

## RMBS/Netherlands Presale Report

## Holland Mortgage Backed Series (Hermes) XI B.V.

### Expected Ratings\*

Class	Amount (EURm)	Final Maturity	Rating	CE <sup>1</sup> (%)
A	1,424.3	Sep 2040	AAA	6.90
B	35.2	Sep 2040	AA	4.55
C	31.5	Sep 2040	A	2.45
D	9.0	Sep 2040	A-	1.85
E	27.7	Sep 2040	BBB-	0.00

<sup>1</sup> CE at closing. The reserve fund is 1.85% of the initial balance of notes (excluding class E notes) on day one and does not build up thereafter.

### Analysts

Arjen Wink  
+44 20 7862 4147  
arjen.wink@fitchratings.com

Nicolas Ardoint  
+44 20 7417 4369  
nicolas.ardoint@fitchratings.com

Lara Patrignani  
+44 20 7417 4262  
lara.patrignani@fitchratings.com

### Performance Analytics

Louise van der Boon  
+44 20 7417 4354  
louise.vanderboon@fitchratings.com

\* Expected ratings do not reflect final ratings and are based on information provided by issuers as of 31 December 2005. These expected ratings are contingent on final documents conforming to information already received. Collateral may be added or removed from the portfolio. Ratings are not a recommendation to buy, sell or hold any security. The prospectus and other offering material should be reviewed prior to any purchase.

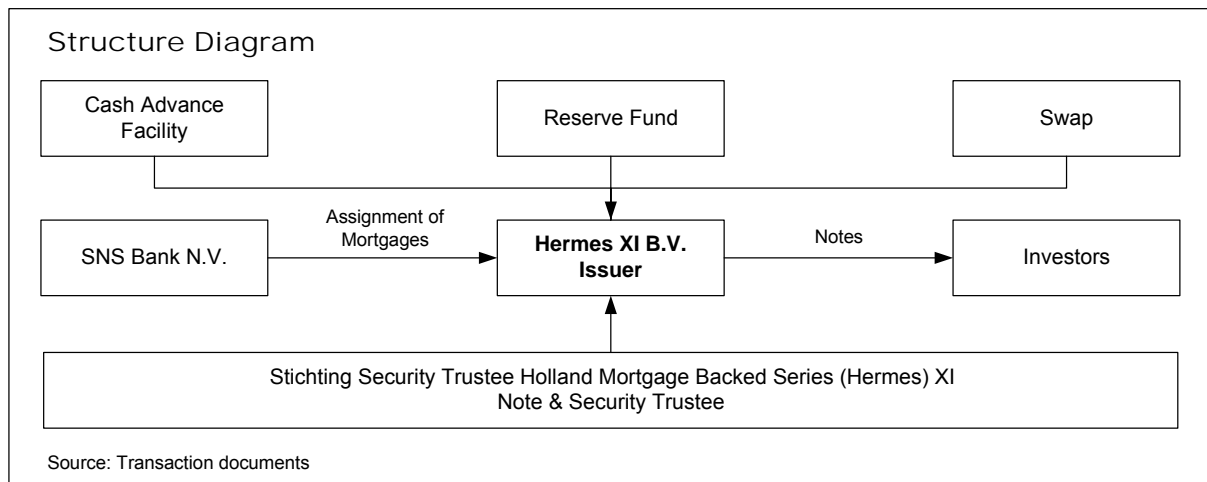
### ■ Summary

This EUR1.527 billion transaction is a true sale securitisation of mortgage loans originated in the Netherlands by SNS Bank N.V. (“SNS Bank” or “the seller” rated ‘A+/F1’). This is the 11th transaction originated in the Hermes series. Fitch Ratings has assigned expected ratings to the notes to be issued by Holland Mortgage Backed Series (Hermes) XI B.V. (“Hermes XI” or “the issuer”) as indicated at left. The expected ratings are based on the quality of the credit portfolio, available credit enhancement, the underwriting and servicing capabilities, as well as the sound legal and financial structure.

The expected ratings assigned to the notes address ultimate repayment of principal by legal final maturity in September 2040 and payment of interest according to the terms and conditions of the documentation.

### ■ Credit Committee Highlights

- Repeat structure and established underwriter; the Hermes transactions have been performing soundly despite arrears being higher than average for Dutch RMBS transactions as reported by Fitch’s Dutch 60+ delinquency index.
- Weighted-average original-loan-to-market-value (“OLTMV”) of the portfolio is 92.2%, which is the average for mortgage loans in the Netherlands and a low average seasoning (15.2 months), which is in line with previous Hermes transactions. Of the portfolio, 66.5% is made up of interest-only mortgages, which carry balloon repayment risk. Approximately 7% of borrowers are self-employed.
- The transaction features a substitution period running through to the payment date falling in September 2008, during which principal receipts may be reinvested in substitute mortgage receivables. Substitutions are subject to criteria to ensure there is no credit quality deterioration of the portfolio.
- At closing, the non-collateralised class E notes will fund the balance of the reserve fund. The interest rate swap guarantees an excess spread of 45bp on the non-defaulted principal balance of the mortgages, after note interest and senior expenses (including servicing fees).
- Legal ownership of the mortgage loans is transferred using the new silent assignment law.



## ■ Credit Portfolio

Characteristics and stratification figures of the provisional portfolio are detailed in *Appendix 3*.

### Loan Types

#### *Repayment Mortgages*

These can be either annuity or linear mortgages. For an annuity mortgage, the borrower pays fixed monthly instalments during the life of the mortgage so that the loan is repaid on its maturity. Initial payments will primarily repay interest; through the life of the loan the balance will shift in favour of principal.

For a linear mortgage, the borrower pays fixed monthly amounts of principal towards the repayment of the loan. Interest is calculated on the outstanding balance of the loan.

#### *Interest-Only Mortgages*

The borrower repays in full at the maturity of the mortgage. Mortgage loans that exceed a loan-to-foreclosure-value ("LTFV") of 75% have a compulsory life insurance policy covering at least the excess over the 75% threshold.

#### *Savings Mortgages*

These mortgages consist of an interest-only loan linked to a savings policy. The premiums payable will vary so that the capital generated by the savings policy is targeted to equal the amount payable by the borrower on maturity of the mortgage loan (i.e. 100% target capital).

Some of the savings mortgages contain alternative savings mortgages, whereby the borrower has the option to switch between savings and investment alternatives at each interest reset date.

#### *Investment Mortgages*

The borrower repays the principal in full at maturity with funds that have been accumulated through investments. There are three alternatives of this type of mortgage loan. The mortgage loans sold and assigned to the issuer will be in the form of the "first alternative", whereby the borrower does not pay principal prior to maturity of the mortgage loan, but undertakes to invest, on an instalment basis, an agreed amount in certain investment funds selected by the borrower from a range of investment funds of SNS Beleggingsfondsen N.V.

#### Substitution

The transaction structure includes a substitution period up to and including the payment date falling in September 2008, during which principal receipts may be reinvested quarterly in substitute mortgage receivables. Substitution is subject to certain conditions that aim to preserve the credit quality of the transaction, including:

- no notification event has occurred (see *Legal Structure* below);
- no more than 2.25% of the outstanding principal amount of the mortgage loans is in arrears for more than 60 days;
- there is no debit balance on the principal deficiency ledger ("PDL");
- the weighted-average LTFV of the loans in the portfolio shall not increase by more than 0.5% from the LTFV at closing unless agreed otherwise with the rating agencies;
- interest-only mortgages must not exceed 67.5% of the portfolio (66.5% at closing);
- the aggregate amount of substitute mortgages is limited to 20% per year of all mortgage receivables outstanding at the beginning of a yearly period; and
- the ratings of the notes will not be adversely affected by the substitution.

## ■ Origination and Servicing

SNS Bank is part of SNS REAAL Group, the sixth-largest financial institution in the Netherlands. The SNS Group was formed in 1990 and merged with the REAAL Group in 1997. SNS Bank has more than 180 branches throughout the Netherlands combined with over 400 franchise branches. It continues to open branches in the north and west of the Netherlands and its strategy is to focus solely on retail banking in the country.

### Origination

Fitch met with key staff in the underwriting and servicing departments of SNS Bank in August 2005 to review the origination, underwriting and administration processes.

The bank has an 8.3% share (November 2005) of the Dutch mortgage market. Traditionally based in the south and east of the country, SNS Bank's recent strategy has been to continue to expand in the northern and western regions. It offers a full range of retail services to its customers. Currently, 75% of mortgage originations are via the intermediary channel and the remainder through their branches.

SNS Bank follows a tight process of underwriting based on a detailed underwriting criteria manual. The underwriting decision is made centrally at the bank, which can be a useful control to maintain consistency in underwriting. The underwriter uses a mortgage analysis program for certain computations in the underwriting process.

Main underwriting criteria and general conditions are that:

- the maximum LTFV is 125%;
- the maximum debt-to-income ("DTI") ratio – the proportion of the borrower's income that may be applied to pay principal and interest on the mortgage – can vary from 20%-36% of the borrower's gross income;
- the borrower must be at least 18 years old;
- self-employed borrowers are subject to additional income tests;
- a credit assessment of the borrower is required, including proof of income; and
- insurance in respect of the property against risk of fire and other accidental damage for its full restitution value is also required.

SNS Bank analyses the borrower's ability to pay (i.e., the borrower's DTI) using a mortgage ratio, which determines the maximum mortgage a borrower can take out, considering all other financial commitments he or she may have. The mortgage ratio depends on household status (single/dual), income level and the

mortgage interest rate. As stated above, checks of the national credit register ("*Bureau Krediet Registratie*"), income checks and collateral analysis are integral parts of the decision process. SNS Bank is also in the final stages of implementing a credit scoring system, which should be in place for all new originations in the course of 2006.

### *Servicing*

Since 2003, SNS Bank has been servicing mortgages from one centralised service centre. The bank benefits from having a modern IT system without the legacy issues of some lenders. As at June 2005, the number of mortgage positions managed by the servicing group was 311,500. This portfolio is managed by 143 full-time employees. Workflow and systems engineering continues to drive the growth of the managed portfolio while not significantly increasing the size, and therefore the cost, of the servicing area.

All collections and arrears management is performed by the seller, following formal procedures. The file is allocated to a local branch for resolution once a payment is missed, and branches are monitored for their handling of arrears cases. The system will automatically generate reminder letters on the 10th and 20th day after the payment date. A formal request demanding payment is sent on day 36. At 90 days, should local resolution not work, the delinquency will be transferred to the central recovery department. At this point, if no work-out plan is agreed, the borrower is advised to sell his house privately. If all negotiations fail and a forced sale is necessary, the foreclosure procedure will start after 210 days.

On the basis of its visit, Fitch believes that SNS Bank is a sound originator and an effective servicer of Dutch residential mortgages.

## ■ Legal Structure

Hermes XI, the issuer, is a special-purpose company ("SPC") incorporated under the laws of the Netherlands with limited liability as a B.V. and is registered with the Commercial Register of the Chamber of Commerce of Amsterdam. Its shares are owned by Stichting Holland Euro-Dominated Mortgage-Backed Series (Hermes) Holding, established under the laws of the Netherlands as a foundation.

SNS Bank will use the silent assignment law to transfer, on closing, the legal title of the mortgage receivables. Under the terms of the silent assignment law, the legal ownership of the receivables can be transferred by registering a deed of assignment with the relevant tax authorities, without having to notify

the borrowers of the assignment. In addition, the mortgages and other rights of the issuer are pledged to the security trustee via various pledge agreements.

The mortgage deeds related to the mortgage receivables provide that, before assignment, the mortgage rights not only secure the loan held by the issuer, but also other liabilities that the borrowers may now, or in the future, owe to the seller (“bank mortgages”).

The wording of the mortgage deeds related to loans originated before the end of 2005 stipulate that, upon assignment, the mortgage right will follow the receivable if this is stipulated in the deed of assignment and that, in this event, the mortgage right no longer secures the other claims of the seller. The majority of the loans from the provisional pool have been originated before the end of 2005.

The conditions applicable to mortgage loans originated as of the end of 2005 provide that, in case of assignment, the mortgage right will partially follow the receivable and will be co-held, pro rata, by the seller and the issuer. Although entitled to a pro rata share of the proceeds if foreclosure occurs, the seller has agreed with the issuer that any such proceeds will be applied in priority to the outstanding balance of the foreclosed loan held by the issuer. Where the agreement is found not to be enforceable, the seller has undertaken to compensate the issuer. Mortgage loans to be acquired during the substitution period are likely to include loans originated after the end of 2005.

## Notification Events

Notification events relate to, among other things, a breach of obligations under the documents of the seller or a severe economic deterioration on the part of the seller. Notification events include where:

- a seller payment default is not remedied within 10 business days of receiving notice from the issuer or trustee;
- the seller fails to perform or comply with any of its obligations;
- the seller takes any corporate action, or steps are taken against it for dissolution, liquidation, legal demerger, emergency regulations or bankruptcy; or
- SNS Bank’s rating falls below ‘A-’.

## Representations and Warranties

The mortgage sale agreement contains representations and warranties given by the originator in relation to the pool of mortgages. No search of title will be conducted by the issuer or the trustee; instead they will rely on the representations

and warranties noted below. If there is a breach of any of the representations or warranties, which cannot be rectified, the seller will be required to repurchase the loan(s) in question.

Specifically, the representations and warranties include (but are not limited to) the following:

- The seller has full right and title to, and the power to sell and assign, the mortgage receivables.
- Each mortgage loan was originated by the seller in accordance with its standard underwriting criteria and procedures.
- All mortgage rights and rights of pledge granted to secure the mortgage receivables constitute valid mortgage rights (“*hypothekrechten*”) and rights of pledge (“*pandrechten*”), and have been entered into the appropriate public register.
- Each mortgage receivable is secured on residential property located in the Netherlands.
- Each property was valued by an independent, qualified valuer. For loans with a loan-to-market-value (“LTMV”) less than 50%, a tax value or valuer employed by the seller can determine the value of the property.
- All mortgage rights are first priority.
- Each of the mortgage loans meets the mortgage loan criteria as set out in the mortgage receivables purchase agreement.
- The mortgage conditions provide that all payments by the borrower should be made without any deduction or set-off.
- Each mortgage receivable and the mortgage right and the right of pledge, if any, securing that receivable constitutes a legal, valid, binding and enforceable obligation of the relevant borrower.
- Each of the mortgage loans with a tenor exceeding 30 years has a combined capital and life insurance policy attached
- Mortgage conditions state that a loan becomes due and payable if an attached life and capital insurance policy pays out.
- No arrears in excess of one month exist at closing.
- The borrower has made at least one monthly payment under the mortgage loan.

## Repurchase of Mortgage Receivables

Under the mortgage receivables purchase agreement, the seller is required to repurchase a mortgage receivable if:

- the seller agrees with a borrower to grant a further advance;

- there is a breach of any of the representations and warranties as set out above;
- under the terms of a savings plus mortgage loan, the borrower has requested that accumulated premiums from a savings insurance policy be transferred into another investment under the savings mortgage loan; or
- the seller agrees with a borrower to amend the terms of a mortgage loan, which thereby ceases to meet the criteria set out in the mortgage receivables purchase and/or servicing agreements.

## ■ Financial Structure

The class A, B, C, D and E notes will receive floating-rate interest in arrears at a margin over three-month Euribor. The first interest payment date will fall in June 2006. The first optional redemption date to repay the notes is September 2015. From September 2015 onwards, a step-up margin will apply if the notes are not called (except for the class E notes).

All amounts of interest, prepayment penalties and principal payments received by the seller are passed monthly to the collection account, kept in the name of Hermes XI, with SNS Bank. In the event that SNS Bank breaches its notification triggers, the borrowers will be notified and will make payments directly into the collection account. Under a guaranteed investment contract (“GIC”), monies deposited in the collection account will receive interest equivalent to three-month Euribor less a margin, payable quarterly.

In the event of a downgrade of SNS Bank below ‘F1’, as seller collection account provider, within 30 days SNS Bank will either (i) procure that a third party rated at least ‘F1’ guarantees its obligations as seller collection account provider, (ii) transfer an amount equal to the highest single amount received since closing on the floating-rate GIC account during one mortgage calculation period to the escrow account opened in the name of the issuer for that purpose, or (iii) any other actions agreed by Fitch.

If SNS Bank, as GIC provider, is downgraded below ‘F1’ it will, within 30 days, either be replaced or obtain a guarantee from a third party with a suitable rating, provide collateral to guarantee its obligations or find another appropriate solution acceptable to Fitch to maintain the then-outstanding ratings of the notes.

## Priority of Payments

Revenue payments, which include interest on the mortgage loans, will be allocated, prior to enforcement, in the following priority of payments:

1. The issuer’s senior fees and expenses (including those payable to the trustee, company administrator, servicer and paying agent);
2. Repayment of any drawings made from the cash advance facility;
3. Payments due under the swap agreement;
4. Interest due on the class A notes;
5. Amounts to be credited to the class A PDL until zero;
6. Interest due on the class B notes;
7. Amounts to be credited to the class B PDL until zero;
8. Interest due on the class C notes;
9. Amounts to be credited to the class C PDL until zero;
10. Interest due on the class D notes;
11. Amounts to be credited to the class D PDL until zero;
12. Interest due on the class E notes;
13. Amounts to be credited to the reserve fund to achieve the reserve fund required amount (see *Reserve Fund* on page 6);
14. Principal due on the class E notes on or after the payment date on March 2010;
15. After the step-up date, repayment of principal under the notes;
16. Any swap counterparty default payment;
17. Any gross-up or other amounts due under the cash advance facility agreement; and
18. Amounts due towards the deferred purchase price instalment.

Following an enforcement event, when the trustee will declare the notes to be due and payable, all available funds will be allocated sequentially to interest and principal payments due on the class A to E notes after certain senior third-party expenses.

## Interest Rate Risk

At closing, Hermes XI will enter into an interest swap agreement with SNS Bank, under which it will be obliged to pay SNS Bank, quarterly, the scheduled interest income due on the mortgage loans and the GIC, less (i) a margin of 45bp and (ii) certain senior expenses (including the servicing fee). SNS Bank, as swap counterparty, will be obliged to make scheduled interest payments on the notes insofar as they are backed by non-defaulted mortgage loans.

If SNS Bank’s Long-term rating is downgraded below ‘A’ and its Short-term rating is downgraded below ‘F1’, it will, within 30 days, either be replaced, obtain a guarantee from a third party with a suitable rating, provide collateral to guarantee its obligations or find another appropriate solution acceptable to Fitch to maintain the then-outstanding ratings on the notes.

## Reserve Fund

The proceeds of the class E notes are to be used to fund the balance of the reserve fund to 1.85% of the initial outstanding balance of the notes not including the class E notes.

The reserve fund will not amortise until March 2010. After March 2010, the reserve fund will be equal to 1.85% of the principal outstanding balance of the notes (except the class E notes) subject to the following conditions being fulfilled on the previous payment date:

- The outstanding balance of mortgages more than 90 days in arrears remains below 2.0% of the outstanding mortgage balance.
- No principal deficiency exists.
- The weighted-average seasoning of all mortgage loans is greater than 65 months.
- The outstanding balance of the mortgages is not less than 10% of the initial balance, if the call is not exercised.
- The reserve fund required amount will not be lower than EUR 7,500,000.

## Cash Advance Facility

A cash advance facility equal to 1.00% of the original note balance (not including the class E notes) will be provided by SNS Bank to cover any shortfalls of interest due on the notes. The cash advance facility will be provided for a term of 364 days, which can be extended at the discretion of the provider.

In the event that SNS Bank is downgraded below 'F1', an appropriately-rated substitute replacement cash advance provider must be provided within 30 days. If SNS Bank is not replaced within that period and the rating of the notes suffers materially adverse effects, the issuer will draw on the undrawn portion of the cash advance facility.

## Fitch Default Model Output

Rating Level	WAFF <sup>1</sup> (%)	WARR <sup>2</sup> (%)	Loss Severity (%)	MVD <sup>3</sup>
AAA	17.74	56.79	47.16	40.96
AA	14.19	62.28	41.67	35.29
A	10.64	67.65	36.30	29.61
BBB	7.10	73.03	30.92	23.71
BB	3.55	78.28	25.67	17.81

Recovery time (years): Interest accrued on contractual rate for one year

Foreclosure cost: fixed EUR 5,000 and 6% of the value of the property after the application of indexation and MVDs

<sup>1</sup> Weighted-Average Foreclosure Frequency

<sup>2</sup> Weighted-Average Recovery Rate

<sup>3</sup> Market Value Decline

Source: Fitch

## ■ Credit Analysis

Fitch's methodology for assigning credit ratings to Dutch residential mortgage transactions in general is described in *Appendix 2*. The following section details the agency's particular areas of focus and concern with regard to Hermes XI, and an outline of the factors incorporated into its analysis to deal with these concerns. For more information, please see the special report "*Dutch RMBS Default Model 2004*", dated 1 September 2004 and available at [www.fitchratings.com](http://www.fitchratings.com).

### Default Probability

#### *Affordability*

A borrower affordability measure, such as an income multiple or DTI ratio, was not available for the pool on a loan-by-loan basis. Fitch therefore made a general assumption of a 35% DTI ratio for all loans in the pool. This figure, which falls at the higher end of SNS Bank's underwriting criteria, equates to affordability class 3 in the agency's model. According to Fitch's default probability matrix, which is determined by affordability and LTV, the default probability for the average borrower in income class 3 would range from 4.5% to 22.5% in a 'AAA' scenario.

#### *Repayment Type*

Of the pool, 66.5% consists of interest-only mortgages that carry a balloon repayment risk. Loans that exceed an LTFV of 75% have a compulsory life insurance policy covering at least the excess over the 75% threshold, thus reducing the balloon repayment risk. Fitch has increased the default probability for interest-only loans by 20% to account for the additional risk.

The pool also includes investment mortgage loans (27%), which carry a higher risk because of both residual set-off risk and the uncertainty of the yield on the underlying investment vehicle. Fitch has increased the default probability for investment loans by 10% to account for this additional risk.

Savings mortgages (6.1%) have not been penalised, as the accumulated savings will match the loan balance at maturity. Moreover, the sub-participation structure allows the ruling out of set-off risk for savings mortgages: amounts accumulated under a savings policy will be placed by the savings provider with the issuer (with a participation granted to the savings policy provider). This means that funds accumulated to date on the savings policy are immediately available to the issuer to repay the savings mortgage loan on maturity.

## *Borrower Profile*

Fitch believes that self-employed borrowers have a greater probability of defaulting on their mortgage loan than employed borrowers who are paid a regular monthly salary. Around 7% of this pool relates to loans to self-employed borrowers. Fitch has increased the default probability on these loans to account for this risk.

## Recoveries

### *Indexation*

In its analysis, Fitch reappraises the original value of each property as a function of the current house price index. The agency applies a 50% indexation credit for appreciation of property values, but will discount 100% for depreciation.

### Market Value Decline ("MVD")

To estimate recoveries on the mortgage loans, Fitch examined house price movements in the Netherlands by province from 1982 to 2005.

After a period of steady house price growth, price increases have slowed since 2001 and higher valued properties have suffered a decline. Fitch takes account of these trends and the inherent price volatility in its MVD analysis.

### *High-Value Properties*

Approximately 2.0% of the reference pool is considered by Fitch to be secured on high-value ("jumbo") properties, with a risk of greater MVDs due to a perceived lack of liquidity and therefore variability in market values for these properties. Fitch increased the MVDs of these loans by 15%-25% based on the value of the property.

A property with a market value in excess of EUR500,000 (after indexation) is considered by Fitch to be a jumbo property.

### *Recovery Rate*

To determine the recovery rate, Fitch uses the lesser outcome of the following two formulae:

- the current loan balance, plus carry costs, divided by the current loan balance; or
- the indexed property value net of foreclosure costs (based on Fitch's indexation methodology, whereby a 50% credit is given for property price appreciation) is reduced by the MVD amount and is divided by the current loan balance.

### Cash Flow Analysis

To evaluate the contribution of structural elements such as excess spread, the reserve fund, the cash advance facility and other factors, Fitch modelled the

cash flows from the mortgages based on the WAFF and the WARR provided by the loan-by-loan collateral analysis.

The cash flow model assumes that defaults are spread over the first five years of origination immediately after closing. It also simulates the cost of carrying defaulted loans until recoveries are received after the assumed 12 months, in a high prepayment and high Euribor-index environment.

The swap, excess spread, the reserve fund and the cash advance facility are modelled and used to cover losses and carrying costs. The model also takes into account the PDL mechanism, which allows repayment of the senior classes with available interest and transfer of losses to the lowest-ranking class of notes.

The repayment of the class E note is dependent on the amount of excess spread generated by the mortgage notional. The repayment of the E note begins in month 48. Any credit balance on the reserve fund after the full redemption of the class A-D notes will be used to repay any remainder.

The cash flow test showed that each class of rated notes could withstand loan losses at a level corresponding to the related stress scenario without incurring any principal loss or interest shortfall.

### ■ Set-Off

In most Dutch mortgage transactions there is a risk that borrowers may seek to set off certain amounts owed to them against amounts due from them in relation to the mortgage loan. Set-off is specifically precluded in the terms and conditions of the mortgage loans, but a lack of legal precedent makes it uncertain whether such a set-off waiver would be enforceable if the borrower were to contest it in court.

The primary set-off risk relates to insurance mortgages and stems from the possibility that, in the event of a default by the insuring entity such that a capital sum is not received from the relevant policy when due, the borrower may seek to avoid repaying the mortgage loan. The justification for this is that the sums due from the policy were specifically earmarked to repay the loan and the borrower should not, therefore, have to pay from his or her own funds merely because the policy provider defaulted. The risk of set-off is greater for the hybrid mortgage loans with a savings component compared with other types of insurance mortgages since, under these hybrid mortgages loans, (part of) the premium can be invested in a savings fund that "imitates" a savings insurance policy and the risk is not mitigated by the sub-participation structure.

For set-off claims to be valid, the borrower would generally need to prove that he/she had a legal claim against the defaulting entity that existed before the provider defaulted. Where the borrower brings a policy to the table from a provider that is independent of the seller, and the mortgage product has been marketed as one where the provider and seller are two independent entities, the claim for set-off will be weaker.

Fitch believes that the combination of legal provisions and pledge agreements in the transaction provides some comfort in addressing this risk. The likelihood of set-off succeeding is further reduced because a number of obstacles to its validity must be overcome. Any definitive rulings in this regard would be reviewed by Fitch, and their impact on the transaction assessed.

However, even if set-off were ruled invalid, the borrower would probably have limited alternative funds to repay the mortgage loan if the policy providers defaulted, thereby increasing the risk of default on the loan. Consequently, Fitch gives no credit to policies that have accrued when assessing loss severity.

For further analysis in relation to set-off matters, refer to the agency's report "*Legal Issues in Dutch RMBS*" dated 13 June 2002 and available at [www.fitchratings.com](http://www.fitchratings.com).

## ■ Performance Analytics

This is the 11th publicly-rated residential mortgage-backed transaction originated by SNS Bank. Fitch affirmed its ratings on Hermes I (upgrading class C), Hermes II (upgrading classes B and C), Hermes III (upgrading classes B and C), Hermes IV (upgrading classes B and C), Hermes V (upgrading class B), Hermes VI, Hermes VII and Hermes VIII on 1 September 2004 and affirmed its ratings on Hermes VII on 31 October 2005.

The Hermes transactions have performed well. The arrears shown in the Hermes transactions (chart below in *Appendix 1*) are higher than the overall Dutch index. This could be explained by the way SNS Bank defines the arrears, which is calculated on the oldest monthly payment missed. For example: a missed payment in January, and payments made for the months February and March would still equal 90 days in arrears for this borrower. Other originators would report this as 30 days in arrears. Taking this into account, Hermes V and Hermes IV show the highest delinquency figures, with, respectively, 1.91% and 1.47% of loans more than 60 days in arrears. However, these delinquencies now seem to have followed a downward trend for several months.

Annualised repayment rates for the previous Hermes transactions have increased from approximately 20% in March 2005 to approximately 25%-30% in October 2005. This is a trend we see in the Dutch mortgage market due to the high amount of mortgage refinancing in anticipation of the possible increase of interest rates in the near future.

Fitch monitors transaction on a regular basis and as warranted by events. Fitch's structured finance team ensures that the assigned ratings remain, in Fitch's view, an appropriate reflection of the issued notes' credit risk.

Details of the transaction's performance are available to subscribers at [www.fitchratings.com](http://www.fitchratings.com).

For more information on Dutch RMBS performance please see the special report "*Dutch RMBS Performance Bulletin 2005*", dated 1 November, 2005 and available on [www.fitchratings.com](http://www.fitchratings.com).

## Issuer Report Grade

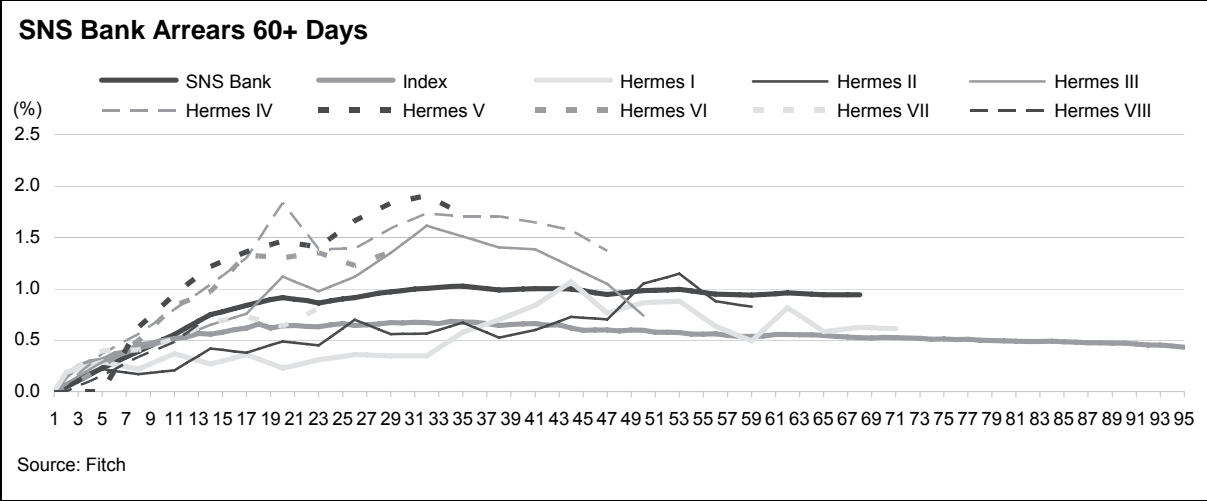
Fitch has recently introduced Issuer Report Scores as part of an ongoing effort to improve the transparency of transaction performance to investors. Transactions are scored on a system ranging from one star (meets basic requirements) to five stars (outstanding). The Hermes transactions were upgraded to four stars in the H105 update – Hermes provides good, user-friendly reporting in all areas and meets Fitch's published reporting standards in most areas.

For further information on the agency's Issuer Report Scores, please see the reports "*Fitch Issuer Report Grades*", dated 25 November 2004 and "*Rising Stars? Fitch Issuer Report Grades H1 2005 Update*", dated 7 June 2005, both of which are available at [www.fitchratings.com](http://www.fitchratings.com).

## Related Research

- "*Dutch RMBS Default Model 2004*", 1 September 2004;
- "*Dutch RMBS Performance Bulletin 2005*", 1 November 2005;
- "*Legal Issues in Dutch RMBS*", 13 June 2002;
- "*Rating European Mortgage Loan Servicers – the Netherlands Market Addendum*", 26 November 2004;
- "*A Guide to Cash Flow Analysis for RMBS in Europe*", 20 December 2002;
- "*Fitch Issuer Report Grades*", 25 November 2004;
- "*Rising Stars? Fitch Issuer Report Grades H1 2005 Update*", 7 June 2005.

■ Appendix 1: Performance of the Hermes Series of Transactions



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■ Appendix 2: Rating Methodology

To determine the appropriate levels of credit enhancement, Fitch analyses the collateral for Dutch residential transactions using a loan-by-loan mortgage default model (see Research “*Dutch RMBS Default Model 2004*”, dated 1 September 2004, available on [www.fitchratings.com](http://www.fitchratings.com)). The model subjects the mortgage loans to stresses resulting from its assessments of historical home price movements and mortgage defaults in the Netherlands. Fitch’s study showed that a borrower’s LTV, reflecting the size of their downpayment and their willingness to pay, and a borrower’s DTI or income multiple, reflecting their ability to pay, to be the key determinants of default probability in the Netherlands.

#### Default Probability

Generally, the two key determinants of default probability are the borrower’s willingness and ability to make their mortgage payments. The willingness of a borrower to pay is usually measured by the LTV. Fitch’s model assumes higher default probabilities for high LTV loans and lower default probabilities for low LTV loans. The main reason for this being that in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low LTV loans) have an incentive to sell and maintain/protect their equity, eliminating the need for the lender to repossess the property. However, the Netherlands is characteristically a high-LTV market due to current tax incentives for such borrowing. Fitch takes this into account and places a greater emphasis on affordability when determining default probability.

The ability to pay is usually measured by the borrower’s net income in relation to the mortgage payment. Historical data available show lower levels of default by Dutch borrowers compared with those in neighbouring countries. Base default probabilities are determined by using a matrix that considers each loan’s affordability factor and LTV. The matrix classifies affordability into five categories, the lowest of which (class 1) encompasses loans with DTIs of less than 20% and the highest of which (5) encompasses all loans with DTIs exceeding 50%. A loan classified as affordability class 3, for example, would be allocated a base default probability of 4.5%-22.5%, depending on LTV.

#### Adjustments

Fitch adjusts the base default rates on a loan-by-loan basis to account for individual loan characteristics of the collateral across all rating levels.

- **Repayment Type**

**Savings Mortgages:** a borrower makes interest payments on a savings mortgage, but instead of making principal payments, contributions are made to a savings account. Funds accumulated in this account are then used to redeem the mortgage at maturity. To ensure that there are sufficient funds at maturity, the savings account earns the same rate of interest charged on the loan. However, there is still a risk to the third-party savings institution in this case. The way most transaction structures mitigate this risk is to have the monthly premiums made by the borrower passed through to the issuer by the insurance company, which purchases and accepts from the issuer a partial assignment in the mortgage. As long as this is the case, Fitch does not penalise savings mortgages.

**Life Insurance Mortgages:** similar to the savings mortgages, a life insurance mortgage does not pay down any principal prior to loan maturity, at which point it is redeemed by the insurance policy. The yield on the policy can vary and will not necessarily equal the principal amount on the mortgage at maturity. Fitch increases default probability for life insurance mortgages, depending on how they are underwritten, the strengths of the insurer and the nature of the policy, owing to the increased market and third-party risk.

**Investment Mortgages:** the investment mortgage is similar to the life insurance mortgage in concept (i.e., periodic contributions are made to an investment fund); but has a different choice of investment opportunities. Fitch increases the default probability according to the rating of the investment fund and/or the nature of the investment options.

**Interest-Only:** Fitch generally increases the default assumptions for interest-only mortgages, whereby the mortgage is secured solely by the property value and principal is repaid by the borrower in one lump sum upon loan maturity, to take into account the potential payment shock to the borrower and the reliance on the borrower's equity in the property.

- **Loan Purpose**

Fitch believes that mortgage loans advanced to release equity in the home (equity refinance mortgages) are risky, as the homeowner is essentially borrowing back equity based on the property's price appreciation. Based on reviews of the issuer's appraisal process, as well as underwriting guidelines, if Fitch believes these loans have an increased likelihood of default, the base default probability will be adjusted by 10%-20%.

Fitch assumes that a financially distressed borrower is more likely to default on a second home than a primary residence, and even more so on an investment property. Accordingly, base default rates are increased by 10%-25%.

- **Borrower Profile**

Fitch increases default probability on loans to self-employed/self certified borrowers by 10%-30% to account for their lack of a fixed annual salary.

- **Arrears Status**

When rating portfolios combining current and arrears mortgages, Fitch increases base default rates for mortgages in arrears by up to 90 days by 25%-75%, and those over 91 days in arrears (non-performing status) by 100%.

- **Underwriting Quality**

Fitch's review and analysis of the origination process determines whether it decreases default rates by up to 25% or increases them by 0%-200%.

#### Recoveries

To estimate loss severity on mortgage loans in the Netherlands, Fitch examined home price movements by separating the Netherlands into 12 regions. Worst-case MVDs were estimated, and then were generated for each rating level and by region.

As in its other European mortgage default models, Fitch increased MVDs for properties worth more than EUR500,000 by 10%-25%. Higher-value properties tend to have larger MVDs owing to the smaller marketplace for these properties and less precise pricing information for larger properties (given the less active market).

Fitch's model gives full credit for property price declines and 50% credit for property price appreciation. The agency calculates recoveries by reducing the indexed property valuation by the MVDs, repossession costs, and the costs to the servicer of carrying the loan from delinquency through to default.

On the basis of worst-case information gathered from Dutch mortgage lenders, Fitch assumes that repossession costs represent 6% of the value of the property at the time of possession plus a fixed amount of EUR5,000. To calculate carrying cost, Fitch assumes that the borrower does not pay interest for 12 months and that interest accrues during this period at the weighted-average rate of interest.

## ■ Appendix 3

### Holland Mortgage Backed Series (Hermes) XI B.V.

Originator	Hermes XI B.V.	Hermes X B.V.	Hermes IX B.V.
<b>Closing Date</b>	February 2006	September 2005	February 2005
<b>Total Issuance (EURm)</b>	1,527	1,527	1,529
<b>Final Ratings (%)</b>			
AAA	94.95	94.95	94.50
AA	2.35	2.35	2.00
A	2.10	2.10	2.50
A-	0.60	0.60	1.00
BBB-	1.85	1.85 (BBB)	1.90
Initial Reserve (% of Initial Balance)	1.85	1.85	1.90
Target Reserve (% of Current Balance)	1.85% -- Triggers for amortisation	1.85% -- Triggers for amortisation	1.9% -- Triggers for amortisation
Swap + Excess Spread ("XS")	Interest on the Notes – PDL + 45bp XS spread	Interest on the Notes – PDL + 45bp XS spread	Interest on the Notes - PDL + 45bp XS spread
Cash Advance	1% of Initial Notes Balance	1% of Initial Notes Balance	1% of Notes Outstanding
<b>WAFF (%)</b>			
AAA	17.74	18.25	17.70
AA	14.19	14.60	14.16
A	10.64	10.95	10.62
BBB	7.1	7.30	7.08
BB	3.55	3.65	5.90
<b>WARR (%)</b>			
AAA	56.79	56.68	51.61
AA	62.28	62.15	56.98
A	67.65	67.53	62.25
BBB	73.03	72.94	67.63
BB	78.28	78.19	69.37
<b>Portfolio</b>			
Collateral Balance (Net of Savings) (EUR)	1,759,056,981	1,500,000,000	1,500,000,000
Pre-Funding Amount	0	0	0
Savings Amount	5,656,226	8,678,020	11,281,793
Number of Borrowers	9,331	8,240	8,463
Average Current Balance	188,518	182,039	177,242
WA Seasoning (Months)	15.2	19	20
WA Term to Maturity (Years)	28.3	28.1	28
WA Interest Rate (%)	3.93	4.08	4.22
% Fixed/% Floating	44.3/55.7	46.6/53.4	46.2/53.8
WA OLTMV (%)	92.2	92.6	92.9
WA DTI (%)	35 (Assumed)	35 (Assumed)	35 (Assumed)
Self Certified (%)	0	0	0
Self Employed (%)	7	11	11
Construction Deposits (%)	0	0	0
Arrears (%)	0	0	0
<b>Mortgage Type (%)</b>			
Interest Only	66.5	66.7	65.1
Savings	6.1	9.0	11.4
Insurance	0	0	0
Repayment	0.5	0.7	0.9
Investment	27	23.6	22.6
Other	0	0	0
WA CLTMV (%)	92.0	92.0	92.2
WA CLTMV (Indexed Values) (%)	88.4	88.6	90.9
WA MVD (AAA) (%)	40.96	40.66	46.26
% Jumbo Properties (%)	2	2	1

Source: Transaction documents

Holland Mortgage Backed Series (Hermes) XI B.V.

RMBS/Netherlands

## Capital Structure

Class	Rating	Size (%)	Size (EURm)	CE (%)	Interest Rate	PMT Freq	Maturity	ISIN/CUSIP
A	AAA	94.95	1,424.3	6.90	[•]	Quarterly	Sep 2040	[•]
B	AA	2.35	35.2	4.55	[•]	Quarterly	Sep 2040	[•]
C	A	2.10	31.5	2.45	[•]	Quarterly	Sep 2040	[•]
D	A-	0.6	9.0	1.85	[•]	Quarterly	Sep 2040	[•]
E	BBB-	1.85	27.7	0.00	[•]	Quarterly	Sep 2040	[•]

	Size (%)	Size (EURm)
Cash Reserve	1.85	27.75
Cash Advance	1.00	15.0

First Interest Payment Date	Jun 2006
Substitution End Date	Sep 2008
Step-Up Date	Sep 2015
Swap	Pays senior expenses and interest on notes minus PDLs.
Excess Spread (Closing)	45bp

## Key Information

		Parties	
Closing Date	February 2006	Seller/Originator	SNS Bank N.V. (A+/F1)
Country of Assets	The Netherlands	Servicer	SNS Bank N.V.
Country of SPV	The Netherlands	Lead Managers	Barclays Capital, Deutsche Bank
ISIN	[•]	Trustee	Stichting Security Trustee Holland Mortgage Backed Series (Hermes) XI
Issuance Date		Swap Counterparty	SNS Bank N.V.
Structure	Pass through + Substitution period	Cash Advance Facility Provider	SNS Bank N.V.
Settlement	Euroclear, Clearstream	Floating Rate GIC Provider	SNS Bank N.V.
Listing	Euronext Amsterdam N.V.	Paying Agent	ABN AMRO Bank N.V.
Analyst	Arjen Wink	Cash Collection Account Provider	SNS Bank N.V.

## Others (Summary)

Short-term Rating Triggers (Minimum)	
Cash Advance Facility	F1
Swap Agreement	F1 and A
Transaction Account Bank	F1

### Credit Enhancement

Excess spread under the swap, reserve fund, subordination

### Credit Committee Highlights

Repeat structure and established issuer, performance of transactions is sound

WA OLTMV is 92.2%, seasoning 15.2 months, interest only loans are 66.5% of the portfolio, around 7% of self-employed borrowers

Substitution period running through to Sept 2008

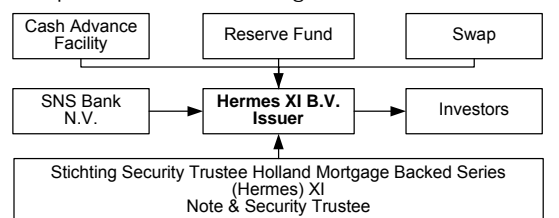
Swap pays servicing fees, interest on the notes minus PDLs and 45bp guaranteed excess spread

Use of new silent assignment law for transfer of mortgage loans

## Fitch Default Model Output

Rating Level	AAA	AA	A	BBB	BB
WAFF (%)	17.74	14.19	10.64	7.10	3.55
WARR (%)	56.79	62.28	67.65	73.03	78.28
Loss Severity (%)	47.16	41.67	36.30	30.92	25.67
MVD	40.96	35.29	29.61	23.71	17.81

## Simplified Structure Diagram



Source: Transaction documents

## Collateral

### Pool Characteristics

Original Principal Balance (EUR)		Regional Concentration (%)	
Current Principal Balance (EUR) (Net of Savings)	1,759,056,981	Zuid-Holland	14.5
Savings Balance	5,656,226	Noord-Brabant	13.3
Average Current Loan per Borrower (EUR)	188,518	Gelderland	17.9
Number of Borrowers	9,331	Lien Position (%)	
Seasoning (Months)	15.2	First Ranking	
Loan to Value (LTV) (%)		First & Subsequent Ranking	100
WA OLTMV	92.2%	Jumbo (%)	2
WA CLTMV	92.0%		
WA CLT Indexed MV	88.4%	Payments	
Mortgage Characteristics		Payment Frequency	Monthly
Interest Only	66.5	Payment Method	Direct Debit
Savings	6.1	Performing Loans (%)	100
Insurance	0	WA DTI (%)	35 (Assumed)
Repayment	0.5		
Investment	27	Employment Status (% of Self-Employed)	App. 7
Floating Rate Loans (%)	55.7		
Fixed Rate Loans (%)	44.3		
WA Interest Margin (%)	3.93		
Interest Index (Euribor)			

Source: SNS Bank/Fitch

Holland Mortgage Backed Series (Hermes) XI B.V.: January 2006

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