

FITCH DOWNGRADES FRIESLAND BANK TO 'BBB'; OUTLOOK STABLE

Fitch Ratings-Paris-20 June 2011: Fitch Ratings has downgraded Friesland Bank's (FB) Long-term Issuer Default Rating (IDR) to 'BBB' from 'BBB+' and Short-term IDR to 'F3' from 'F2'. The Outlook on the Long-term IDR is Stable. At the same time, the agency has affirmed the bank's Individual Rating at 'C', Support Rating at '3' and Support Rating Floor at 'BB+'. A full list of ratings is at the end of this comment.

The rating actions reflect Fitch's concerns about the increasingly difficult operating environment and the modest profitability of the bank's core banking business, which is largely limited to a regional franchise in the north of the Netherlands. In the absence of recurring retained earnings, the bank's capitalisation has eroded over the past years.

The bank's capital is partially tied up in its private equity investments. Nevertheless, with a Fitch core capital of 7.7% at end-2010, which effectively deducts private equity investments, Fitch views the bank's current capitalisation as acceptable given its risk profile. This view takes into account the planned sale of the 23% stake in F. Van Lanschot Bankiers N.V. (Van Lanschot, 'A-/Stable'), which is deducted from FB's regulatory capital.

FB reported a large net loss in 2010 due to substantial impairment taken on the bank's 23% stake in Van Lanschot. Management has decided to adjust the book value of this significant investment in anticipation of a planned sale as this investment will be gradually deducted from common equity when Basel 3 rules are implemented from 2013.

The performance of the bank's core banking business was historically low but has been improving since 2010 due to a widening net interest margin, higher business volumes and the first positive impact of cost-saving initiatives aimed at reducing the bank's previously excessive cost base. However, Fitch expects the bank's operating performance to remain modest over the medium term given FB's limited franchise, strong competition in the Netherlands for customer deposits and the improvements in the bank's efficiency that are still needed.

FB funds more than half of its loan book with customer deposits. It sources the remainder on the capital markets, which the bank has been able to access due to investors' appetite for Dutch secured debt.

Based in the north of the Netherlands, FB offers a full range of banking services to retail and corporate clients through 23 branches located in Friesland, the nearby provinces and in Amsterdam, Utrecht and Rotterdam. Private equity is the bank's second core activity. FB also holds stakes in Dutch financial institutions, the most significant being a 23% stake in Van Lanschot.

The ratings actions are as follows:

Long-term IDR downgraded to 'BBB' from 'BBB+'; Outlook Stable
Short-term IDR downgraded to 'F3' from 'F2'
Individual rating affirmed at 'C'
Senior unsecured Long-term debt downgraded to 'BBB' from 'BBB+'
Short-term debt downgraded to 'F3' from 'F2'
Subordinated debt downgraded to 'BBB-' from 'BBB'
Tier 1 perpetual securities downgraded to 'BB+' from 'BBB-'
Support Rating affirmed at '3'
Support Rating Floor affirmed at 'BB+'

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 16 August 2010, 'Short-Term Ratings Criteria for Corporate Finance' dated 2 November 2010 'Equity Credit for Hybrids & Other Capital Securities' and 'Rating Hybrid Securities' both dated 29 December 2009; are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547685

Short-Term Ratings Criteria for Corporate Finance

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=568726

Equity Credit for Hybrids & Other Capital Securities - Amended

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493112

Rating Hybrid Securities

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493086

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