. The outlook on all ratings is negative.

The rating actions concluded the review for possible downgrade on Friesland Bank's ratings initiated on 22 October 2009.

The lower BFSR reflects Moody's expectation that Friesland Bank's financial fundamentals will face continued pressure as a result of the ongoing difficult economic backdrop, which we anticipate will adversely affect the banking environment in the Netherlands going forward.

At YE 2009, the level of loans with a specific provision for impairment amounted to 5.9% of gross loans (FY 2008: 4.0%), and we expect the asset quality of the bank to deteriorate further over the short-to-medium term. The impairments on Friesland Bank's loan portfolio are largely a reflection of its SME and corporate lending activities, which accounts for approximately half of its loan portfolio.

We expect that these two segments in particular will weaken further due to the poor macro-economic environment, thus resulting in higher provisions.

Although the bank reports a large amount of collateral which offers some protection in the case of default of the borrowers, we caution that collateral values are inherently volatile and could fall short of expectations.

In FY 2008 and FY 2009, the bank's profitability and efficiency were hampered by exceptional impairments, notably on its banking associates Van Lanschot N.V. and BinckBank (both unrated), as well as a contribution to the deposit protection fund following the failure of DSB Bank (unrated).

While we consider additional material impairments on the banking associates to be unlikely, we expect that the bank's underlying profitability and efficiency will remain constrained in the foreseeable future as a result of the fierce competition in the Dutch banking system.

The limited loss absorption capacity from recurring earnings in case of stress is partly mitigated by the bank's capital (at YE 2009, the Tier 1 ratio stood at10%).

The bank has relatively large private equity investments in the Netherlands (book value of EUR 216 million at YE 2009). 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.

Moody's will continue to closely monitor the evolution of the asset quality and the performance of the private equity business.

The negative outlook on all ratings reflects Moody's view that Friesland Bank's financial strength could come under further pressure should the bank's cost of risk increase with charges exceeding Moody's expectations, thereby affecting its already weak underlying profitability.

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of C- to Friesland Bank, which translates into a baseline credit assessment (BCA) of Baa2. The rating derives from the bank's strong regional franchise in the Friesland area of the Netherlands but also Moody's expectations that the bank's financial fundamentals will face continued pressure as a result of the ongoing difficult economic backdrop, which we anticipate will adversely affect the bank, as well as other Dutch banks, going forward. The BFSR also reflects 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 Netherlands;

- Overall good asset quality of the retail portfolio

- Stability of its deposit base

Credit Challenges

- Limited scale, compared to the larger Dutch banks, which have more diverse product offerings and more powerful distribution networks

- Investments in private equity, adding a riskier element to the bank's profile (although it currently contains unrealised aggregate gains)

- Potential volatility of the bank's earnings induced by its investments in other banks

- High credit concentrations

- 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:

- Sustainably improve the asset quality on the loans to SMEs and corporates

- Sustainable improvement in the quality and quantum of earnings, through improved efficiency and/or reduced volatility from private equity and bank investments

What Could Change the Rating - Down

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

- Further impairments exceeding Moody's expectations or, more generally, asset quality inconsistent with the bank's current BFSR

- Additional material impairments on the bank's banking associates

- A deterioration of the bank's financial fundamentals to levels inconsistent with the current BFSR

- 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

Recent Results and Company Events

The bank posted a net profit of EUR 27 million in 2009, compared to the EUR 75 million loss recorded in 2008, while operating income was up to EUR 537 million from EUR 476 million. The main driver of the increase were the results on financial transactions, through the purchase of notes and the sale of bonds and derivatives, while interest income suffered an 18% decline, due to higher funding costs and lower interest rates. The operating income of the private equity business were down to EUR 36 million from EUR 67 million, while the contribution from Van Lanschot led to a negative result in the banking associates segment.

Ordinary operating expenses were fairly stable, with the bank's staff costs increasing by 22% due to the consolidation of associates. Employee expenses at the bank level increased by 3%, mainly due to the costs linked to the back to basics programme.

Impairment losses totalled EUR 42 million in 2009, compared with EUR 115 million in 2008. The decrease is mainly attributable to the lower impairments on other financial instruments (shares, banking associates, and private equity) down to EUR 8 million in 2009.

Tier 1 ratio was stable compared to 2008 (10.0% compared to 10.1%).

DETAILED RATING CONSIDERATIONS

Detailed considerations for Friesland Bank's currently assigned ratings are based on the audited FY 2009 results as detailed in the FY 2009 Annual Report.

Moreover, the profitability and efficiency ratios are based on the bank's FY 2009 results excluding the consolidation of private equity investments in non-financial companies, as given in the bank's FY 2009 Press Release.

Moody's believes that these figures give a better representation of the bank's inherent profitability and efficiency.

Bank Financial Strength Rating

Moody's assigns a bank financial strength rating (BFSR) of C- to Friesland Bank, which translates into a baseline credit assessment (BCA) of Baa2. The rating derives from the bank's strong regional franchise in the Friesland area of the Netherlands but also Moody's expectations that the bank's financial fundamentals will face continued pressure as a result of the ongoing difficult economic backdrop, which we anticipate will adversely affect the bank, as well as other Dutch banks, going forward. The BFSR also reflects 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 in line with the outcome of Moody's Bank Financial Strength scorecard.

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.

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 of Friesland (in the northern Netherlands) and is the second-largest bank in this region, after Rabobank. Friesland Bank has a significant regional presence with 16 branches in the Friesland region and seven branches elsewhere in the Netherlands.

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 25% investments in Van Lanschot N.V. (a Dutch private bank) and BinckBank, a discount broker.

Though its Banking division, the bank has around a 30% share of mid-sized corporate lending in Friesland (source: issuer), and about one-quarter of retail banking customers in the region have their primary relationship with Friesland bank.

We view positively the ability of the bank to maintain its deposit base despite the increasing competition over deposits in the Netherlands.

Going forward, Friesland Bank will continue to face challenges in competing with the larger national Dutch banks (which have wider product ranges and much greater financial resources). The bank has a stable customer base (230 000) and secured 11 250 new customers in 2009.

The bank aims to provide an alternative service to that provided by the large national Dutch banks and benefits from being the only regional commercial bank in the northern Netherlands. On the other hand, the homogeneity of the Dutch financial market makes it more difficult for smaller banks to build and defend regional franchises than is the case in some other more decentralised European countries.

The bank's private equity business is material, with a book value of the portfolio of EUR 216 million at YE 2009. According to the bank, the portfolio has unrealized aggregate gains.

As regards earnings stability, we note the weak profitability and efficiency of the Banking and Banking associates divisions has been compensated by earnings from the private equity business in FY 2009. That said, we consider these activities as inherently more volatile, especially in the current environment.

We caution this activity was the main contributor to the bank's profit before tax (EUR 24.6 million of total EUR 27.0 million, based on figures excluding consolidation of private equity investments in non-financial companies) and we caution that such activities are inherently more volatile.

The banking associates reported negative contribution in both FY 2008 and FY 2009. This was mainly the result of impairments on Friesland Bank's stake in Van Lanschot and BinckBank.

We consider additional material impairments on the banking associates to be unlikely. That said, we expect the return on these investments to remain lower than the pre-crisis levels in the short-to-medium term.

Moreover, Friesland Bank terminated its shareholders' agreement with Van Lanschot in December 2009, allowing Friesland Bank to dispose of its stake in the medium term. This would reduce the contribution to the P&L, but crystallize an investment.

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 bulk of which are retail mortgage loans).

While the level of impaired loans to retail customers has remained relatively low, we note that asset quality has deteriorated for loans to corporates and SMEs (at YE 2009, the level of loans with a specific provision for impairment amounted to 5.9% of gross loans; FY 2008: 4.0%).

We expect the asset quality of the loans to corporates and SMEs to further deteriorate over the short-to-medium term, consistent with our wider view on these two segments in the Netherlands.

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 revaluated on a regular basis. We further note that the bank is currently implementing a more sophisticated collateral valuation framework which is expected to be operational by YE 2010.

As a direct consequence of the bank regional presence in the Netherlands, the bank is highly concentrated on a number of exposures, which accounted for over 140% of Tier 1 capital at YE 2009.In addition, Friesland Bank's private equity portfolio and investments in financial institutions add a level of increased long-term risks, which Moody's will continue to closely monitor.

The bank does not have material capital markets activity, but the private equity investments may induce some 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.

Moody's will closely monitor the performance and risk management of this division to ensure it remains within the risk appetite of the bank

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: Weakening

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: Neutral

As noted earlier, the profitability and efficiency figures are based on the bank's profit and loss statement, excluding the consolidation of private equity non-financial companies, which we view as a better representation of the bank's financial fundamentals.

In 2009, Friesland Bank returned to profitability, posting a net profit of EUR 23.6 Million after a EUR 66.6 Million loss in 2008. However, interest income declined by 18% due to higher costs of funding and declining interest rates.

While profitability returned to positive territory in FY 2009, we note that the main contributor to the bank's FY 2009 profit before tax (PBT) was the private equity division, which reported a PBT of EUR 24.6 million (FY 2008: EUR 60.0 million), out off a total PBT of EUR 27.0 million (FY 2008: minus EUR 75.1 million). Moody's views the private equity activities as inherently more volatile.

Overall, in line with its peers in the Dutch market, Friesland Bank's retail and corporate banking activities suffer from a weak underlying profitability - with a net interest margin just above 1% in the past years- and which we expect to remain weak in the foreseeable future, as a result of the challenging macro-economic environment in which the bank operates.

More particularly, while we view positively the bank's efforts to reduce operating expenses through its back-to-basics plan, we expect the cost of risk to remain high in the short-to-medium term and to weigh on the bank's bottom-line profit.

Restoring the underlying profitability in the banking division is a key rating driver, which we will closely monitor.

A profitability score of D is in our view a fair representation of the bank's weak underlying profitability.

Factor: Liquidity

Trend: Neutral

At YE 2009, the bank's funding mix was:

- Deposits (56% of total funding sources)

- Interbank (10%)

- Market funds - excluding interbank (30%)

- Subordinated debt - excluding pref share (4%)

The percentages above are relative to the sum of the four items (deposits, interbank, other market funding and subordinated debt, under Moody's own chart of account).

We note positively that the bank did not have any recourse to State guaranteed debt, unlike many of its Dutch peers (although it could have access to the ECB in case of need). Its deposit base has remained stable throughout 2009, which we believe is driven by its strong market share and anchor in the northern region of the Netherlands.

That being said, the bank's loan-to-deposit ratio was of around 157% at YE 2009 (Moody's own estimates), which translates into some dependence over market funding.

The market funding is split between interbank, senior unsecured issuances and securitizations (consolidated on the bank's balance sheet). At year-end 2009, senior unsecured bonds and securitization accounted for ca. EUR 1.5 billion and EUR 1.8 billion respectively, out of a total balance sheet of EUR 11 billion.

The bank's ability to successfully issue secured notes is a positive element (in December 2009, they issued Eleven Cities IV, a RMBS transaction) and it is our understanding that the bank is planning a Covered Bond for Q4 2010.

A D+ score for liquidity is therefore appropriate in our view.

Factor: Capital Adequacy

Trend: Neutral

Friesland Bank Holding's ordinary shares are held by a "vereniging" (association), which is statutorily obliged to preserve the integrity and autonomy of the bank. The bank does not pay dividends on its ordinary shares, hence earnings fully contribute to the bank's capital. This structure does not preclude the raising of additional share capital, although the bank intends to fund the growth of its capital base through retained earnings.

The bank also has issued a perpetual capital security (rated Ba1 negative), which counts as Tier 1 capital for regulatory purposes.

At YE 2009, Friesland Bank's Tier 1 ratio stood at 10%, in line with YE 2008 (10.1%).

While the ratio is adequate, this metrics takes into account the private equity investments in non-financial companies which have a material impact on the Tier 1 capital calculation and we caution that the Tier 1 ratio is therefore not necessarily directly comparable to those of pure retail banks.

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)..

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

Factor: Efficiency

Trend: Neutral

As explained earlier, the profitability and efficiency figures are based on the bank's profit and loss statement, excluding the consolidation of private equity non-financial companies, which we view as a better representation of the bank's financial fundamentals.

At YE 2009, the cost-to-income ratio was 75%, down from 93.1% at YE 2008 (under Moody's own chart of account). However, the FY 2008 efficiency ratios were hampered by one-off exceptional items, such as impairments on the banking associates.

We view positively the bank's efforts to reduce operating expenses through its "back-to-basics" plan but nonetheless view the bank's current efficiency as weak and expect it to remain constrained in the short-to-medium term. The key drivers behind our expectation is the weak underlying profitability of the banking division resulting from the intense competition in the Netherlands.

An efficiency score of D reflects these challenges.

Factor: Asset Quality

Trend: Weakening

For consistency purposes, Moody's uses the "loans and advances with specific provision for impairment" reported by the bank as "Problem Loans" for its "Problem Loans % Gross Loans" and "Problem Loans % (Shareholders' Equity + LLR)" scorecard ratios.

Mortgages backed by real estate account for approximately 83% of the retail lending book and 50% of the total lending book, allowing the bank to repossess property in the event of customer insolvency. Therefore, Friesland Bank's retail loan book of is fairly secure. Moreover, (i) Dutch mortgages have historically displayed very low levels of delinquencies despite high loan-to-value ratios - driven by tax breaks available on mortgages - and the economic downturn in 2002-03; and (ii) the foreclosure period on real estate in the Netherlands is very short, reducing the risk in a repossession.

Regarding the corporate and SME loan book, we note that the asset quality has deteriorated; at YE 2009, the loans to SMEs with an impairment amounted to 12.0% (YE 2008: 10.1%) and loans to corporates amounted to10.2% (YE 2008: 5.9%) of gross loans in their respective segments (under Moody's own chart of account).

We expect the asset quality of the loans to corporates and SMEs to further deteriorate over the short-to-medium term, in line with our macro-economic forecast for those two segments in the Netherlands.

The bank reports a large amount of collateral (across all segments), which offers some protection in the case of default of the borrowers. We 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 is in our view a fair reflection of the bank's deteriorating asset quality.

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 new 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; and (ii) 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. A Aaa 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+**	**0**
Market Share and Sustainability			**x**				
Geographical Diversification				**x**			
Earnings Stability				**x**			
Earnings Diversification [2]							
Factor: Risk Positioning						**D+**	**0**
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	--	--	--	--	--		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management			**x**				

Market Risk Appetite			x				
Factor: Operating Environment						A	0
Economic Stability	x						
Integrity and Corruption	x						
Legal System	x						
Financial Factors (50%)						C-	
Factor: Profitability						D	0
PPP % Avg RWA - Basel II				0.93%			
Net Income % Avg RWA - Basel II				0.45%			
Factor: Liquidity						D+	0
(Mkt funds-Liquid Assets) % Total Assets					20.98%		
Liquidity Management			x				
Factor: Capital Adequacy						B+	0
Tier 1 ratio (%) - Basel II		10.00%					
Tangible Common Equity / RWA - Basel II	11.36%						
Factor: Efficiency						D	0
Cost/income ratio				72.97%			
Factor: Asset Quality						D+	0
Problem Loans % Gross Loans			4.62%				
Problem Loans % (Equity + LLR)				40.02%			
Lowest Combined Score (15%)						D	
Economic Insolvency Override						Neutral	
Aggregate Score						C-	
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