

European Structured Finance
Pre-sale

**Holland Euro-Denominated
Mortgage-Backed Series
(Hermes) II B.V.**

Expected Ratings*

EUR [621] million Senior
Class A notes.....AAA
EUR [28] million Subordinated
Class B notes.....A
EUR [16] million Subordinated
Class C notes.....BBB

*Ratings are contingent on receipt of final documents conforming to information already received.

Analysts

Marjan van der Weijden
+44 20 7417 4279
marjan.weijden@fitchratings.com

Susannah Turnbull
+44 20 7417 6343
susannah.turnbull@fitchratings.com

Lead Manager

UBS Warburg
Philippe Tapernoux
+44 20 7568 5424
Philippe.Tapernoux@ubsw.com

Company Contact

SNS Bank (Netherlands)
Frank Spaan
+31 20 550 8534

Summary

Holland Euro-Denominated Mortgage-Backed Series (Hermes) II B.V.'s (Hermes II, the issuer) EURO 665 million mortgage-backed notes due April 2012 are expected to be rated as indicated at left.

Hermes II is the second public issue of notes backed by a pool of residential mortgages originated by SNS bank Nederland N.V. (SNS; rated 'A+/F1'), and through its 100% subsidiaries: SNS bank Groningen-Friesland-Drenthe N.V., SNS bank Overijssel N.V., SNS bank Gelderland N.V., SNS bank Randstad N.V., SNS bank Brabant/Rivierenland N.V and SNS bank Limburg N.V. (the sellers). The mortgages will be serviced by SNS, a wholly owned subsidiary of SNS Reaal Groep N.V.

The issuer is a special purpose company incorporated under the laws of the Netherlands with limited liability as a "besloten vennootschap met beperkte aansprakelijkheid" (B.V.) and registered with the Commercial Register of the Chamber of Commerce of Amsterdam. The shares of the issuer are owned by Stichting Euro-Denominated Mortgage-Backed Series (Hermes), established under the laws of the Netherlands as a foundation.

At closing, the issuer will acquire a portfolio of residential mortgages from the sellers, which will form the collateral for the notes. The portfolio consists of first-ranking fixed-rate mortgages secured over residential property located in the Netherlands.

The ratings are based upon the quality of the collateral, available credit enhancement and excess spread, sound legal structure, underwriting and servicing of the mortgage loans, the arrears liquidity facility and guaranteed investment contract (GIC) provided by SNS, the interest rate swaps provided by UBS AG (UBS; rated 'AAA/F1+'), and the put option against Coöperatieve Centrale Raiffeissen-Boerenleenbank B.A. (Rabobank; rated 'AAA/F1+'). Credit enhancement for the class A notes, totalling 8.8%, is provided by the subordinated notes (6.6%) and the reserve fund (2.2%). Credit enhancement for the class B notes, totalling 4.6%, is provided by the class C notes (2.4%) and the reserve fund. Credit enhancement for the class C notes, totalling 2.2%, is provided by the reserve fund. The transaction further benefits from excess spread guaranteed through the swap agreement.

Key Information

Issuer: Holland Euro-Denominated Mortgage Backed Series (Hermes) II B.V.

Sellers: SNS bank Nederland N.V. (SNS)
 SNS Bank Groningen-Friesland-Drenthe N.V.
 SNS Bank Overijssel N.V.
 SNS Bank Gelderland N.V.
 SNS Bank Randstad N.V.
 SNS Bank Brabant/Rivierenland N.V.
 SNS Bank Limburg N.V.

Trustee: Stichting Security Trustee Holland Euro-Denominated Mortgage Backed Series (Hermes) II

Trustee Director: ATC Management B.V

Cut-Off Date: 31 August 2000

**Servicer/Arrears Liquidity Facility Provider/
 Guaranteed Investment Contract Provider/
 Subordinated Loan Provider:** SNS (rated 'A+/F1')

Swap Counterparty: UBS AG (rated 'AAA/F1+')

Put Option Provider: Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank; rated 'AAA/F1+')

Paying Agent: ABN AMRO Bank N.V. (rated 'AA/F1+')

Interest and Principal Payments: Quarterly, commencing 18 January 2001

Legal Maturity: 18 April 2012

Collateral: First-ranking residential mortgage loans secured by property based in the Netherlands.

The initial reserve fund will be equal to 2.0% of the balance of the mortgage portfolio at closing, and will subsequently increase to 2.2% from excess spread (see section 'Subordinated Loan and Reserve Fund' page 5).

In accordance with the priority of payments described in the Financial Structure section on page 4, interest and principal on the class A, B and C notes will be paid on a quarterly basis, commencing 18 January 2000. The class A, B and C notes will receive interest payment based on the three-month Euro Interbank Offered Rate (EURIBOR) plus a margin. The notes will be redeemed sequentially with the principal payments of the collateral and the provisioned principal deficiency ledger for each class of notes.

Each class of noteholders will be paid once the previous class of noteholders, ranking in higher order, has been paid in full.

To determine appropriate levels of credit enhancement, Fitch analysed the collateral using a loan-by-loan mortgage default model (see Research "Dutch Mortgage Default Model II" dated 28 January 2000, available on website www.fitchratings.com). The agency also modelled the cash flow contribution from excess interest using stress scenarios determined by its default model. The cash flow test showed that each class of rated notes, taking available credit enhancement into account, can withstand loan losses, at a level corresponding to the related stress scenario, without incurring any principal loss or interest shortfall.

Collateral

The provisional pool as of 31 August 2000 forming the collateral for the notes consists of [5,963] mortgage loans (7663 loan parts) with a total outstanding balance of approximately EUR665 million. The mortgages are first-ranking mortgages originated by the sellers.

The LTV ratio is calculated using a chartered real estate agent's execution value for the property, in case of mortgages with an original LTV higher than 50%. Otherwise, the execution value is calculated employing a valuer from the sellers or SNS, or using the tax authority assessments. The execution value is the estimated value of the property at auction, and is typically around 85-90% of the market value or the actual open market purchase price.

The loans in the portfolio have all been originated since 1995, and the weighted average origination date was 12 January 1999. All mortgages in the provisional pool are fixed-rate mortgages, with interest rate reset dates between and June 2008 and March 2012 (see *Interest Rate Resets*, page 3). The weighted average fixed rate as at the cut-off date was 5.33%. Of the borrowers, approximately 90% pay by direct debit from accounts with the sellers. At the cut-off date, no mortgages with payments in arrears for a term longer than 30 days were included in the pool.

In terms of geographic concentration, the highest regional concentrations are Gelderland (21%), Limburg (15%), Noord Holland (11%), Flevoland (10%), Overijssel (10%) and Noord Brabant (9%).

Key Characteristics

(As of 31 August 2000)

Average Loan Balance (EUR)	111,558
Average Loan Part Balance (EUR)	86,780
Weighted Average Original LTFV (%)	98
Weighted Average Original LTMV (%)	83
Weighted Average Current Term to Maturity (Mos.)	335
Weighted Average Seasoning (Mos.)	20

Credit Issues

Fitch's methodology for assigning credit ratings to Dutch residential mortgage transactions in general is described in Appendix 1.

The following are particular areas of focus and concern for Fitch on Hermes II, as well as the factors incorporated into its analysis to deal with these concerns.

Default Probability

Interest Rate Resets: The weighted average (by value) reset date of the current fixed interest rate loans in the pool is November 2009, with 100% of the loans in the pool due to be reset before the legal maturity of the notes.

The issuer is protected from the risk of interest rate resets on the loans under the put option provided by Rabobank. Prior to an interest rate reset date, the issuer shall use its best efforts to sell the relevant mortgage loans to a third party, which may also be one of the sellers. If these mortgage loans have not been sold 95 days prior to the reset date, the issuer shall offer the loans to Rabobank, which will be obliged to purchase and accept assignment under the put option agreement between Hermes II and Rabobank. The purchase price for the mortgages shall be equal to the aggregate outstanding principal amount together with the accrued interest.

Because of the put option agreement, Fitch has not increased its default probability assumptions for loans with interest rate resets. In the event of a downgrade of Rabobank no replacement mechanism is contemplated for the put option provider.

Mortgage Types: In the provisional pool, approximately 92% (by value) of the loans are interest-only mortgages, and approximately 6% of the loans in the pool, are investment-based mortgages.

The risk of the interest-only and investment mortgages is mitigated in Hermes II by the following facts: (i) the interest-only mortgage loans have a loan-to-execution value ratio lower than 75% at origination (otherwise a principal repayment schedule or alternative saving mechanism is established), and (ii) the put option at the reset date which removes any remaining balloon risk.

Other types of mortgages, approximately 2% of the loans in the pool, are annuity mortgages and linear mortgages.

Loss Severity

High Value Properties: Just over 10% of the reference pool is considered by Fitch to be secured on high value ('jumbo') properties, with risk of greater market value declines (MVDs). Fitch increased the MVDs of these loans by 10-25% based on the value of the property.

Origination and Servicing

The mortgage receivables were originated by the sellers and will be serviced by SNS.

SNS owns 7 regional banks (the six other sellers plus SNS bank Zeeland). SNS is part of SNS Reaal Group, the sixth largest financial institution in the Netherlands by total assets at year end 1999. The SNS group was formed in 1990 and merged with the Reaal Group in 1997.

In addition to the pool analysis, Fitch has reviewed and analysed SNS's origination and servicing guidelines, finding these procedures appropriate. The agency has conducted several interviews with the respective originator and servicer managers responsible for SNS's mortgage loan department. SNS follows a tight process of underwriting based on a detailed underwriting criteria manual.

SNS puts much emphasis on a borrower's ability to pay and employees perform a credit analysis in the determination of a prospective borrower's creditworthiness. Ability to pay is determined primarily by the borrower's credit profile, risk profile of the property, and LTV ratio of the transaction.

SNS offers all the retail and wholesale services of a commercial bank on a national scale.

Mortgages are distributed through the sellers and via independent agents based in the Netherlands. The

underwriting decision is based on the same criteria, which are set centrally at SNS to maintain effective control and implement consistent underwriting procedures. Each underwriter also uses a mortgage analysis program for certain computations in the underwriting process. SNS analyses the borrower's ability to pay using a housing ratio, which determines the maximum mortgage a borrower could take out. The mortgage ratio depends on the household status (single/dual), the income level, and the mortgage interest rate. Checks of the national credit register — Bureau Krediet Registratie, income checks, and collateral analysis are also an integral part of the decision process.

Collections and arrears management is performed by the sellers, following the formal procedures defined by SNS. Loan administration will be carried out centrally. The system will generate reminder letters on the 10th, 20th and 40th day after the payment date overdue. After 75 days without positive results the seller will start pre-foreclosure procedures.

Financial Structure

The interest on the notes will be paid quarterly in arrear, commencing on 18 January 2001. The notes will receive interest payment based on the three-month Euro Interbank Offered Rate (EURIBOR) plus a margin. The three-month EURIBOR for the aforementioned notes is received from the swap counterparty, under the interest rate swap agreement (*see Interest Rate Swap Agreement, page 5*).

An arrears liquidity facility equal to 0.5% of the original note balance will be provided by SNS to cover mortgages interest payments in arrears, for class A, B and C notes. The liquidity facility will be provided for a term of 364 days, and the term will be extendable at the option of the liquidity facility provider. All amounts of interest, prepayment penalties and principal payments, received the 1st business day of each month by the sellers, are passed on the eighth business day of each month to the collection account, kept in the name of Hermes II at SNS. The amounts of money deposited in the collection account will receive, under a GIC, an interest rate equal to three-month EURIBOR less a margin.

In the event of a downgrade of SNS below 'F1', within 30 days, a replacement arrears liquidity provider and a replacement GIC provider, accomplishing the rating requirements, will be

provided. If a replacement arrears liquidity provider is not provided, accomplishing the aforementioned conditions, or the liquidity facility is not renewed, the issuer will draw down the undrawn portion of the liquidity facility.

The paying agent will be ABN AMRO Bank N.V. (rated 'AA/F1+'). Quarterly payments of interest and principal will be passed through to the paying agent from the collections account and swap agreement.

Priority of Payments

Redemption funds generated by principal payments on the loans will be allocated sequentially in redeeming senior and subordinated notes, each class being paid once the previous class, ranking higher in priority, has been paid in full.

The notes are subject to provisions allowing for redemption upon the occurrence of certain tax and legal events affecting the financial equilibrium of Hermes II.

Prior to enforcement, on each distribution date, the priority of payments in respect of payments of interest will be as follows:

1. Trustee and management expenses.
2. Administration fee.
3. Other expenses due by Hermes II and the fee to the paying agent.
4. Amounts due to the liquidity facility provider.
5. Pro rata, interest to the class A notes and amounts due under the swap agreements.
6. Class A principal deficiency ledger (*see 'Principal Deficiency Ledger' below*).
7. Interest to the class B notes.
8. Class B principal deficiency ledger.
9. Interest to the class C notes.
10. Class C principal deficiency ledger.
11. Replenishing the reserve fund to its minimum required balance (*see 'Credit Enhancement' below*).
12. Interest accrued under the subordinated loan (*see 'Subordinated Loan' below*).
13. Amortisation of the principal of the subordinated loan.
14. Deferred purchase price instalment to SNS

Principal Deficiency Ledger

The payment deficiencies under each class of notes will be registered in the corresponding principal deficiency ledger. These amounts will be debited to the lowest class of notes principal deficiency ledger

available, in order to transfer the losses to the lowest ranking class of notes. Excess spread will be available to cover such losses according to the priority of payments.

Credit Enhancement

Credit enhancement for the class A notes, totalling 8.8%, is provided by the subordinated notes (6.6%) and the reserve fund (2.2%). Credit enhancement for the class B notes, totalling 4.6%, is provided by the class C notes (2.4%) and the reserve fund (2.2%). Credit enhancement for the class C notes, totalling 2.2%, is provided by the reserve fund. The transaction further benefits from excess spread guaranteed through the swap agreement.

Subordinated Loan and Reserve Fund

SNS has granted a subordinated loan which will be used to: (i) pay constitution and initial expenses of Hermes II, and (ii) fund initially the reserve fund.

The reserve fund is initially 2.0% of the original note balance, funded by a subordinated loan provided by SNS. This will then increase to 2.2% with excess spread. After June 2008, the size of the reserve fund will always be equal to the lower of the initial reserve fund or 4.4% of the outstanding notes, with floor level of EUR 3 million.

Interest Rate Swap Agreement

Hermes II will enter into an interest swap ISDA agreement with UBS at closing. Under this agreement the issuer is obliged to pay UBS, quarterly, a fixed rate on the outstanding amount of the class A, B and C notes. The fixed rate will be determined so that excess spread at closing is approximately 0.60%.

UBS, as swap counterparty, is obliged to make a quarterly payment equal to three-month EURIBOR due on the class A, B and C notes.

In the event of a downgrade of UBS below 'F1+', within 45 days: (i) a guarantee will be provided for the obligations of UBS as swap counterparty, accomplishing the rating requirements, (ii) or the interest rate swap will be collateralised, (iii) or other actions will be put in place to avoid the downgrade of the notes.

Events to terminate the swap agreement will be: (i) tax changes, (ii) default of the counterparty, (iii) unlawful situation of the agreement, (iv) enforcement notice, and (v) full redemption of the notes.

Legal Structure

Hermes II, the issuer, is a special purpose company incorporated under the laws of the Netherlands with limited liability as a B.V. and registered with the Commercial Register of the Chamber of Commerce of Amsterdam. The shares of the issuer are owned by Stichting Euro-Denominated Mortgage-Backed Series (Hermes), established under the laws of the Netherlands as a foundation. The assignment of the mortgage receivables to the issuer will be notified if a notification event occurs. Notification is necessary to obtain a perfected assignment and security interest in the mortgage loans. Additionally, the mortgages and other rights of the issuer are pledged to the security trustee via various pledge agreements. Notification events relate to, inter alia, breach of obligations under the documents of the sellers, or a severe economic deterioration on the part of the sellers.

Appendix I: 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 on “*Dutch Mortgage Default Model II*”, dated 28 January 2000, available on 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 the borrower’s LTV, reflecting the size of the borrower’s down payment and his willingness to pay, and the borrower’s debt-to-income ratio (DTI) or income multiple, reflecting the borrower’s ability-to-pay, are 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 the 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 is 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 high-LTV borrowing. Fitch accounts for this 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 shows lower levels of default by Dutch borrowers compared to borrowers 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 classes, the lowest of which (Class 1), encompasses loans with Debt-to-Income ratios (DTI) of less than 20% and the highest of which (Class 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 6-31%, 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 the savings 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 as is 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 such risk is to have the monthly premiums made by the borrower passed through to the issuer by the insurance company purchasing and accepting 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, life insurance mortgages do 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 (ie. periodic contributions are made to an investment fund); however the borrower has full discretion as to how the contributions are invested. 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 strong 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 home'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 10%-20%.
 Fitch assumes that a financially distressed borrower is more likely to default on a second home than a primary home, 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 borrowers by 30% to account for their lack of 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 mortgages over 91 days in arrears (non-performing status) by 100%
- **underwriting quality:** Fitch's review and analysis of the origination process determines whether Fitch decreases default rates by up to 25% or increases them by 0%-200%.

Loss Severity

To estimate loss severity on the mortgage loans in the Netherlands, Fitch examined home price movements by separating the Netherlands into 12 regions. Fitch's MVD assumptions are somewhat higher for Dutch mortgages than most other European markets, due to the greater severity of the housing recession between 1978-1982 and the sharp increase in prices over the last few years. Worst-case market value declines were estimated, and then market value declines were generated for each rating level and by region.

As in its other European mortgage default models, Fitch increased market value declines for properties worth more than NLG 390,000 by 10%-25%. Higher value properties tend to have larger market value declines owing to the smaller marketplace for these properties and less precise pricing information for larger properties (owing to the less active market).

When calculating recovery value, Fitch's model reduces each property valuation by the market value decline, repossession costs, and the cost 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 repossession costs represent 5% of the loan's balance at the time of possession. To calculate carrying cost, Fitch assumes that the borrower does not pay interest for a period of 12 months and that interest accrues during this period at the weighted average rate of interest

Copyright © 2000 by Fitch Ratings Ltd, Eldon House, 2 Eldon Street, London EC2M 7UA, UK
Telephone: New York, 1-800-753-4824, (212) 908-0500, Fax (212) 480-4435; Chicago, IL, (312) 368-3100, Fax (312) 263-1032;
London, 011 44 20 7417 4222, Fax 011 44 20 7417 4242; San Francisco, CA, 1-800-953-4824, (415) 732-5770, Fax (415) 732-5610
Printed by American Direct Mail Co., Inc. NY, NY 10014. Reproduction in whole or in part prohibited except by permission.

Fitch Ratings Ltd's credit ratings address the likelihood that full and timely payment will be made in accordance with the terms of the rated security. The rating does not address the risk of loss due to risks other than credit risk, such as interest rate and exchange rate risks. The rating is based primarily on information provided by the issuer and its agents, but Fitch Ratings Ltd does not verify the truth or accuracy of such information. The rating is not a prospectus, and investors should refer to information provided by the issuer where available. The rating is not a recommendation to purchase any security in as much as it does not address adequacy of price, suitability for any particular investor, and noncredit risk. Fitch Ratings Ltd receives payment for the rating from the issuer. Please do not distribute this report to any other person outside your organization as such distribution may be restricted by law. This rating report is only distributed to any person in the U.K. on the basis that the person falls within Article 11(3) of The Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1995 No. 1266.

Fitch Ratings Ltd ratings are based on information obtained from issuers, other obligors, underwriters, their experts, and other sources Fitch Ratings Ltd believes to be reliable. Fitch Ratings Ltd does not audit or verify the truth or accuracy of such information. Ratings may be changed, suspended, or withdrawn as a result of changes in, or the unavailability of, information or for other reasons. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch Ratings Ltd receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from \$1,000 to \$750,000 per issue. In certain cases, Fitch Ratings Ltd will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from \$10,000 to \$1,500,000. The assignment, publication, or dissemination of a rating by Fitch Ratings Ltd shall not constitute a consent by Fitch Ratings Ltd to use its name as an expert in connection with any registration statement filed under the federal securities laws. Due to the relative efficiency of electronic publishing and distribution, Fitch Ratings Ltd Research may be available to electronic subscribers up to three days earlier than print subscribers.