

RMBS/Netherlands  
Presale Report

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

Expected Ratings\*

Class	Amount (EURm)	Final Maturity	Rating	CE <sup>1</sup> (%)
A	1,905	Dec 2038	AAA	6.60
B	40	Dec 2038	AA	4.60
C	29	Dec 2038	A	3.15
D	26	Dec 2038	A-	1.85
E	37	Dec 2038	BBB-	

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

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\* Preliminary ratings do not reflect final ratings and are based on information provided by the issuers as of 31 August 2006. These preliminary 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.

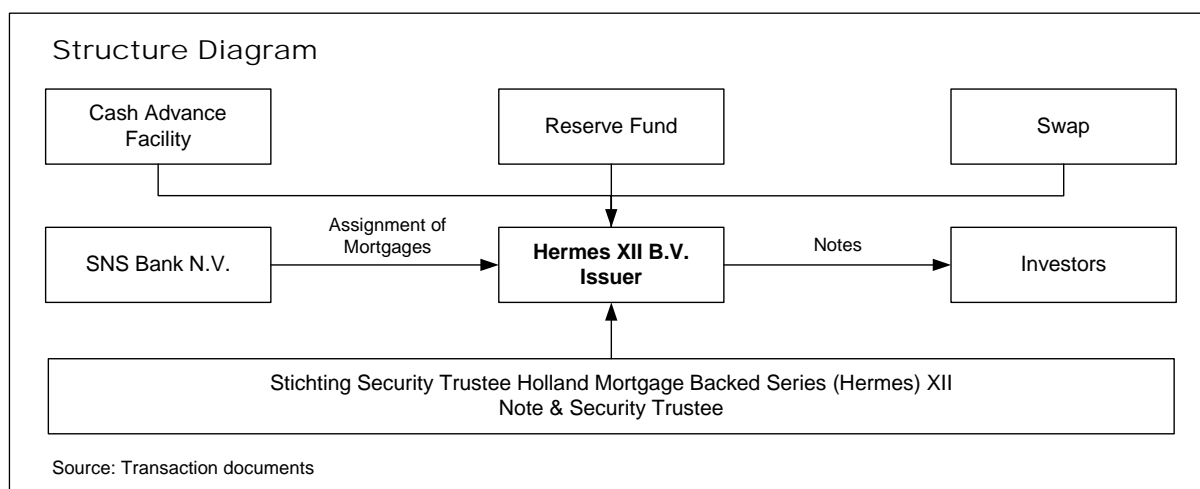
■ Summary

This EUR2.037 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 12th transaction originated in the Hermes series. Fitch Ratings has assigned expected ratings to the notes to be issued by Holland Mortgage Backed Series (Hermes) XII B.V. (“Hermes XII” 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 address the likelihood of investors receiving full and timely interest payments in accordance with the terms of the underlying documents: payment of interest on the class A notes on each payment date; payment of interest on the class B, C, D and E notes and ultimate repayment of principal on all classes of notes by legal final maturity in December 2038.

■ 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 91.1%, which is the average for mortgage loans in the Netherlands and a low average seasoning (11 months), which is in line with previous Hermes transactions. Of the portfolio, 66.86% is made up of interest-only mortgages, which carry balloon repayment risk. Approximately 7% of borrowers are self-employed.
- The transaction does not have a substitution period as compared with other Hermes transactions
- 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 this 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.

■ Origination and Servicing

SNS Bank is part of SNS REAAL, 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 approximately 180 branches throughout the Netherlands, as well as over 425 franchise branches. It continues to open branches in the north and west of the Netherlands and its strategy is to focus solely on Dutch retail banking.

Origination

Fitch met key staff in the underwriting and servicing departments of SNS Bank in August 2005 to review the origination, underwriting and administration processes. The agency also received further information in the form of answers to a questionnaire sent to the origination and underwriting department at SNS; it also called senior management to update the information already obtained.

The bank had a 9.1% share of the Dutch mortgage market by outstanding loan balance as at August 2006. Traditionally based in the south and east of the country, SNS Bank’s recent strategy has been to continue its expansion in the northern and western regions. It offers a full range of retail services to its customers. Roughly 23% of mortgage loans are originated through branches and roughly 77% via intermediaries, such as real estate agents and insurance intermediaries.

Both branches and intermediaries have access to a mortgage front office system, where they carry out standard underwriting checks – including consultation of the national credit register (Bureau Krediet Registratie or “BKR”), affordability calculations and verification of compliance with the standard underwriting criteria. Front offices have mandates for applications that comply with the standard conditions and pass the checks successfully: they can inform the client of the positive outcome of the application, subject to conditions being in place (proof of income, valuation report, insurance requirements, and so on). However, the loans will be disbursed only after a satisfactory review by the central middle-office department, which verifies the work done by the front offices on every single application. It also checks that the file contains all the required documents. Fraud checks are carried out at several stages, against both fraud databases and the records of SNS’s internal fraud department.

Applications that do not match the standard criteria can be underwritten solely by the central middle-office department.

The main underwriting criteria and general conditions are detailed below.

- The maximum LTFV is 125%. Interest-only loans may only be taken out for an amount equivalent to a 100% LTFV; borrowers may extend the loan up to a 125% LTFV by taking out an additional portion covered by a combined life and capital insurance policy.
- The maximum debt-to-income (“DTI”) ratio – the proportion of the borrower’s income that may be used to pay interest and principal on the mortgage – can vary from 20%-36% depending on the borrower’s income; the income considered is net of other financial commitments recorded either at SNS or the BKR database.
- Self-employed borrowers must present three years of audited accounts as proof of income.
- A full valuation report is required for all existing properties; local tax assessments are accepted for applications below certain LTV thresholds.

A credit-scoring system is also in place and backs the underwriting process at SNS; however, no formal underwriting criteria are defined in respect of the results given by the scoring system.

#### *Servicing*

SNS Bank currently services mortgages from a single centralised service centre. All collections are made via direct debit and reminder letters are

automatically issued to borrowers after loans fall 10 and 20 days overdue, respectively.

SNS has recently categorised borrowers into different risk profiles, according to internal default probabilities and loss severity considerations; borrowers with a high risk profile are actively contacted very early in the process, when their repayments are between 10 and 20 days overdue, whereas lower-risk profiles may be called after 55 days in arrears. Recent changes to the process also include a much tighter arrears management timeline:

- after 45 days, overdue files are transferred to the administration and support department responsible for the arrangement of private sales and foreclosures, and a “last notification” is sent out;
- after 58 days overdue, delinquent borrowers are advised to sell the property privately; and
- after 65 days overdue, the foreclosure process is initiated.

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

#### ■ Cash Bond Administration

The cash bond administration (“CBA”) function for this transaction will be carried out by SNS Management. SNS Management has, since the first transactions, been involved in the management of the Hermes series and Provide Lowlands, among other deals.

The team in charge of the CBA function comprises four people including the team leader. The administrators have an average of five years’ experience in the securitisation industry while the team leader has seven years’ experience. New joiners are trained internally through informal training programmes and on the job.

Each step in the administration process is reported and tracked through a detailed checklist. Every step in the process must be signed off by the administrator and is reviewed by the team leader. The different steps of the process are cross-referenced many times to make sure that each document is filed. File reviews are performed regularly to detect and locate any problems.

At closing of the transaction, closing wires will be sent containing all the details of the cash flows. SNS checks the transaction triggers within the reporting activity. Since there is no specific modelling team in the SNS management team, rating triggers are input

manually and the other triggers are hard-coded in the system. IT systems are programmed so that they automatically detect and flag further advances.

In 2004, a risk self-assessment was performed for all the staff involved in securitisation transactions. KPMG performs yearly audits on the statutory account of the SPVs. The internal audit department periodically performs operational audits, the latest one at the beginning of this year.

The cash reconciliation process is currently manual; a new system to automate the process is under review, to be implemented in 2007.

Fitch is satisfied that SNS Management meets the necessary requirements for providing adequate cash/bond administration services to the transaction.

## ■ Legal Structure

Hermes XII, 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.

## 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 ("*hypotheekrechten*") 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. Local tax assessments may have been accepted for applications below certain LTV thresholds.

- 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 December 2006. The first optional redemption date to repay the notes is March 2016. From March 2016 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 XII, 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.

#### Interest 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*);
14. Principal due on the class E notes on or after the payment date on December 2009;
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.

#### Principal Redemption

The class A, B, C and D notes will be fully redeemed sequentially on a pro rata basis. For the class E notes, redemption will apply on a pro rata basis only if all the interest payments have been made to senior note holders, i.e. classes A to D.

On each optional redemption date, i.e. any quarterly payment date from March 2016, the issuer will have the right to sell all the mortgages to the seller or a third party and to use the proceeds of any such sale to redeem all the outstanding notes other than class E, provided that all such notes can then be redeemed, and not only a portion thereof.

If the call is not exercised, the notes will receive three-month Euribor plus a step-up margin (increased from the level at closing).

The notes are subject to provisions that allow for redemption on the occurrence of certain tax events that affect the financial position of Hermes.

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, B, C and D notes after certain senior third-party expenses.

#### Interest Rate Risk

At closing, Hermes XII 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 of the outstanding amount of mortgages 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 December 2009. After this date, 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 46 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 EUR10,000,000.

#### Cash Advance Facility

A cash advance facility equal to 1% 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.

#### ■ 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 XII, 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).

Fitch Default Model Output

Rating Level	WAFF* (%)	WARR** (%)	Loss Severity (%)	MVD***
AAA	18.00	59.55	44.41	37.82
AA	14.40	64.75	39.21	32.33
A	10.80	69.80	34.15	26.83
BBB	7.20	74.16	29.80	21.93
BB	3.60	78.43	25.53	17.03

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

Foreclosure cost: fixed EUR5,000 and 6% of the value of the property after the application of indexation and MVDs

\* Weighted-Average Foreclosure Frequency

\*\* Weighted-Average Recovery Rate

\*\*\* Market Value Decline

Source: Fitch

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, 66.86% 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 this 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 (29%), 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 (3.59%) 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 mortgage 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 12th publicly-rated residential mortgage-backed transaction originated by SNS Bank. Fitch affirmed its ratings on Hermes I (upgrading class B), 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) and Hermes VI, Hermes VII and Hermes VIII 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 1.84% of loans more than

60 days in arrears. However, delinquencies follow a downward trend, which can partly be attributed to economic recovery.

Annualised repayment rates for the previous Hermes transactions have increased from approximately 20% in March 2005 to an average of around 25% in July 2006. This is a trend the agency has seen in the Dutch mortgage market due to the high amount of mortgage refinancing in anticipation of increasing interest rates.

Fitch monitors transaction regularly 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 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

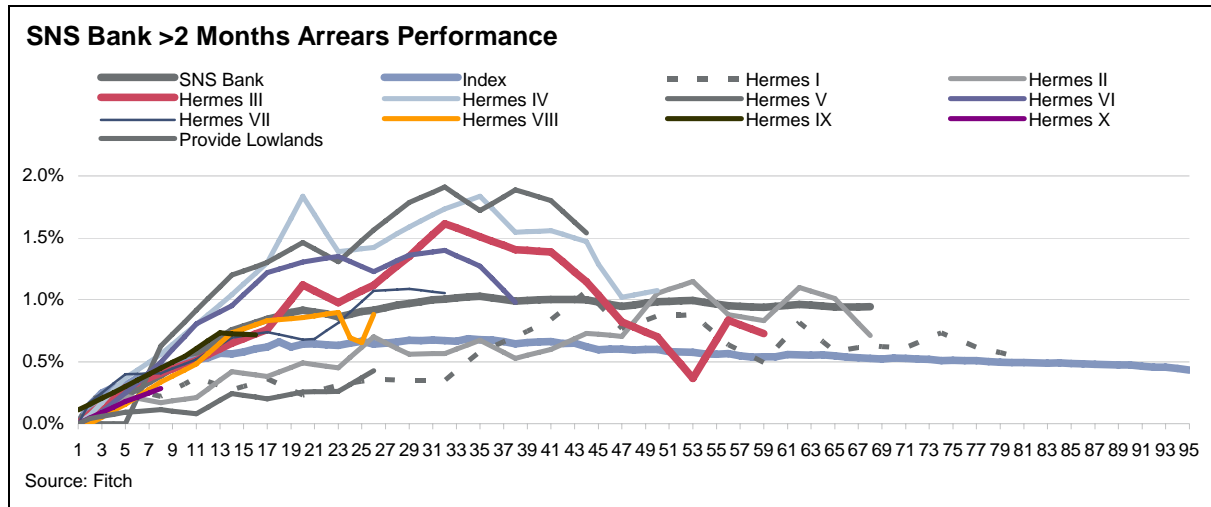
basic requirements) to five stars (outstanding). The Hermes transactions were upgraded to five stars in the May 2006 update – Hermes provides very good, user-friendly reporting in all areas and meets Fitch's published reporting standards in most areas.

For further information on the agency's issuer report scores, please see the reports "*Fitch Issuer Report Grades*", dated 25 November 2004 and "*Fitch Issuer Report Grades May 2006 Update*", dated 5 June 2006, 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



■ 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) XII B.V.

Originator	Hermes XII B.V.	Hermes XI B.V.	Hermes X B.V.
<b>Closing Date</b>	October 2006	February 2006	September 2005
<b>Total Issuance (EURm)</b>	2,037	1,527	1,527
<b>Final Ratings (%)</b>			
AAA	95.25	94.95	94.95
AA	2.00	2.35	2.35
A	1.45	2.10	2.10
A-	1.30	0.60	0.60
BBB-	1.85	1.85	1.85 (BBB)
Initial Reserve (% of Initial Balance)		1.85	1.85
Target Reserve (% of Current Balance)	1.85% - Triggers for Amortisation	1.85% - Triggers for Amortisation	1.85% - 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 Initial Notes Balance
<b>WAFF (%)</b>			
AAA	18.00	17.74	18.25
AA	14.40	14.19	14.60
A	10.80	10.64	10.95
BBB	7.20	7.1	7.30
BB	3.60	3.55	3.65
<b>WARR (%)</b>			
AAA	59.55	56.79	56.68
AA	64.75	62.28	62.15
A	69.80	67.65	67.53
BBB	74.16	73.03	72.94
BB	78.43	78.28	78.19
<b>Portfolio</b>			
Collateral Balance (Net of Savings) (EUR)	2,433,514,618	1,759,056,981	1,500,000,000
Pre-Funding Amount (EUR)	0	0	0
Savings Amount (EUR)	6,041,937	5,656,226	8,678,020
Number of Borrowers	12,450	9,331	8,240
Average Current Balance (EUR)	195,463	188,518	182,039
WA Seasoning (Months)	11	15.2	19
WA Term to Maturity (Years)	28.8	28.3	28.1
WA Interest Rate (%)	4.15	3.93	4.08
% Fixed/% Floating	75.31/24.69	44.3/55.7	46.6/53.4
WA OLTMV (%)	91.5	92.2	92.6
WA DTI (%)	35 (Assumed)	35 (Assumed)	35 (Assumed)
Self Certified (%)	0	0	0
Self Employed (%)	7	7	11
Construction Deposits (%)	0	0	0
Arrears (%)	0	0	0
<b>Mortgage Type (%)</b>			
Interest Only	66.86	66.5	66.7
Savings	3.59	6.1	9.0
Insurance	0	0	0
Repayment	0.46	0.5	0.7
Investment	29.1	27	23.6
Other		0	0
WA CLTMV (%)	91.2	92.0	92.0
WA CLTMV (Indexed Values) (%)	90.6	88.4	88.6
WA MVD ('AAA') (%)	37.82	40.96	40.66
% Jumbo Properties (%)	2	2	2

Source: Transaction documents

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

RMBS/Netherlands

Capital Structure

Class	Rating	Size (%)	Size (EURm)	CE (%)	Interest Rate	PMT Freq	Maturity	ISIN/CUSIP
A	AAA	95.25	1,905	6.60	Euribor3m+	Quarterly	Dec 2038	[ ]
B	AA	2.00	40	4.60	Euribor3m+	Quarterly	Dec 2038	[ ]
C	A	1.45	29	3.15	Euribor3m+	Quarterly	Dec 2038	[ ]
D	A-	1.30	26	1.85	Euribor3m+	Quarterly	Dec 2038	[ ]
E (non coll.)	BBB-	1.85	37		Euribor3m+	Quarterly	Dec 2038	[ ]

	Size (%)	Size (EURm)
Cash Reserve	1.85	
Cash Advance	1	
First Interest Payment Date	December 2 006	

Step-Up Date	March 2016
Swap	Pays senior expenses and interest on notes minus PDLs.
Excess Spread (Closing)	45bp

Key Information

		Parties	
Closing Date	October 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	Royal Bank of Scotland, Barclays Capital
ISIN	[ ]	Trustee	Stichting Security Trustee Holland Mortgage Backed Series (Hermes) XII
Issuance Date	[ ]	Swap Counterparty	SNS Bank N.V.
Structure	Pass through	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	Nicolas Ardoint	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

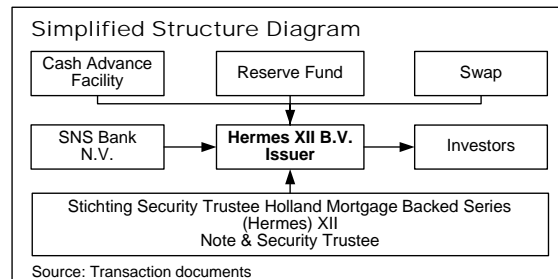
Credit Enhancement	
Excess spread under the swap, reserve fund, subordination	

Credit Committee Highlights	
Repeat structure and established issuer, performance of transactions is sound	
WA OLTMV is 91.5%, seasoning 11 months, interest-only loans are 66.86% of the portfolio, around 7% of self-employed borrowers	
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 (%)	18.00	14.40	10.80	7.20	3.60
WARR (%)	59.55	64.75	69.80	74.16	78.43
Loss Severity (%)	44.41	39.21	34.15	29.80	25.53
MVD	37.82	32.33	26.83	21.93	17.03



Collateral

Pool Characteristics

Original Principal Balance (EUR)		Regional Concentration (%)	
Current Principal Balance (EUR) (Net of Savings)	2,433,514,618	Zuid-Holland	13.72
Savings Balance	6,041,937	Noord-Brabant	15.13
Average Current Loan per Borrower (EUR)	195,463	Gelderland	17.82
Number of Borrowers	12,450	<b>Lien Position (%)</b>	
Seasoning (Months)	11	First Ranking	
Loan to Value (LTV) (%)		First & Subsequent Ranking	100
WA OLTMV	91.5%	Jumbo (%)	2
WA CLTMV	91.2%	<b>Payments</b>	
WA CLT Indexed MV	90.6%	Payment Frequency	Monthly
<b>Mortgage Characteristics</b>		Payment Method	Direct Debit
Interest Only	66.86	Performing Loans (%)	100
Savings	3.59	WA DTI (%)	35 (Assumed)
Insurance	0	Employment Status (% of Self-Employed)	App. 7
Repayment Investment	0.46		
Floating Rate Loans (%)	25.69		
Fixed Rate Loans (%)	75.31		
WA Interest Margin (%)	4.15		

Source: SNS Bank/Fitch

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